



Consolidated Annual Report

Macquarie Financial Holdings Pty Limited and
its subsidiaries

Year ended 31 March 2022

The Company's registered office is:

Level 6, 50 Martin Place

Sydney, NSW 2000

Australia

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The financial report was authorised to issue by the Board of Directors on 18 July 2022.

The Board of Directors has the power to amend and reissue the financial report.

Directors' Report

for the financial year ended 31 March 2022

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

Directors

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

Name of Director	Appointed on	Resigned on
S. Dyson	25 March 2015	-
D. Saad	29 January 2019	-
A.J. Lewis	24 March 2021	03 March 2022
A. Loveridge (alternate to A. J. Lewis)	19 October 2021	03 March 2022
C. M. Webb	03 March 2022	-

Principal activities

The principal activity of the Company is to act as the holding company within the Macquarie Non-Bank Group¹ for Macquarie Capital (MacCap) and the Macquarie Transportation business of Macquarie Asset Management (MAM).

Result

The consolidated profit after income tax attributable to the ordinary equity holder for the financial year ended 31 March 2022 was \$1,566 million (2021: \$1,177 million). This result represents profit from continuing operations of \$1,198 million (2021: \$705 million) and profit from discontinued operations of \$368 million (2021: \$472 million).

Dividends

No dividends were paid or resolved to be paid by the Company during the current and previous financial year.

State of affairs

Effective 1 April 2022, the Green Investment Group (GIG) has been transferred from Macquarie Capital (MacCap) and is operating as part of Macquarie Asset Management (MAM), bringing together Macquarie's specialist capabilities to provide clients with greater access to green investment opportunities.

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

Review of continuing operations

The profit attributable to the ordinary equity holder from continuing operations of the Consolidated Entity for the year ended 31 March 2022 was \$1,198 million, (2021: \$705 million).

Net operating income from continuing operations for the year ended 31 March 2022 was \$4,903 million, increase of 40% from \$3,502 million in the previous financial year, primarily due to an increase in investment income and fee commission income.

Total operating expenses from continuing operations for the year ended 31 March 2022 was \$3,014 million, increase of 12% from \$2,693 million in the previous financial year, primarily due to an increase in employment expenses and service cost recoveries.

Events subsequent to balance sheet date

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

1. Macquarie Group refers to Macquarie Group Limited (MGL) as the ultimate parent entity and its subsidiaries. Further, Macquarie Group comprises of the Bank Group (Macquarie Bank Limited (MBL) and its subsidiaries), and the Non-Bank Group (Macquarie Asset Management Holding Pty Limited (MAMH) and MFHPL along with their subsidiaries).

Directors' Report

continued

Likely developments, business strategies and prospects

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

Directors' indemnification

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

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

The indemnity does not apply to the extent that:

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

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

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

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

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

Environmental regulations

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

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

Auditor's independence declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 6 of this report.

Rounding of amounts

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



S. Dyson

Director

Sydney

18 July 2022



Auditor's Independence Declaration

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

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* (Cth) in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Financial Holdings Pty Limited and the entities it controlled during the period.

K. Stubbins

Kristin Stubbins
Partner
PricewaterhouseCoopers

Sydney
18 July 2022

Consolidated income statement

For the financial year ended 31 March 2022

	Notes	2022 ¹ \$m	2021 ¹ \$m
Interest and similar income			
Effective interest rate method	2	886	634
Other	2	67	67
Interest and similar expense	2	(552)	(594)
Net interest income		401	107
Fee and commission income	2	2,388	1,951
Investment Income	2	2,749	1,742
Net trading income	2	36	222
Share of net losses from associates and joint ventures	2	(131)	(179)
Net credit impairment charges	2	(230)	(144)
Net other impairment charges	2	(360)	(147)
Net other operating income/(charges)	2	50	(50)
Net operating income		4,903	3,502
Employment expenses	2	(1,667)	(1,466)
Service cost recoveries	2	(685)	(496)
Brokerage, commission and fee expenses	2	(141)	(145)
Non-salary technology expenses	2	(106)	(115)
Other operating expenses	2	(415)	(471)
Total operating expenses		(3,014)	(2,693)
Operating profit from continuing operations before income tax		1,889	809
Income tax expense	3	(449)	(118)
Profit from continuing operations after income tax		1,440	691
Profit from discontinued operations after income tax ¹	33	368	472
Profit from continuing and discontinued operations after income tax		1,808	1,163
(Profit)/loss attributable to non-controlling interest holders		(242)	14
Profit attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		1,566	1,177
From continuing operations		1,198	705
From discontinued operations	33	368	472

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

1. Income and expenses related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 33 Assets, liabilities and disposal groups classified as held for sale and discontinued operations.

Consolidated statement of comprehensive income

For the financial year ended 31 March 2022

	Notes	2022 \$m	2021 \$m
Profit from continuing and discontinued operations after income tax		1,808	1,163
Other comprehensive income/(loss): ¹			
Movements in items that may be subsequently reclassified to the income statement:			
Fair value through other comprehensive income (FVOCI) reserve:			
Revaluation movement	19	1	163
Changes in allowance for expected credit losses	19	11	(125)
Cash flow hedges:			
Net movement recognised in other comprehensive income (OCI)	19	(15)	(8)
Transferred to income statement	19	9	(13)
Share of other comprehensive income/(loss) of associates and joint ventures	19	59	(22)
Foreign exchange movements on translation and hedge accounting of foreign operations		(59)	(920)
Total other comprehensive income/(loss)		6	(925)
Other comprehensive income/(loss) from continuing operations		6	(910)
Other comprehensive loss from discontinued operations ²	33	-	(15)
Total comprehensive income		1,814	238
Total comprehensive (income)/loss attributable to non-controlling interests		(236)	57
Total comprehensive income attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		1,578	295
From continuing operations		1,210	(162)
From discontinued operations	33	368	457

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

1. All items net of tax, where applicable.

2. Other comprehensive income related to the discontinued operations has been presented as part of 'Profit from discontinued operations after income tax' under Note 33 Assets, liabilities and disposal groups classified as held for sale and discontinued operations.

Consolidated statement of financial position

As at 31 March 2022

	Notes	2022 \$m	2021 \$m
Assets			
Cash and bank balances		3,027	2,745
Reverse repurchase agreements		8,649	2,126
Settlement, margin money and trading assets	4	7,557	6,629
Financial investments	5	5,527	1,525
Held for sale assets	33	1,719	1,385
Other assets	6	2,700	2,182
Loan assets	7	11,711	6,066
Due from related body corporate entities	21	14,731	18,427
Interests in associates and joint ventures	9	2,137	2,334
Property, plant and equipment	10	1,579	1,798
Intangible assets	11	1,013	1,272
Deferred tax assets	12	634	478
Total assets		60,984	46,967
Liabilities			
Settlement, margin money and trading liabilities	13	5,665	5,944
Held for sale liabilities	33	853	709
Other liabilities	14	3,109	2,789
Borrowings		1,832	1,523
Due to related body corporate entities	21	35,791	21,850
Issued debt securities	15	2,724	2,712
Deferred tax liabilities	12	57	56
Total liabilities excluding loan capital		50,031	35,583
Loan capital	17	2,135	2,131
Total liabilities		52,166	37,714
Net assets		8,818	9,253
Equity			
Contributed equity	18	6,018	7,858
Reserves	19	(387)	(399)
Retained earnings	19	3,061	1,501
Total capital and reserves attributable to the ordinary equity holder of Macquarie Financial Holdings Pty Limited		8,692	8,960
Non-controlling interests	19	126	293
Total equity		8,818	9,253

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

Consolidated statement of changes in equity

For the financial year ended 31 March 2022

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
Balance as at 1 Apr 2020		7,857	483	347	8,687	290	8,977
Profit/(loss) from continuing and discontinued operations after income tax		-	-	1,177	1,177	(14)	1,163
Other comprehensive loss, net of tax		-	(882)	-	(882)	(43)	(925)
Total comprehensive (loss)/income		-	(882)	1,177	295	(57)	238
Transactions with equity holder in their capacity as ordinary equity holder:							
Change attributable to group restructure	19	-	-	(23)	(23)	-	(23)
Movement in non-controlling ownership interests		-	-	-	-	60	60
Other equity movements:							
Tax contribution from MGL attributable to group restructure	18	3	-	-	3	-	3
Return of capital to MGL in relation to share-based payments	18	(2)	-	-	(2)	-	(2)
		1	-	(23)	(22)	60	38
Balance as at 31 Mar 2021		7,858	(399)	1,501	8,960	293	9,253
Profit from continuing and discontinued operations after income tax		-	-	1,566	1,566	242	1,808
Other comprehensive income/(loss), net of tax		-	12	-	12	(6)	6
Total comprehensive income		-	12	1,566	1,578	236	1,814
Transactions with equity holder in their capacity as ordinary equity holder:							
Return of capital to MGL	18	(1,898)	-	-	(1,898)	-	(1,898)
Change attributable to group restructure	19	-	-	3	3	-	3
Movement in non-controlling ownership interests		-	-	(9)	(9)	(403)	(412)
Other equity movements:							
Tax contribution from MGL attributable to group restructure	18	2	-	-	2	-	2
Contribution from MGL in relation to share based payments	18	56	-	-	56	-	56
		(1,840)	-	(6)	(1,846)	(403)	(2,249)
Balance as at 31 Mar 2022		6,018	(387)	3,061	8,692	126	8,818

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

Consolidated statement of cash flows

For the financial year ended 31 March 2022

	Notes	2022 \$m	2021 \$m
Cash flows generated/(utilised) from operating activities			
Interest income and expense:			
Received		891	709
Paid		(524)	(593)
Fee, commission, other income and charges:			
Received		2,913	2,884
Paid		(183)	(128)
Operating lease income received		97	124
Dividends and distributions received		221	67
Operating expenses paid:			
Employment expenses		(1,740)	(1,702)
Other operating expenses including brokerage, commission and fee expenses		(1,251)	(980)
Income tax paid		(618)	(176)
Changes in operating assets:			
Loan assets and balances with related body corporate entities		12,303	(10,039)
Other assets		(109)	(258)
Assets under operating lease		(76)	37
Trading, trading-related and collateralised lending balances (net of liabilities)		(457)	622
Changes in operating liabilities:			
Borrowings		944	104
Issued debt securities		(30)	(100)
Other liabilities		(28)	(30)
Net cash flows generated/(utilised in) from operating activities	20	12,353	(9,459)
Cash flows (utilised)/generated from investing activities			
Net payments for financial investments		(3,463)	(73)
Associates, joint ventures, subsidiaries and businesses:			
Proceeds from distribution or disposal, net of cash deconsolidated		4,247	9,866
Payments for additional contribution or acquisitions, net of cash acquired		(1,859)	(830)
Property, plant and equipment, investment property and intangible assets:			
Payments for acquisitions		(756)	(546)
Proceeds from disposals		37	455
Net cash flows (utilised)/generated from investing activities		(1,794)	8,872
Cash flows generated from financing activities			
Loan Capital:			
Issuance	20	–	2,131
Redemption	20	–	(2,100)
Return of Capital		(1,898)	–
(Payments to)/receipts from non-controlling interests		(325)	3
Net cash flows (utilised)/generated from financing activities		(2,223)	34
Net increase/(decrease) in cash and cash equivalents		8,336	(553)
Cash and cash equivalents at the beginning of the financial year		7,736	9,484
Effect of exchange rate movements on cash and cash equivalents		(13)	(1,195)
Cash and cash equivalents at the end of the financial year	20	16,059	7,736

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

Notes to the financial statements

For the financial year ended 31 March 2022

Note 1

Basis of preparation

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with *Australian Accounting Standards* and the *Corporations Act 2001* (Cth).

MFHPL is a for-profit Company for the purposes of preparing this Financial Report. MFHPL prepares consolidated financial statements and has provided separate Company information under Note 35 *Company financial information*.

The principal accounting policies adopted in the preparation of this Financial Report are set out below and in Note 37 *Significant accounting policies*. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (MFHPL and its subsidiaries) as well as to the Company (MFHPL), unless otherwise stated.

I. Compliance with IFRS as issued by the IASB

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

II. Basis of measurement

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

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL), financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that have been designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where 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 that are measured at fair value, such as investment property.

III. Critical accounting estimates and significant judgements

The preparation of this Financial Report in compliance with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated 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 37(vi))

-
- 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 37(vi))
 - the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss, including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 37(xx) and Note 8)
 - timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 37(i), Note 37(xx), Note 8 and Note 9)
 - the timing and amount of impairment of goodwill and other identifiable intangible assets and, where applicable, the reversal thereof (Note 37(xx) and Note 11)
 - 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 37(ix) and Note 29)
 - distinguishing between whether assets or a business is acquired under a business combination, particularly the determination of whether a substantive process exists that, together with an integrated set of activities and assets, significantly contributes to the ability to create an output (Note 37(ii))
 - determination of significant influence over associates, joint control over arrangements and control over subsidiaries, including the assessment of whether certain rights are protective or substantive in nature, whether these rights are held in the capacity as agent or principal, and whether the level of involvement in an investee's relevant activities is sufficient to significantly affect the returns generated (Note 37(i))
 - recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority (Note 37(v), Note 3 and Note 12)
 - recognition and measurement of certain revenue streams including performance fees from Macquarie-managed funds and other capital market investments and transactions (Note 37(iv))
 - recognition and measurement of provisions related to actual and potential claims, determination of contingent liabilities (Note 37(xv) and Note 24)
 - the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 37(ix) and Note 26)
 - the timing of the derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 37(i))
 - 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 37(xxviii))

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

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

IV. Coronavirus (COVID-19) impact

The Novel Coronavirus (COVID-19) has had significant impacts on global economies and equity, debt and commodity markets, led to several changes in the economy and resulted in several support actions by financial markets, governments, and regulators. The impact of COVID-19 continues to evolve and, where applicable, has been incorporated into the determination of the Consolidated Entity's results of operations and measurement of its assets and liabilities at the reporting date.

The Consolidated Entity's processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 31 March 2021 financial statements. Those processes identified that expected credit losses (Note 10) required continued judgement as a result of the impact of COVID-19.

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

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

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

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

IBOR interest rate benchmarks, that are used in a wide variety of financial instruments such as derivatives and lending arrangements, are undergoing reforms. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate), CDOR (the Canadian dollar offered rate) and 'BBSW' (the Australian Bank Bill Swap Rate). The nature of the reforms varies across different jurisdictions. For example, in Australia the existing IBOR benchmark (BBSW) has undergone reform and is expected to continue for the foreseeable future alongside the nominated ARR for AUD which is AONIA (AUD Overnight Index Average). In Canada, the Canadian Alternate Reference Rate (CARR) has recommended to Refinitiv Benchmark Services UK Limited (Refinitiv), the administrator of CDOR, to cease publication of all of CDOR's remaining tenors after 30 June 2024. Refinitiv is yet to make a decision on the future of CDOR but expects to make an announcement in Q2 2022.

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

Industry working groups have worked with authorities and consulted with market participants to develop market practices that may be used to transition existing LIBOR-linked contracts for derivatives, loans, bonds and other financial instruments that mature beyond their respective LIBOR cessation dates, to ARR. Amongst the issues considered were the key differences between LIBOR and ARR. LIBOR are term rates which are quoted at the beginning of that period (for example, one-, three-, six- or twelve-month periods) and include a component of bank credit risk. ARR's 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 need to be applied. As a diversified financial services group with a variety of global products and services, IBOR reforms, including the transition from LIBOR to ARR, are important changes for the Consolidated Entity.

Impacts on financial reporting

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

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

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

The amendments, which were mandatorily effective for annual reporting periods beginning on or after 1 January 2021, also require additional quantitative and qualitative disclosures. The Consolidated Entity adopted these amendments for the year ended 31 March 2022.

Note 2

Operating profit from continuing operations before income tax

	2022 ¹ \$m	2021 ¹ \$m
Net interest income		
Interest and similar income:		
Effective interest rate method ²	886	634
Other	67	67
Interest and similar expense ³	(552)	(594)
Net interest income	401	107
Fee and commission income		
Mergers and acquisitions, advisory and underwriting fees	1,390	843
Brokerage and commissions	481	421
Base and performance fees ⁴	329	529
Other fee and commission income	188	158
Total fee and commission income	2,388	1,951
Investment Income		
Net gain from:		
Disposal of businesses and subsidiaries ⁵	2,327	348
Financial investments	226	95
Interests in associates and joint ventures	181	895
Non-financial assets	15	390
Change of control, joint control and/or significant influence	-	14
Total investment income	2,749	1,742

1. Income and expenses related to the discontinued operations have been presented as part of "Profit from discontinued operations after income tax" under Note 33 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

2. Includes interest income of \$853 million (2021: \$571 million) on financial assets that are measured at amortised cost and \$33 million (2021: \$63 million) on financial assets measured at FVOCI.

3. Represents interest expense on financial liabilities measured at amortised cost calculated using effective interest rate method.

4. Includes \$149 million (2021: \$141 million) of base fee income.

5. Includes \$274 million (2021: \$Nil) attributable to non-controlling interests.

	2022 ¹ \$m	2021 ¹ \$m
Net trading income²		
Commodities trading ³	138	292
Equities trading	39	68
Credit, interest rate and foreign exchange and other products	(141)	(138)
Net trading income	36	222
Share of net losses from associates and joint ventures	(131)	(179)
Credit and other impairment charges		
Credit impairment (charges)/reversal		
Loan assets	(179)	(127)
Loans to associates and joint ventures	(40)	(17)
Settlement, margin money and trading assets	2	(13)
Financial investments, other assets, off balance sheet exposures ⁴	(13)	13
Net credit impairment charges	(230)	(144)
Other impairment charges		
Interests in associates and joint ventures	(306)	(28)
Intangible and other non-financial assets	(54)	(119)
Net other impairment charges	(360)	(147)
Total credit and other impairment charges	(590)	(291)
Net other operating income		
Net operating lease income		
Rental income	97	116
Depreciation and other operating lease-related charges	(34)	(36)
Net operating lease income	63	80
Subsidiaries held for investment purposes⁵		
Net operating revenue ⁶	447	354
Expenses ⁷	(473)	(504)
Net loss from subsidiaries held for investment purposes	(26)	(150)
Other income	13	20
Net other operating income/(charges)	50	(50)
Net operating income	4,903	3,502

1. Income and expenses related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 33 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.

2. 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 37(ix) *Derivative instrument and hedging activities*.

3. Includes \$99 million (2021: \$195 million) of transportation, storage and certain other trading-related costs and \$39 million (2021: \$36 million) depreciation on right-of-use (ROU) assets held for trading-related businesses.

4. Includes the ECL on due from related body corporate entities.

5. Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's investment activities.

6. Includes revenue of \$1,176 million (2021: \$968 million) after deduction of \$729 million (2020: \$614 million) related to cost of goods sold.

7. Includes employment expenses, depreciation and amortisation expenses and other operating expenses.

	2022 ¹ \$m	2021 ¹ \$m
Employment expenses		
Salary and related costs including commissions, superannuation and performance-related profit share	(1,441)	(1,230)
Share based payments	(211)	(212)
Provision for long service leave and annual leave	(15)	(24)
Total employment expenses	(1,667)	(1,466)
Service cost recoveries	(685)	(496)
Brokerage, commission and fee expenses		
Brokerage and other trading-related fee expenses	(87)	(81)
Other fee and commission expenses	(54)	(64)
Total brokerage, commission and fee expenses	(141)	(145)
Non-salary technology expenses		
Information services	(78)	(78)
Depreciation on own use assets: equipment (Note 10)	(4)	(7)
Service provider and other non-salary technology expenses	(24)	(30)
Total non-salary technology expenses	(106)	(115)
Other operating expenses		
Occupancy expenses		
Lease expenses ²	(42)	(54)
Depreciation on own use assets: building, furniture, fittings and leasehold improvements (Note 10)	(22)	(26)
Other occupancy expenses	(23)	(20)
Total occupancy expenses	(87)	(100)
Other expenses		
Professional fees	(184)	(172)
Indirect and other taxes	(39)	(43)
Audit fees	(15)	(10)
Other	(90)	(146)
Total other expenses	(328)	(371)
Total other operating expenses	(415)	(471)
Total operating expenses	(3,014)	(2,693)
Operating profit from continuing operations before income tax	1,889	809

1. Income and expenses related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 33 Assets, liabilities and disposal groups classified as held for sale and discontinued operations

2. Includes \$40 million (2021: \$48 million) of depreciation on ROU assets relating to office premises leases.

Note 3

Income tax expense

I. Income tax (expense)/benefit

	2022 \$m	2021 \$m
Current tax expense	(744)	(257)
Deferred tax benefit	183	46
Total income tax expense	(561)	(211)
Income tax expense is attributable to:		
Profit from continuing operations	(449)	(118)
Profit from discontinued operations (Note 33)	(112)	(93)

II. Reconciliation of income tax expense to *prima facie* tax expense

<i>Prima facie</i> income tax expense on operating profit @30% (2021: 30%)	(711)	(413)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:		
Rate differential on offshore income	188	223
Other items	(28)	(21)
Gain on sale of discontinued operations	(10)	-
Total income tax expense	(561)	(211)

III. Tax benefit/(expense) relating to OCI

FVOCI reserve	(1)	(11)
Foreign currency translation reserves	3	-
Cash flow hedges and cost of hedging	12	6
Share of other comprehensive expense/(income) of associates and joint ventures	(8)	14
Total tax benefit relating to items of OCI	6	9

IV. Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities

Property, plant and equipment	(8)	-
Intangible assets	2	18
Financial investments and interests in associates and joint ventures	16	(12)
Tax losses	10	(27)
Operating and finance lease assets	(6)	9
Loan assets and derivatives	45	(15)
Other assets and liabilities	124	73
Total deferred tax benefit represents movements in deferred tax assets/(liabilities)	183	46

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 advice where appropriate, and considers that it holds appropriate provisions.

Note 4

Settlement, margin money and trading assets

	2022 \$m	2021 \$m
Settlement and margin money assets		
Security settlements	4,821	5,425
Commodity settlements	508	370
Margin money	369	300
Total settlement and margin money assets	5,698	6,095
Trading assets		
Commodity contracts	1,360	-
Corporate loans and debt securities	206	138
Listed equity securities	187	99
Commodities	106	297
Total trading assets	1,859	534
Total settlement, margin money and trading assets	7,557	6,629

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

Note 5

Financial investments

	2022 \$m	2021 \$m
Equity securities:		
Listed	292	310
Unlisted	937	926
Debt securities:		
Bonds and Negotiable Certificate of Deposits (NCDs)	3,657	-
Others	641	289
Total financial investments¹	5,527	1,525

Of the above amounts, \$3,429 million (2021: \$287 million) is expected to be recovered within 12 months of the balance date.

Note 6

Other assets

Other financial assets		
Trade debtors and other receivables ²	833	920
Derivative assets	275	74
Total other financial assets	1,108	994
Other non-financial assets		
Property and other inventory	719	518
Income tax receivables	462	337
Contract assets	166	8
Indirect taxes and other receivables	124	109
Prepayments	121	216
Total other non-financial assets	1,592	1,188
Total other assets	2,700	2,182

Of the above amounts, \$1,639 million (2021: \$1,433 million) is expected to be recovered within 12 months of the balance date.

1. Includes investments in Macquarie-managed funds of \$300 million (2021: \$285 million).

2. Includes \$394 million (2021: \$335 million) of fee and commission receivables.

Note 7

Loan assets

	2022			2021		
	Gross allowance ¹ \$m	ECL \$m	Net \$m	Gross allowance ¹ \$m	ECL \$m	Net \$m
Corporate, commercial and other lending	11,571	(439)	11,132	5,789	(355)	5,434
Home loans	426	(1)	425	480	-	480
Asset financing	154	-	154	152	-	152
Total loan assets	12,151	(440)	11,711	6,421	(355)	6,066

Of the above amounts, \$919 million (2021: \$485 million) is expected to be recovered within 12 months of the balance date.

Finance lease receivables

	2022			2021		
	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m	Gross investment in finance lease receivables \$m	Unearned income \$m	Present value of minimum lease payments receivable \$m
Within one year	73	(6)	67	74	(6)	68
Between one and two years	47	(3)	44	47	(3)	44
Between two and three years	26	(1)	25	26	(1)	25
Between three and four years	8	-	8	7	-	7
Between four and five years	1	-	1	2	-	2
Total	155	(10)	145	156	(10)	146

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 8 *Expected credit losses*.

Note 8

Expected credit losses

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

Model inputs

The Consolidated Entity segments its credit portfolio into representative groupings which are typically based on shared risk characteristics.

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

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

The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default.
- Probability of default (PD): The calculation of PDs for wholesale exposures is generally performed at a facility level. 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 wholesale portfolios are also adjusted for Forward Looking Indicators (FLI).
- Loss given default (LGD): The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Qualitative factors include, but are not limited to, material change in internal credit rating, whether an exposure has been identified and placed on CreditWatch, an internal credit monitoring mechanism supervised by the credit watch management committee to closely monitor exposures showing signs of stress. All exposures on Credit Watch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposures' credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other similar exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

Retail exposures

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

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

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

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

Forward looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The predicted relationships between these key indicators and the key model components (EAD, PD and LGD) in measuring the ECL have been developed by analysing historical data as part of the development of internal models, the calibration and validation process.

The Consolidated Entity applies its professional judgment in determining whether there are any inherent risks in the models' predictive outcomes. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays account for the risk that underlying credit risk events have occurred, but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regions, counterparties or industries which are difficult to account for within the modelled outcomes. Over time the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately \$175 million. These judgments are reviewed by FMG and RMG at each reporting date.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios and recommending the range of probability weights to apply to those scenarios. For this purpose, four possible economic scenarios have been developed, being an upside, downside, severe downside and baseline scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs.

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

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

Where limited official data sources against which to benchmark key economic indicators on a forward-looking basis exist, management exercises judgement when determining the duration, severity and impact of the macroeconomic scenarios used by the Consolidated Entity. Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics' specialist input and comparison to general market outlooks and publicly available market commentary.

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

The scenarios for each of the key regions where Macquarie's ECL is derived have been set out in the following pages. Noting the diversity of possible scenarios and macroeconomic outcomes, and the continuing uncertainty regarding the implications of events in Ukraine and broader inflationary pressures, these scenarios represent plausible forward-looking views as at the reporting date.

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

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

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$625 million ¹	Probable	<p>Global: The baseline scenario assumes 2022 global GDP growth of around 3.3% year-on-year, bringing the world economy to within around 1% of the pre-pandemic trend, albeit with expectations of much variation between countries and some gradual slowing of growth over the year. Interest rates are expected to rise steadily in most advanced economies through 2022 and into 2023 in response to high inflationary pressures.</p> <p>Australia: Lockdowns in 2021 temporarily delayed, but did not derail, the economy's recovery. Unemployment is expected to fall below 4%. Faster economic growth recovery would be constrained by projected elevated inflation and expected cash rate increases by the Reserve Bank of Australia (RBA).</p> <p>House prices and equity markets are expected to reverse some of their gains from the past 12-18 months due to expected monetary tightening in the second half of the calendar year. House prices are projected to decline by approximately 10% over 2022 and 2023.</p> <p>United States: GDP growth is expected to slow from 5.7% year-on-year in 2021 to 3.5% year-on-year in 2022, still above historical trends. The Federal Reserve (Fed) is projected to increase interest rates by 125 Bps over 2022, leading to slower growth in equity markets and house prices.</p> <p>Europe: Eurozone output reached its pre-pandemic level at the end of 2021 and annual GDP growth of 3% year-on-year is projected for 2022. Europe's overall unemployment rate is projected to continue to decline marginally towards long-run levels. Despite the uncertainty introduced by the Russia-Ukraine conflict, the European Central Bank (ECB) is expected to reduce monetary policy stimulus</p>
Downside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$700 million ¹	Possible	<p>Global: The downside scenario projects growth in global GDP that is approximately 1% lower than the baseline scenario baseline through to 2025.</p> <p>Australia: The scenario projects the early 2022 post lockdown economic recovery to lose momentum and show only marginally positive growth through the rest of 2022 and into 2023. Unemployment is projected to increase slightly but remain below 5% throughout the scenario horizon. Reduced inflationary pressures are expected to lead to a pause in rate hikes. Housing and equity prices are projected to remain broadly flat through the period.</p> <p>United States: The scenario projects growth falling to around 1-1.5% year-on-year by the end of 2022. Consequently, it would be expected that the Fed delays tightening mid-way through the projected baseline increases. Unemployment is projected to fall below 4% in early 2022 and rebound to 5%. The combination of initial rate hikes and a subsequent slowing of the economy is expected to result in equity market losses in 2022 and limited gains over the following three years.</p> <p>Europe: The scenario projects GDP growth to slow to around 1.5% year-on-year in 2022 and fall below 0.5% year-on-year in 2023. This is expected to result in unemployment levels of around 8%. Equity prices are projected to fall by around 7% by end of 2022 and remain close to those levels throughout the forecast period to 2025.</p>

1. This number provides 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.

Scenario	Weighting	Expectation
Severe Downside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$900 million ¹	Possible	<p>Global: The scenario projects a slowdown followed by a recession throughout 2022 and most of 2023. The recovery is projected to pick up in 2024 and beyond, however this recovery would remain significantly below the baseline scenario expectations.</p> <p>Australia: The scenario projects GDP to slow during 2022 and then turn sharply negative during 2023. The unemployment rate is projected to rise to 6.5% in 2023, and house prices are expected to fall by 20% by the end of 2023 despite expansionary monetary policy.</p> <p>United States: The scenario projects the current economic recovery slows, and growth is expected to turn negative for five straight quarters from 2022 into 2023. The unemployment rate is projected to reach 8.5% in mid-2023, and equity markets to decline by approximately 18% by mid-2023.</p> <p>Europe: The scenario projects a recession that spans most of 2022 and 2023 with output expected to end significantly below its pre-pandemic level. The unemployment rate is expected to peak near 9% at end 2023 and equity markets are projected to suffer sizeable losses</p>
Upside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~\$575 million ¹	Unlikely	<p>Global: The upside scenario projects growth in global GDP that is approximately 1% higher than the baseline scenario throughout the forecast period to 2025.</p> <p>Australia: The scenario projects continued growth of 2.5-3% annually and the unemployment rate to fall to 3.2% in late 2022 and early 2023. Aggressive tightening is expected from the RBA which is projected to result in a 10% decline in house prices by the end of 2023.</p> <p>United States: The scenario projects GDP to sustain strong growth in 2022 and 2023. The unemployment rate is projected to fall below 3% for a brief period in early 2023. Equity markets are projected to perform well on the back of robust growth. Interest rates are projected to rise by 250 Bps over the span of two years.</p> <p>Europe: The scenario projects GDP to surpass 3% year-on-year growth in 2022 and into 2023, though inflation is expected to remain above 4% year-on-year through much of this period. The unemployment rate is projected to fall to 6% and remain around this level through to 2025</p>

1. This number provides 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.

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 impairment requirements of AASB 9 *Financial Instruments*.¹

	Gross exposure for financial assets carried at ¹			Total gross exposure	ECL allowance on financial assets carried at			Total ECL allowance
	Amortised cost	FVOCI	Other		Amortised cost	FVOCI	Other	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
								2022
Cash and bank balances	3,027	-	-	3,027	-	-	-	-
Reverse repurchase agreements	-	8,649	-	8,649	-	-	-	-
Settlement, margin money and trading assets	5,714	-	-	5,714	16	-	-	16
Financial investments	-	3,679	-	3,679	-	1	-	1
Held for sale and other assets ²	1,076	18	209	1,303	11	-	-	11
Loan assets	11,586	284	-	11,870	440	59	-	499
Due from related body corporate entities	13,715	9	-	13,724	4	-	-	4
Loans to associates and joint ventures	572	76	-	648	63	33	-	96
Off balance sheet exposures ³	-	-	9,515	9,515	-	-	38	38
Total	35,690	12,715	9,724	58,129	534	93	38	665
								2021
Cash and bank balances	2,745	-	-	2,745	-	-	-	-
Reverse repurchase agreements	-	2,126	-	2,126	-	-	-	-
Settlement, margin money and trading assets	6,112	-	-	6,112	17	-	-	17
Financial investments	-	9	-	9	-	-	-	-
Held for sale and other assets ²	972	6	13	991	25	-	-	25
Loan assets	5,868	322	-	6,190	355	50	-	405
Due from related body corporate entities	17,546	-	-	17,546	6	-	-	6
Loans to associates and joint ventures	563	91	-	654	27	31	-	58
Off balance sheet exposures ³	-	-	5,130	5,130	-	-	33	33
Total	33,806	2,554	5,143	41,503	430	81	33	544

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which expected credit losses (ECL) allowances are carried. The credit quality of the Consolidated Entity's loan assets, which are monitored through its credit policies, as set out in Note 27.1 *Credit Risk*.

1 The gross exposure of financial assets measured at amortised cost represents the amortised cost before the ECL allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposures will not be equal to the amount as presented in the Consolidated statement of financial position.

2 Other exposures included in other assets represent fee-related contract assets.

3 Off balance sheet exposures includes gross exposure for undrawn credit commitments, letters of credit and financial guarantees (not measured at FVTPL). The gross exposure represents the notional values of these contracts.

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

	Settlement, margin money and trading assets \$m	Financial investments \$m	Held for sale and other assets \$m	Loan assets \$m	Due from related body corporate entities \$m	Loans to associates and joint ventures \$m	Off balance sheet exposures \$m	Total \$m
Balance as at 1 Apr 2020	4	5	39	419	9	72	46	594
Credit impairment charges/(reversals)	13	(2)	(2)	127	(2)	17	(7)	144
Amount written off, previously provided for	-	(2)	(5)	(84)	-	(21)	-	(112)
Reclassifications, foreign exchange and other movements	-	(1)	(7)	(57)	(1)	(10)	(6)	(82)
Balance as at 31 Mar 2021	17	-	25	405	6	58	33	544
Credit impairment charges/(reversals)	(2)	1	7	179	(1)	40	6	230
Amount written off, previously provided for	-	-	(13)	(89)	-	-	-	(102)
Reclassifications, foreign exchange and other movements	1	-	(8)	4	(1)	(2)	(1)	(7)
Balance as at 31 Mar 2022	16	1	11	499	4	96	38	665

ECL on loan assets

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

	Lifetime ECL			
	Stage I 12 month ECL \$m	Stage II Not credit impaired \$m	Stage III Credit impaired \$m	Total \$m
Balance as at 1 Apr 2020	112	70	237	419
Transfers during the year	(15)	2	13	-
Credit impairment charges (Note 2)	18	15	94	127
Amount written off, previously provided for	-	-	(84)	(84)
Reclassifications, foreign exchange and other movements	(10)	(9)	(38)	(57)
Balance as at 31 Mar 2021	105	78	222	405
Transfers during the year	9	(38)	29	-
Credit impairment charges/(reversals) (Note 2)	159	58	(38)	179
Amount written off, previously provided for	-	-	(89)	(89)
Reclassifications, foreign exchange and other movements	(3)	1	6	4
Balance as at 31 Mar 2022	270	99	130	499

Note 9

Interests in associates and joint ventures

	2022 \$m	2021 \$m
Equity investments with no provisions for impairment	779	1,360
Equity investments with provisions for impairment		
Gross carrying value ¹	828	481
Less: provisions for impairment	(387)	(139)
Equity investments with provisions for impairment	441	342
Total equity investments in associates and joint ventures ²	1,220	1,702
Loans to associates and joint ventures	980	659
Less: credit impairment charges ³	(63)	(27)
Total loans to associates and joint ventures	917	632
Total interests in associates and joint ventures^{4,5}	2,137	2,334

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

Principal associate

The Consolidated Entity's principal associate at the balance date is:

Associates	Carrying value		Ownership interest	Nature of activities	Financial reporting date
	2022 \$m	2021 \$m			
Macquarie AirFinance Limited	594	578	50%	Aircraft leasing	31 March

1. Represents the carrying value after equity-accounted gains and losses, if any.

2. Includes investments in Macquarie-managed funds of \$109 million (2021: \$156 million). The Consolidated Entity classifies its investments in these funds as equity-accounted associates where it has a less than 20% ownership interest on the basis of its ability to participate in the financial and operating policy decisions through its role as general partner or manager.

3. Excludes credit losses of \$33 million (2021: \$31 million) which have been recognised in FVOCI reserve on loans to associates measured as FVOCI.

4. Comprises of \$1,015 million (2021: \$1,265 million) relating to interests in associates and \$1,122 million (2021: \$1,069 million) relating to interests in joint ventures.

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

Macquarie AirFinance Limited

The Consolidated Entity holds 50% interest in Macquarie AirFinance Limited (MAF) under the MAM operating group and accounts for it as an equity-accounted associate due to having significant influence.

MAF has been impacted by a global reduction in airline movements due to COVID-19. An assessment of impairment indicators on an aircraft-by-aircraft basis was undertaken by MAF. For each aircraft with impairment indicators, recoverable value, being the higher of its VIU and its fair value less costs of disposal, was determined and compared to its book value. The cash flows included in the VIU assessment considered the circumstances of the lessee and its impact on contracted lease revenue, unleased aircraft, the probability of leases being extended, the time that an aircraft is off-lease, future lease rates and disposal proceeds. The fair value less costs of disposal was determined with reference to independent appraisal values for each aircraft. MAF recognised an impairment for aircraft with impairment indicators where the recoverable value was less than carrying value.

The recoverable value of the Consolidated Entity's investment in MAF, after accounting for the above-mentioned equity-accounted loss, was also considered. The investment's VIU was determined using the income approach where significant inputs included forecasts over the timing and amount of distributions, and the terminal value of the investment beyond the forecast period. The investment's fair value less costs of disposal was determined with reference to the current market value of the net assets of MAF.

Changes in the carrying value of the investment during the year as a result of the appreciation of the Australian dollar against the United States dollar are accounted for in the Consolidated Entity's foreign currency translation and net investment hedge reserve, together with applicable hedges.

Note 10

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

	2022			2021		
	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated depreciation and impairment \$m	Carrying value \$m
Assets for own use						
Furniture, fittings and leasehold improvements	404	(178)	226	491	(205)	286
Infrastructure assets	187	(24)	163	304	(18)	286
Other	61	(27)	34	87	(42)	45
Total assets for own use	652	(229)	423	882	(265)	617
Assets under operating lease						
Aviation	1,025	(159)	866	967	(124)	843
Others	130	(7)	123	103	(5)	98
Total assets under operating lease	1,155	(166)	989	1,070	(129)	941
Right-of-use assets						
Office premises	246	(121)	125	251	(87)	164
Commodity storage	63	(45)	18	95	(57)	38
Other	26	(2)	24	40	(2)	38
Total right-of-use assets	335	(168)	167	386	(146)	240
Total property, plant and equipment and right-of-use assets	2,142	(563)	1,579	2,338	(540)	1,798

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

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

	Furniture, fittings and leasehold improvements \$m	Infrastructure assets \$m	Other \$m	Total \$m
Assets for own use				
Balance at 1 Apr 2020	263	49	29	341
Acquisitions and additions	153	182	42	377
Disposals	(18)	(5)	(13)	(36)
Depreciation expense ¹	(32)	(4)	(9)	(45)
Impairments	-	(2)	-	(2)
Reclassifications and other adjustments	(51)	84	3	36
Foreign exchange movements	(29)	(18)	(7)	(54)
Balance as at 31 Mar 2021	286	286	45	617
Acquisitions and additions	106	363	47	516
Disposals	(19)	(3)	(15)	(37)
Depreciation expense ¹	(46)	(11)	(8)	(65)
Impairments	(26)	(3)	-	(29)
Reclassifications and other adjustments	(72)	(440)	(32)	(544)
Foreign exchange movements	(3)	(29)	(3)	(35)
Balance as at 31 Mar 2022²	226	163	34	423

	Aviation \$m	Mining and Other \$m	Total \$m
Assets under operating lease			
Balance at 1 Apr 2020	1,114	-	1,114
Acquisitions and additions	3	68	71
Disposals	(10)	-	(10)
Depreciation expense	(37)	(4)	(41)
Impairments	(3)	-	(3)
Reclassifications and other adjustments	(13)	37	24
Foreign exchange movements	(211)	(3)	(214)
Balance as at 31 Mar 2021	843	98	941
Acquisitions and additions	55	31	86
Disposals	(7)	-	(7)
Depreciation expense	(34)	(4)	(38)
Reclassifications and other adjustments	(4)	(1)	(5)
Foreign exchange movements	13	(1)	12
Balance as at 31 Mar 2022	866	123	989

1. Includes depreciation expense of \$24 million (2021: \$6 million) on furniture, fittings and leasehold improvements, \$8 million (2021: \$1 million) on infrastructure assets and \$4 million (2021: \$2 million) on equipment relating to subsidiaries that are held for investment purposes and presented under other operating income and charges in Note 2 *Operating profit from continuing operations before income tax*.

2. Includes \$107 million (2021: \$246 million) capital work in progress related to Macquarie Capital Infrastructure projects.

	Office Premises \$m	Commodity Storage \$m	Other \$m	Total \$m
Right-of-use assets				
Balance at 1 Apr 2020	240	67	18	325
Acquisitions and additions	32	21	31	84
Reclassifications and Disposals	(11)	(3)	(5)	(19)
Depreciation expense ¹	(53)	(36)	(1)	(90)
Impairments	(4)	-	-	(4)
Foreign exchange movements	(44)	(12)	(2)	(58)
Other	4	1	(3)	2
Balance as at 31 Mar 2021	164	38	38	240
Acquisitions and additions	27	23	71	121
Reclassifications and Disposals	(21)	-	(74)	(95)
Depreciation expense ¹	(42)	(39)	(3)	(84)
Impairments	(4)	-	-	(4)
Foreign exchange movements	1	1	2	4
Other	-	(5)	(10)	(15)
Balance as at 31 Mar 2022	125	18	24	167

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

Assets under operating lease	2022 \$m	2021 \$m
Within one year	88	93
Between one to two years	71	77
Between two to three years	52	55
Between three to four years	40	41
Between four to five years	31	33
Later than five years	127	326
Total future minimum lease payments receivable	409	625

1. Includes depreciation expense of \$2 million (2021: \$5 million) on office premises relating to subsidiaries that are held for investment purposes and presented under other operating income and charges in Note 2 *Operating profit from continuing operations before income tax*.

Note 11

Intangible assets

	2022			2021		
	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Carrying value \$m
Goodwill	545	-	545	729	-	729
Management rights and licenses	278	(61)	217	252	(34)	218
Customer and servicing contracts	215	(13)	202	152	(21)	131
Other identifiable intangible assets	62	(13)	49	237	(43)	194
Total intangible assets¹	1,100	(87)	1,013	1,370	(98)	1,272

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

There were no significant impairment indicators during the year. In cases where there were impairment indicators, the recoverable amount was determined based on higher of the asset or cash generating unit's fair value less costs to sell and value in use. Where applicable, this measurement basis was determined with reference to external valuations or using Discounted Cashflow methodologies for goodwill, in which case the key assumptions included discount rates ranging from 8%-10%, forecasted cashflows and long-term growth rate information specific to the underlying asset or cash generating unit.

1. Includes \$96 million (2021: \$97 million) related to the Consolidated Entity's integrated consolidated businesses and \$917 million (2021: \$1,175 million) related to the Consolidated Entity's subsidiaries held for investment purposes with the ultimate intention to sell as part of Macquarie's investment activities.

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

	Goodwill	Management rights and license	Other identifiable intangible assets	Customer and servicing contracts	Total
	\$m	\$m	\$m	\$m	\$m
Balance at 1 Apr 2020	1,005	234	301	116	1,656
Acquisitions ¹	5	13	333	52	403
Impairment	(106)	(3)	(10)	-	(119)
Amortisation ²	-	(10)	(20)	(14)	(44)
Foreign exchange movements	(129)	(16)	(53)	(23)	(221)
Disposals and reclassifications	(8)	-	(350)	-	(358)
Other adjustments ³	(38)	-	(7)	-	(45)
Balance as at 31 Mar 2021	729	218	194	131	1,272
Acquisitions ¹	434	28	26	172	660
(Impairment)/Reversal	(8)	(19)	1	-	(26)
Amortisation ²	-	(7)	(11)	(9)	(27)
Foreign exchange movements	13	-	3	(5)	11
Disposals and reclassifications	(629)	(3)	(164)	(87)	(883)
Other adjustments ³	6	-	-	-	6
Balance as at 31 Mar 2022	545	217	49	202	1,013

1. Includes intangible assets acquired as part of business combinations and otherwise. Refer to Note 34 *Acquisitions and disposals of subsidiaries and businesses* for Intangible assets acquired as part of business combinations.

2. Includes amortisation of \$27 million (2021: \$42 million) presented under Other operating income and \$Nil (2021: \$2 million) under Other operating expenses in the Consolidated Income statement.

3. Includes purchase price adjustments.

Note 12

Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	2022 \$m	2021 \$m
Other assets and liabilities	456	350
Tax losses	137	133
Financial investments and interests in associates and joint ventures	292	180
Property, plant and equipment	10	9
Operating and finance lease	14	15
Loan assets and derivatives	65	71
Intangible assets	18	18
Set-off of deferred tax liabilities	(358)	(298)
Net deferred tax assets	634	478
Other assets and liabilities	(33)	(31)
Financial investments and interests in associates and joint ventures	(124)	(61)
Property, plant and equipment	(8)	(2)
Operating and finance lease assets	(133)	(128)
Loan assets and derivatives	(59)	(96)
Intangible assets	(58)	(36)
Set-off of deferred tax assets	358	298
Net deferred tax liabilities	(57)	(56)

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

Potential tax assets of approximately \$235 million (2021: \$209 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 \$1 million (2021: \$1 million) that will expire within two years, \$128 million (2021: \$38 million) that will expire in 2-5 years, \$101 million (2021: \$35 million) that will expire in 5-10 years and \$191 million (2021: \$155 million) that will expire in 10-20 years. \$484 million (2021: \$499 million) do not expire and can be carried forward indefinitely. Approximately \$5 million (2021: \$5 million) of tax assets relating to losses are available within subsidiary investments that have been classified as held for sale.

Note 13

Settlement, margin money and trading liabilities

	2022 \$m	2021 \$m
Settlement and margin money liabilities		
Security settlements	4,878	5,561
Commodity settlements	594	280
Margin money	109	32
Total settlement and margin money liabilities	5,581	5,873
Trading liabilities		
Listed equity securities	79	71
Debt securities	5	-
Total trading liabilities	84	71
Total settlement, margin money and trading liabilities	5,665	5,944

Note 14

Other liabilities

	2022 \$m	2021 \$m
Other financial liabilities		
Unitholder liabilities	495	496
Creditors	342	474
Derivative liabilities	267	102
Lease liabilities	206	299
Other	38	14
Total other financial liabilities	1,348	1,385
Other non-financial liabilities		
Accrued charges, employment-related liabilities and provisions ¹	1,248	948
Income tax payable	330	261
Other	183	195
Total other non-financial liabilities	1,761	1,404
Total other liabilities	3,109	2,789

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

Note 15

Issued debt securities

	2022 \$m	2021 \$m
Bonds, negotiable certificate of deposits and commercial paper	2,706	2,699
Exchangeable shares ¹	18	13
Total issued debt securities²	2,724	2,712

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

Reconciliation of issued debt securities by major currency:

(In Australian dollar equivalent)

United States dollars	2,699	2,697
Others	25	15
Total issued debt securities	2,724	2,712

1. Includes exchangeable shares issued by subsidiaries as consideration for the acquisition of Orion Financial Inc. and Tristone Capital Global Inc. Refer to Note 18 *Contributed equity* for further details on exchangeable shares.
2. The amount that would be contractually required to be paid at maturity to the holders of issued debt securities measured at DFVTPL is \$18 million (2021: \$16 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 28 *Measurement categories of financial instruments* for the carrying value of issued debt securities measured at DFVTPL.

Note 16

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

The Consolidated Entity is required to maintain capital as calculated using the Consolidated Entity's ECAM.

In determining capital requirements, transactions internal to the Consolidated Entity are eliminated. The Consolidated Entity's eligible capital consists of ordinary equity, certain reserves and hybrid instruments.

The Consolidated Entity has satisfied all internally imposed capital requirements throughout the financial year.

Note 17

Loan capital

Subordinated debt

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

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

Contract feature	Internal Capital Notes	Internal Capital Notes	Internal Capital Notes
Code	ICN Series 1	ICN Series 2	ICN Series 3
Issuer	Macquarie Financial Holdings Pty Limited	Macquarie Financial Holdings Pty Limited	Macquarie Financial Holdings Pty Limited
Par value	\$100	\$100	\$100
Currency	AUD	AUD	AUD
Principal amount	\$1,000 million	\$406 million	\$725 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	31 March 2021	31 March 2021	31 March 2021
Interest rate	30-day BBSW plus a fixed margin of 4.00% per annum, paid monthly	30-day BBSW plus a fixed margin of 4.15% per annum, paid monthly	30-day BBSW plus a fixed margin of 2.90% per annum, paid monthly
Interest payment frequency	Monthly	Monthly	Monthly
Interest Payment	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative
Outstanding notes at reporting date	10 million	4.06 million	7.25 million
Maturity	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.	Perpetual unless redeemed, or exchanged in accordance with the terms of the instrument.

The table below discloses the carrying value of loan capital as at 31 March:

	2022 \$m	2021 \$m
Instruments with conditional repayment obligations:		
ICN Series 1	1,000	1,000
ICN Series 2	406	406
ICN Series 3	725	725
Accrued Interest payable as per terms of instruments:		
Less than 12 months	4	-
Total loan capital	2,135	2,131

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

Subsequent to 31 March 2022, the Consolidated entity will be issuing AUD \$500m of convertible subordinated debt (hybrid equity) in the form of new Internal Capital Notes to its parent MGL.

Note 18

Contributed equity

	2022 Number of Shares	2021 Number of Shares	2022 \$m	2021 \$m
Ordinary share capital			12,351	14,249
Restructure reserve			(6,805)	(6,805)
Additional paid in capital			472	414
Total contributed equity			6,018	7,858
I. Ordinary share capital¹				
Balance at the beginning of the financial year	29,811,401,161	29,811,399,431	14,249	14,249
Issue of shares to MGL on retraction of exchangeable shares at \$157.07 (2021: \$139.70) per share	756	1,730	-	-
Return of capital to MGL	-	-	(1,898)	-
Closing balance of fully paid ordinary shares	28,811,401,917	29,811,401,161	12,351	14,249
II. Restructure reserve²				
Balance at the beginning of the financial year			(6,805)	(6,805)
Balance at the end of the financial year			(6,805)	(6,805)
III. Additional paid in capital				
Balance at the beginning of the financial year			414	413
Tax contribution for business acquired under group restructure			2	3
Additional/(return of) paid in capital for Macquarie Group Employee Retained Equity Plan (MEREP) ⁽³⁾			56	(2)
Balance at the end of the financial year			472	414

1. Ordinary shares have no par value.

2. Relates to the difference between the acquisition price and the book value of the net assets acquired under common control transactions.

3. Macquarie Group Employee Retained Equity Plan (MEREP) awards are primarily settled in shares of MGL. 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 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 23 *Employee equity participation*.

Note 19

Reserves, retained earnings and non-controlling interests

I. Reserves

	2022 \$m	2021 \$m
Foreign currency translation reserve		
Balance at the beginning of the financial year	(201)	676
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax ¹	(53)	(877)
Balance at the end of the financial year	(254)	(201)
FVOCI reserve		
Balance at the beginning of the financial year	-	(38)
Revaluation movement during the financial year, net of tax	1	163
Changes in ECL allowance, net of tax	11	(125)
Balance at the end of the financial year	12	-
Cash flow hedging reserve		
Balance at the beginning of the financial year	(14)	7
Net movement recognised in OCI during the financial year, net of tax	(15)	(8)
Transferred to income statement on realisation, net of tax	9	(13)
Balance at the end of the financial year	(20)	(14)
Share of reserves of interests in associates and joint ventures		
Balance at the beginning of the financial year	(184)	(162)
Share of other comprehensive income/(loss) of associates and joint ventures during the year, net of tax	59	(22)
Balance at the end of the financial year	(125)	(184)
Total reserves at the end of the financial year	(387)	(399)

1. The current year movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the depreciation of the Australian dollar against the foreign currencies.

II. Retained earnings

	2022 \$m	2021 \$m
Balance at the beginning of the financial year	1,501	347
Profit attributable to the ordinary equity holder of MFHPL (Note 2)	1,566	1,177
Loss on change in non-controlling ownership interest	(9)	-
Change attributable to group restructure	3	(23)
Balance at the end of the financial year	3,061	1,501

III. Non-controlling interests¹

	2022 \$m	2021 \$m
Share capital and partnership interests	434	478
Reserves	(127)	(60)
Accumulated losses	(181)	(125)
Total non-controlling interests	126	293

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.

Note 20

Notes to the statement of cash flows

I. Reconciliation of cash and cash equivalents

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

	2022 \$m	2021 \$m
Due from related body corporate entities ¹	4,731	3,846
Cash and bank balances ^{2,3}	2,154	1,582
Reverse repurchase agreements	8,649	2,126
Financial investments	414	182
Held for sale assets	111	-
Cash and cash equivalents at the end of the financial year	16,059	7,736

II. Reconciliation of profit after income tax to net cash flows generated from/(utilised in) operating activities

Profit after income tax	1,808	1,163
Adjustments to profit after income tax:		
Depreciation and amortisation	145	210
Expected credit losses and other impairment charges/(reversal)	596	(87)
Investment income and gain on sale of operating lease assets and other non-financial assets	(2,912)	(1,580)
Share-based payments expense	256	262
Share of net (profits)/losses of associates and joint ventures	131	179
Changes in assets and liabilities:		
Issued debt securities	(30)	(100)
Trading, trading-related and collateralised lending balances (net of liabilities) ⁴	(530)	259
Carrying values of associates due to dividends received	11	17
Borrowings	944	104
Interest, fee and commissions receivable and payable	(365)	142
Tax balances	(56)	35
Operating lease assets	(76)	37
Other assets and liabilities	(137)	(288)
Debtors, prepayments, accrued charges and creditors	265	227
Loan assets and balances with related body corporate entities	12,303	(10,039)
Net cash flows generated from/(utilised in) from operating activities	12,353	(9,459)

1. Balance comprises of \$3,369 million (2021: \$3,352 million) short term deposits held with MBL, a related body corporate entity.

2. Amounts excluded from cash and cash equivalents but presented in the Statement of financial position as cash and bank balances primarily relates to \$106 million (2021: \$457 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of \$873 million (2021: \$706 million), not readily available to meet the Consolidated Entity's short-term cash commitments.

3. Cash and bank balances include \$418 million (2021: \$479 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

4. Includes unrealised foreign exchange movement relating to derivatives which largely offsets the unrealised foreign exchange movement on financial assets and liabilities.

III. Reconciliation of loan capital

	2022 \$m	2021 \$m
Balance at the beginning of the financial year	2,131	2,100
Cash flows:		
Issuance	-	2,131
Redemption	-	(2,100)
Non-cash changes:		
Accrued interest and other movements	4	-
Balance at the end of the financial year	2,135	2,131

Note 21

Related party information

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

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

Parent entity

The Company's parent entity is MGL, a company 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 39(v) *Taxation*. Amounts receivable from MGL includes amounts receivable by the consolidated entity under the tax funding agreement of the tax consolidated group.

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

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

	2022 \$'000	2021 \$'000
Net interest expense	(307,528)	(389,192)
Net fee and commission income	(14,033)	(7,245)

The following balances and off balance sheet arrangement, other than ordinary issued capital, were outstanding with parent entity as at the financial year end:

On Balance Sheet:

Due from related body corporate entities ¹	2,488,843	1,333,057
Due to related body corporate entities ²	(31,324,627)	(18,589,241)

Off Balance Sheet:

Guarantees received ³	4,476,327	3,698,484
Asset development commitments ⁴	(660,152)	(859,000)

1. Due from related body corporates primarily represents the amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense (refer to Note 37(xxi) *Performance based remuneration*), loans and receivables as per the terms of the funding arrangements under the MLA.

2. Due to related body corporates primarily represents the amounts payable as per the terms of the funding arrangements under the MLA, trading related balances including derivatives designated in hedge accounting relationships.

3. Represents guarantees provided by MGL to counterparties with respect to their exposure to the Consolidated entity.

4. Relates to an asset development commitment to be fulfilled by the Consolidated entity in relation to MGL's commitment to external parties.

Other related body corporate entities

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

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

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

	2022 \$'000	2021 \$'000
Net Interest income	25,439	82,364
Net fee and commission income	343,924	381,752
Other Income	14,756	136,037
Other operating expenses ¹	(765,012)	(618,737)

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

On Balance Sheet:

Due from other related body corporate entities ²	12,242,346	17,094,052
Due to other related body corporate entities ³	(4,465,923)	(3,260,758)

Off Balance Sheet:

Guarantees ⁴	(5,939,276)	(3,079,304)
Indemnities	-	(53,772)
Letters of credit received	137,633	195,481
Guarantee received for asset development commitments ⁵	512,469	591,019

1. Primarily includes service cost recoveries by related body corporates.

2. Due from related body corporates primarily represents loans and receivables as per the terms of the funding arrangements under the MLA, and trading-related balances including derivatives designated in hedge accounting relationships.

3. Due to related body corporates primarily represents loans and payables as per the terms of the funding arrangements under the MLA, payables under other bespoke loans agreements and trading-related balances including derivatives designated in hedge accounting relationships.

4. Includes guarantees of \$4,952,916 thousand (2021: \$2,884,106 thousand) provided by the Consolidated Entity to MBL for its exposure with certain Non-ELE Bank group entities. The Consolidated Entity has placed cash collateral of a similar amount with MBL as per the terms of the guarantee arrangement, which is included in the due from other related body corporate entities balance above. Also includes guarantees of \$852,827 to MBL for its exposures with certain Non-ELE Non-Bank group entities, for which the Consolidated Entity has placed non-cash collateral with MBL as per the terms of the guarantee arrangement. In the previous financial year, this collateral was in the nature of cash collateral. Refer Note 24 *Contingent liabilities and commitments* for corresponding impacts.

5. Represents asset development commitment in favour of MGL guaranteed by MBL for which the consolidated entity has placed securities as collateral.

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) resulted from transactions with associates and joint ventures:

	2022 \$'000	2021 \$'000
Interest income	61,263	72,589
Fee and commission income ¹	1,030,910	867,782
Other income	3,176	1,233

Dividends and distributions of \$163,075 thousand (2021: \$20,006 thousand) received from associates were recorded as a reduction from the carrying amount of the investment.

The following balances and off balance sheet arrangements with associates and joint ventures were outstanding as at financial year end (these exclude amounts which, in substance, form part of the Consolidated Entity's net investment in associates and joint ventures, disclosed in Note 9 *Interests in associates and joint ventures*):

On Balance Sheet:

Amounts receivable ²	302,354	67,285
Amounts payable	(12,605)	(13,812)

Off Balance Sheet:

Undrawn Commitments ³	(1,260,170)	(1,043,732)
Guarantee provided	(126,675)	-
Other Contingent liabilities	(14,523)	-

1. Includes \$219,177 thousand (2021: \$393,834 thousand) of performance fees.

2. Includes \$208,002 thousand (2021: \$16,811 thousand) of fee-related contract assets from Macquarie-managed funds.

3. Includes \$31,736 thousand (2021: \$46,686 thousand) of debt and equity commitments to Macquarie-managed funds.

Note 22

Key Management Personnel disclosure

Key Management Personnel

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

Directors

S. Dyson

D. Saad

C. M. Webb (appointed on 3 March 2022)

Former Directors

A.J. Lewis (appointed on 24 March 2021, resigned on 3 March 2022)

A. Loveridge (alternate to A.J. Lewis) (19 October 2021 to 3 March 2022)

S.D. Green (resigned on 24 March 2021)

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

Executives¹

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

1. Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 18 July 2022

Former Executives

F. Herold	Head of Macquarie Capital Principal Finance (ceased to be a member of the Executive Committee effective from 7 May 2021)
M.J. Reemst	Former Macquarie Bank CEO (ceased to be a member of the Executive Committee effective from 30 June 2021)
M.S.W. Stanley	Former Head of MAM (ceased to be a member of the Executive Committee effective from 31 March 2021)
P.C. Upfold	Former CRO, Head of RMG (ceased to be a member of the Executive Committee effective from 31 December 2021)
D. Wong	Former Co-Head of Macquarie Capital (ceased to be a member of the Executive Committee effective from 29 October 2021)

The following table details the aggregate remuneration for KMP:

	2022 \$	2021 \$
Key Management Personnel Remuneration		
Amounts paid to Key Management Personnel in relation to their role as KMP of the Consolidated Entity	37,000,074	53,289,035

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

Note 23

Employee equity participation

MEREP

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

Award Types under the MEREP

Restricted Share Units (RSUs)

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

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

	Number of RSU Awards	
	2022	2021
RSUs on issue at the beginning of the financial year	4,792,102	4,927,958
Granted during the financial year	1,429,812	1,854,820
Forfeited during the financial year	(245,461)	(246,637)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(1,311,018)	(1,762,499)
Net transfers (to)/from related body corporate entities	(697,631)	18,460
RSUs on issue at the end of the financial year	3,967,804	4,792,102
RSUs vested and not withdrawn from the MEREP at the end of the financial year	23,995	72

The weighted average fair value of the RSU Awards granted during the financial year was \$152.43 (2021: \$124.20).

Deferred Share Units (DSUs)

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

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

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

	Number of DSU Awards	
	2022	2021
DSUs on issue at the beginning of the financial year	2,296,432	2,218,571
Granted during the financial year	719,604	763,236
Forfeited during the financial year	(204,391)	(45,248)
Exercised during the financial year	(622,123)	(499,049)
Net transfers to related body corporate entities	(93,311)	(141,078)
DSUs on issue at the end of the financial year	2,096,211	2,296,432
DSUs exercisable at the end of the financial year	618,902	623,634

The weighted average fair value of the DSU Awards granted during the financial year was \$148.32 (2021: \$117.88).

Performance Share Units (PSUs)

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

	Number of PSU Awards	
	2022	2021
PSUs on issue at the beginning of the financial year	217,437	193,352
Granted during the financial year	42,585	91,976
Forfeited during the financial year	(37,189)	-
Exercised during the financial year	(27,199)	(33,945)
Expired during the Year	(27,201)	(33,946)
PSUs on issue at the end of the financial year	168,433	217,437
PSUs exercisable at the end of the financial year	-	-

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

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2013 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- New MFHPL Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value (New Hire Awards)
- MFHPL employees who are members of the MGL or MBL Executive Committees who are eligible for PSUs (PSU awards)
- In limited circumstances, MFHPL Group staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of MFHPL Group upon the acquisition of their employer by an MFHPL Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share and Promotion Awards	Awards Below Executive Director	1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ¹
Retained DPS Awards	Executive Committee members and Designated Executive Directors	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ²
Retained DPS Awards	All other Executive Directors	1/3 rd in the 3 rd , 4 th and 5 th year following the year of grant ²
PSU Awards granted in relation to years 2016 to 2019	Executive Committee members	50% in the 3 rd and 4 th years following the year of grant ³
PSU Awards granted in relation to 2020 and following years	Executive Committee members	100% in the 4 th year following the year of grant ³
New Hire Awards	All Director-level staff	1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th anniversaries of the date of allocation

In limited cases, the invitation or application form for awards may set out a different vesting period, in which case that period will be the vesting period for the award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share awards representing 2021 retention, the allocation price was the weighted average price of the shares issued for the 2021 issue period, which was 24 May 2021 to 4 June 2021. That price was calculated to be \$151.73 (2020 retention: \$112.15).

Performance Share Units (PSUs)

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

The hurdles are outlined on the following page.

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.

Performance hurdle 1

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

Performance hurdle 2

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

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most 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 the fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value¹ 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 2021 performance. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

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

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

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

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.

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

For the financial year ended 31 March 2022, compensation expense relating to the MEREP totalled \$258,205 thousand (2021: \$212,174 thousand).

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2021. A total of 78 (2021: 112) staff participated in this offer. On 2 December 2021, the participants were each allocated 4 (2021: 7) fully paid ordinary shares based on the offer amount of \$1,000 and the average market share price of \$202.00 (2021: \$139.70), resulting in a total of 312 (2021: 784) shares being allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

For the financial year ended 31 March 2022, compensation expense relating to the ESP totalled \$63 thousand (2021: \$110 thousand).

Other plans

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

Note 24

Contingent liabilities and commitments

	2022 \$m	2021 \$m
Contingent liabilities:		
Guarantees	5,962	3,536
Indemnities	47	281
Letters of credit	10	104
Total contingent liabilities¹	6,019	3,921
Commitments:		
Undrawn credit facilities and securities commitments ^{2,3}	8,609	5,251
Other asset developments and purchase commitments ^{4,5}	1,311	1,421
Total commitments	9,920	6,672
Total contingent liabilities and commitments⁶	15,939	10,593

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

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

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

3. Includes \$1,064 million (2021: \$854 million) in undrawn facilities where the commitments will be assigned to a third-party for debt commitments.

4. Includes asset development commitments to third parties of \$502 million (2021: \$515 million) which are funded with borrowings of \$263 million (2021: \$365 million).

5. Includes asset development commitments in favour of related party of \$660 million (2021: 859 million).

6. Includes \$175 million (2021: \$130 million) of commitments relating to the MAM business which has been classified as held for sale.

Note 25

Structured entities

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

The Consolidated Entity's involvement with SEs is primarily of the following nature:

Type	Details
Securitisation	<p>Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, and finance lease.</p> <p>The Consolidated Entity invests in debt and equity notes of SEs are part of its liquid asset portfolio management. The Consolidated Entity's total exposure (primarily in nature of financial investments) as at reporting date is \$480 million (2021: \$21million).</p>
Funds management activities	<p>The consolidated entity conducts investment management and other fiduciary activities as responsible entity, trustee, custodian, advisor or manager of the investment funds, investor in platform manager, trusts including superannuation and approved deposit fund, wholesale and retail trusts. Of these certain funds/investments meet the definition of structured entities. The consolidated entity's interest in these funds /partnerships includes holding units in funds, equity investments in intermediary investment vehicles, receiving fees for services, providing lending facilities, guarantees and undrawn commitments representing the Consolidated entity's maximum exposure to loss. The Assets under Management (AUM) represents the indicative size of these fund and is measured as the proportional ownership interest in the underlying assets of funds and mandated assets that the Consolidated Entity actively manages or advises on.</p> <p>The carrying value of the Consolidated Entity's investment in managed funds is disclosed in Note 5 <i>Financial investments</i> and Note 9 <i>Interest in associates and joint ventures</i>. Other interests in these managed funds, which includes receivables, and contract assets and undrawn commitments are primarily disclosed in Note 21 <i>Related party information</i>.</p>
Structured Financing and other arrangements	<p>Includes SE's established to raise financing and fulfil obligations for prepaid commodity delivery contracts. The Consolidated Entity has contractually guaranteed the performance obligation under these arrangements. The Consolidated Entity's total exposure (primarily in nature of off balance sheet commitments) as at reporting date is \$112 million (2021: \$58 million).</p>

Note 26

Hedge accounting

Hedging strategy

The use of derivative and non-derivative instruments to economically hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and non-derivative instruments and the related exposure. The Consolidated Entity's objective is to reduce the risk of volatility in earnings, within pre-defined thresholds. This volatility is managed through hedge accounting application and use of natural offsetting position of the hedges.

Hedging instruments

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

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

IBOR reform

During the period, the Consolidated Entity completed the transition of all remaining hedging relationships subject to mandatory IBOR reform, and certain non-mandatory transition of hedge accounting relationships to alternate reference rates (ARRs) as described in Note 1 *Basis of preparation* and Note 27 *Financial Risk Management*. The Consolidated Entity has made use of the relief provided by AASB 2020-8 Amendments to Australian Accounting Standards – *Interest Rate Benchmark Reform (Phase 2 relief)* to amend the formal designation of these hedging relationships.

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

Cash flow hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 19(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statements of comprehensive income. There are no cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur (2021: \$Nil).

Hedging instruments

Instrument type	Risk category	Maturity analysis per notional				
		Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m
2022						
Derivative assets						
Interest rate swaps and options	Interest rate	-	44	593	451	1,088
Derivative liabilities						
Cross currency swaps	Foreign exchange	-	-	-	441	441
Interest rate swaps and options	Interest rate	367	-	-	-	367
Commodity forwards and futures	Commodity price	3	19	274	338	634
2021						
Derivative assets						
Foreign exchange forwards and swaps	Foreign exchange	3	-	-	-	3
Interest rate swaps and options	Interest rate	-	-	9	48	57
Commodity forwards and futures	Commodity price	3	-	-	-	3
Derivative liabilities						
Foreign exchange forwards and swaps	Foreign exchange	2	-	-	-	2
Interest rate swaps and options	Interest rate	(63)	(42)	628	521	1,044
Commodity forwards and futures	Commodity price	7	22	32	38	99
		Carrying amount				
		2022		2021		
Instrument type	Risk category	Asset \$m	Liability \$m	Asset \$m	Liability \$m	
Cross currency swaps	Foreign exchange	-	25	-	-	
Interest rate swaps and options	Interest rate	73	1	-	11	
Commodity forwards and futures	Commodity price	-	102	-	8	

Hedge ineffectiveness

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

Hedging instrument	Risk category	(Loss)/gain on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness Gain/(loss)	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Cross currency swaps	Foreign exchange	(4)	-	4	-	-	-
Interest rate swaps and options	Interest rate	74	2	(72)	-	2	2
Commodity forwards and futures	Commodity price	(88)	(26)	87	26	(1)	-
Total		(18)	(24)	19	26	1	2

Hedge accounting executed rates

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

Hedging instruments	Currency	2022	2021
Cross currency swaps	AUD/CHF	0.66	N/A
	AUD/NOK	6.31	N/A
Interest rate swaps and options	USD	N/A	0.29 – 1.51%
	AUD	0.50-1.19%	0.50 – 1.19%
	EUR	(0.43)-0.32%	(0.43) – 0.32%
	NZD	1.97%	1.97%

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 27 *Financial Risk Management: Non-traded risk* for further information on the Consolidated Entity's risk management strategy.

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

Hedging instrument	Risk category	Carrying Amount			
		Assets		Liability	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m
Foreign exchange contracts ¹	Foreign exchange	24	12	9	30
Foreign currency denominated issued debt ²	Foreign exchange	-	-	7,991	8,474

Hedging instrument	Risk category	Notional Amount			
		Assets		Liability	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m
Foreign exchange contracts ³	Foreign exchange	1,073	511	610	879
Foreign currency denominated issued debt	Foreign exchange	-	-	7,991	8,474

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign 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 in the table above of \$9,674 million (2021: \$9,864 million) represents the notional of both the derivative hedging instrument and the foreign denominated debt issued and hence exceeds the \$8,183 million (2021: \$8,598 million) notional of the underlying hedged component of the Consolidated Entity's net investment in foreign operations.

Hedge ineffectiveness is the extent to which the absolute change in either the fair value of the derivative or the carrying amount of foreign currency denominated debt issued attributable to the change in exchange rates exceeds that of the hedged item. There was no ineffectiveness recognised in the income statement by the Consolidated Entity in the current year (2021: \$Nil).

1. The carrying amount of Foreign exchange contracts designated in net investment in foreign operation hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due from related body corporate entities' and 'Due to related body corporate entities' respectively.
2. The carrying amount of Foreign currency denominated borrowings designated in net investment in foreign operation hedge relationships comprises only amounts which are disclosed in the Consolidated Entity's Statement of financial position as 'Due to related body corporate entities'.
3. 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).

Fair value hedges

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

Hedging instruments

Instrument type	Risk category	Maturity Analysis per notional				Total \$m
		Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	
2022						
Derivative assets						
Interest rate swaps	Interest rate	-	734	100	3,081	3,915
Derivative liabilities						
Cross currency swaps	Interest rate	-	-	-	152	152
Interest rate swaps	Interest rate	-	-	5,414	10,381	15,795
2021						
Derivative assets						
Interest rate swaps	Interest rate	119	618	2,369	3,811	6,917
Derivative liabilities						
Interest rate swaps	Interest rate	-	-	1,645	1,157	2,802
Hedging instrument	Risk category	Carrying amount				
		2022		2021		
		Asset \$m	Liability \$m	Asset \$m	Liability \$m	
Cross currency swaps	Interest rate	-	5	-	-	
Interest rate swaps	Interest rate	141	956	488	57	

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the following table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is \$2 million gain (2021: \$6 million gain) for the Consolidated Entity and have been included in the fair value hedge adjustment in the table below. These amounts will be amortised to the income statement on an effective interest rate basis.

	2022		2021	
	Carrying amount ¹ \$m	Fair value hedge adjustment \$m	Carrying amount ¹ \$m	Fair value hedge adjustment \$m
Liabilities				
Due to related body corporate entities	19,025	838	10,113	(401)

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.

Hedging instrument	Risk category	Loss on hedging instrument		Gain on hedged item		Hedge ineffectiveness (Loss)/gain	
		2022 \$m	2021 \$m	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Cross currency swaps	Interest rate	(5)	-	5	-	-	-
Interest rate swaps	Interest rate	(1,232)	(508)	1,230	509	(2)	1
Total		(1,237)	(508)	1,235	509	(2)	1

1. The carrying amounts in the table above exclude accrued interest and include fair value hedge adjustments.

Note 27

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 Macquarie is to ensure they manage risks appropriately.

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

Further details on the Risk Management Framework in the Consolidated Entity can be found in the Risk Management Report of Macquarie Groups Annual Report.

Note 27.1 Credit risk

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

Credit risk assessment and approval

Exercise of credit authority within Macquarie is undertaken under authority delegated by the MGL and MBL Boards directly. Credit risk assessment includes a comprehensive review of the creditworthiness of the counterparty and related entities, key risk and mitigants, and that the downside risk is properly understood and acceptable.

After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required.

Retail credit exposures are monitored by the business units and overseen by RMG Credit on a portfolio basis.

All credit exposures are monitored regularly against limits. For limit monitoring, 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 8 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

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

Wholesale rating

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

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

Due from related body corporate entities

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

Portfolio and country risk

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

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.

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount¹ of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I ² \$m	Stage II ² \$m	Stage III ² \$m	Total \$m
				2022
Investment grade				
Cash and bank balances	2,852	-	-	2,852
Reverse repurchase agreements	6,191	-	-	6,191
Settlement, margin money and trading assets	3,684	-	-	3,684
Financial investments	3,666	-	-	3,666
Held for sale and other assets	682	-	-	682
Loan assets	668	-	-	668
Due from related body corporate entities	13,703	-	-	13,703
Off balance sheet exposures	6,046	-	-	6,046
Total investment grade	37,492	-	-	37,492
Non-investment grade				
Cash and bank balances	175	-	-	175
Reverse repurchase agreements	2,458	-	-	2,458
Settlement, margin money and trading assets	2029	-	-	2,029
Financial Investments	13	-	-	13
Held for sale and other assets	565	43	-	608
Loan assets	9,563	993	-	10,556
Loans to associates and joint ventures	160	412	-	572
Due from related body corporate entities	21	-	-	21
Off balance sheet exposures	3,029	404	-	3,433
Total non-investment grade	18,013	1,852	-	19,865
Default				
Settlement, margin money and trading assets	-	-	1	1
Held for sale and other assets	-	-	13	13
Loan assets	-	-	646	646
Loans to associates and joint ventures	-	-	76	76
Off balance sheet exposures	-	-	36	36
Total default	-	-	772	772
Total gross credit risk	55,505	1,852	772	58,129

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

2. For the definition of Stage I, II, and III, refer to Note 8 *Expected credit losses*. Whilst exposure may have migrated to Stage II, it should not be inferred that such exposures are of lower credit quality. The ECL for stage III assets includes the benefit of collateral; and other credit enhancements.

Credit quality of financial assets

	Stage I ¹ \$m	Stage II ¹ \$m	Stage III ¹ \$m	Total \$m
				2021
Investment grade				
Cash and bank balances	2,646	-	-	2,646
Reverse repurchase agreements	1,671	-	-	1,671
Settlement, margin money and trading assets	5,137	-	-	5,137
Financial investments	9	-	-	9
Held for sale and other assets	249	-	-	249
Loan assets	579	15	-	594
Due from related body corporate entities	17,537	-	-	17,537
Off balance sheet exposures	2,916	-	-	2,916
Total investment grade	30,744	15	-	30,759
Non-investment grade				
Cash and bank balances	99	-	-	99
Reverse repurchase agreements	455	-	-	455
Settlement, margin money and trading assets	975	-	-	975
Held for sale and other assets	668	47	-	715
Loan assets	3,943	962	-	4,905
Loans to associates and joint ventures	263	319	-	582
Due from related body corporate entities	9	-	-	9
Off balance sheet exposures	1,513	652	-	2,165
Total non-investment grade	7,925	1,980	-	9,905
Default				
Held for sale and other assets	-	-	27	27
Loan assets	-	-	691	691
Loans to associates and joint ventures	-	-	72	72
Off balance sheet exposures	-	-	49	49
Total default	-	-	839	839
Total gross credit risk	38,669	1,995	839	41,503

1. For the definition of Stage I, II, and III, refer to Note 8 *Expected credit losses*. Whilst exposure may have migrated to Stage II, it should not be inferred that such exposures are of lower credit quality. The ECL for stage III assets includes the benefit of collateral; and other credit enhancements.

Credit risk concentration

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

	Governments \$m	Financial Institutions \$m	Other \$m	Total \$m
				2022
Australia				
Cash and bank balances	-	342	-	342
Settlement, margin money and trading assets	19	706	154	879
Financial investments	-	2	981	983
Held for sale and other assets	4	64	75	143
Loan assets	-	126	1,605	1,731
Due from related body corporate entities ¹	-	12,489	231	12,720
Off balance sheet exposures	-	5,847	392	6,239
Total Australia	23	19,576	3,438	23,037
Asia Pacific				
Cash and bank balances	-	895	-	895
Reverse repurchase agreements	-	337	-	337
Settlement, margin money and trading assets	12	1,582	241	1,835
Held for sale and other assets	-	2	65	67
Loan assets	-	89	8	97
Due from related body corporate entities ¹	-	36	130	166
Off balance sheet exposures	-	14	-	14
Total Asia Pacific	12	2,955	444	3,411
Europe, Middle East and Africa				
Cash and bank balances	-	761	-	761
Reverse repurchase agreements	-	4,543	-	4,543
Settlement, margin money and trading assets	2	1,143	102	1,247
Financial investments	-	2,696	-	2,696
Held for sale and other assets	39	170	168	377
Loan assets	-	641	3,634	4,275
Loans to associates and joint ventures	-	-	412	412
Due from related body corporate entities ¹	-	126	171	297
Off balance sheet exposures	-	63	608	671
Total Europe, Middle East and Africa	41	10,143	5,095	15,279
Americas				
Cash and bank balances	-	1,029	-	1,029
Reverse repurchase agreements	-	3,769	-	3,769
Settlement, margin money and trading assets	1	1,317	435	1,753
Financial investments	-	-	-	-
Held for sale and other assets	2	406	308	716
Loan assets	108	26	5,633	5,767
Loans to associates and joint ventures	-	-	236	236
Due from related body corporate entities ¹	-	322	219	541
Off balance sheet exposures	-	63	2,528	2,591
Total Americas	111	6,932	9,359	16,402
Total gross credit risk²	187	39,606	18,336	58,129

1. Due from related body corporate entities have been presented as Financial Institutions and other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

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

Credit risk concentration

	Government \$m	Financial Institutions \$m	Other \$m	Total \$m
Australia				2021
Cash and bank balances	-	44	-	44
Settlement, margin money and trading assets	-	1,333	302	1,635
Held for sale and other assets	8	37	84	129
Loan assets	-	110	1,066	1,176
Due from related body corporate entities ¹	-	15,146	725	15,871
Off balance sheet exposures	-	-	32	32
Total Australia	8	16,670	2,209	18,887
Asia Pacific				
Cash and bank balances	-	1,212	-	1,212
Settlement, margin money and trading assets	124	639	1,433	2,196
Held for sale and other assets	-	1	130	131
Loan assets	-	-	16	16
Loans to associates and joint ventures	-	-	13	13
Due from related body corporate entities ¹	-	28	110	138
Off balance sheet exposures	5	-	-	5
Total Asia Pacific	129	1,880	1,702	3,711
Europe, Middle East and Africa				
Cash and bank balances	-	495	-	495
Reverse repurchase agreements	-	1,671	-	1,671
Settlement, margin money and trading assets	10	1,025	36	1,071
Financial investments	-	9	-	9
Held for sale and other assets	-	68	373	441
Loan assets	-	182	2,197	2,379
Loans to associates and joint ventures	-	319	89	408
Due from related body corporate entities ¹	-	534	538	1,072
Off balance sheet exposures	-	-	185	185
Total Europe, Middle East and Africa	10	4,303	3,418	7,731
Americas				
Cash and bank balances	-	994	-	994
Reverse repurchase agreements	-	455	-	455
Settlement, margin money and trading assets	-	833	377	1,210
Held for sale and other assets	87	28	175	290
Loan assets	100	35	2,484	2,619
Loans to associates and joint ventures	-	-	233	233
Due from related body corporate entities ¹	-	175	290	465
Off balance sheet exposures	-	41	4,867	4,908
Total Americas	187	2,561	8,426	11,174
Total gross credit risk²	334	25,414	15,755	41,503

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

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

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 *Financial Instruments* since they are measured at fair value through 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 table below.

	Governments	Financial Institutions	Other	Total
	\$m	\$m	\$m	\$m
				2022
Australia				
Settlement, margin money and trading assets	-	1	77	78
Held for sale and other assets	-	-	27	27
Loans to associates and joint ventures	-	-	3	3
Due from related body corporate entities ¹	-	803	-	803
Total Australia	-	804	107	911
Asia Pacific				
Settlement, margin money and trading assets	-	67	168	235
Held for sale and other assets	-	3	45	48
Financial Investments	-	-	1	1
Loans to associates and joint ventures	-	-	62	62
Loan assets	-	-	24	24
Total Asia Pacific	-	70	300	370
Europe, Middle East and Africa				
Settlement, margin money and trading assets	-	-	640	640
Financial Investments	-	8	1	9
Held for sale and other assets	-	33	117	150
Loans to associates and joint ventures	-	144	143	287
Loan assets	-	-	123	123
Due from related body corporate entities ¹	-	4	1	5
Total Europe, Middle East and Africa	-	189	1,025	1,214
Americas				
Settlement, margin money and trading assets	-	592	208	800
Financial Investments	-	397	226	623
Held for sale and other assets	69	3	126	198
Loan assets	-	-	166	166
Loans to associates and joint ventures	-	-	14	14
Due from related body corporate entities ¹	-	7	-	7
Total Americas	69	999	740	1,808
Total gross credit risk²	69	2,062	2,172	4,303

1 Due from related body corporate entities have been presented as Financial Institutions and other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

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

Credit risk concentration

	Financial Institutions \$m	Other \$m	Total \$m
			2021
Australia			
Held for sale and other assets	26	22	48
Loans to associates and joint ventures	9	7	16
Due from related body corporate entities ¹	701	2	703
Total Australia	736	31	767
Asia Pacific			
Held for sale and other assets	-	2	2
Financial Investments	-	2	2
Loan assets	-	6	6
Due from related body corporate entities ¹	2	-	2
Total Asia Pacific	2	10	12
Europe, Middle East and Africa			
Settlement, margin money and trading assets	-	12	12
Financial Investments	9	1	10
Held for sale and other assets	8	31	39
Loan assets	-	169	169
Loans to associates and joint ventures	-	20	20
Due from related body corporate entities ¹	7	1	8
Total Europe, Middle East and Africa	24	234	258
Americas			
Settlement, margin money and trading assets	21	104	125
Held for sale and other assets	10	22	32
Financial Investments	201	67	268
Loan assets	-	104	104
Due from related body corporate entities	2	-	2
Total Americas	234	297	531
Total gross credit risk	996	572	1,568

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

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 Note 28 *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 8 *Expected credit losses*.

Collateral and credit enhancement held

Reverse repurchase agreements

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

- securities and commodities borrowed in return for cash, for which the fair value of the securities and commodities borrowed is equal to or less than the cash deposited with the counterparty; and
- reverse repurchase agreements (collateralised financing arrangements), for which the fair value of the securities and commodities received as collateral is generally in excess of the principal amount

The non-cash collateral received is not recognised by the Consolidated Entity in the Statement of financial position, as the risks and rewards of ownership remain with the counterparty. The Consolidated Entity is permitted to sell or repledge the securities and commodities received. In the absence of default by the counterparty, the Consolidated Entity has an obligation to return the non-cash collateral received to the counterparty.

For securities and commodities borrowed in return for cash and reverse repurchase arrangements, the fair value of non-cash collateral received is \$8,585 million (2021: \$2,104 million). No collaterals been sold or repledged in the current and previous year.

The fair value attributed to non-cash collateral held is judgemental and measured with reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair value are estimated using pricing models or other recognised valuation techniques that maximise the use of quoted prices and observable market inputs.

Loan assets

Home Loans

Home loan balance of the \$425 million (2021: \$480 million) is fully collateralised with a loan to collateral value ratio of less than 100%.

Asset financing

The Consolidated Entity leases assets and provides asset-related financing. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of \$154 million (2021: \$152 million), the credit exposure after considering the depreciated value of collateral is \$105 million (2021: \$111 million).

The collateralised value is based on standard recovery rates for the underlying assets.

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of \$11,132 million (2021: \$5,434 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$2,751 million (2021: \$1,734 million).

Financial investments

Debt securities held by the Consolidated Entity carrying a credit risk are primarily in the nature of bonds, NCDs, floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short-term gains.

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

Settlement assets

Security and commodity settlements of \$4,821 million (2021: \$5,425 million) and \$508 million (2021: \$370 million) respectively presented under Settlement, margin money and trading assets, represent amounts owed by an exchange (or

a client) for equities, commodities and other securities sold. These assets are collateralised with the underlying securities, commodities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date varies as per regional regulatory and business norms.

Other financial assets

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

Credit commitments

Undrawn facilities and lending securities commitments of \$1,902 million (2021: \$342 million) are secured through collateral and credit enhancements out of the total undrawn facilities and lending commitments of \$8,609 million (2021: \$5,251 million).

Additional collateral

Apart from collateral disclosed above, the Consolidated Entity also holds other types of collateral, such as unsupported guarantees. While such mitigants have value as a credit risk mitigant often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

For all collaterals, in the event of default realised collateral values may be lower than the value of collateral as at the reporting date.

Repossessed Collateral

In the event of a customer default, the Consolidated Entity may either take possession of the underlying collateral held as security and/or exercise its right to dispose of the customer's asset. At the reporting date the Consolidated Entity did not have any material amounts of such collateral recognised in its Statement of financial position.

Note 27.2 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. The Consolidated Entity is covered by the MGL liquidity policy which is approved by the MGL Board after endorsement by the ALCO and liquidity reporting is provided to the MGL Board on a regular basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Co-Heads of Group Treasury and Operating Group Heads.

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

Contractual undiscounted cash flows

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

Contractual undiscounted cash flows

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
							2022
Settlement, margin money and trading liabilities ¹	5,665	117	5,533	15	-	-	5,665
Held for sale liabilities	508	-	269	9	233	2	513
Other liabilities							
Derivative liabilities (trading) ¹	123	-	123	-	-	-	123
Derivative liabilities (hedge accounting relationships) ²	144	-	-	-	-	-	-
Contractual amounts payable	-	-	3	17	146	559	725
Contractual amounts receivable	-	-	-	(5)	(40)	(471)	(516)
Others ³	1,085	30	254	581	185	56	1,106
Borrowings	1,832	4	823	139	689	447	2,102
Issued debt securities	2,724	-	68	160	860	2,950	4,038
Due to related body corporate entities	36,582	7,601	3,937	3,898	5,112	16,858	37,406
Loan capital ⁴	2,135	-	20	59	313	2,214	2,606
Total	50,798	7,752	11,030	4,873	7,498	22,615	53,768
Contingent liabilities	-	-	6,019	-	-	-	6,019
Commitments	-	6,577	141	732	1,114	1,336	9,920
Total undiscounted contingent liabilities and commitments⁵		6,577	6,160	732	1,114	1,356	15,939

1. Derivative liabilities (trading) and trading liabilities are included in '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's requirement.

3. Excludes non-contractual accruals and provisions.

4. Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 17 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an exchange event, and this may impact their maturity profile.

5. 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.

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
							2021
Settlement, margin money and trading liabilities ¹	5,944	31	5,878	35	-	-	5,944
Held for sale liabilities	22	-	22	-	-	-	22
Other liabilities							
Derivative liabilities (trading) ¹	85	-	85	-	-	-	85
Derivative liabilities (hedge accounting relationships) ²	17						
Contractual amounts payable		-	2	4	9	(3)	12
Contractual amounts receivable		-	(2)	(1)	-	-	(3)
Others ³	1,284	299	147	75	730	65	1,316
Borrowings	1,523	-	378	161	749	451	1,739
Issued debt securities	2,712	-	59	152	815	3,065	4,091
Due to related body corporate entities	21,719	4,578	1,909	1,237	11,446	4,080	23,250
Loan capital ⁴	2,131	-	16	59	313	2,232	2,620
Total	35,437	4,908	8,494	1,722	14,062	9,890	39,076
Contingent liabilities		-	3,921	-	-	-	3,921
Commitments		4,484	136	210	1,372	470	6,672
Total undiscounted contingent liabilities and commitments⁵		4,484	4,057	210	1,372	470	10,593

1. Derivative liabilities (trading) and trading liabilities are included in '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's requirement.

3. Excludes non-contractual accruals and provisions.

4. Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using coupon dates instead of the contractual maturity. For contractual maturity of these securities refer to Note 17 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an exchange event, and this may impact their maturity profile.

5. 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 27.3 Market risk

Traded market risk

Market risk is the risk of adverse changes in the value of trading positions as a result of changes in market conditions. MFHPL 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. MGL is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within MGL according to a limit structure which sets limits for all exposures in all markets.

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

RMG sets three complementary limit structures at an MGL level:

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

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

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

	2022			2021		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
Equities	1.50	2.81	0.66	1.54	15.58	0.54
Interest rates	1.02	1.83	0.46	2.00	4.50	0.78
Foreign exchange and bullion	0.58	1.93	0.11	0.69	1.54	0.36
Commodities ¹	13.79	26.29	6.37	12.32	23.30	3.29
Aggregate	14.25	26.56	7.20	12.97	23.85	3.64

1. Includes commodity contracts.

Value-at-Risk

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

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

Non-traded market risk

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

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

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

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

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

Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to difference in accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 37(ix) *Derivative instruments and hedging activities* and Note 26 *Hedge accounting*.

Foreign currency risk

The Consolidated Entity is active in various currencies globally. The net investment in foreign operations generates capital requirements in foreign currencies and results in sensitivity of the capital ratio to movements in the Australian dollar rate against various foreign currencies. The Consolidated Entity hedges this exposure by leaving specific investments in foreign operations exposed to foreign currency translation movements, which aligns the currency of capital supply with capital requirements. Refer to Note 37(ix) *Derivative instruments and hedging activities* and Note 26 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity's net investment in foreign operations.

The sensitivity of the Consolidated Entity's net investment in foreign operations to the most material currencies after considering related hedges is presented in the table below.

Currency	2022		2021	
	Movement in exchange rates %	Sensitivity of Other comprehensive income after tax \$m	Movement in exchange rates %	Sensitivity of Other comprehensive income after tax \$m
United States dollar	+10	(364)	+10	(283)
Pound sterling	+10	(79)	+10	(44)
Euro	+10	(67)	+10	(50)
Canadian dollar	+10	(5)	+10	(4)
Total		(515)		(381)
United States dollar	-10	(445)	-10	346
Pound sterling	-10	(96)	-10	53
Euro	-10	(81)	-10	61
Canadian dollar	-10	(6)	-10	6
Total		(628)		466

Equity price risk

The table below indicates the equity markets to which the Consolidated Entity had significant exposure as at 31 March on its non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic region	2022		2021	
	Movement in equity price %	Sensitivity of profit after tax \$m	Movement in equity price %	Sensitivity of profit after tax \$m
Listed				
Americas	+10	5	+10	10
Europe, Middle East and Africa	+10	1	+10	1
Asia Pacific	+10	18	+10	15
Unlisted				
Australia	+10	6	+10	9
Americas	+10	39	+10	48
Europe, Middle East and Africa	+10	5	+10	7
Asia Pacific	+10	12	+10	10
Total		86		100
Listed				
Americas	-10	(5)	-10	(10)
Europe, Middle East and Africa	-10	(1)	-10	(1)
Asia Pacific	-10	(18)	-10	(15)
Unlisted				
Australia	-10	(6)	-10	(9)
Americas	-10	(39)	-10	(48)
Europe, Middle East and Africa	-10	(5)	-10	(7)
Asia Pacific	-10	(12)	-10	(10)
Total	-10	(86)		(100)

Note 28

Measurement categories of financial instruments

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of assets and liabilities of the Consolidated Entity. The descriptions of measurement categories are included in Note 37(vi) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 29 *Fair value of assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT						FAIR VALUE OF		
	FAIR VALUE				Amortised cost	Non-financial instruments	Statement of financial position total	ITEMS CARRIED AT	
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m				Fair value \$m	Amortised cost \$m
Assets									2022
Cash and bank balances	-	-	-	-	3,027	-	3,027	-	3,027
Reverse repurchase agreements	-	-	-	8,649	-	-	8,649	8,649	-
Settlement, margin money and trading assets ¹	1,753	-	-	-	5,698	106	7,557	1,859	5,698
Financial investments:									
Equity	-	-	1,229	-	-	-	1,229	1,229	-
Debt	-	-	633	3,665	-	-	4,298	4,298	-
Held for sale assets ¹	-	-	146	18	262	1,293	1,719	164	262
Other assets ^{1,2}	244	10	51	-	803	1,592	2,700	813	803
Loan assets	-	-	318	247	11,146	-	11,711	565	11,280
Due from related body corporate entities ³	799	-	17	9	13,711	195	14,731	825	13,711
Interests in associates and joint ventures									
Equity interests	-	-	-	-	-	1,220	1,220	-	-
Loans to associates and joint ventures	-	-	366	42	509	-	917	408	569
Property, plant and equipment and right-of-use assets	-	-	-	-	-	1,579	1,579	-	-
Intangible assets	-	-	-	-	-	1,013	1,013	-	-
Deferred tax assets	-	-	-	-	-	634	634	-	-
Total assets	2,796	10	2,760	12,630	35,156	7,632	60,984	18,810	35,350

1. Non-financial assets under 'Settlement, margin money and trading assets' represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale assets' primarily represents equity interests in associates and joint ventures and Property, plant and equipment that have been classified as held for sale. Non-financial assets under 'Other assets' primarily represents related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.

2. Derivatives designated in effective hedge accounting relationship are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 26 *Hedge accounting*.

3. Due from and to related body corporate entities includes derivatives classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial liabilities.

	FINANCIAL INSTRUMENTS CARRIED AT						FAIR VALUE OF		
	FAIR VALUE				Amortised cost	Non-financial instruments	Statement of financial position total	ITEMS CARRIED AT	
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m				Fair value \$m	Amortised cost \$m
Liabilities									2022
Settlement, margin money and trading liabilities	84	-	-	-	5,581	-	5,665	84	5,581
Held for sale liabilities	-	-	129	-	379	345	853	-	379
Other liabilities ^{1,2}	164	3	103	-	1,082	1,757	3,109	396	1,082
Borrowings	-	-	-	-	1,832	-	1,832	-	1,822
Due to related body corporate entities ³	1,686	-	2	-	34,073	30	35,791	1,688	34,073
Issued debt securities	-	17	-	-	2,707	-	2,724	17	2,893
Deferred tax liabilities	-	-	-	-	-	57	57	-	-
Loan capital	-	-	-	-	2,135	-	2,135	-	2,135
Total liabilities	1,934	20	234	-	47,789	2,189	52,166	2,185	47,965

1. Non-financial liabilities primarily represents employee related provisions, tax payables, income received in advance and accrued charges. Fair value of other liabilities excludes the fair value of lease liabilities.
2. Derivatives designated in effective hedge accounting relationship are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 26 *Hedge accounting*.
3. Due from and to related body corporate entities includes derivatives classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial liabilities.

	Financial Instruments carried at					Non-financial instruments	Statement of financial position total	Fair value of Financial Instruments carried at	
	HFT \$m	DFVTPL \$m	FVTPL \$m	FVOCI \$m	Amortised cost \$m			Fair value \$m	Amortised cost \$m
Assets									2021
Cash and bank balances	-	-	-	-	2,745	-	2,745	-	2,745
Reverse repurchase agreements	-	-	-	2,126	-	-	2,126	2,126	-
Settlement, margin money and trading assets ¹	237	-	-	-	6,095	297	6,629	534	6,095
Financial investments									
Equity	-	-	1,236	-	-	-	1,236	1,236	-
Debt	-	-	280	9	-	-	289	289	-
Held for sale assets ¹	-	-	63	6	47	1,269	1,385	69	47
Other assets ^{1,2}	74	-	20	-	900	1,188	2,182	252	900
Loan assets	-	-	279	274	5,513	-	6,066	553	5,856
Due from related body corporate entities ³	715	-	-	-	17,540	172	18,427	715	17,540
Interests in associates and joint ventures									
Equity interests	-	-	-	-	-	1,702	1,702	-	-
Loans to associates and joint ventures	-	-	36	60	536	-	632	96	538
Property, plant and equipment and right-of-use assets	-	-	-	-	-	1,798	1,798	-	-
Intangible assets	-	-	-	-	-	1,272	1,272	-	-
Deferred tax assets	-	-	-	-	-	478	478	-	-
Total assets	1,026	-	1,914	2,475	33,376	8,176	46,967	5,870	33,721
Liabilities									
Settlement, margin money and trading liabilities	71	-	-	-	5,873	-	5,944	71	5,873
Held for sale liabilities	-	-	-	-	22	687	709	-	22
Other liabilities ^{2,4}	85	-	17	-	1,284	1,403	2,789	102	983
Borrowings	-	-	-	-	1,523	-	1,523	-	1,526
Due to related body corporate entities ³	404	-	3	-	21,312	131	21,850	407	21,312
Issued debt securities	-	16	-	-	2,696	-	2,712	16	3,373
Deferred tax liabilities	-	-	-	-	-	56	56	-	-
Loan capital	-	-	-	-	2,131	-	2,131	-	2,131
Total liabilities	560	16	20	-	34,841	2,277	37,714	596	35,220

1. Non-financial assets under 'Settlement, margin money and trading assets' represent commodities carried at fair value less costs to sell. Non-financial assets under 'Held for sale assets' primarily represents equity interests in associates and joint ventures and Property, plant and equipment that have been classified as held for sale. Non-financial assets under 'Other assets' primarily represents related contract assets, prepayments, tax receivables, inventory held for sale and investment properties.

2. Derivatives designated in effective hedge accounting relationship are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 26 *Hedge accounting*

3. Due from and to related body corporate entities includes derivatives classified as HFT. All other receivables or intercompany payables are carried at amortised cost except for non-financial liabilities.

4. Non-financial liabilities primarily represents employee related provisions, tax payables, income received in advance and accrued charges. Fair value of other liabilities excludes the fair value of lease liabilities.

Note 29

Fair value of assets and liabilities

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

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

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

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

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

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

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

The fair values calculated for financial instruments which are carried in the Statement of financial position at amortised cost (as disclosed in Note 28 *Measurement categories of financial instruments*) are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other entities nor may it be the price at which the asset is sold or a liability repurchased in a market-based transaction:

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

The following methods and significant assumptions have been applied in determining the fair values of following items:

- trading assets including commodities and commodity contracts, trading liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active market are not available, then fair values are estimated on the basis of other recognised valuation techniques
- reverse repurchase agreements being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified as FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of other recognised valuation techniques that maximise the use of quoted prices and observable market inputs
- fair values of variable rate loans classified as FVOCI is equal to its carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt securities
- for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuations
- the Consolidated Entity has incorporated the market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used. Models are calibrated periodically to test the outputs and reflect the prices from observable current market transactions in same instrument or other available observable market data.

To the extent possible, models use only observable market data (for example for 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.

Assets and liabilities measured at amortised cost

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost except where the carrying value is approximately equal to the fair value, including the level within the fair value hierarchy:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
2022				
Assets				
Loan assets	-	2	11,278	11,280
Loans to associates and joint ventures	-	-	569	569
Total assets	-	2	11,847	11,849
Liabilities				
Borrowings	-	857	965	1,822
Issued debt securities	-	2,833	60	2,893
Total liabilities	-	3,690	1,025	4,715
2021				
Assets				
Loan assets	-	4	5,852	5,856
Loans to associates and joint ventures	-	-	538	538
Total assets	-	4	6,390	6,394
Liabilities				
Borrowings	-	406	1,120	1,526
Issued debt securities	-	3,373	-	3,373
Total liabilities	-	3,779	1,120	4,899

Assets and liabilities measured at fair value on a recurring basis

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

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
2022				
Assets				
Reverse repurchase agreements	-	8,649	-	8,649
Trading assets	117	1,729	13	1,859
Financial investments	3,076	1,305	1,146	5,527
Held for sale assets	-	-	164	164
Other assets ¹	1	262	550	813
Loan assets	-	-	565	565
Due from related body corporate entities	-	825	-	825
Loans to associates and joint ventures	-	-	408	408
Total assets	3,194	12,770	2,846	18,810
Liabilities				
Trading liabilities	78	6	-	84
Other liabilities	-	357	39	396
Due to related body corporate entities	-	1,688	-	1,688
Issued debt securities	-	17	-	17
Total liabilities	78	2,068	39	2,185
2021				
Assets				
Reverse repurchase agreements	-	2,126	-	2,126
Trading assets	81	374	79	534
Financial investments	310	273	942	1,525
Held for sale assets	-	6	63	69
Other assets ¹	2	63	187	252
Loan assets	16	28	509	553
Due from related body corporate entities	-	715	-	715
Loans to associates and joint ventures	-	-	96	96
Total assets	409	3,585	1,876	5,870
Liabilities				
Trading liabilities	66	5	-	71
Other liabilities	-	78	24	102
Due to related body corporate entities	-	407	-	407
Issued det securities	-	13	3	16
Total liabilities	66	503	27	596

1 Includes \$495 million (2021: \$158 million) of investment properties measured at fair value. Prior financial year has been represented in line with current financial year. The investment properties are categorised as Level 3 in the fair value hierarchy.

Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movement in Level 3 of the fair value hierarchy for assets and liabilities, measured at fair value on a recurring basis by the Consolidated Entity.

	Settlement, margin money and trading assets \$m	Financial investments \$m	Held for sale assets \$m	Other Assets ¹ \$m	Loan assets \$m	Loans to associates and joint ventures \$m	Issued debt securities \$m	Total \$m
Balance as at 1 Apr 2020	346	902	33	134	2,450	241	-	4,106
Purchases, originations, issuances and other additions	150	286	11	63	318	82	(3)	907
Sales, settlements and repayments	(212)	(273)	(3)	(9)	(2,000)	(19)	-	(2,516)
Reclassification	-	-	28	-	-	(28)	-	-
Transfer into Level 3 ²	25	186	-	(3)	-	5	-	213
Transfer out of Level 3 ²	(133)	(6)	-	(14)	-	(46)	-	(199)
Fair value movements recognised in the income statement:								
Net trading loss ³	(97)	(174)	(6)	(22)	(344)	(36)	-	(679)
Other income/(loss)	-	22	-	14	20	(27)	-	29
Fair value movements recognised in OCI ³	-	(1)	-		65	(76)	-	(12)
Balance as at 31 Mar 2021	79	942	63	163	509	96	(3)	1,849
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year ³	(13)	(103)	(6)	(2)	(57)	(61)	-	(242)
Balance as at 1 Apr 2021	79	942	63	163	509	96	(3)	1,849
Purchases, originations, issuances and other additions	4	686	71	294	1,357	487	-	2,899
Sales, settlements and repayments	(32)	(563)	(43)	6	(1,155)	(12)	-	(1,799)
Reclassification	-	-	102	-	(17)	(85)	-	-
Transfer into Level 3 ²	4	48	-	15	-	9	-	76
Transfer out of Level 3 ²	(49)	(130)	(33)	129	(120)	-	-	(203)
Fair value movements recognised in the income statement:								
Net trading income/(loss) ³	7	5	(1)	(103)	(31)	(10)	-	(133)
Other income/(loss)	-	149	5	7	19	(73)	3	110
Fair value movements recognised in OCI ³	-	9	-	-	3	(4)	-	8
Balance as at 31 Mar 2022	13	1,146	164	511	565	408	-	2,807
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year ³	1	27	(2)	(105)	(17)	(77)	-	(173)

1 The other assets includes derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are \$23 million (31 March 2021: \$9 million) and derivative liabilities are \$39 million (31 March 2021: \$24 million).

2. Assets and liabilities transferred in or out of Level 3, or reclassifications within Level 3, are presented as if the assets or liabilities had been transferred at the beginning of the financial year.

3. The Consolidated Entity employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency denominated financial instruments that are measured at amortised cost, that are not presented in the table above.

Significant transfers between levels of the fair value hierarchy

During the financial year, the Consolidated Entity did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain investments and trading balances. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Financial assets reclassified into/out of the fair value hierarchy disclosure due to recognition and measurement category changes, or where there have been changes in significant influence or control but some form of interests in the assets are still retained, are also presented as transfers into/out of Level 3.

Unrecognised gain or losses

The Consolidated Entity did not have any deferred day 1 profit or loss during the current or previous financial years.

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions for Level 3 assets and liabilities whose fair values are determined in whole or in part using unobservable inputs. The impact of the sensitivity of instruments which hedge the Level 3 positions but are classified as Level 1 and 2 is not included in the table below.

	Favourable changes		Unfavourable changes	
	Profit or loss \$m	OCI \$m	Profit or loss \$m	OCI \$m
Product type				2022
Equity and equity-linked products	88	-	(62)	-
Interest rate, commodity and other products	86	1	(79)	(3)
Total	174	1	(141)	(3)
Product type				2021
Equity and equity-linked products	108	-	(112)	-
Interest rate, commodity and other products	47	2	(58)	(4)
Total	155	2	(170)	(4)

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

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure the fair value. The range of values represent the highest and lowest input used in the valuation techniques. 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
						2022
Interest rate, commodity and other products	1,960	23	Discounted cash flows Pricing model	Discount rate Correlation	5.4% 0.0%	9.5% 100%
Equity and equity-linked products	886	16	Net Asset Value (NAV) Discounted cash flows Pricing model	Funds' NAV ¹ Discount rate Earnings multiple	10.0% 1.0X	26.7% 15.8X
Total	2,846	39				
						2021
Interest rate, commodity and other products	1,061	16	Discounted cash flows Pricing model	Discount rate Correlation	2.5% 0.0%	12.0% 100%
Equity and equity-linked products	815	11	Net Asset Value (NAV) Discounted cash flows Pricing model	Funds' NAV ¹ Discount rate Earnings multiple	5.0% 1.1X	18.9% 11.6X
Total	1,876	27				

Correlation

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

Inputs for unlisted equity securities

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

Inputs for interest rate products (discount rate)

Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties, and original issue discounts on primary debt issuances.

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

Note 30

Offsetting of financial assets and financial liabilities

The Consolidated Entity present financial assets and financial liabilities on a net basis in the Statement of financial position when they meet the criteria described in Note 37(vi) *Financial instruments*.

The following tables provide information on the impact of offsetting of financial instruments in the Statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore presented gross in the Statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's financial position in that circumstance is to settle these contracts as one arrangement.

The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 27.1 *Credit risk* for information on credit risk management.

	Amount subject to enforceable netting arrangements						Amounts not subject to enforceable netting arrangements	Statement of financial position total
	Subject to offsetting in the Statement of financial position			Related amount not offset ¹				
	Gross amount \$m	Amount offset \$m	Net amount presented \$m	Other recognised financial instruments ² \$m	Cash and other financial collateral ³ \$m	Net amount \$m		
								2022
Reverse repurchase agreements	8,649	-	8,649	-	(8,649)	-	-	8,649
Settlement assets ^{4,5}	1,917	(1,672)	245	-	-	245	5,084	5,329
Held for sale and other assets	163	(59)	104	(69)	(8)	27	171	275
Due from related body corporate entities ^{6,7}	16,425	(4,342)	12,083	(1,390)	(403)	10,290	1,120	13,203
Total assets	27,154	(6,073)	21,081	(1,459)	(9,060)	10,562	6,375	27,456
Settlement liabilities ⁵	(1,991)	1,672	(319)	-	-	(319)	(5,153)	(5,472)
Other liabilities	(149)	59	(90)	69	20	(1)	(177)	(267)
Due to related body corporate entities ^{6,7}	(38,458)	4,342	(34,116)	1,390	1,288	(31,438)	(1,063)	(35,179)
Total liabilities	(40,598)	6,073	(34,525)	1,459	1,308	(31,758)	(6,393)	(40,918)

1. Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
2. Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
3. Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
4. The Consolidated Entity holds sufficient collateral for the amounts not subject to enforceable netting arrangements. Refer Note 27.1 *Credit risk for collateral and credit enhancements held*.
5. Excludes margin money assets of \$369 million and liabilities of \$109 million presented under Note 4 *Settlement, margin money and trading assets* and Note 13 *Settlement, margin money and trading liabilities* respectively on the Statement of financial position.
6. Amount not subject to enforceable netting arrangements includes balances with related body corporate entities which have not acceded to MLA or other balances not governed by netting provision of any Master Netting Arrangements.
7. Excludes margin money and non-financial assets of \$1,528 million and liabilities of \$612 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statement of financial position.

	Amount subject to enforceable netting arrangements							Statement of financial position total \$m
	Subject to offsetting in the Statement of financial position			Related amount not offset ¹		Amounts not subject to enforceable netting arrangements		
	Gross amount \$m	Amount offset \$m	Net amount presented \$m	Other recognised financial instruments ² \$m	Cash and other financial collateral ³ \$m	Net amount \$m	\$m	
								2021
Reverse repurchase agreements	2,126	-	2,126	-	(2,126)	-	-	2,126
Settlement assets ^{4,5}	2,049	(1,541)	508	-	-	508	5,287	5,795
Held for sale and other assets	79	(39)	40	(10)	(26)	4	34	74
Due from related body corporate entities ^{6,7}	20,331	(3,085)	17,246	(849)	(1,044)	15,353	863	18,109
Total assets	24,585	(4,665)	19,920	(859)	(3,196)	15,865	6,184	26,104
Settlement liabilities ²	(1,908)	1,541	(367)			(367)	(5,474)	(5,841)
Other liabilities	(58)	39	(19)	10	8	(1)	(83)	(102)
Due to related body corporate entities ^{6,7}	(23,664)	3,085	(20,579)	849	49	(19,681)	(580)	(21,159)
Total liabilities	(25,630)	4,665	(20,965)	859	57	(20,049)	(6,137)	(27,102)

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

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

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

4. The Consolidated Entity holds sufficient collateral for the amounts not subject to enforceable netting arrangements. Refer Note 27.1 *Credit risk for collateral and credit enhancements held*.

5. Excludes margin money assets of \$300 million and liabilities of \$32 million presented under Note 4 *Settlement, margin money and trading assets* and Note 13 *Settlement, margin money and trading liabilities* respectively on the Statement of financial position.

6. Amount not subject to enforceable netting arrangements includes balances with related body corporate entities which have not acceded to MLA or other balances not governed by netting provision of any Master Netting Arrangements.

7. Excludes margin money and non-financial assets of \$318 million and liabilities of \$691 million presented under due from related body corporate entities and due to related body corporate entities respectively on the Statement of financial position.

Note 31

Pledged assets and transfer of financial assets

Pledged assets

Items pledged as security for liabilities include the following:

- securities and commodities included under trading assets pledged as collateral for stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements
- due from related body corporate entities balances provided as collateral against intercompany guarantees
- Other types of financial and non-financial assets provided as collateral for borrowings and issued debt securities.

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

	2022 \$m	2021 \$m
On Balance Sheet items:		
Cash and bank balances	115	115
Settlement, margin money and trading assets ¹	706	311
Other assets	301	529
Loan assets	92	112
Due from related body corporate entities ²	4,953	3,475
Financial investments ³	852	-
Property, plant and equipment and right-of-use assets	260	411
Intangible assets	814	434
Total On Balance sheet assets pledged for liabilities	8,093	5,387

Transfer of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity's Statement of financial position to other entities. Depending on the criteria discussed in Note 37(vi) *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 securitisation interests. For the financial years ended 31 March 2022 and 31 March 2021, there were no transfers of financial assets where the Consolidated Entity has had continuing involvement

1. Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associated liability on the Consolidated Entity's Statement of financial position. For trading assets pledged by the Consolidated Entity, the transferee has the right to sell or re-pledge the entire value of securities received.
2. Represents cash collateral provided by the Consolidated Entity to guarantee MBL's exposure with certain Non-Bank group entities.
3. Represents securities provided as collateral by the Consolidated Entity to guarantee MBL's exposure with certain Non-Bank group entities.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise financial assets to the extent of its continuing involvement during the years ended 31 March 2022 and 31 March 2021. The following transactions typically result in the transferred assets continuing to be recognised in full:

Repurchase and securities lending agreements

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

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

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

Other financial transfers

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

The following table presents information for transfers of financial assets not derecognised by the Consolidated Entity:

	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
					2022
Financial assets not derecognised due to repurchase and securities lending agreements:					
Settlement, margin money and trading assets ¹	81	(24)	-	-	-
Other financial assets not derecognised:					
Loan assets	92	(92)	92	(92)	-
Total financial assets not derecognised	173	(116)	92	(92)	-
					2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Settlement, margin money and trading assets ¹	25	(20)	-	-	-
Other financial assets not derecognised:					
Loan assets	112	(102)	114	(103)	11
Total financial assets not derecognised	137	(122)	114	(103)	11

1. Includes assets transferred under repurchase agreement liabilities or in return for the loan of other securities where there is no associate liability on the Consolidated Entity's Statement of financial position.

Note 32

Audit and other services provided by PricewaterhouseCoopers

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

	2022 ² \$'000	2021 ^{1,2} \$'000
PwC – Australia		
Audit of the Group and controlled entities ³	7,173	6,919
Total audit services	7,173	6,919
Other assurance services ⁴	-	580
Advisory services	-	23
Taxation	50	112
Total non-audit services	50	715
Total remuneration paid to PwC Australia	7,223	7,634
Network firms of PwC Australia		
Audit of the controlled Entities ³	5,912	4,784
Total audit services	5,912	4,784
Other statutory assurance services ⁵	29	226
Other assurance services ⁴	576	569
Advisory services	-	71
Taxation	743	1,340
Total non-audit services	1,348	2,206
Total remuneration paid to network firms of PwC Australia	7,260	6,990
Total audit services remuneration paid to PwC	13,085	11,703
Total non-audit services remuneration paid to PwC	1,398	2,921
Total remuneration paid to PwC	14,483	14,624

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 project and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

1. Comparative information has been restated to conform to presentation in the current year.
2. Include fees relating to the discontinued operations presented as part of 'Profit from discontinued operations after income tax' under Note 33 *Assets, liabilities and disposal groups classified as held for sale and discontinued operations*.
3. Prior period includes additional fees of \$429 thousand (2021: \$3,075 thousand) for PwC Australia \$2,884 thousand (2021: \$1,341 thousand) for network firms of PwC Australia that related to the year ended 31 March 2022 but were incurred during the 2022 financial year.
4. Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include accounting advice certifications, due diligence and reviews of controls and other agreed upon procedures.
5. Other statutory assurance services include audit of Australian Financial Services license requirements and other assurance services required by legislation.

Note 33

Assets, liabilities and disposal groups classified as held for sale and discontinued operations

(i) Description of significant transactions

1. Restructure of certain Macquarie Asset Management businesses

Based on the MGL Board's decision during 2018 to restructure the Non-Bank Group and separate certain Macquarie Asset Management (MAM) businesses from the remainder of the Non-Bank Group (the restructure) the Consolidated Entity classified certain Macquarie Asset Management (MAM) businesses as held for sale in the Statement of financial position and its operations were presented as discontinued operations in the income statement.

A substantial portion of the restructure was completed during financial year ended 31 March 2020 with the remainder of the restructure expected to be completed in future reporting periods. Assets and liabilities expected to be transferred in the coming year have been presented as held for sale and discontinued operations in current and previous reporting periods.

2. Other

In addition to the above-mentioned significant transaction, other assets and liabilities of disposal groups that have been classified as held for sale include investments in associates and joint ventures and the assets and liabilities of other disposal groups which, individually or as a disposal group, do not meet the criteria for classification as discontinued operations under Australian Accounting Standards.

(ii) Assets and liabilities classified as held for sale

	2022 \$m	2021 \$m
Assets classified as held for sale		
Cash and bank balances	111	–
Financial investments	21	36
Other assets ¹	190	155
Property, plant and equipment	533	77
Interests in associates and joint ventures ²	803	929
Deferred tax assets ³	61	188
Total assets classified as held for sale⁴	1,719	1,385
Liabilities classified as held for sale		
Other liabilities ⁵	495	604
Borrowings	353	–
Deferred tax liabilities ³	5	105
Total liabilities classified as held for sale⁴	853	709

1. Included Fee and commission receivables of \$42 million (2021: \$9 million), fee related contract assets of \$68 million (2021: \$12 million).

2. Includes a 16.1% interest in Macquarie Infrastructure Holdings LLC (formerly Macquarie Infrastructure Corporation) (MIC) \$77 million (2021: \$665 million) which is accounted as associate on the basis of exercising significant influence through its advisory contract, Board representation and secondment of key management. MIC currently owns and operates an energy company that processes and distributes gas and provides related services.

During the financial year, MIC realised one of its infrastructure businesses. Proceeds were distributed to shareholders with the Consolidated Entity receiving its proportionate share. Carrying value (CV) at the time of distribution under held for sale was lower (due to historical equity accounting losses forming part of CV) compared to the distribution received in current year. Excess proceeds during the year were treated as dividend income.

3. Deferred tax assets (DTA) and Deferred tax liabilities (DTL) which were classified as assets and liabilities of disposal groups as held for sale as at 31 March 2022 in relation to the MAM business are as follows: Tax losses \$5 million DTA (2021: \$5 million DTA), Other assets and liabilities \$65 million DTA (2021: \$94 million DTA), Financial investments and interests in associates and joint ventures \$41 million DTL (2021: \$16 million DTL).

4. Subsequent to 31 March 2022, the Consolidated Entity disposed a number of assets that had been classified as held for sale for a pre-tax gain of approximately \$700 million. The gain on disposal will be recognised by the Consolidated Entity for the year ending 31 March 2023.

5. Includes employee related payables of \$200 million (2021: \$529million).

(iii) Income Statement

The financial results of the MAM business comprising of the Consolidated Entity's discontinued operations are presented below:

	2022 \$m	2021 \$m
Fee and commission income ¹	800	587
Investment Income ²	169	108
Net trading (expense)/ income	(7)	3
Net credit and other impairment (charges)/reversals ³	(5)	389
Other operating income and charges	2	170
Net operating income	959	1,257
Operating expenses	(479)	(692)
Operating profit from discontinued operations before income tax	480	565
Income tax expense	(112)	(93)
Profit from discontinued operations after income tax	368	472
Other comprehensive (loss)/income:		
Net movement for the year		
Cash flow hedges, net movements recognised in OCI	-	(15)
Other comprehensive loss from discontinued operations	-	(15)
Total comprehensive income from discontinued operations attributable to the equity holder of the Consolidated Entity	368	457

1. Includes \$263 million (2021: \$189 million) of base fees and performance fees.

2. Includes dividend of \$155 million (2021: \$11 million) received from associates and joint venture investments and net gain on sale of associates and joint ventures of \$1 million (2021: \$94 million)

3. Previous year includes impairment reversal of \$392 million on interests in associates and joint ventures

(iv) Cash flow information

The cash flow information comprising of the Consolidated Entity's discontinued operations of certain of the MAM businesses are presented below:

	2022 \$m	2021 \$m
Net cash flows		
Net cash flows utilised in operating activities	(641)	(424)
Net cash flows generated from investing activities	641	411
Net decrease in cash and cash equivalents from discontinued operations	-	(13)
Cash and cash equivalents at the beginning of the financial year	-	13
Cash and cash equivalents at the end of the financial year	-	-

Note 34

Acquisitions and disposals of subsidiaries and businesses

Acquisitions of subsidiaries and businesses:

The subsidiaries and businesses where control was acquired during the current and previous financial year were not individually significant.

Subsidiaries and businesses acquired or consolidated during the current financial year due to the acquisition of control were: Gana Energy Ltd., Procentrix, Inc., Radzyn Clearn Energy Poland Sp. Z O.O. and Wavenet Group Holdings Limited.

Subsidiaries and businesses acquired or consolidated during the previous financial year due to the acquisition of control were: Alira Energy, LLC, Aragorn Holdco 2 Pte Limited, Elwiatr Pruszyński sp.z.o.o., Future Energy sp.z.o.o, and Woodway Holdings LLC.

The table below represents aggregated details of the businesses and subsidiaries held for investment purposes or otherwise, acquired during the current and previous year. The purchase price allocation for the current year's business acquisitions is provisional as at 31 March 2022.

	2022 \$m	2021 \$m
Fair value of net assets acquired		
Cash and bank balances	49	10
Financial investments, loan assets and other assets	130	22
Property, plant and equipment and right-of-use assets	142	192
Intangible assets	200	57
Payables, provisions, borrowings and other liabilities	(320)	(53)
Non-controlling interests ¹	46	(19)
Total fair value of net assets acquired	247	209
Consideration		
Cash consideration	681	205
Deferred consideration	-	6
Total consideration	681	211
Goodwill recognised on acquisition	434	2
Net cash flow		
Cash consideration	(681)	(205)
Less: Cash and cash equivalents acquired	49	10
Net cash outflow	(632)	(195)

1. Non-controlling interest represents share of loss in current year and profit in previous year, which belong to external investors in the entities acquired.

Disposal of subsidiaries and businesses:

During the financial year, the Consolidated Entity disposed of certain businesses and subsidiaries held for investment purposes resulting in aggregate gains of \$2,302 million (2021: \$555 million).

The businesses and subsidiaries where control was lost during the current and previous financial year were not individually significant.

Subsidiaries and businesses disposed of or deconsolidated during the current financial year due to the loss of control were: Bernard Midco Limited, Business Keeper AG, Dovel Holdings I LLC and Savion LLC.

During the year ended 31 March 2021 the MBL and MGL Boards approved the transfer of Macquarie's service entities from MGL and its subsidiaries to MBL and was executed in November 2020. A part of this transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity disposed of its 100% interest in Macquarie Global Services Private Limited.

Other subsidiaries and businesses disposed of or deconsolidated during the previous financial year due to the loss of control were: Acacia Renewables K.K, Hamel Renewables HoldCo LLC, Hamel Renewables LLC, Macquarie European Rail, Showa Planning K.K. and VeenIX BaHo B.V.

The table below represents aggregated details of the businesses and subsidiaries held for investment purposes or otherwise, disposed during the current and previous year:

	2022 \$m	2021 \$m
Carrying value of assets and liabilities		
Cash and bank balances	16	401
Financial investments, loan assets, deferred tax, held for sale and other assets ¹	1,057	783
Property, plant and equipment	102	14
Intangible assets	590	5
Borrowings, deferred tax, held for sale and other liabilities ¹	(908)	(642)
Non-controlling interests	(46)	-
Total carrying value of net assets disposed	811	561
Consideration		
Cash consideration	2,947	1,079
Consideration receivable	53	36
Interest acquired through contribution to a joint venture	114	-
Fair value remeasurement of investment retained	-	3
Total consideration	3,114	1,118
Direct costs relating to disposal	(1)	(2)
Net cash flow		
Cash consideration	2,947	1,079
Less: cash and cash equivalents disposed of or deconsolidated ²	(93)	(401)
Net cash inflow	2,854	678

1. Includes assets and liabilities of disposal groups held for sale, primarily in the nature of intangible assets, property, plant and equipment and borrowings.

2. Includes \$16 million (2021: \$401 million) presented as cash and bank balance and \$77 million (2021: Nil) presented as held for sale in the table above.

Note 35

Company financial information

As at, and throughout the financial year ended 31 March 2022, the parent entity of the Consolidated Entity was MFHPL. Summary financial information for the Company is as follows:

	2022 \$m	2021 \$m
Statement of financial position		
Assets		
Current assets	24,010	15,773
Non-current assets ^{1,2}	33,665	24,656
Total assets	57,675	40,429
Liabilities		
Current liabilities	19,918	11,957
Non-current liabilities ³	24,264	16,596
Total liabilities	44,182	28,553
Equity		
Contributed equity	12,352	14,252
Reserves	37	3
Accumulated losses	1,104	(2,379)
Total equity	13,493	11,876
Statement of comprehensive income		
Profit/(loss) after income tax for the financial year ⁴	3,566	(103)
Total comprehensive income for the financial year	3,566	(103)
Contingent liabilities		
Contingent liabilities exist in respect of:		
Guarantees ^{5,6}	9,854	6,937
Indemnities	37	190
Letters of credit	140	123
Total contingent liabilities⁷	10,031	7,250
Asset development commitments	660	859

1. Non-current assets primarily comprise of investments in and long term loans to non-bank subsidiaries and related body corporates.

2. In accordance with its accounting policies, where the Company's investments had indicators of reversal of impairment, the investments' carrying value was compared to its recoverable value determined as the higher of value-in-use and fair value less cost to sell (valuations). The valuations have been calculated using the subsidiaries' maintainable earnings, growth rates and relevant earnings' multiples. A range of valuations including associated sensitivities, were used that demonstrated that the recoverable value was either equivalent to or exceeded the investments' current carrying value. Based on the recoverable value, previously recognised impairment losses of \$3,357 million have been reversed by the Company during the year.

3. Non-current liabilities primarily comprise of long-term borrowings from MGL.

4. Includes dividends of \$403 million (2021: \$750 million) received/receivable from subsidiaries and an impairment reversal of \$3,357 million (2021: impairment charge \$916 million) for investment in subsidiaries. The Company has re-presented \$4,585 million of dividend income from subsidiary and corresponding impairment charge on investment in subsidiary related to the previous financial year, which should have been recognised as return of capital.

5. Guarantees issued by the Company relate to its subsidiaries' trading obligation and other payables to various external and internal counterparties

6. Includes guarantees of \$4,953 million (2021: \$2,884 million) in favour of MBL for certain exposures with Non- Extended Licenced Macquarie Group Entities. The Company has placed cash collateral of a similar amount as per the terms of the guarantee arrangement.

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

Note 36

Events after the reporting date

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

Note 37

Significant accounting policies

(i) Principles of consolidation

Subsidiaries

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

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

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

All variable returns are considered in making that assessment including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts. In certain instances, the Consolidated Entity has determined that it controls entities that it has less than half of the voting rights on the basis of its ability to direct the relevant activities of those entities.

Structured entities

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

Where the Consolidated Entity has power over the SE's relevant activities, has assessed that its exposure to variable returns (through the residual risk associated with its involvement in SEs) is sufficient, and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements. Refer to Note 25 *Structured entities* for further information related to both consolidated and unconsolidated structured entities.

Consolidation

The effects of all transactions between subsidiaries in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (NCI) in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

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

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

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

Interests in associates and joint ventures

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

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

The equity method of accounting is applied in the consolidated Financial Report and requires the recognition of the Consolidated Entity's share of its associates' and joint ventures' post acquisition profits or loss (including impairments of the associates' or joint ventures' assets) in the consolidated income statement, and the share of the post-acquisition movements in other comprehensive income in the consolidated statement of comprehensive income. Transactions reported directly in equity (besides those reflected in other comprehensive income) are accounted for by the Consolidated Entity in accordance with the substance of the transaction and whether the transaction is dilutive to the Consolidated Entity's ownership interest. Where the transaction is dilutive, the impact is recorded as part of the Consolidated Entity's share of profits or losses of associates and joint ventures.

Equity accounting of losses is restricted to the Consolidated Entity's interests in its associate or joint venture unless the Consolidated Entity has an obligation or has made payment on behalf of the entity.

Long-term interests in an associate or joint venture, to which the equity method is not applied but in-substance form part of the net investment in the associate or joint venture, are accounted for in accordance with the Consolidated Entity's financial instruments' accounting policies, which includes accounting for expected credit losses, where applicable. Subsequently, the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* are applied to long-term interests.

At the end of each reporting period, management reviews the Consolidated Entity's investments in associates and joint ventures for indicators of impairment. Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised in other impairment charges/reversal. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses) if no impairment loss had been recognised.

Interests in associates and joint ventures are classified as held for sale when the Consolidated Entity determines that the interest will be recovered principally through a sale transaction rather than through continuing use. Equity accounting is suspended when the interest is classified as held for sale.

On disposal of an investment in an associate or a joint venture, the difference between the sales consideration, any retained interest and the carrying value is recognised as a gain or loss in investment income as part of other operating income and charges together with any gains and losses in OCI that related to the associate or joint venture.

When acquiring additional interests:

- of a financial asset (such that it becomes an associate, joint venture or subsidiary), or
- in an investment in an associate or joint venture (such that it becomes a subsidiary), where the underlying entity constitutes a business,

previously held interests are revalued to their fair value and any gain or loss is recognised in investment income as part of other operating income and charges.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in an associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their fair value and any gain or loss is recognised in investment income as part of other operating income and charges. Retained ownership interests are not revalued where the sale represents a contribution to an associate or joint venture.

Increases and decreases in the Consolidated Entity's interest in a subsidiary (that do not result in the loss of control) are accounted for directly within equity. Increases in the Consolidated Entity's ownership interest in an associate or joint venture are accounted for as an increase in the carrying value of the interest in associate or joint venture. The difference between the reduction in the Consolidated Entity's interest in an associate or joint venture that remains an associate or joint venture and the fair value of consideration received is accounted for as a gain or loss within investment income as part of other operating income and charges. A proportionate amount of associated OCI is reclassified to profit or loss, or reclassified within equity, as would otherwise be required on disposal of the underlying position.

(ii) Business combinations

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

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

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

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

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

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

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

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

Business combinations involving entities or businesses that are ultimately controlled by the same parent entity, are accounted for at book value.

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

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

(iii) Foreign currency translation

Functional and presentation currency

The functional currency of each entity (including branches) in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates. The Consolidated Entity and the Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

Transactions and balances

At initial recognition, a foreign currency transaction is translated into the entity's functional currency using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- foreign currency monetary assets and liabilities are translated using the closing exchange rate
- non-monetary items (including equity) measured in terms of historical cost in a foreign currency remain translated using the spot exchange rate at the date of the transaction, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date that the fair value was measured.

Foreign exchange gains and losses arising from the settlement or translation of monetary items, or non-monetary items measured at fair value are recognised in net trading income, with one exception. Where such monetary items are designated as hedging instruments in qualifying cash flow hedge or net investment hedge relationships, the foreign exchange gains and losses may be deferred in OCI to the extent the hedge is effective (refer to Note 26 *Hedge accounting* and Note 37(ix) *Derivative instruments and hedging activities*).

Subsidiaries and other entities

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

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

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

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

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

(iv) Revenue and expense recognition

Net interest income

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

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

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

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

Fee and commission income

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

Base and other asset management fees, and performance fees

The Consolidated Entity earns base and other asset management and performance fees for providing asset management services for listed and unlisted funds, managed accounts and co investments arrangements. It has been determined that the provision of asset management services is typically a single performance obligation.

Base management fees are recognised over the life of the contract as the asset management services are provided. Any associated performance fees are deemed to be a variable component of the same asset management service and are recognised only when it is highly probable that the performance hurdles are met, and a significant reversal of cumulative fees recognised to date will not occur. Determining the amount and timing of performance fees to be recognised involves judgement, the use of estimates (including management estimates of underlying asset values) and consideration of a number of criteria relating to both the fund or managed account in which the asset(s) are held, as well as the underlying asset(s), such as:

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

Mergers and acquisitions, advisory and underwriting fees

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

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

Brokerage and other trading-related income

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

Other fee and commission income

Other fee and commission income is recognised when the performance obligation is satisfied.

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

Net operating lease income

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

Other operating income and charges

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

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

Gains or losses on the change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer to Note 37(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Dividends

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

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

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

Expenses

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

(v) Taxation

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

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

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

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

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

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

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

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

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

Tax consolidation

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

All eligible Australian resident wholly owned subsidiaries of Macquarie Group Limited (MGL, the Company's ultimate parent entity) comprise a tax consolidated group (TCG) with MGL as the head entity. As a consequence, the Company and the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses or credits.

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

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

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

Goods and services tax (GST)

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

(vi) Financial instruments

Recognition of financial instruments

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

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

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

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

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

Derecognition of financial instruments

Financial assets

Financial assets are derecognised from the Statement of financial position when:

- the rights to cash flows have expired, or
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

A financial asset is transferred if, and only if, the Consolidated Entity i) transfers the contractual rights to receive the cash flows of the financial asset, or ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where the Consolidated Entity is:

- not obligated to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset
- prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
- obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

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

Gains and losses on the derecognition of debt financial assets and liabilities

Gains and losses arising from the derecognition of debt financial assets or financial liabilities are recognised in:

- net trading income in respect of trading-related balances that are subsequently measured at amortised cost
- investment income within other operating income and charges in respect of financial investments and loans to associates, and
- other income and charges as part of other operating income and charges for all other financial assets and financial liabilities.

Financial guarantee contracts issued

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

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

Modification of financial instruments

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

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

Classification and subsequent measurement

Financial assets

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

Business model assessment

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

- how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's Senior Management personnel and senior executives
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed, and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Solely payment of principal and interest (SPPI)

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

Amortised cost

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

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

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

Fair value through other comprehensive income (FVOCI)

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

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

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

Fair value through profit or loss (FVTPL)

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

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

- financial assets that are held for active trading (held for trading (HFT)). This classification includes all derivative financial assets, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows (FVTPL)

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

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

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

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

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

Reclassification of financial instruments

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

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

Financial liabilities

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

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

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 37(ix) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

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

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

Offsetting of financial instruments

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

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

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

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

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

Reverse repurchase agreements are measured at FVOCI as they are held in a business model to both collect contractual cash flows and with the intention to sell.

Similar transactions with related body corporates are reported as part of *'Due to/from related body corporate entities.'* Refer Note 37(xvii).

(viii) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 37(vi) *Financial instruments*.

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

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

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

When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met (refer to Note 37(vi) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(ix) Derivative instruments and hedging activities

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

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

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

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 37(vi) *Financial instruments*.

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

Hedge accounting

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

	Fair value hedge	Cash flow hedge	Net investment hedge
Nature of hedge	The hedge of the fair value risk of a financial liability.	The hedge of the change in cash flows of a financial liability or a highly probable forecast transaction	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
Hedged risk	<ul style="list-style-type: none"> Interest rate risk 	<ul style="list-style-type: none"> Interest rate risk Foreign exchange risk Commodity price risk 	<ul style="list-style-type: none"> Foreign exchange risk
Hedged item	<ul style="list-style-type: none"> Fixed interest rate financial liabilities 	<ul style="list-style-type: none"> Floating interest rate financial liabilities Highly probable forecast foreign currency payments Highly probable forecast commodity sales 	<ul style="list-style-type: none"> Net investment in foreign operations
Hedging instruments	<ul style="list-style-type: none"> Interest rate swaps 	<ul style="list-style-type: none"> Interest rate swaps and options Foreign exchange contracts Commodity swaps and futures 	<ul style="list-style-type: none"> Foreign exchange contracts Foreign currency denominated borrowings
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	<p>All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that:</p> <ul style="list-style-type: none"> an economic relationship exists between the hedged item and the hedging instrument credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and the hedge ratio is reflective of the Consolidated Entity's risk management approach. <p>The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.</p>		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis or under other accounting standards as appropriate (such as executory contracts for the sale of commodities).	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.
Accounting treatment for hedge ineffectiveness	Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not	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.	

	Fair value hedge	Cash flow hedge	Net investment hedge
	offset by changes in fair value of the hedging instrument.		
Accounting treatment if the hedge relationship is discontinued	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>	<p>The exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows:</p> <ul style="list-style-type: none"> • if the hedge is discontinued due to a disposal of the hedged foreign operation, then the accumulated NIHR is reclassified from OCI to investment income within other operating income and charges • if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated NIHR is reclassified to investment income • if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated NIHR is reattributed within equity to non-controlling interests.
Other accounting policies	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.	

(x) Settlement and margin money assets and liabilities

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

(xi) Financial investments

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

Debt investment securities in this category comprise of bonds and other debt securities.

Financial investments are initially recognised on trade date at fair value (adjusted for directly attributable transaction costs for debt investments subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 37(vi) *Financial instruments*.

(xii) Loan assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 37(vi) *Financial instruments*.

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 37(vi) *Financial instruments*.

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

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

Right-of-use (ROU) assets are initially measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs. Subsequently, it is stated at historical cost less accumulated depreciation and, where applicable, impairment losses, and adjusted for any remeasurement of lease liabilities.

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

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

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

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

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements ¹	10 to 20%
Equipment	33 to 50%
Infrastructure assets ²	2 to 12%
Aviation ³	2 to 8%
Other operating lease assets	2 to 5%

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

The depreciation charge relating to corporate building leases is presented as part of Occupancy expenses while depreciation relating to leases entered into or assets held by trading-related businesses for the purpose of facilitating trading activities is presented as part of Net trading income. All other depreciation is presented as part of Other operating expenses. The Consolidated Entity does not recognise a ROU asset for short-term or low value leases, instead the expense is recognised over the lease term as appropriate as part of operating expenses.

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.

(xiv) Goodwill and other identifiable Intangible assets

Goodwill

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

Other acquired identifiable intangible assets

At the time at which the Consolidated Entity determines that it has acquired a business, the Consolidated Entity identifies intangible assets that are required to be initially recognised at fair value. An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

The following intangible assets are typically identified and recognised by the Consolidated Entity:

- licences and trading rights: generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life
- management rights: carried at cost less accumulated amortisation and accumulated impairment loss. Certain management right intangible assets, which have indefinite useful lives as the underlying income stream is related to the management of funds that have no defined end date and are expected to operate perpetually, are not amortised. For management rights that have a finite useful life, amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life usually being a period not exceeding 20 years
- customer and servicing contracts acquired with a finite useful life: carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period for which the customer relationship is expected to exist
- customer and servicing contracts with an indefinite useful life: carried at cost less accumulated impairment loss.

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

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

Software

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

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

(xv) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

Where the Consolidated Entity provides services to clients and the consideration is unconditional, a receivable is recognised. Where the consideration is conditional on something other than the passage of time, such as performance fees, these are recorded as contract assets. Both receivables and contract assets are assessed for impairment in accordance with AASB 9.

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

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

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

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

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

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

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

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

Provisions and contingent liabilities

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which generally include letters of credit, indemnities, performance-related contingents and guarantees (other than financial guarantees) are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are considered remote.

Employee benefit provisions

Employee benefit provisions are recognised by the Consolidated Entity as and when the service has been rendered after deducting amounts already paid. Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded in the Statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled or is transferred to another entity and the Company and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

Where a dividend is determined or resolved by the Board of Directors of the Company, the dividend liability and the corresponding reduction in retained earnings is recognised on the payment date.

(xvi) Borrowings

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

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

Transactions between the Consolidated Entity and other related body corporate entities under common control of MGL, the ultimate parent entity, and between the Company and its subsidiaries, principally arise from the provision of lending arrangements and other financial services, the provision of management and administration services, facilities and accommodation and the provision of financial guarantees. Refer to Note 37(iv) *Revenue and expense recognition* and Note 37(vi) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met in accordance with Note 37(vi) *Financial instruments*, such that the net amount is reported in the Statement of financial position.

(xviii) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 37(vi) *Financial instruments*.

(xix) Loan capital

Loan capital includes non-cumulative, unsecured debt issued by the Consolidated Entity to MGL, the ultimate parent entity, and that is mandatorily convertible into a variable number of the Company's ordinary shares, if not redeemed before the mandatory exchange date. Refer to Note 17 *Loan Capital*.

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

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

(xx) Impairment**Expected credit losses**

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 8 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

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

(ii) Stage II – Not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 8 *Expected credit losses*.

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

(iii) Stage III – Credit-impaired

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

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

Presentation of loss allowances

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

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

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

Impairment of interests in associates and joint ventures

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

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

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

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

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

Impairment of investments in subsidiaries

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

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

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

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

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

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

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

(xxi) 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 23 *Employee equity participation*.

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

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company does not compensate the ultimate parent for MEREP awards offered to its employees, a corresponding credit is recognised in contributed equity. To the extent the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 21 *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.

(xxii) Leases

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

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 33 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 37(xiii) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

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

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

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

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 10) and lease liabilities in other liabilities (refer to Note 14) in the Statement of financial position.

(ii) Accounting where the Consolidated Entity is a lessor

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

Finance lease

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

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

Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over its useful life in accordance with the rates specified in Note 37(xiii) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right of-use assets.

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

(xxiii) Contributed equity

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

(xxiv) Fiduciary assets and Client money

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

(xxv) Cash and bank balances

Cash and bank balances includes currency on hand, demand deposits and short-term balances with banks. These balances are subsequently measured at amortised cost.

(xxvi) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances as well as certain liquid financial investments and receivables from related body corporates, 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.

(xxvii) Investment property

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

(xxviii) 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 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 are 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.

(xxix) Comparatives

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

(xxx) Rounding of amounts

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

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

(i) AASB 17 Insurance Contracts

AASB 17 Insurance Contracts, amends the accounting for insurance contracts and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The standard is mandatorily effective for the Consolidated Entity's annual reporting period beginning on 1 April 2023. The standard is not expected to have a material impact on the Consolidated Entity's financial statements.

(ii) Other amendments made to existing standards

Other amendments to existing standards that are not mandatorily effective for the annual reporting period beginning on 1 April 2022 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements.

Directors' declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 7 to 125 are in accordance with the *Corporations Act 2001* (Cth), including:
 - i. complying with Australian accounting standards and regulations, and
 - ii. giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2022 and its performance, for the financial year ended on that date, and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c. the Financial Report also complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



S. Dyson

Director

Sydney

18 July 2022



Independent auditor's report

To the member of Macquarie Financial Holdings Pty Limited

Our opinion

In our opinion:

The accompanying financial report of Macquarie Financial Holdings Pty 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 Consolidated Entity's financial position as at 31 March 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

What we have audited

The Consolidated Entity financial report comprises:

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

Basis for opinion

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

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

Independence

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



Other information

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

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

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the 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 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: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
18 July 2022