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Financial Report

Macquarie Bank launches Business Savings Account

Macquarie Bank's Business Savings Account is a high interest online savings account for Australian small businesses.

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The Financial Report was authorised for issue by the Board of Directors on 5 May 2023.
The Board of Directors has the power to amend and reissue the Financial Report.

Income statements

For the financial year ended 31 March 2023

		CONSOLIDATED		COMPANY	
	Notes	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Interest and similar income:					
Effective interest rate method	2	**9,335**	4,150	**1,217**	529
Other	2	**804**	175	**186**	100
Interest and similar expense	2	**(7,111)**	(1,465)	**(1,366)**	(637)
Net interest income/(expense)		**3,028**	2,860	**37**	(8)
Fee and commission income	2	**6,558**	6,887	**13**	12
Net trading income/(loss)	2	**7,495**	3,996	**(223)**	(457)
Share of net (losses)/profits from associates and joint ventures	2	**(113)**	240	**–**	–
Net credit impairment charges	2	**(388)**	(250)	**(15)**	(16)
Net other impairment (charges)/reversals	2	**(66)**	(259)	**–**	1,896
Net other operating income	2	**2,608**	3,850	**2,749**	–
Net operating income		**19,122**	17,324	**2,561**	1,427
Employment expenses	2	**(7,703)**	(6,725)	**(4)**	(4)
Brokerage, commission and fee expenses	2	**(1,028)**	(1,029)	**–**	–
Non-salary technology expenses	2	**(1,092)**	(926)	**–**	–
Other operating expenses	2	**(2,307)**	(2,105)	**(24)**	(6)
Total operating expenses		**(12,130)**	(10,785)	**(28)**	(10)
Operating profit before income tax		**6,992**	6,539	**2,533**	1,417
Income tax (expense)/benefit	4	**(1,824)**	(1,586)	**91**	132
Profit after income tax		**5,168**	4,953	**2,624**	1,549
Loss/(profit) attributable to non-controlling interests		**14**	(247)	**–**	–
Profit attributable to ordinary equity holders of Macquarie Group Limited		**5,182**	4,706	**2,624**	1,549
		Cents	Cents	**Cents**	Cents
Basic earnings per share	6	**1,353.7**	1,271.7		
Diluted earnings per share	6	**1,316.3**	1,230.6		

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

Statements of comprehensive income

For the financial year ended 31 March 2023

	Notes	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
Profit after income tax		**5,168**	4,953	**2,624**	1,549
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	28	**(15)**	(25)	**–**	–
Changes in expected credit losses (ECL) allowance	28	**29**	7	**–**	–
Cash flow hedges and cost of hedging reserves:					
Revaluation movement		**(14)**	(39)	**(13)**	–
Transferred to income statement on realisation		**124**	25	**–**	–
Share of other comprehensive income from associates and joint ventures	28	**138**	43	**–**	–
Foreign exchange movement on translation and hedge accounting of foreign operations		**1,338**	–	**–**	–
Movements in item that will not be subsequently reclassified to the income statement:					
Fair value changes attributable to own credit risk on debt designated at fair value through profit or loss (DFVTPL)	28	**11**	41	**10**	33
Others		**12**	–	**–**	–
Total other comprehensive income		**1,623**	52	**(3)**	33
Total comprehensive income		**6,791**	5,005	**2,621**	1,582
Total comprehensive income attributable to non-controlling interests		**(4)**	(241)	**–**	–
Total comprehensive income attributable to ordinary equity holders of Macquarie Group Limited		**6,787**	4,764	**2,621**	1,582

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

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

Statements of financial position

As at 31 March 2023

		CONSOLIDATED		COMPANY	
	Notes	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Assets					
Cash and bank balances		**45,656**	52,754	**–**	–
Cash collateralised lending and reverse repurchase agreements		**54,323**	51,197	**–**	–
Trading assets	7	**16,881**	13,578	**–**	–
Margin money and settlement assets	8	**25,256**	25,108	**–**	–
Derivative assets	9	**36,114**	84,891	**3**	1
Financial investments	10	**21,874**	12,127	**–**	–
Held for sale assets	11	**921**	1,297	**–**	–
Other assets	11	**10,438**	8,632	**30**	28
Loan assets	12	**158,572**	134,744	**–**	–
Due from subsidiaries	30	**–**	–	**48,817**	38,591
Interests in associates and joint ventures	14	**5,574**	4,373	**–**	–
Property, plant and equipment and right-of-use assets	15	**6,639**	5,143	**–**	–
Intangible assets	16	**3,827**	3,780	**–**	–
Investments in subsidiaries	17	**–**	–	**32,604**	32,449
Deferred tax assets	18	**1,797**	1,552	**3**	–
Total assets		**387,872**	399,176	**81,457**	71,069
Liabilities					
Cash collateralised borrowing and repurchase agreements		**18,737**	16,947	**–**	–
Trading liabilities	19	**4,810**	5,290	**–**	–
Margin money and settlement liabilities	20	**27,482**	27,158	**–**	–
Derivative liabilities	21	**32,790**	84,464	**5**	6
Deposits	22	**134,714**	101,667	**–**	35
Held for sale liabilities	23	**173**	525	**–**	–
Other liabilities	23	**12,512**	11,167	**241**	211
Borrowings		**18,912**	13,896	**6,942**	6,280
Due to subsidiaries	30	**–**	–	**5,686**	3,632
Issued debt securities	24	**90,549**	99,527	**32,113**	25,638
Deferred tax liabilities	18	**196**	216	**–**	21
Total liabilities excluding loan capital		**340,875**	360,857	**44,987**	35,823
Loan capital	26	**12,891**	9,513	**3,362**	2,612
Total liabilities		**353,766**	370,370	**48,349**	38,435
Net assets		**34,106**	28,806	**33,108**	32,634
Equity					
Contributed equity	27	**12,407**	12,298	**14,872**	14,781
Reserves	28	**3,302**	1,523	**1,559**	1,332
Retained earnings	28	**17,446**	14,740	**16,677**	16,521
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**33,155**	28,561	**33,108**	32,634
Non-controlling interests	28	**951**	245	**–**	–
Total equity		**34,106**	28,806	**33,108**	32,634

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

Statements of changes in equity

For the financial year ended 31 March 2023

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							CONSOLIDATED
Balance as at 1 Apr 2021		8,531	1,286	12,231	22,048	303	22,351
Profit after income tax		–	–	4,706	4,706	247	4,953
Other comprehensive income/(loss), net of tax		–	17	41	58	(6)	52
Total comprehensive income		–	17	4,747	4,764	241	5,005
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	27	3,282	–	–	3,282	–	3,282
Dividends paid	5, 28	–	–	(2,229)	(2,229)	–	(2,229)
Movement in non-controlling interests		–	–	(9)	(9)	(299)	(308)
Other equity movements:							
MEREP share-based payment arrangements	27, 28	448	167	7	622	–	622
Deferred tax benefit on MEREP share-based payment arrangements	27, 28	37	46	–	83	–	83
Other movements		–	7	(7)	–	–	–
		3,767	220	(2,238)	1,749	(299)	1,450
Balance as at 31 Mar 2022		12,298	1,523	14,740	28,561	245	28,806
Profit/(loss) after income tax		**–**	**–**	**5,182**	**5,182**	**(14)**	**5,168**
Other comprehensive income, net of tax		**–**	**1,582**	**23**	**1,605**	**18**	**1,623**
Total comprehensive income		**–**	**1,582**	**5,205**	**6,787**	**4**	**6,791**
Transactions with equity holders in their capacity as ordinary equity holders:							
Issue of shares	27	**485**	**–**	**–**	**485**	**–**	**485**
Dividends paid	5, 28	**–**	**–**	**(2,495)**	**(2,495)**	**–**	**(2,495)**
Purchase of shares by MEREP Trust	27	**(923)**	**–**	**–**	**(923)**	**–**	**(923)**
Movement in non-controlling interests		**–**	**–**	**(4)**	**(4)**	**702**	**698**
Other equity movements:							
MEREP share-based payment arrangements	27, 28	**512**	**239**	**–**	**751**	**–**	**751**
Deferred tax benefit on MEREP share-based payment arrangements	27, 28	**35**	**(42)**	**–**	**(7)**	**–**	**(7)**
		109	**197**	**(2,499)**	**(2,193)**	**702**	**(1,491)**
Balance as at 31 Mar 2023		**12,407**	**3,302**	**17,446**	**33,155**	**951**	**34,106**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
					COMPANY
Balance as at 1 Apr 2021		11,063	1,158	17,154	29,375
Profit after income tax		–	–	1,549	1,549
Other comprehensive income, net of tax		–	–	33	33
Total comprehensive income		–	–	1,582	1,582
Transactions with equity holders in their capacity as ordinary equity holders:					
Issue of shares	27	3,270	–	–	3,270
Dividends paid	5, 28	–	–	(2,215)	(2,215)
Other equity movements:					
MEREP share-based payment arrangements	27, 28	448	167	7	622
Other movements	27, 28	–	7	(7)	–
		3,718	174	(2,215)	1,677
Balance as at 31 Mar 2022		14,781	1,332	16,521	32,634
Profit after income tax		**–**	**–**	**2,624**	**2,624**
Other comprehensive (loss)/income, net of tax		**–**	**(13)**	**10**	**(3)**
Total comprehensive (loss)/income		**–**	**(13)**	**2,634**	**2,621**
Transactions with equity holders in their capacity as ordinary equity holders:					
Issue of shares	27	**502**	**–**	**–**	**502**
Dividends paid	5, 28	**–**	**–**	**(2,478)**	**(2,478)**
Purchase of shares by MEREP Trust		**(923)**	**–**	**–**	**(923)**
Other equity movements:					
MEREP share-based payment arrangements	27, 28	**512**	**239**	**–**	**751**
Deferred tax benefit on MEREP share-based payment arrangements	28	**–**	**1**	**–**	**1**
		91	**240**	**(2,478)**	**(2,147)**
Balance as at 31 Mar 2023		**14,872**	**1,559**	**16,677**	**33,108**

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

Statements of cash flows

For the financial year ended 31 March 2023

	Notes	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
Cash flows (utilised in)/generated from operating activities					
Interest income and expense:					
Received		**9,807**	4,363	**1,403**	630
Paid		**(6,279)**	(1,429)	**(1,220)**	(584)
Fees, commissions and other income and charges:					
Received		**6,498**	6,539	**13**	1
Paid		**(1,091)**	(896)	**-**	(3)
Operating lease income received		**883**	1,000	**-**	-
Dividends and distributions received		**632**	304	**2,749**	-
Operating expenses paid:					
Employment expenses		**(6,532)**	(5,260)	**(4)**	(4)
Other operating expenses including brokerage, commission and fee expenses		**(3,267)**	(2,774)	**(6)**	(5)
Income tax paid		**(2,035)**	(1,743)	**(414)**	(616)
Changes in operating assets:					
Loan assets and balances with subsidiaries		**(21,856)**	(30,922)	**(3,517)**	(14,392)
Assets under operating lease		**(1,042)**	(1,070)	**-**	-
Other assets		**(55)**	(253)	**(7)**	(2)
Trading, trading-related, liquid investment and collateralised lending balances (net of liabilities)		**(7,960)**	11,817	**-**	-
Changes in operating liabilities:					
Issued debt securities		**(15,888)**	38,525	**3,323**	12,542
Deposits		**33,032**	17,465	**(31)**	(11)
Borrowings and other funding		**3,750**	14,834	**22**	489
Other liabilities		**23**	(49)	**-**	-
Net cash flows (utilised in)/generated from operating activities	29	**(11,380)**	50,451	**2,311**	(1,955)
Cash flows (utilised in)/generated from investing activities					
Net payments for financial investments		**(1,828)**	(643)	**-**	-
Associates, joint ventures, subsidiaries and businesses:					
Proceeds from distribution or disposal, net of cash deconsolidated		**4,105**	5,686	**1,000**	1,899
Payments for additional contribution or acquisitions, net of cash acquired		**(2,753)**	(4,139)	**(1,136)**	(1,000)
Property, plant and equipment and right-of-use assets, investment property and intangible assets:					
Payments for acquisitions		**(824)**	(977)	**-**	-
Proceeds from disposals		**70**	85	**-**	-
Net cash flows (utilised in)/generated from investing activities		**(1,230)**	12	**(136)**	899
Cash flows generated from/(utilised in) financing activities					
Proceeds from the issue of ordinary shares		**-**	2,777	**-**	2,752
Loan capital:					
Issuance		**3,078**	1,405	**739**	-
Redemption		**-**	(1,101)	**-**	-
Dividends and distributions paid		**(2,010)**	(1,711)	**(1,991)**	(1,696)
Payments for acquisition of treasury shares		**(923)**	-	**(923)**	-
Receipts from/(Payments to) non-controlling interests		**305**	(222)	**-**	-
Net cash flows generated from/(utilised in) financing activities		**450**	1,148	**(2,175)**	1,056
Net increase in cash and cash equivalents		**(12,160)**	51,611	**-**	-
Cash and cash equivalents at the beginning of the financial year		**84,323**	33,493	**-**	-
Effect of exchange rate movements on cash and cash equivalents		**5,051**	(781)	**-**	-
Cash and cash equivalents at the end of the financial year	29	**77,214**	84,323	**-**	-

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

Notes to the financial statements

For the financial year ended 31 March 2023

Note 1
Basis of preparation

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth). Macquarie Group Limited is a for-profit company for the purposes of preparing this Financial Report.

The principal accounting policies adopted in the preparation of this Financial Report are set out in Note 44 *Significant accounting policies*. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (Macquarie Group Limited and its subsidiaries) as well as the Company (Macquarie Group Limited), unless otherwise stated.

(i) Compliance with IFRS as issued by the IASB

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

(ii) Basis of measurement

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

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

(iii) Critical accounting estimates and significant judgements

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

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 44(vii))
- assessing whether the cash flows generated by a financial asset constitute solely payments of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 44(vii))
- choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss, including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 44(xxii) and Note 13)
- timing and amount of impairment of interests in associates and joint ventures and investment in subsidiaries, including the reversal thereof (Note 44(i), Note 44(xxii), Note 14 and Note 17)
- timing and amount of impairment of goodwill and other identifiable intangible assets and, where applicable, the reversal thereof (Note 44(xxii) and Note 16)
- fair value of assets and liabilities including the determination of non-recurring fair values and accounting for day 1 profits or losses for financial instruments (Note 44(vii), Note 44(x) and Note 38)
- distinguishing between whether assets or a business is acquired under a business combination, particularly the determination of whether a substantive process exists that, together with an integrated set of activities and assets, significantly contributes to the ability to create an output (Note 44(ii))
- determination of significant influence over associates, joint control over arrangements and control over subsidiaries, including the assessment of whether certain rights are protective or substantive in nature, whether these rights are held in the capacity as agent or principal, and whether the level of involvement in an investee's relevant activities is sufficient to significantly affect the returns generated (Note 44(i))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities can require significant judgement, particularly where the recoverability of such tax balances relies on the estimation of future taxable profits and management's determination of the likelihood that uncertain tax positions will be accepted by the relevant taxation authority (Note 44(vi), Note 4 and Note 18)
- recognition and measurement of certain revenue streams including performance fees from Macquarie-managed funds and other capital market investments and transactions (Note 44(iv))
- recognition and measurement of provisions related to actual and potential claims, and determination of contingent liabilities (Note 44(iv), Note 44(xvii) and Note 33)
- application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 44(x) and Note 35)
- timing of derecognition of assets and liabilities following the disposal of an investment, including the measurement of the associated gain or loss (Note 44(i)).

Note 1
Basis of preparation continued

(iii) Critical accounting estimates and significant judgements continued

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

The amendments made to existing standards that were mandatorily effective or have been early adopted for the annual reporting period beginning on 1 April 2022 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 this Financial Report.

(v) Other developments

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

IBOR interest rate benchmarks, that are used in a wide variety of financial instruments such as derivatives and lending arrangements, are undergoing reforms. Examples of IBOR include the London Inter-bank Offered Rate (LIBOR), the Euro Inter-bank Offered Rate (EURIBOR), the Canadian Dollar Offered Rate (CDOR) and the Australian Bank Bill Swap Rate (BBSW). 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 AUD Overnight Index Average (AONIA).

IBOR including the GBP, JPY, EUR and CHF London Inter-bank Offered Rate (LIBOR), and the 1-week and 2-month tenors for USD LIBOR ceased publication on 31 December 2021. The remaining USD LIBOR tenors and some IBOR's for minor currencies, other than CDOR will cease publication on 30 June 2023. CDOR will cease publication on 28 June 2024.

Industry working groups have worked with authorities and consulted with market participants to develop market practices that may be used to transition existing LIBOR-linked contracts for derivatives, loans, bonds and other financial instruments that mature beyond their respective LIBOR cessation dates, to ARRs. Amongst the issues considered were the key differences between LIBOR and ARRs. LIBOR are term rates which are quoted at the beginning of that period (for example, one-, three-, six-or twelve-month periods) and include a component of bank credit risk. ARRs on the other hand are overnight rates with little or no credit risk. To facilitate the transition of contracts from LIBOR to ARRs on an economically equivalent basis, adjustments for term and credit differences needs to be applied.

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

Impacts on financial reporting

AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* 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 require additional quantitative and qualitative disclosures, and provide certain reliefs from applying specific requirements related to hedge accounting and the modification of financial instruments 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 Consolidated Entity early adopted these amendments for the year ended 31 March 2021.

Note 2
Operating profit before income tax

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Net interest income/(expense)				
Interest and similar income:				
Effective interest rate method – Amortised cost	**8,349**	4,063	**1,217**	529
Effective interest rate method – FVOCI	**986**	87	**–**	–
Other	**804**	175	**186**	100
Interest and similar expense:				
Effective interest rate method – Amortised cost	**(7,075)**	(1,403)	**(1,366)**	(637)
Other	**(36)**	(62)	**–**	–
Net interest income/(expense)	**3,028**	2,860	**37**	(8)
Fee and commission income				
Base and other asset management fees:				
Base fees	**2,804**	2,796	**–**	–
Other asset management fees	**469**	458	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**991**	1,373	**–**	–
Brokerage and other trading-related fees	**715**	801	**–**	–
Performance fees	**692**	395	**–**	–
Other fee and commission income	**887**	1,064	**13**	12
Total fee and commission income	**6,558**	6,887	**13**	12
Net trading income/(loss)[(1)]				
Commodities trading[(2)]	**6,365**	3,371	**–**	–
Credit, interest rate, foreign exchange and other products	**666**	248	**(223)**	(457)
Equities	**464**	377	**–**	–
Net trading income/(loss)	**7,495**	3,996	**(223)**	(457)
Share of net (losses)/profits from associates and joint ventures	**(113)**	240	**–**	–

(1) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships, fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign currency-denominated monetary assets and liabilities. Refer to Note 44(x) *Derivative instruments and hedging activities*.
(2) Includes $684 million (2022: $508 million) of transportation, storage and certain other trading-related costs and $20 million (2022: $49 million) depreciation on right-of-use (ROU) assets held for trading-related business.

Note 2
Operating profit before income tax continued

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Credit and other impairment (charges)/reversals				
Credit impairment (charges)/reversals				
Loan assets	**(343)**	(103)	**–**	–
Off balance sheet exposures	**(72)**	1	**(4)**	(5)
Held for sale and other assets[1]	**(25)**	(83)	**(11)**	(11)
Margin money and settlement assets	**42**	(26)	**–**	–
Loans to associates and joint ventures	**5**	(39)	**–**	–
Financial investments, cash and bank balances	**–**	(2)	**–**	–
Gross credit impairment charges	**(393)**	(252)	**(15)**	(16)
Recovery of amounts previously written off	**5**	2	**–**	–
Net credit impairment charges	**(388)**	(250)	**(15)**	(16)
Other impairment (charges)/reversals				
Interests in associates and joint ventures	**(47)**	(180)	**–**	–
Intangible and other non-financial assets	**(19)**	(79)	**–**	–
Investment in subsidiaries	**–**	–	**–**	1,896
Net other impairment (charges)/reversals	**(66)**	(259)	**–**	1,896
Total credit and other impairment (charges)/reversals	**(454)**	(509)	**(15)**	1,880
Net other operating income				
Investment income				
Net gain from:				
Interests in associates and joint ventures	**1,806**	190	**–**	–
Disposal of subsidiaries and businesses	**407**	2,789	**–**	–
Non-financial assets	**8**	64	**–**	–
Financial investments	**(84)**	248	**–**	–
Dividends from subsidiaries (Note 30)	**–**	–	**2,749**	–
Net investment income	**2,137**	3,291	**2,749**	–
Net operating lease income				
Rental income	**860**	754	**–**	–
Depreciation	**(395)**	(352)	**–**	–
Net operating lease income	**465**	402	**–**	–
Businesses and subsidiaries held for investment purposes[2]				
Net operating revenue[3]	**421**	447	**–**	–
Expenses[4]	**(608)**	(473)	**–**	–
Net loss from businesses and subsidiaries held for investment purposes	**(187)**	(26)	**–**	–
Other income	**193**	183	**–**	–
Total net other operating income	**2,608**	3,850	**2,749**	–
Net operating income	**19,122**	17,324	**2,561**	1,427

(1) Balance under Company represents ECL on amounts due from subsidiaries.
(2) Businesses and subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's investment activities.
(3) Includes revenue of $628 million (2022: $1,176 million) before deduction of $207 million (2022: $729 million) related to cost of goods sold and other direct costs.
(4) Includes employment expenses, depreciation and amortisation expense and other operating expenses.

Note 2
Operating profit before income tax continued

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	**(6,456)**	(5,627)	**(4)**	(4)
Share-based payments[1]	**(762)**	(659)	**–**	–
Provision for long service leave and annual leave	**(60)**	(78)	**–**	–
Total compensation expenses	**(7,278)**	(6,364)	**(4)**	(4)
Other employment expenses including on-costs, staff procurement and staff training	**(425)**	(361)	**–**	–
Total employment expenses	**(7,703)**	(6,725)	**(4)**	(4)
Brokerage, commission and fee expenses				
Brokerage and other trading-related fee expenses	**(740)**	(748)	**–**	–
Other fee and commission expenses	**(288)**	(281)	**–**	–
Total brokerage, commission and fee expenses	**(1,028)**	(1,029)	**–**	–
Non-salary technology expenses				
Information services	**(256)**	(210)	**–**	–
Depreciation on own use assets: equipment (Note 15)	**(25)**	(31)	**–**	–
Service provider and other non-salary technology expenses	**(811)**	(685)	**–**	–
Total non-salary technology expenses	**(1,092)**	(926)	**–**	–
Other operating expenses				
Occupancy expenses				
Lease expenses	**(151)**	(155)	**–**	–
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 15)	**(57)**	(63)	**–**	–
Other occupancy expenses	**(164)**	(139)	**–**	–
Total occupancy expenses	**(372)**	(357)	**–**	–
Other expenses				
Professional fees	**(537)**	(576)	**–**	–
Advertising and promotional expenses	**(196)**	(178)	**–**	–
Amortisation of intangible assets	**(181)**	(134)	**–**	–
Travel and entertainment expenses	**(171)**	(43)	**–**	–
Indirect and other taxes	**(155)**	(170)	**–**	–
Fees for audit and other services	**(83)**	(64)	**–**	–
Other	**(612)**	(583)	**(24)**	(6)
Total other expenses	**(1,935)**	(1,748)	**(24)**	(6)
Total other operating expenses	**(2,307)**	(2,105)	**(24)**	(6)
Total operating expenses	**(12,130)**	(10,785)	**(28)**	(10)
Operating profit before income tax	**6,992**	6,539	**2,533**	1,417

(1) Includes share-based payment related expenses of $11 million (2022: $41 million) for cash settled awards.

Note 3
Segment reporting

(i) Operating Segments

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

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

During the current year, and as previously announced, the Green Investment Group was transferred from Macquarie Capital and is operating as part of MAM, bringing together Macquarie's specialist capabilities to provide clients with expanded green investments and energy transition capabilities.

Comparatives have been reclassified to reflect this reorganisation.

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

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

- **MAM** which provides investment solutions to clients across a range of capabilities in Private Markets and Public Investments, including infrastructure, green investments, agriculture and natural assets, real estate, private credit, asset finance, secondaries, equities, fixed income and multi-asset solutions
- **BFS** which provides a diverse range of personal banking, wealth management, and business banking products and services to retail clients, advisers, brokers and business clients
- **CGM** which is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance
- **Macquarie Capital** which has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in development and investment in infrastructure and energy projects and companies, with a focus on transport, digital and social infrastructure. Macquarie Capital's Equities brokerage business provides clients with access to equity research, sales, execution capabilities and corporate access.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury, and holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups.

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

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Segments

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

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

Note 3
Segment reporting continued

(i) Operating Segments continued

Accounting for derivatives that economically hedge interest rate risk

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

Central Service Groups

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

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

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Presentation of segment income statements

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

Reportable segment assets

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

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 3
Segment reporting continued

(i) Operating Segments continued

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

	Macquarie Asset Management $m	Banking and Financial Services $m
Full year ended 31 March 2023		
Net interest and trading (expense)/income	**(396)**	**2,520**
Fee and commission income/(expense)	**4,108**	**505**
Share of net (losses)/profits from associates and joint ventures	**(1)**	**(7)**
Other operating income and charges:		
Net credit and other impairment charges	**(14)**	**(34)**
Net other operating income and charges	**1,162**	**(13)**
Internal management revenue/(charge)	**92**	**(10)**
Net operating income	**4,951**	**2,961**
Total operating expenses	**(2,595)**	**(1,760)**
Operating profit/(loss) before income tax	**2,356**	**1,201**
Income tax expense	**–**	**–**
(Profit)/loss attributable to non-controlling interests	**(14)**	**–**
Net profit/(loss) contribution	**2,342**	**1,201**
Reportable segment assets	**14,328**	**129,046**
Full year ended 31 March 2022		
Net interest and trading (expense)/income	(328)	1,972
Fee and commission income/(expense)	4,088	457
Share of net profits/(losses) from associates and joint ventures	256	(2)
Other operating income and charges:		
Net credit and other impairment (charges)/reversals	(99)	22
Net other operating income	1,722	11
Internal management revenue/(charge)	18	1
Net operating income	5,657	2,461
Total operating expenses	(2,631)	(1,460)
Operating profit/(loss) before income tax	3,026	1,001
Income tax expense	–	–
Loss/(profit) attributable to non-controlling interests	3	–
Net profit/(loss) contribution	3,029	1,001
Reportable segment assets	11,866	111,103

Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
7,561	**410**	**428**	**10,523**
617	**1,356**	**(28)**	**6,558**
32	**(137)**	**–**	**(113)**
(57)	**(294)**	**(55)**	**(454)**
535	**903**	**21**	**2,608**
29	**(11)**	**(100)**	**–**
8,717	**2,227**	**266**	**19,122**
(2,710)	**(1,456)**	**(3,609)**	**(12,130)**
6,007	**771**	**(3,343)**	**6,992**
–	**–**	**(1,824)**	**(1,824)**
–	**30**	**(2)**	**14**
6,007	**801**	**(5,169)**	**5,182**
141,453	**28,481**	**74,564**	**387,872**
4,732	414	66	6,856
507	1,868	(33)	6,887
40	(55)	1	240
(65)	(362)	(5)	(509)
960	1,146	11	3,850
5	29	(53)	–
6,179	3,040	(13)	17,324
(2,268)	(1,270)	(3,156)	(10,785)
3,911	1,770	(3,169)	6,539
–	–	(1,586)	(1,586)
–	(249)	(1)	(247)
3,911	1,521	(4,756)	4,706
172,698	23,255	80,254	399,176

Note 3
Segment reporting continued

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

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

	Macquarie Asset Management $m	Banking and Financial Services $m	Commodities and Global Markets $m	Macquarie Capital $m	Corporate $m	Total $m
						CONSOLIDATED 2023
Fee and commission income/(expense)						
Base and other asset management fees	**2,981**	**290**	**2**	**–**	**–**	**3,273**
Mergers and acquisitions, advisory and underwriting fees	**75**	**–**	**6**	**912**	**(2)**	**991**
Brokerage and other trading-related fees	**3**	**39**	**252**	**421**	**–**	**715**
Performance fees	**692**	**–**	**–**	**–**	**–**	**692**
Other fee and commission income/(expense)	**357**	**176**	**357**	**23**	**(26)**	**887**
Total fee and commission income/(expense)	**4,108**	**505**	**617**	**1,356**	**(28)**	**6,558**
						CONSOLIDATED 2022
Fee and commission income/(expense)						
Base and other asset management fees	3,007	245	2	–	–	3,254
Mergers and acquisitions, advisory and underwriting fees	26	1	(4)	1,362	(12)	1,373
Brokerage and other trading-related fees	44	45	239	473	–	801
Performance fees	394	–	–	1	–	395
Other fee and commission income/(expense)	617	166	270	32	(21)	1,064
Total fee and commission income/(expense)	4,088	457	507	1,868	(33)	6,887

Note 3
Segment reporting continued

(iii) Products and services

The Consolidated Entity's Operating Segments reflect different core products and services offered by the Group. Refer to Note 3(i) *Operating Segments* for net operating income contribution by various Operating Segments.

(iv) Geographical areas

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

	CONSOLIDATED 2023		CONSOLIDATED 2022	
	Revenue from external customers[1] $m	Non-current assets[2] $m	Revenue from external customers[1] $m	Non-current assets[2] $m
Americas[3]	**9,774**	**4,447**	10,054	4,220
Australia	**10,109**	**2,329**	5,011	2,345
Europe, Middle East and Africa[4]	**7,165**	**9,156**	4,940	6,831
Asia Pacific	**1,544**	**893**	1,404	527
Total	**28,592**	**16,825**	21,409	13,923

(v) Major customers

The Consolidated Entity does not rely on any major customers.

(1) Revenue from external customers includes operating income in the nature of fee and commission income, interest and similar income, net trading income, operating lease income, share of net profits/(losses) of associates and joint ventures, operating and investment income from subsidiaries held for investment purposes, gain on disposal of businesses, subsidiaries, associates and other financial/non-financial assets.
(2) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets and investment properties.
(3) Includes external revenue from the United States of $9,336 million (2022: $9,980 million).
(4) Includes external revenue from the United Kingdom of $5,773 million (2022: $7,765 million).

Note 4
Income tax expense

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
(i) Income tax (expense)/benefit				
Current tax (expense)/benefit	**(2,110)**	(1,742)	**68**	137
Deferred tax benefit/(expense)	**286**	156	**23**	(5)
Total income tax (expense)/benefit	**(1,824)**	(1,586)	**91**	132
(ii) Reconciliation of income tax expense to *prima facie* income tax expense				
Prima facie income tax expense on operating profit @30% (2022: 30%)	**(2,098)**	(1,962)	**(760)**	(425)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:				
Rate differential on offshore income	**346**	422	**28**	14
Intra-group dividends	**–**	–	**825**	–
Impairment reversal on subsidiaries	**–**	–	**–**	569
Other items	**(72)**	(46)	**(2)**	(26)
Total income tax (expense)/benefit	**(1,824)**	(1,586)	**91**	132
(iii) Tax benefit/(expense) relating to OCI				
FVOCI reserve	**(8)**	11	**–**	–
Own credit risk	**(10)**	(18)	**(4)**	(14)
Cash flow hedges and cost of hedging	**(4)**	33	**6**	–
Foreign currency translation reserve	**–**	12	**–**	–
Share of other comprehensive benefit/(expense) of associates and joint ventures	**(33)**	4	**–**	–
Total tax (expense)/benefit relating to OCI	**(55)**	42	**2**	(14)
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities				
Property, plant and equipment	**(16)**	(4)	**–**	–
Intangible assets	**67**	39	**–**	–
Financial investments and interests in associates and joint ventures	**(108)**	52	**15**	–
Tax losses	**147**	27	**–**	–
Operating and finance leases	**(22)**	(8)	**–**	–
Loan assets and derivatives	**42**	(33)	**(6)**	1
Other assets and liabilities	**176**	83	**14**	(6)
Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)	**286**	156	**23**	(5)

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these and other taxation claims and litigation, including seeking external advice where appropriate, and considers that it holds appropriate provisions.

Note 5
Dividends

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
(i) Dividends paid				
Ordinary share capital				
Final dividend paid (2022: $3.50 (2021: $3.35) per share)	**1,339**	1,208	**1,331**	1,201
Interim dividend paid (2023: $3.00 (2022: $2.72) per share)	**1,156**	1,021	**1,147**	1,014
Total dividends paid (Note 28)[1]	**2,495**	2,229	**2,478**	2,215

The 2023 interim and 2022 final dividends paid during the year were franked at 40%, based on tax paid at 30% (2022 interim dividend and 2021 final dividends were franked at 40%, based on tax paid at 30%).

The Company's Dividend Reinvestment Plan (DRP) remains active. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares without transaction costs. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Ordinary shares purchased on the market or issued by the Consolidated Entity under the DRP in the current year and prior year were allocated as fully paid ordinary shares pursuant to the DRP, details of which are included in Note 27 *Contributed equity*.

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have resolved to pay a final dividend of $4.50 per fully paid ordinary share, 40% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 4 July 2023 from retained profits, but not recognised as a liability at the end of the financial year is $1,739 million. This amount has been estimated based on the number of shares and MEREP awards eligible to participate as at 31 March 2023.

	CONSOLIDATED		COMPANY	
	2023	2022	**2023**	2022
Cash dividend (distribution of current year profits) ($ per share)	**7.50**	6.22	**7.50**	6.22
Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2022: 30%) ($m)[2]	**462**	457	**462**	457

(1) The Consolidated Entity additionally includes $17 million (2022: $14 million) of dividend equivalent amount paid to Deferred Share Unit (DSU) holders as described in Note 32 *Employee equity participation*.
(2) Amount represents balances for franking accounts adjusted for franking credits/debits that will arise from the payment/receipt of income tax payables/receivables as at the end of the financial year respectively.

Note 6
Earnings per share

Basic earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders (adjusted by profit attributable to participating unvested MEREP awards) by the weighted average number of ordinary shares outstanding during the financial year (adjusted for vested MEREP awards).

Diluted earnings per share is calculated by dividing the Consolidated Entity's profit attributable to ordinary equity holders (adjusted by profit attributable to all the dilutive potential ordinary shares) by the weighted average number of ordinary shares and potential ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

	CONSOLIDATED	
	2023	2022
		CENTS
Basic earnings per share	**1,353.7**	1,271.7
Diluted earnings per share	**1,316.3**	1,230.6
	$m	$m
Reconciliation of earnings used in the calculation of basic and diluted earnings per share		
Profit after income tax	**5,168**	4,953
Loss/(profit) attributable to non-controlling interests	**14**	(247)
Profit attributable to the ordinary equity holders of MGL	**5,182**	4,706
Less: profit attributable to participating unvested MEREP awards	**(167)**	(147)
Earnings used in the calculation of basic earnings per share	**5,015**	4,559
Add back:		
Interest on convertible subordinated debt	**233**	126
Profit attributable to dilutive participating unvested MEREP awards	**104**	100
Earnings used in the calculation of diluted earnings per share	**5,352**	4,785
		NUMBER OF SHARES
Reconciliation of weighted average number of equity shares used in the calculation of basic and diluted earnings per share		
Weighted average number of equity shares (net of treasury shares) adjusted for vested MEREP awards used in the calculation of basic earnings per share	**370,473,587**	358,496,006
Add: weighted average number of dilutive potential ordinary shares:		
Convertible subordinated debt[(1)]	**25,333,746**	19,425,680
Unvested MEREP awards	**10,784,377**	10,904,311
Weighted average number of equity shares (net of treasury shares) and potential equity shares used in the calculation of diluted earnings per share	**406,591,710**	388,825,997

(1) For details of convertible subordinated debt included in potential dilutive equity shares, refer to Note 26 *Loan capital*.

Note 7
Trading assets

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Listed equity securities	**7,830**	4,920	**–**	–
Commodity contracts	**3,612**	4,621	**–**	–
Debt securities	**3,033**	813	**–**	–
Commodities	**2,406**	3,224	**–**	–
Total trading assets	**16,881**	13,578	**–**	–

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

Note 8
Margin money and settlement assets

Margin money	**14,397**	14,457	**–**	–
Security settlements	**6,476**	5,849	**–**	–
Commodity settlements	**4,383**	4,802	**–**	–
Total margin money and settlement assets	**25,256**	25,108	**–**	–

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

Note 9
Derivative assets

Held for trading	**34,906**	84,217	**3**	1
Designated in hedge relationships	**1,208**	674	**–**	–
Total derivative assets	**36,114**	84,891	**3**	1

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

Note 10
Financial investments

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Equity securities:				
Listed	**135**	184	**–**	–
Unlisted	**2,035**	1,318	**–**	–
Debt securities:				
Liquid asset holdings	**16,421**	8,870	**–**	–
Bonds, money market and other securities	**3,283**	1,755	**–**	–
Total financial investments	**21,874**	12,127	**–**	–

Of the above amounts, $4,417 million (2022: $2,404 million) is expected to be recovered after 12 months of the balance date by the Consolidated Entity.

Note 11
Held for sale and other assets

Held for sale assets				
Assets of disposal groups and interests in associates and joint venture classified as held for sale	**921**	1,297	**–**	–
Other financial assets				
Commodity-related receivables	**3,264**	2,519	**–**	–
Trade debtors and other receivables	**2,495**	2,172	**7**	10
Fee and commission receivables	**1,051**	1,026	**–**	–
Total other financial assets	**6,810**	5,717	**7**	10
Other non-financial assets				
Contract assets	**960**	551	**–**	–
Investment properties	**917**	748	**–**	–
Income tax receivables	**631**	625	**8**	14
Prepayments	**420**	448	**–**	–
Indirect tax receivables	**271**	205	**15**	4
Other	**429**	338	**–**	–
Total other non-financial assets	**3,628**	2,915	**23**	18
Total other assets	**10,438**	8,632	**30**	28

Of the above amounts, $2,901 million (2022: $2,769 million) is expected to be recovered after 12 months of the balance date by the Consolidated Entity and $1 million (2022: $nil) by the Company.

Note 12
Loan assets

	CONSOLIDATED 2023			CONSOLIDATED 2022		
	Gross $m	**ECL allowance[(1)] $m**	**Net $m**	Gross $m	ECL allowance[(1)] $m	Net $m
Home loans	**114,889**	**(163)**	**114,726**	95,348	(76)	95,272
Corporate, commercial and other lending	**37,725**	**(998)**	**36,727**	30,157	(731)	29,426
Asset financing	**7,274**	**(155)**	**7,119**	10,270	(224)	10,046
Total loan assets	**159,888**	**(1,316)**	**158,572**	135,775	(1,031)	134,744

Of the above amounts, $107,950 million (2022: $100,797 million) is expected to be recovered after 12 months of the balance date by the Consolidated Entity.

Finance lease receivables

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

	CONSOLIDATED 2023			CONSOLIDATED 2022		
	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	**999**	**(84)**	**915**	1,088	(71)	1,017
Between one to two years	**656**	**(59)**	**597**	799	(50)	749
Between two to three years	**422**	**(39)**	**383**	510	(32)	478
Between three to four years	**237**	**(24)**	**213**	281	(18)	263
Between four to five years	**182**	**(11)**	**171**	147	(8)	139
Later than five years	**22**	**(1)**	**21**	39	(1)	38
Total	**2,518**	**(218)**	**2,300**	2,864	(180)	2,684

(1) The ECL allowance carried against loan assets measured at FVOCI is not presented in the table as the allowance is included in reserves. Refer to Note 13 *Expected credit losses*.

Note 13
Expected credit losses

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

Model inputs

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

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

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

The key model inputs used in measuring the ECL include:

- **Exposure at Default (EAD)**: The EAD represents the estimated exposure in the event of a default
- **Probability of Default (PD)**: The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio and other similar criteria. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI
- **Loss Given Default (LGD)**: The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

Significant increase in credit risk (SICR)

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

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

Retail exposures

Exposures are assigned a behavioural score which considers the exposures' lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposures' credit behaviour. SICR movement thresholds between origination and reporting date of behavioural score movements have been established that, where exceeded, result in the exposure being categorised as Stage II.

Wholesale exposures

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

Where an exposures' assigned credit rating deteriorates beyond pre-defined thresholds 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 actions such as realisation of available security; or the borrower is 90 days or more past due on an obligation to the Consolidated Entity.

Note 13
Expected credit losses continued

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

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. The overlays primarily reflect management's assessment of the current economic and credit environment relative to the FLI credit cycle model. These overlays account for the risk that underlying credit risk events have occurred, but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regions, counterparties or industries which are difficult to account for within the modelled outcomes. Over time the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $475 million (2022: $450 million). These judgements are reviewed by FMG and RMG at each reporting date.

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

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

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

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

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

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

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

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

Note 13
Expected credit losses continued

Forward-looking information (FLI) Continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$1,550 million(1)	Probable	**Global:** The baseline scenario assumes 2023 global GDP growth of around 2.01% year-on-year, slowing from 2.9% in 2022 in the face of inflationary pressures and tighter monetary policy. Interest rates are expected to peak in mid-2023, with rate cuts anticipated in 2024 as inflation eases and growth slows. **Australia:** Growth is expected to slow materially in 2023 to 1.9%, with unemployment increasing by 1 percentage point by Q2 2024, though baseline assumptions are for a recession to be avoided. Policy rate hikes from the Reserve Bank of Australia (RBA) are expected to stop in mid-2023. House prices fell ~8% during 2022 from their peak, and a further ~10% decline is anticipated in 2023 due to pressure on household budgets from high interest rates. Equity prices have been more resilient but are assumed to remain relatively constrained over the next 12–18 months. **United States:** Annual GDP growth is projected to slow in 2023, and contract in late 2023 and early 2024 resulting in an overall peak-to-trough fall in GDP of 1.6% over 12 months. As a result, the unemployment rate is projected to increase by 2 percentage points to 5.5% by the end of 2024, with rate cuts to provide support to the economy in early 2024. **Europe:** The Eurozone economy outperformed expectations in 2022, despite the impact of the Russia-Ukraine war, but 2023 is expected to bring growth of just 0.1% as tighter monetary policy and high inflation put pressure on the economy.
Downside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$1,950 million(1)	Possible	**Global:** The downside scenario projects annual growth in global GDP that is approximately 1 percentage point lower than the baseline until late 2024. **Australia:** The scenario projects stagnation over the 18 months to September 2024 due to continued inflationary pressure and further monetary tightening. Unemployment rises in the scenario to 5.5% by mid-2024 and recedes slowly in low growth environment. House prices are projected to be impacted by higher interest rates, falling ~23% from 2022 highs. **United States:** The scenario projects five quarters of negative or zero growth beginning in mid-2023, resulting in a 3% fall in real GDP. Inflation remains sticky, however, and the US Fed delays rate cuts and the possible boost to the economy until disinflationary trends are clear. Unemployment is projected to increase 3 percentage points to 6.6% by mid-2024. **Europe:** The scenario projects a 2% fall in real GDP over the next 12 months, driving unemployment to around 8%. Equity markets are projected to fall around 7% and fail to recover to prior peaks in the forecast period to 2027.

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

Note 13
Expected credit losses continued

Forward-looking information (FLI) Continued

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 ~$2,600 million(1)	Possible	**Global:** The scenario projects a sharp slowdown in annual GDP growth, around 3 to 3.5 percentage points lower than the baseline. The global economy is projected to contract by ~2.5% in the next 12 months and stagnates for the subsequent 12 months. **Australia:** The scenario projects five consecutive quarters of contraction in real GDP, resulting in a 2.5% decline in GDP by mid-2024. Unemployment peaks at 7.5% in late 2024, and house prices fall by 30% from their early 2022 peak. **United States:** The scenario projects a ~6% fall in GDP to the end of 2024, contracting for seven straight quarters and failing to recover prior output levels by the end of 2027. Unemployment reaches 8.8% by the end of 2024, and house prices fall by over 20%. **Europe:** The scenario projects a recession that extends until mid-2024, and output falls by 4% from current levels. Unemployment rates are projected to peak at ~9% and recede slowly.
Upside A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$1,450 million(1)	Unlikely	**Global:** The upside scenario projects annual growth in global GDP that is approximately 1 percentage point higher than the baseline scenario until late 2024. **Australia:** The scenario projects a slight slowdown in GDP growth to under 2% annually, but growth remains positive throughout. Unemployment rates increase only modestly, remaining below 4.5%. Interest rate rises are sufficient to calm inflation without sharply impacting growth. **United States:** The scenario projects slowing GDP growth to 1% annually and the economy avoids any quarterly contractions. The Fed pauses monetary tightening as inflation recedes, engineering a 'soft landing' scenario. **Europe:** The scenario projects GDP to grow only 0.4% in 2023, including one quarterly contraction. Thereafter growth remains around 2% annually through to 2027 and unemployment stays broadly flat at 6.5–7%.

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

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 13

Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI $m	Other $m	Gross exposure $m	Amortised cost $m	FVOCI $m	Other $m	Total ECL allowance $m
								CONSOLIDATED 2023
Cash and bank balances	**45,659**	**–**	**–**	**45,659**	**3**	**–**	**–**	**3**
Cash collateralised lending and reverse repurchase agreements	**15,903**	**33,463**	**–**	**49,366**	**6**	**2**	**–**	**8**
Margin money and settlement assets	**24,738**	**–**	**–**	**24,738**	**58**	**–**	**–**	**58**
Financial investments	**1,721**	**17,269**	**–**	**18,990**	**–**	**4**	**–**	**4**
Held for sale and other assets[(1)]	**4,613**	**4**	**960**	**5,577**	**120**	**–**	**–**	**120**
Loan assets	**158,295**	**643**	**–**	**158,938**	**1,316**	**128**	**–**	**1,444**
Loans to associates and joint ventures	**480**	**–**	**–**	**480**	**60**	**–**	**–**	**60**
Off balance sheet exposures	**–**	**–**	**28,760**	**28,760**	**–**	**–**	**134**	**134**
Total	**251,409**	**51,379**	**29,720**	**332,508**	**1,563**	**134**	**134**	**1,831**
								CONSOLIDATED 2022
Cash and bank balances	52,754	–	–	52,754	4	–	–	4
Cash collateralised lending and reverse repurchase agreements	11,155	35,872	–	47,027	8	–	–	8
Margin money and settlement assets	24,681	–	–	24,681	97	–	–	97
Financial investments	4	9,941	–	9,945	–	3	–	3
Held for sale and other assets[(1)]	4,355	9	553	4,917	159	–	–	159
Loan assets	135,024	281	–	135,305	1,031	59	–	1,090
Loans to associates and joint ventures	573	76	–	649	63	33	–	96
Off balance sheet exposures	–	–	29,486	29,486	–	–	56	56
Total	228,546	46,179	30,039	304,764	1,362	95	56	1,513

Loan assets continue to represent the Consolidated Entity's most significant component of credit exposures on which ECL allowances are carried. The credit quality of the Consolidated Entity's loan assets, is monitored through its credit policies, as set out in Note 36.1 *Credit risk*.

The Company's ECL provision of $50 million (2022: $36 million) primarily relates to related party loans of $44,993 million (2022: $35,650 million) that are presented as Due from subsidiaries in the Statements of financial position and certain off balance sheet exposures of $5,239 million (2022: $4,840 million). Change in the ECL allowance is primarily due to the increase in underlying exposures during the year.

(1) Other exposures included in other assets represent fee-related contract assets.

Note 13
Expected credit losses continued

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

	Cash and bank balances $m	Cash collateralised lending and reverse repurchase agreements $m	Margin money and settlement assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Off balance sheet exposures $m	Total $m
Balance as at 1 Apr 2021	–	–	71	6	158	1,181	130	57	1,603
Credit impairment charges/ (reversals) (Note 2)	–	–	26	2	83	103	39	(1)	252
Amount written off, previously provided for	–	–	–	–	(64)	(163)	(73)	–	(300)
Reclassifications, foreign exchange and other movements	4	8	–	(5)	(18)	(31)	–	–	(42)
Balance as at 31 Mar 2022	4	8	97	3	159	1,090	96	56	1,513
Credit impairment charges/ (reversals) (Note 2)	**(1)**	**–**	**(42)**	**1**	**25**	**343**	**(5)**	**72**	**393**
Amount written off, previously provided for	**–**	**–**	**–**	**–**	**(64)**	**(74)**	**–**	**–**	**(138)**
Reclassifications, foreign exchange and other movements	**–**	**–**	**3**	**–**	**–**	**85**	**(31)**	**6**	**63**
Balance as at 31 Mar 2023	**3**	**8**	**58**	**4**	**120**	**1,444**	**60**	**134**	**1,831**

The table below provides a reconciliation of the ECL allowance on loan assets to which the impairment requirements under AASB 9 *Financial Instruments* 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 2021	421	280	480	1,181
Transfers during the year	42	(41)	(1)	–
Credit impairment charges (Note 2)	54	48	1	103
Amount written off, previously provided for	–	–	(163)	(163)
Reclassifications, foreign exchange and other movements	(31)	(2)	2	(31)
Balance as at 31 Mar 2022	486	285	319	1,090
Transfers during the year	**(5)**	**8**	**(3)**	**–**
Credit impairment charges (Note 2)	**93**	**145**	**105**	**343**
Amount written off, previously provided for	**–**	**–**	**(74)**	**(74)**
Reclassifications, foreign exchange and other movements	**51**	**(13)**	**47**	**85**
Balance as at 31 Mar 2023	**625**	**425**	**394**	**1,444**

Note 14
Interests in associates and joint ventures

	CONSOLIDATED 2023 $m	2022 $m
Equity investments with no provisions for impairment	**3,877**	3,000
Equity investments with provisions for impairment:		
Gross carrying value[1]	**1,304**	993
Less: provisions for impairment	**(571)**	(489)
Equity investments with provisions for impairment	**733**	504
Total equity investments in associates and joint ventures[2]	**4,610**	3,504
Loans to associates and joint ventures	**1,024**	932
Less: credit impairment charges[3]	**(60)**	(63)
Total loans to associates and joint ventures	**964**	869
Total interests in associates and joint ventures[4],[5]	**5,574**	4,373

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

Principal associates

The Consolidated Entity's principal associates at the balance date are:

Associates	Carrying value 2023 $m	Carrying value 2022 $m	Ownership interest	Nature of activities	Financial reporting date
Macquarie AirFinance Limited	**868**	583	50%	Aircraft leasing	31 March

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.

During the current year, MAF committed to acquire a portfolio of aircraft which will be funded through debt and equity. As at balance date, the Consolidated Entity has an undrawn equity commitment of $374 million to MAF to fund the acquisition of the aircraft portfolio.

An assessment of impairment indicators on an aircraft-by-aircraft basis was undertaken by MAF. For aircraft with impairment indicators, recoverable value was compared to the carrying value. The recoverable value of the Consolidated Entity's investment in MAF was also considered with no adjustment made to carrying value as at balance date.

(1) Represents the carrying value after equity-accounted gains and losses, if any.
(2) Includes investments in Macquarie-managed funds of $1,597 million (2022: $1,497 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) Prior period excludes credit losses of $33 million which have been recognised in FVOCI reserve on loans to associates measured at FVOCI.
(4) Comprises $3,596 million (2022: $2,796 million) relating to interests in associates and $1,978 million (2022: $1,577 million) relating to interests in joint ventures.
(5) Financial statements of associates and joint ventures have been adjusted to align with the Consolidated Entity's reporting date, where the reporting date differs.

Note 15
Property, plant and equipment and right-of-use assets

	CONSOLIDATED 2023			CONSOLIDATED 2022		
	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m	Cost $m	Accumulated depreciation and impairment $m	Carrying value $m
Assets for own use						
Land and buildings	**879**	**(44)**	**835**	652	(38)	614
Furniture, fittings and leasehold improvements	**843**	**(614)**	**229**	899	(606)	293
Infrastructure assets and equipment	**760**	**(182)**	**578**	317	(114)	203
Total assets for own use	**2,482**	**(840)**	**1,642**	1,868	(758)	1,110
Assets under operating lease						
Meters	**2,558**	**(1,082)**	**1,476**	2,268	(904)	1,364
Aviation	**1,274**	**(217)**	**1,057**	1,024	(159)	865
Telecommunications	**1,699**	**(666)**	**1,033**	1,441	(632)	809
Equipment and other	**1,073**	**(239)**	**834**	666	(129)	537
Total assets under operating lease	**6,604**	**(2,204)**	**4,400**	5,399	(1,824)	3,575
Right-of-use assets						
Office premises	**1,050**	**(554)**	**496**	832	(428)	404
Commodity storage	**106**	**(59)**	**47**	102	(76)	26
Other	**70**	**(16)**	**54**	41	(13)	28
Total right-of-use assets	**1,226**	**(629)**	**597**	975	(517)	458
Total property, plant and equipment and right-of-use assets[(1)]	**10,312**	**(3,673)**	**6,639**	8,242	(3,099)	5,143

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

(1) Includes $5,943 million (2022: $4,683 million) related to the Consolidated Entity's integrated consolidated businesses and $696 million (2022: $460 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.

Note 15
Property, plant and equipment and right-of-use assets continued

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

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Infrastructure assets and equipment $m	Total $m
				CONSOLIDATED
Assets for own use				
Balance as at 1 Apr 2021	488	387	394	1,269
Acquisitions and additions	179	116	399	694
Disposals	(23)	(20)	(71)	(114)
Depreciation expense(1)	(7)	(81)	(45)	(133)
Impairments	–	(27)	(3)	(30)
Reclassification and other adjustments	(21)	(79)	(445)	(545)
Foreign exchange movements	(2)	(3)	(26)	(31)
Balance as at 31 Mar 2022(2)	614	293	203	1,110
Acquisitions and additions	**233**	**137**	**360**	**730**
Disposals	**–**	**(2)**	**(79)**	**(81)**
Depreciation expense(1)	**(5)**	**(53)**	**(55)**	**(113)**
Impairments	**–**	**–**	**(1)**	**(1)**
Reclassification and other adjustments	**(9)**	**(156)**	**125**	**(40)**
Foreign exchange movements	**2**	**10**	**25**	**37**
Balance as at 31 Mar 2023(2)	**835**	**229**	**578**	**1,642**

	Meters $m	Aviation $m	Telecommunications $m	Equipment and other $m	Total $m
					CONSOLIDATED
Assets under operating lease					
Balance as at 1 Apr 2021	1,370	843	132	441	2,786
Acquisitions and additions	270	55	683	213	1,221
Disposals	–	(7)	(1)	(15)	(23)
Depreciation expense	(190)	(34)	(35)	(96)	(355)
Reclassifications and other adjustments(3)	(40)	(4)	54	(4)	6
Foreign exchange movements	(46)	12	(24)	(2)	(60)
Balance as at 31 Mar 2022	1,364	865	809	537	3,575
Acquisitions and additions	**262**	**146**	**265**	**462**	**1,135**
Disposals	**–**	**(21)**	**–**	**(55)**	**(76)**
Depreciation expense	**(190)**	**(34)**	**(35)**	**(141)**	**(400)**
Impairments	**–**	**(4)**	**–**	**–**	**(4)**
Reclassifications and other adjustments(3)	**(33)**	**–**	**(51)**	**(10)**	**(94)**
Foreign exchange movements	**73**	**105**	**45**	**41**	**264**
Balance as at 31 Mar 2023	**1,476**	**1,057**	**1,033**	**834**	**4,400**

(1) Includes depreciation expense of $29 million (2022: $32 million) on infrastructure assets and equipment, and $1 million (2022: $2 million) on buildings, furniture, fittings and leasehold improvements relating to subsidiaries held for investment purposes and presented under other operating income and charges in Note 2 *Operating profit before income tax*.
(2) Includes $670 million (2022: $371 million) capital work in progress related to building construction and improvements for Martin Place Metro Project and $299 million (2022: $107 million) related to infrastructure projects.
(3) Includes $51 million loss (2022: $54 million gain) fair value hedge adjustment. Refer to Note 35 *Hedge accounting*.

Note 15
Property, plant and equipment and right-of-use assets continued

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

	Office premises $m	Commodity storage $m	Other $m	Total $m
				CONSOLIDATED
Right-of-use assets				
Balance as at 1 Apr 2021	530	51	40	621
Acquisitions and additions	62	27	75	164
Reclassifications and disposals	(31)	–	(68)	(99)
Depreciation expense[1]	(145)	(49)	(11)	(205)
Impairments	(10)	–	–	(10)
Foreign exchange movements	–	2	2	4
Others	(2)	(5)	(10)	(17)
Balance as at 31 Mar 2022	404	26	28	458
Acquisitions and additions	**216**	**38**	**31**	**285**
Reclassifications and disposals	**(12)**	**–**	**(6)**	**(18)**
Depreciation expense[1]	**(145)**	**(20)**	**(6)**	**(171)**
Impairments	**(3)**	**–**	**–**	**(3)**
Foreign exchange movements	**29**	**3**	**2**	**34**
Others	**7**	**–**	**5**	**12**
Balance as at 31 Mar 2023	**496**	**47**	**54**	**597**

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

	CONSOLIDATED 2023 $m	2022 $m
Assets under operating lease		
Within one year	**438**	276
Between one to two years	**333**	240
Between two to three years	**170**	155
Between three to four years	**103**	59
Between four to five years	**82**	41
Later than five years	**243**	134
Total future minimum lease payments receivable	**1,369**	905

(1) Includes depreciation expense of $140 million (2022: $145 million) on office premise leases presented under other operating expenses, $20 million (2022: $49 million) on assets held for trading-related business presented under net trading income and $4 million (2022: $7 million) on technology leases presented under non-salary technology expenses in Note 2 *Operating profit before income tax*.

Note 16
Intangible assets

	CONSOLIDATED 2023			CONSOLIDATED 2022		
	Cost $m	**Accumulated amortisation and impairment $m**	**Carrying value $m**	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
Intangible assets with indefinite lives						
Goodwill	**2,037**	**(33)**	**2,004**	1,900	(37)	1,863
Management rights	**308**	**–**	**308**	276	–	276
Intangible assets with definite lives						
Management rights and licenses	**1,313**	**(393)**	**920**	1,422	(255)	1,167
Customer and servicing contracts	**729**	**(308)**	**421**	626	(239)	387
Software and other intangibles	**391**	**(217)**	**174**	273	(186)	87
Total intangible assets(1)	**4,778**	**(951)**	**3,827**	4,497	(717)	3,780

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

In accordance with the Consolidated Entity's accounting policies, assets with an indefinite useful life are tested on an annual basis for impairment, and additionally, along with assets with a definite useful life, whenever an indication of impairment exists. An impairment loss is recognised for the amount by which the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal or its value-in-use. Where required, the recoverable amount is determined either with reference to external valuations or estimated using discounted cash flow techniques. In this case, estimates specific to the asset or CGU are required to be determined, including forecast cash flows, long-term growth rates and discount rates, which ranged from 10.5%–13.0%. There was no significant impairment recognised during the year.

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

	INTANGIBLE ASSETS WITH INDEFINITE LIVES		INTANGIBLE ASSETS WITH DEFINITE LIVES			
	Goodwill $m	**Management rights $m**	**Management rights and licenses $m**	**Customer and servicing contracts $m**	**Software and other intangibles $m**	**Total $m**
Balance as at 1 Apr 2021	1,321	272	353	341	256	2,543
Acquisitions(2)	1,160	–	923	172	33	2,288
Impairments	(12)	–	(19)	(6)	(10)	(47)
Amortisation(3)	–	–	(97)	(32)	(31)	(160)
Disposals and reclassifications	(628)	–	(12)	(87)	(164)	(891)
Foreign exchange movements and other adjustments	22	4	19	(1)	3	47
Balance as at 31 Mar 2022	1,863	276	1,167	387	87	3,780
Acquisitions(2)	**161**	**–**	**2**	**21**	**146**	**330**
Impairments	**(12)**	**–**	**–**	**–**	**–**	**(12)**
Amortisation(3)	**–**	**–**	**(153)**	**(44)**	**(31)**	**(228)**
Disposals and reclassifications	**(111)**	**(2)**	**(196)**	**(6)**	**(118)**	**(433)**
Foreign exchange movements and other adjustments	**103**	**34**	**100**	**63**	**90**	**390**
Balance as at 31 Mar 2023	**2,004**	**308**	**920**	**421**	**174**	**3,827**

(1) Includes $2,959 million (2022: $2,863 million) related to the Consolidated Entity's core business operations and $868 million (2022: $917 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.
(2) Includes intangible assets acquired as part of business combinations and otherwise. Refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses* for intangible assets acquired as part of business combinations.
(3) Includes amortisation of $47 million (2022: $26 million) related to the Consolidated Entity's subsidiaries held for investment purposes, presented under other operating income and charges and $181 million (2022: $134 million) under other operating expenses in Note 2 *Operating profit before income tax*.

Note 17
Investment in subsidiaries

	COMPANY	
	2023 $m	2022 $m
Investment at cost with no provisions for impairment(1)	**32,604**	32,449
Total investment in subsidiaries	**32,604**	32,449

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

The following are the Company's notable subsidiaries.

BANK GROUP	NON-BANK GROUP	
Macquarie B.H. Pty Ltd (MBHPL)	**Macquarie Financial Holdings Pty Limited (MFHPL)**	**Macquarie Asset Management Holdings Pty Limited (MAMH)**
Australia		
• Macquarie B.H. Pty Ltd • Macquarie Bank Limited • Macquarie Group Services Australia Pty Ltd • Macquarie International Finance Limited • Macquarie Offshore Services Pty Ltd • Macquarie Equities Limited • Macquarie Investment Management Ltd	• Macquarie Financial Holdings Pty Limited • Macquarie Corporate Holdings Pty Limited • Macquarie Group (US) Holdings No.1 Pty Ltd • Macquarie Securities (Australia) Limited • Macquarie Capital (Australia) Limited	• Macquarie Asset Management Holdings Pty Limited • Macquarie Investment Management Global Limited • Macquarie Investment Management Australia Limited • Macquarie Infrastructure Management (Asia) Pty Limited • Macquarie Specialised Asset Management Ltd
Asia Pacific		
• Macquarie Global Services Private Limited (India) • Macquarie Group Services (Philippines), Inc. (Philippines)	• Macquarie Capital Limited (Hong Kong)	
Europe, Middle East and Africa		
• Macquarie Bank Europe Designated Activity Company (Ireland) • Macquarie Investments 1 Limited (United Kingdom)	• Macquarie Investment Management Europe Limited (United Kingdom) • Macquarie Asset Management Europe S.à r.l. (Luxembourg) • Macquarie Capital France Société Anonyme (Reporting date 31 December) (France) • Macquarie Capital (Europe) Limited (United Kingdom) • Infinity UK Borrower 1 Limited (United Kingdom)	• Macquarie Infrastructure and Real Assets Investments Limited (United Kingdom) • Macquarie Infrastructure and Real Assets (Europe) Limited (United Kingdom)

(1) In accordance with its accounting policies, the Company reviewed its investments in subsidiaries for indicators of impairment and, where applicable, reversal of impairment. Where its investments had indicators of reversal of impairment, the investments' carrying value was compared to its recoverable value which was determined as the higher of value-in-use and fair value less cost to sell (valuation). The valuations, which are classified as Level 3 in the fair value hierarchy (as defined in Note 38 *Fair value of assets and liabilities*), have been calculated using a valuation technique with significant inputs including the subsidiary's maintainable earnings, growth rates and relevant earnings' multiples. A range of valuations of the investments in the subsidiaries, under different scenarios, were used that demonstrated that the recoverable value was either equivalent to or exceed the investments' current carrying value.

Note 17
Investment in subsidiaries continued

BANK GROUP	NON-BANK GROUP	
Macquarie B.H. Pty Ltd (MBHPL)	**Macquarie Financial Holdings Pty Limited (MFHPL)**	**Macquarie Asset Management Holdings Pty Limited (MAMH)**
Americas		
• Macquarie Energy LLC (United States) • Macquarie America Holdings Inc. (United States) • Macquarie Global Services (USA) LLC (United States) • Macquarie Futures USA LLC (United States)	• Macquarie Capital (USA) Inc. (United States) • Macquarie Infrastructure Management (USA) Inc (United States) • Macquarie Holdings (U.S.A.) Inc. (United States) • Macquarie PF Inc. (United States) • Macquarie Capital Markets Canada Ltd. (Canada) • Infinity US Borrower 1 LLC (United States) • Macquarie PF LLC (United States) • MIP III (ECI) GP LLC (United States)	• Delaware Management Company (United States) • Delaware Investments Management Company, LLC (United States) • Delaware Distributors, L.P. (United States) • Macquarie Management Holdings, Inc. (United States)

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

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

All notable subsidiaries have a 31 March reporting date, except for specific cases covered above.

Significant restrictions

During the year, the Company's subsidiaries did not experience any significant restrictions on paying dividends, accessing or using assets and settling liabilities of the Group. There are no foreseen restrictions envisaged with regard to planned dividends or payments. However, the ability of subsidiaries to pay dividends or advance monies to the Group depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

Non-controlling interest

Details of non-controlling interest are covered in Note 28 *Reserves, retained earnings and non-controlling interests*.

Note 18
Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Other assets and liabilities	**1,800**	1,444	**3**	–
Financial investments and interests in associates and joint ventures	**475**	300	**–**	–
Tax losses	**358**	211	**–**	–
Intangible assets	**283**	123	**–**	–
Property, plant and equipment	**112**	89	**–**	–
Loan assets and derivatives	**268**	65	**–**	–
Operating and finance leases	**43**	18	**–**	–
Set-off of deferred tax liabilities	**(1,542)**	(698)	**–**	–
Net deferred tax assets	**1,797**	1,552	**3**	–
Intangible assets	**(419)**	(316)	**–**	–
Operating and finance lease assets	**(359)**	(311)	**–**	–
Financial investments and interests in associates and joint ventures	**(444)**	(132)	**–**	–
Loan assets and derivatives	**(274)**	(91)	**–**	(6)
Other assets and liabilities	**(205)**	(56)	**–**	(15)
Property, plant and equipment	**(37)**	(8)	**–**	–
Set-off of deferred tax assets	**1,542**	698	**–**	–
Net deferred tax liabilities	**(196)**	(216)	**–**	(21)

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

Potential tax assets of approximately $533 million (2022: $488 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as Management do not believe that the realisation of the tax assets is probable. Included in this amount are gross losses of $57 million (2022: $68 million) that will expire within two years, $207 million (2022: $181 million) that will expire in 2–5 years, $280 million (2022: $310 million) that will expire in 5–10 years and $543 million (2022: $354 million) that will expire in 10–20 years. $1,260 million (2022: $1,180 million) of gross losses do not expire and can be carried forward indefinitely.

Note 19
Trading liabilities

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Listed equity securities	**4,770**	5,252	**–**	–
Debt securities	**40**	38	**–**	–
Total trading liabilities	**4,810**	5,290	**–**	–

Note 20
Margin money and settlement liabilities

Margin money	**17,109**	16,353	**–**	–
Security settlements	**6,408**	5,840	**–**	–
Commodity settlements	**3,965**	4,965	**–**	–
Total margin money and settlement liabilities	**27,482**	27,158	**–**	–

Note 21
Derivative liabilities

Held for trading	**29,055**	82,683	**5**	6
Designated in hedge relationships	**3,735**	1,781	**–**	–
Total derivative liabilities	**32,790**	84,464	**5**	6

Note 22
Deposits

Interest bearing deposits:				
Call	**89,917**	76,171	**–**	–
Term	**23,367**	8,566	**–**	31
Non-interest bearing deposits – repayable on demand	**21,430**	16,930	**–**	4
Total deposits	**134,714**	101,667	**–**	35

Note 23
Held for sale and other liabilities

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Held for sale liabilities				
Liabilities of disposal groups classified as held for sale	**173**	525	**–**	–
Other financial liabilities				
Creditors	**1,929**	1,943	**20**	17
Commodity-related payables	**1,371**	1,230	**–**	–
Lease liabilities	**702**	586	**–**	–
Unitholder liabilities	**–**	505	**–**	–
Total other financial liabilities	**4,002**	4,264	**20**	17
Other non-financial liabilities				
Employment-related liabilities	**4,065**	3,496	**83**	94
Provisions(1)	**1,620**	1,339	**20**	–
Income tax provision(2)	**1,087**	981	**112**	97
Accrued charges and other payables	**841**	393	**2**	2
Income received in advance	**369**	259	**–**	1
Indirect taxes payables	**138**	112	**4**	–
Other	**390**	323	**–**	–
Total other non-financial liabilities	**8,510**	6,903	**221**	194
Total other liabilities	**12,512**	11,167	**241**	211

(1) In the ordinary course of its business, the Consolidated Entity and the Company may be subject to actual and potential civil claims and regulatory enforcement actions. During the current year, these include matters in the Commonwealth of Australia, the United States of America, the United Kingdom, and the Federal Republic of Germany. The civil claims may result in settlements or damages awards. The regulatory enforcement actions may result in outcomes such as penalties, fines, disgorgement of profits and non-monetary sanctions. This amount includes provisions for such outcomes. The amount and timing of the outcomes are uncertain and may differ from the provisions recognised. Based on existing information, the range of likely outcomes, and any change in provisions during the current year, did not have and are not currently expected to have a material impact on the Consolidated Entity. The Consolidated Entity and the Company consider the risk of there being a material adverse effect in respect of claims and actions that have not been provided for to be remote.

(2) Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these and other taxation claims and litigation, including seeking external advice where appropriate, and considers that it holds appropriate provisions.

Note 24
Issued debt securities

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Bonds	**50,972**	47,843	**31,050**	24,720
Commercial paper	**23,466**	35,060	**–**	–
Securitised notes[1]	**11,424**	13,380	**–**	–
Structured notes[2],[3]	**2,413**	2,503	**1,063**	918
Certificates of deposits	**2,274**	741	**–**	–
Total issued debt securities	**90,549**	99,527	**32,113**	25,638

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

Reconciliation of issued debt securities by major currency *(In Australian dollar equivalent)*				
United States dollar	**54,396**	61,203	**21,020**	18,568
Australian dollar	**19,781**	22,354	**252**	259
Euro	**7,318**	8,395	**4,493**	3,956
Pound sterling	**2,983**	4,068	**1,478**	806
Japanese yen	**2,161**	212	**2,181**	74
Swiss franc	**1,580**	1,772	**852**	752
Singapore dollar	**609**	30	**598**	30
Chinese yuan renminbi	**509**	489	**437**	421
Others	**1,212**	1,004	**802**	772
Total issued debt securities	**90,549**	99,527	**32,113**	25,638

(1) Represents payable to note holders and debt holders for which loan assets are held by consolidated Structured Entities (SEs) and are available as security. Refer to Note 40 *Pledged assets and transfers of financial assets* for the details of assets pledged for the liabilities of the Consolidated Entity.
(2) The amount that would be contractually required to be paid at maturity to the holders of issued debt securities measured at DFVTPL for the Consolidated Entity is $3,140 million (2022: $3,245 million) and for the Company is $973 million (2022: $1,531 million). This amount is based on the final notional amount rather than the fair value. Refer to Note 37 *Measurement categories of financial instruments* for the carrying value of issued debt securities measured at DFVTPL.
(3) Consolidated Entity includes a cumulative fair value gain recognised in OCI of $49 million (2022: $16 million) and the Company includes a cumulative fair value gain recognised in OCI of $34 million (2022: $22 million) due to changes in own credit risk on issued debt securities measured at DFVTPL.

Note 25
Capital management

Capital management strategy

The Consolidated Entity's and the Company's capital management strategy is to maximise shareholder value through optimising the mix, 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 maintain sufficient capital resources to:

- support the Consolidated Entity's business and operational requirements
- safeguard interest of depositors' and the Consolidated Entity's ability to continue as a going concern
- exceed regulatory capital requirements
- support the Consolidated Entity's credit rating.

The Consolidated Entity's capital management strategy uses both internal and external measures of capital. Internally, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that 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. Externally, the Consolidated Entity is subject to minimum capital requirements imposed by the Australian Prudential Regulation Authority (APRA).

Measures of capital used to support business decision-making include:

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

Regulatory capital framework

Regulatory capital requirements are imposed and measured at three levels of consolidation within the Consolidated Entity:

- **Level 1:** MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities
- **Level 2:** MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management and non-financial operations
- **Level 3:** The Level 2 group, other bank entities excluded from Level 2 plus the Non-Bank Group. In determining the capital requirements, transactions internal to the Consolidated Entity are eliminated.

MBL, a wholly owned subsidiary of the Company, is an APRA regulated Authorised Deposit-taking Institution (ADI) and is subject to the prevailing APRA ADI Prudential Standard requirements. MBL is accredited by APRA to apply the Basel III Foundation Internal Ratings Based Approach for credit risk and the Internal Model Approach for market risk and interest rate risk in the banking book.

The Company and Consolidated Entity, as an APRA authorised and regulated Non-Operating Holding Company (NOHC), is regulated on a Level 3 basis and is required to maintain minimum regulatory capital calculated as the sum of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets (RWA) plus Tier 1 deductions per the prevailing APRA ADI Prudential Standards
- the Non-Bank Group capital requirement, per the Consolidated Entity's ECAM.

The Consolidated Entity's Level 3 eligible capital consists of ordinary equity, retained earnings, certain reserves and hybrid instruments. The overall Level 3 capital position is reported as an excess over the regulatory minimum capital adequacy requirement.

The Consolidated Entity has complied with minimum capital requirements at Level 1, Level 2 and Level 3 throughout the financial year.

Note 26
Loan capital

Subordinated debt

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

The table below highlights key capital instruments with conditional repayment obligations (Tier 1 loan capital) issued by the Consolidated Entity.

Contract feature	Macquarie Group Capital Notes	Macquarie Group Capital Notes	Macquarie Group Capital Notes
Code	MCN3	MCN4	MCN5
Issuer	Macquarie Group Limited	Macquarie Group Limited	Macquarie Group Limited
Par value	$100	$100	$100
Currency	AUD	AUD	AUD
Carrying value at reporting date	$1,000 million	$905 million	$725 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	7 June 2018	27 March 2019	17 March 2021
Interest rate	90-day BBSW plus a fixed margin of 4.00% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 4.15% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 2.90% per annum, adjusted for franking credits
Interest payment frequency	Quarterly in arrears	Quarterly in arrears	Quarterly in arrears
Interest payment	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative
Dividend stopper	Yes	Yes	Yes
Outstanding notes at reporting date	10 million	9.05 million	7.25 million
Maturity	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument
Convertible into ordinary shares	Yes	Yes	Yes
Convertible into issuer shares	MGL	MGL	MGL
Mandatory conversion date	15 December 2027	10 September 2029	18 September 2030
Maximum number of shares on conversion	43,798,178	35,439,961	24,641,304
Optional exchange dates	• 16 December 2024 • 16 June 2025 • 15 December 2025 earlier in specified circumstances at the discretion of MGL subject to APRA approval	• 10 September 2026 • 10 March 2027 • 10 September 2027 earlier in specified circumstances at the discretion of MGL subject to APRA approval	• 18 September 2027 • 18 March 2028 • 18 September 2028 earlier in specified circumstances at the discretion of MGL subject to APRA approval
Other exchange events	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)
EPS Dilution	Dilutive	Dilutive	Dilutive
Capital treatment	Eligible hybrid capital	Eligible hybrid capital	Eligible hybrid capital

(1) As at 31 March 2023, the US$750 million of MACS were held by an authorised representative for the Depository Trust Company being the common depository for the MACS global security.

Macquarie Group Capital Notes	Macquarie Additional Capital Securities	Macquarie Bank Capital Notes 2	Macquarie Bank Capital Notes 3
MCN6	MACS	BCN2	BCN3
Macquarie Group Limited	Macquarie Bank Limited	Macquarie Bank Limited	Macquarie Bank Limited
$100	n/a	$100	$100
AUD	USD	AUD	AUD
$750 million	US$750 million/($A1,064 million)	$641 million	$655 million
Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost	Financial liability at amortised cost
15 July 2022	8 March 2017	2 June 2020	27 August 2021
90-day BBSW plus a fixed margin of 3.70% per annum, adjusted for franking credits	6.125% per annum	90-day BBSW plus a fixed margin of 4.70% per annum, adjusted for franking credits	90-day BBSW plus a fixed margin of 2.90% per annum, adjusted for franking credits
Quarterly in arrears	Semi-annually in arrears	Quarterly in arrears	Quarterly in arrears
Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative	Discretionary, non-cumulative
Yes	MBL only	MBL only	MBL only
7.5 million	—[1]	6.41 million	6.55 million
Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual, redeemed subject to APRA's written approval, and at the discretion of MBL in limited circumstances	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument
Yes	Yes	Yes	Yes
MGL	MGL	MGL	MGL
12 September 2032	n/a	21 December 2028	8 September 2031
22,525,190	56,947,286	30,532,190	20,316,704
• 12 September 2029 • 12 March 2030 • 12 September 2030 earlier in specified circumstances at the discretion of MGL subject to APRA approval	No optional exchange dates	• 21 December 2025 • 21 June 2026 • 21 December 2026 earlier in specified circumstances at the discretion of MBL subject to APRA approval	• 7 September 2028 • 7 March 2029 • 7 September 2029 earlier in specified circumstances at the discretion of MBL subject to APRA approval
• acquisition date (where a party acquires control of MGL) • where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 capital ratio falls below 5.125%	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or conversion or write off, of other Relevant Tier 1 securities is necessary or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%	• acquisition date (where a party acquires control of MBL or MGL) • where APRA determines MBL would be non-viable without an exchange or conversion or write off, of other Relevant Tier 1 securities is necessary or a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%
Dilutive	n/a	Dilutive	Dilutive
Eligible hybrid capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital

Note 26
Loan capital continued

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

The table below discloses the carrying value of loan capital at the balance date. These instruments are designated in fair value hedge accounting relationships, the carrying value includes the fair value hedge adjustment (refer to Note 35 *Hedge accounting*). The contractual undiscounted cash flows are disclosed in Note 36.2 *Liquidity risk*.

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Subordinated debt with fixed repayment obligations (Tier 2 loan capital) by contractual maturity dates:				
10 June 2025	**1,075**	993	**–**	–
28 May 2030	**750**	750	**–**	–
3 June 2030	**921**	874	**–**	–
17 June 2031	**750**	750	**–**	–
7 June 2032	**849**	–	**–**	–
18 January 2033	**1,497**	–	**–**	–
3 March 2036	**1,282**	1,231	**–**	–
Instruments with conditional repayment obligations (Tier 1 loan capital):				
MCN3	**1,000**	1,000	**1,000**	1,000
MCN4	**905**	905	**905**	905
MCN5	**725**	725	**725**	725
MCN6	**750**	–	**750**	–
MACS	**1,064**	998	**–**	–
BCN2	**641**	641	**–**	–
BCN3	**655**	655	**–**	–
Accrued interest payable as per terms of instruments:				
Less than 12 months	**89**	44	**10**	4
	12,953	9,566	**3,391**	2,634
Less: directly attributable issue costs	**(62)**	(53)	**(29)**	(22)
Total loan capital	**12,891**	9,513	**3,362**	2,612

Reconciliation of loan capital by major currency *(In Australian dollar equivalent)*				
Australian dollar	**7,057**	5,436	**3,391**	2,634
United States dollar	**5,896**	4,130	**–**	–
	12,953	9,566	**3,391**	2,634
Less: directly attributable issue costs	**(62)**	(53)	**(29)**	(22)
Total loan capital	**12,891**	9,513	**3,362**	2,612

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

Note 27
Contributed equity

	Notes	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
Ordinary share capital		**14,735**	14,156	**17,200**	16,639
Treasury shares		**(2,328)**	(1,858)	**(2,328)**	(1,858)
Total contributed equity		**12,407**	12,298	**14,872**	14,781

	Notes	CONSOLIDATED Number of shares	CONSOLIDATED Total $m	COMPANY Number of shares	COMPANY Total $m
(i) Ordinary share capital[1]					
Balance as at 1 Apr 2021		361,821,377	10,164	361,821,377	12,696
Issued fully paid shares pursuant to:					
Institutional Private Placement (IPP) on 4 November 2021 @194.00 per share		7,731,958	1,500	7,731,958	1,500
Share Purchase Plan (SPP) scheme on 3 December 2021 @191.28 per share		6,677,074	1,277	6,677,074	1,277
MEREP on 9 June 2021 and 3 August 2021 @151.73 per share		4,108,915	623	4,108,915	623
DRP on 2 July 2021 @149.45 per share and 14 December 2021 @204.28 per share		3,300,005	516	3,300,005	516
Employee Share Plan (ESP) Scheme on 1 December 2021 @202.00 per share		7,552	2	7,552	2
Issued shares on retraction of exchangeable shares on 6 August 2021		756	–	756	–
For employee MEREP awards:					
Transfer from share-based payments reserve on vesting of MEREP awards	28	–	448	–	448
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	28	–	37	–	–
Transfer from treasury shares for MEREP awards exercised		–	(398)	–	(398)
Others[2]		–	(13)	–	(25)
Balance as at 31 Mar 2022		383,647,637	14,156	383,647,637	16,639
Issued fully paid shares pursuant to the DRP on 4 July 2022 @ 177.11 per share		**2,736,737**	**485**	**2,736,737**	**485**
Issued shares on retraction of exchangeable shares on 27 May 2022 and 1 June 2022		**92,380**	**–**	**92,380**	**17**
For employee MEREP awards:					
Transfer from share-based payments reserve on vesting of MEREP awards	28	**–**	**512**	**–**	**512**
Transfer of deferred tax benefit on MEREP from share-based payments reserve on vesting of MEREP awards	28	**–**	**35**	**–**	**–**
Transfer from treasury shares for MEREP awards exercised		**–**	**(453)**	**–**	**(453)**
Balance as at 31 Mar 2023		**386,476,754**	**14,735**	**386,476,754**	**17,200**

(1) Ordinary shares have no par value.
(2) Includes transaction costs and related tax, where applicable.

Note 27
Contributed equity continued

	CONSOLIDATED		COMPANY	
	Number of shares	Total $m	Number of shares	Total $m
(ii) Treasury shares[1]				
Balance as at 1 Apr 2021	(15,135,922)	(1,633)	(15,135,922)	(1,633)
Acquisition of shares for employee MEREP awards	(4,108,915)	(623)	(4,108,915)	(623)
Transfer to ordinary share capital for MEREP awards exercised	4,009,854	398	4,009,854	398
Balance as at 31 Mar 2022	(15,234,983)	(1,858)	(15,234,983)	(1,858)
Acquisition of shares for employee MEREP awards	**(5,470,493)**	**(923)**	**(5,470,493)**	**(923)**
Transfer to ordinary share capital for MEREP awards exercised	**3,981,423**	**453**	**3,981,423**	**453**
Acquisition of shares for allocation under DRP scheme	**(571,655)**	**(102)**	**–**	**–**
Allocation of shares under DRP scheme	**571,655**	**102**	**–**	**–**
Acquisition of shares for allocation under ESP scheme	**(10,975)**	**(2)**	**–**	**–**
Allocation of shares under ESP scheme	**10,975**	**2**	**–**	**–**
Balance as at 31 Mar 2023	**(16,724,053)**	**(2,328)**	**(16,724,053)**	**(2,328)**

(1) Under MEREP, a portion of staff retained profit share is held in MGL ordinary shares by the MEREP Trust and is presented as Treasury shares. The Consolidated Entity has resolved to purchase additional Treasury shares to satisfy MEREP requirements of approximately $1,033 million, commencing on 15 May 2023. Ordinary shares will be issued if purchasing becomes impractical or inadvisable. For further information regarding terms and conditions of MEREP refer to Note 32 *Employee equity participation*.

Note 28
Reserves, retained earnings and non-controlling interests

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
(i) Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**312**	306	**–**	–
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax	**1,320**	6	**–**	–
Balance at the end of the financial year	**1,632**	312	**–**	–
FVOCI reserve				
Balance at the beginning of the financial year	**16**	34	**–**	–
Revaluation movement, net of tax	**(15)**	(25)	**–**	–
Changes in ECL allowance, net of tax	**29**	7	**–**	–
Balance at the end of the financial year	**30**	16	**–**	–
Share-based payments reserve				
Balance at the beginning of the financial year	**1,424**	1,211	**1,332**	1,165
MEREP share-based payment arrangements[1]	**751**	622	**751**	622
Deferred tax on MEREP share-based payment arrangements	**(7)**	83	**1**	–
Transfer to ordinary share capital on vesting of MEREP awards	**(512)**	(448)	**(512)**	(448)
Transfer of deferred tax benefit to ordinary share capital on vesting of MEREP awards	**(35)**	(37)	**–**	–
Transfer to retained earnings for unexercised awards	**–**	(7)	**–**	(7)
Balance at the end of the financial year	**1,621**	1,424	**1,572**	1,332
Cash flow hedge reserve				
Balance at the beginning of the financial year	**(103)**	(97)	**–**	–
Revaluation movement, net of tax	**14**	(31)	**(13)**	–
Transferred to income statement on realisation, net of tax	**110**	25	**–**	–
Balance at the end of the financial year	**21**	(103)	**(13)**	–
Share of reserves in associates and joint ventures				
Balance at the beginning of the financial year	**(110)**	(153)	**–**	–
Share of other comprehensive income of associates and joint ventures, net of tax	**138**	43	**–**	–
Balance at the end of the financial year	**28**	(110)	**–**	–
Cost of hedging and other reserves				
Balance at the beginning of the financial year	**(16)**	(15)	**–**	(7)
Revaluation movement, net of tax	**(28)**	(8)	**–**	–
Transferred to income statement on realisation, net of tax	**14**	–	**–**	–
Transfer of capital reduction reserve to retained earnings	**–**	7	**–**	7
Balance at the end of the financial year	**(30)**	(16)	**–**	–
Total reserves at the end of the financial year	**3,302**	1,523	**1,559**	1,332

(1) Represents MEREP issued to employees of the Company's subsidiaries (Note 32 *Employee equity participation*).

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 28

Reserves, retained earnings and non-controlling interests continued

	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
(ii) Retained earnings				
Balance at the beginning of the financial year	**14,740**	12,231	**16,521**	17,154
Profit attributable to the ordinary equity holders of MGL	**5,182**	4,706	**2,624**	1,549
Dividends paid on ordinary share capital (Note 5)	**(2,495)**	(2,229)	**(2,478)**	(2,215)
Movement due to change in non-controlling ownership interest	**(4)**	(9)	**–**	–
Transferred from share-based payment reserve for unexercised MEREP awards	**–**	7	**–**	7
Transferred from other reserve	**–**	(7)	**–**	(7)
Remeasurement of defined benefit plans	**12**	–	**–**	–
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	**11**	41	**10**	33
Balance at the end of the financial year	**17,446**	14,740	**16,677**	16,521
(iii) Non-controlling interests				
Share capital	**1,161**	549	**–**	–
Reserves	**(51)**	(127)	**–**	–
Accumulated losses	**(159)**	(177)	**–**	–
Total non-controlling interests	**951**	245	**–**	–

Note 29

Notes to the statements of cash flows

(i) Reconciliation of cash and cash equivalents

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

	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
Cash and bank balances[(1),(2)]	**39,379**	48,389		–
Cash collateralised lending and reverse repurchase agreements	**31,149**	34,039		–
Financial investments	**6,651**	1,780		–
Held for sale assets	**35**	115		–
Cash and cash equivalents at the end of the financial year	**77,214**	84,323		–

(1) Amounts excluded from cash and cash equivalents but presented in the Statements of financial position as Cash and bank balances primarily relates to $5,317 million (2022: $3,354 million) of funds received from clients which are segregated from the Consolidated Entity's own funds and other balances of $960 million (2022: $1,011 million), not readily available to meet the Consolidated Entity's short-term cash commitments.
(2) Includes $1,461 million (2022: $944 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.

Note 29
Notes to the statements of cash flows continued

	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
(ii) Reconciliation of profit after income tax to net cash flows (utilised in)/ generated from operating activities				
Profit after income tax	**5,168**	4,953	**2,624**	1,549
Adjustments to profit after income tax:				
Depreciation and amortisation	**899**	819	**–**	–
Expected credit losses and other impairment charges	**459**	509	**15**	17
Reversal of impairment on investment in subsidiary	**–**	–	**–**	(1,896)
Investment income and gain on sale of operating lease assets and other non-financial assets	**(2,102)**	(3,257)	**–**	–
Share-based payments expense	**751**	618	**–**	–
Share of net profits of associates and joint ventures	**113**	(240)	**–**	–
Changes in assets and liabilities:				
Issued debt securities	**(15,888)**	38,526	**3,323**	12,542
Deposits	**33,032**	17,465	**(31)**	(11)
Trading and related assets, liquid investments and collateralised lending balances (net of liabilities)	**(15,484)**	7,757	**–**	–
Borrowings and other funding	**3,750**	14,834	**22**	489
Debtors, prepayments, accrued charges and creditors	**228**	1,054	**18**	–
Carrying values of associates due to dividends received	**569**	239	**–**	–
Other assets and liabilities	**(32)**	(302)	**(7)**	(2)
Tax balances	**(210)**	(156)	**(505)**	(748)
Interest, fee and commission receivable and payable	**265**	(376)	**141**	40
Assets under operating lease	**(1,042)**	(1,070)	**–**	–
Loan assets and balances with subsidiaries	**(21,856)**	(30,922)	**(3,289)**	(13,935)
Net cash flows (utilised in)/generated from operating activities	**(11,380)**	50,451	**2,311**	(1,955)

(iii) Non-cash financing activities

Non-cash transactions included the issue of ordinary shares of $nil (2022: $623 million) relating to the issue of shares to the MEREP trust under the MEREP plan and $485 million (2022: $518 million) relating to issue of shares to shareholders under the DRP and ESP for settlement of the dividend liability. Refer to Note 27 *Contributed equity* for details.

(iv) Reconciliation of loan capital

	CONSOLIDATED 2023 $m	CONSOLIDATED 2022 $m	COMPANY 2023 $m	COMPANY 2022 $m
Balance at the beginning of the financial year	**9,513**	9,423	**2,612**	2,606
Cash flows:[(1),(2)]				
Issuance	**3,078**	1,405	**739**	–
Redemption	**–**	(1,101)	**–**	–
Non-cash changes"				
Foreign currency translation and other movements	**300**	(214)	**11**	6
Balance at the end of the financial year	**12,891**	9,513	**3,362**	2,612

(1) During the year ended 31 March 2023, the Consolidated Entity issued MCN6 for $740 million and during the year ended 31 March 2022, issued BCN3 for $655 million. These are perpetual securities which are eligible for conversion into a variable number of Consolidated Entity's ordinary shares on the scheduled mandatory exchange date, provided the exchange conditions are satisfied, unless redeemed, resold or written off earlier. Refer to Note 26 *Loan capital* for details.
(2) During the year ended 31 March 2023, the Consolidated Entity raised $2,338 million (2022: $750 million) through the issue of Tier 2 loan capital and redeemed $nil (2022: $1,101 million) of Tier 2 loan capital under fixed repayment obligations.

Note 30
Related party information

Subsidiaries

Transactions between the Company and its subsidiaries principally arise from the provision and deposit of funding, derivative transactions for managing and hedging market risks, the provision of management and administration services, capital management (receipt of dividends, injections or return of capital) and the provision of guarantees. Amounts Due from and Due to subsidiaries are presented separately in the Statements of financial position of the Company except when the parties have a legally enforceable right and the intention to offset.

A list of notable subsidiaries is set out in Note 17 *Investment in subsidiaries*.

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

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

The Company, as the ultimate parent entity of the Consolidated Entity, is the head entity of the Australian tax consolidated group and has entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in Note 44(vi) *Taxation*. Due from subsidiaries in the Company's separate Statements of financial position includes the amount of current tax asset assumed by the Company as the head entity and the receivable amount assumed by the Company under the tax funding agreement of the tax consolidated group.

	COMPANY	
	2023 $'000	2022 $'000
The following represents transaction balances with subsidiaries during the financial year:		
Interest income	**1,403,250**	626,403
Interest expense	**(59,700)**	(14,650)
Fee and commission income	**12,587**	12,224
Investment income:		
Dividend (Note 2)	**2,749,000**	–
Other income[1]	**(137,670)**	(249,991)
Share based payments	**750,659**	617,301
The following represents outstanding balances and off balance sheet arrangements with subsidiaries as at the reporting date:		
On Balance Sheet		
Due from subsidiaries[2]	**48,817,719**	38,591,228
Due to subsidiaries[2]	**(5,686,232)**	(3,632,270)
Off Balance Sheet		
Guarantees provided[3]	**(5,239,240)**	(4,839,906)

(1) Includes expense charged by a subsidiary for an asset development contract which the Company recovers from external parties.
(2) Due from and due to subsidiaries balance primarily represents loans, receivables and payables presented net as per the terms of the funding arrangements under the MLA, amounts in respect of MEREP awards offered to its subsidiaries' employees, bespoke funding agreements and trading-related balances including derivatives designated in hedge accounting relationships.
(3) Includes guarantees to counterparties with respect to their exposures from certain trading subsidiaries having a notional value of $10,070,095 thousand (2022: $7,003,574 thousand) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date. Guarantee exposures reported in table above are also included under Off balance sheet exposures in Note 13 *Expected credit losses* and Note 36.1 *Credit risk*.

Note 30
Related party information continued

Associates and joint ventures

The Consolidated Entity provides a range of services to its associates and joint ventures, including the provision of corporate advisory and management services. Other dealings include lending and borrowing activities. Loans are generally extended on a term basis and, where appropriate, are either subordinated or collateralised.

Other transactions with associates and joint ventures may involve the sale of financial investments or the Consolidated Entity's interest in subsidiaries, associates or joint ventures.

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

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

	CONSOLIDATED	
	2023 $'000	2022 $'000
Interest income	**92,810**	73,291
Net fee and commission income[1]	**1,997,604**	1,737,778
Other income	**7,193**	5,876

Dividends and distributions of $576,194 thousand (2022: $235,977 thousand) received from associates and joint ventures 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 14 *Interests in associates and joint ventures*).

On Balance Sheet		
Amounts receivable[2]	**1,476,983**	1,537,047
Amounts payable	**(327,738)**	(127,685)
Off Balance Sheet		
Undrawn commitments	**(2,191,749)**	(2,660,102)
Guarantees provided	**(41,931)**	(164,067)
Other contingent liabilities	**–**	(14,523)
Letters of credit	**(49)**	–

(1) Includes $682,863 thousand (2022: $315,762 thousand) of performance fees.
(2) Includes $903,328 thousand (2022: $1,132,611 thousand) of fee and commission receivable and fee-related contract assets from Macquarie-managed funds.

Note 31
Key management personnel disclosure

Key management personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2023 and 31 March 2022, unless indicated otherwise:

Executive Voting Directors

S.R. Wikramanayake	CEO

Non-Executive Directors

G. R. Stevens AC	Chairman (became chairman effective 10 May 2022)
J.R. Broadbent AC	
P.M. Coffey	
M.A. Hinchliffe	(appointed effective 1 March 2022)
R.J. McGrath	
M. Roche	
N.M. Wakefield Evans AM	

Former Non-Executive Directors

G.M. Cairns	(retired effective 7 May 2021)
M.J. Coleman[1]	(retired from the MGL Board effective 28 July 2022)
D.J. Grady AO	(retired effective 24 February 2022)
P.H. Warne[2]	(retired effective 9 May 2022)

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MGL during the financial years ended 31 March 2023 and 31 March 2022, unless indicated otherwise.

Current Executives[3]

G.N. Bruce	GGC, Head of LGG (appointed to the Executive Committee effective from 2 March 2022)
A. Cassidy	CRO, Head of RMG (appointed to the Executive Committee effective from 1 January 2022)
S.D. Green	Macquarie Bank CEO (appointed to the Executive Committee effective from 1 July 2021)
A.H. Harvey	CFO, Head of FMG
N. O'Kane	Head of CGM
M.J. Silverton[4]	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 the Executive Committee effective from 1 April 2021)

Former Executives

F. Herold	Former 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 1 July 2021)
P.C. Upfold	Former CRO, Head of RMG (ceased to be a member of the Executive Committee effective from 31 December 2021)
D. Wong	Former Co-Head of Macquarie Capital (ceased to be a member of the Executive Committee effective from 29 October 2021)

The remuneration arrangements for all of the persons listed above are described on pages 102 to 149 of the Remuneration Report, contained in the Directors' Report.

(1) Mr Coleman retired as a Non-Executive Director of the MGL Board effective 28 July 2022. Mr Coleman remains on the MBL Board as a MBL Bank Only Non-Executive Director (BOND).
(2) Mr Warne retired as a Director and Chairman of the MGL and MBL Boards on 9 May 2022.
(3) Except where indicated otherwise, all of the Executives as well as the CEO were members of the Executive Committee as at 5 May 2023.
(4) Mr Silverton was Co-Head of Macquarie Capital until 29 October 2021. Effective 30 October 2021, Mr Silverton became Head of Macquarie Capital.

Note 31
Key management personnel disclosure continued

Key management personnel remuneration

The following tables details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including superannuation) $	Performance-related remuneration(1) $	Other benefits $	Total short-term employee benefits $	Restricted profit share including earnings on restricted profit share(2) $	Equity awards(3) $	PSUs(4) $	Total remuneration(5) $
Executive Remuneration								
2023	**7,866,921**	**48,547,000**	**-**	**56,413,921**	**23,422,937**	**54,390,369**	**16,246,507**	**150,473,734**
2022	10,084,356	44,362,399	-	54,446,755	12,977,601	47,838,814	14,202,749	129,465,919
Non-Executive Remuneration								
2023	**3,538,478**	**-**	**12,600**	**3,551,078**	**-**	**-**	**-**	**3,551,078**
2022	4,086,498	-	12,000	4,098,498	-	-	-	4,098,498

Equity holdings of KMP and their related parties

The following table sets out details of MGL ordinary shares held during the financial year by KMP including their related parties, on a Consolidated Entity basis.

	Number of shares held by current KMP as at 1 Apr	Number of shares held by new KMP at appointment date (after 1 Apr)	Shares received on withdrawal from MEREP	Other changes(6)	Number of shares held by KMP at date of resignation/ retirement (prior to 31 Mar)	Number of shares held as at 31 Mar
2023	**1,165,290**	**-**	**367,799**	**(328,829)**	**(48,509)**	**1,155,751**
2022	1,302,898	68	448,351	(348,323)	(237,704)	1,165,290

MEREP RSU Awards of KMP and their related parties

The following table sets out details of the MEREP RSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 144 to 148. Further details in relation to the MEREP RSU awards are disclosed in Note 32 *Employee equity participation*.

	Number of RSU awards held by current KMP as at 1 Apr	Number of RSU awards held by new KMP at appointment date (after 1 Apr)	RSU awards granted during the financial year(7)	Vested RSU awards transferred to the KMP's shareholding during the financial year	Number of RSU awards held by KMP at the date of resignation/ retirement (prior to 31 Mar)	Number of RSU awards held as at 31 Mar
2023	**1,554,210**	**-**	**391,213**	**(256,445)**	**-**	**1,688,978**
2022	1,749,809	92,157	318,240	(287,660)	(318,336)	1,554,210

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of the retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for equity awards calculated as described in Note 44(xxiii) *Performance based remuneration*.
(4) The current year amortisation for PSUs calculated as described in Note 44(xxiii) *Performance based remuneration*. The current year expense is reduced for previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.
(5) For KMP residing in US, their remuneration is subject to US social security and Medicare taxes, payable by Macquarie. Tax amounts of $138 thousand and $237 thousand were paid during FY2022 and FY2023, respectively, and are not included in statutory remuneration.
(6) Includes on-market acquisitions and disposals.
(7) RSUs are granted in the financial year following the year of the Company's performance to which the grant relates. RSUs disclosed as granted above for 2023 relate to the Consolidated Entity's performance in 2022.

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 31

Key management personnel disclosure continued

MEREP DSU Awards of KMP and their related parties

The following table sets out details of the MEREP DSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in Appendix 4 of the Remuneration Report, contained in the Directors' Report from pages 144 to 148. Further details in relation to the MEREP DSU awards are disclosed in Note 32 *Employee equity participation*.

	Number of DSU awards held by current KMP as at 1 Apr	Number of DSU awards held by new KMP at appointment date	DSU awards granted during the financial year[(1)]	Vested DSU awards transferred to the KMP's shareholding during the financial year	Number of DSU awards held by KMP at the date of resignation/ retirement	Number of DSU awards held as at 31 Mar
2023	**-**	**-**	**-**	**-**	**-**	**-**
2022	528,120	-	19,006	(101,612)	(445,514)	-

MEREP PSU Awards of KMP and their related parties

The following table sets out details of MEREP PSU awards held during the financial year for the KMP including their related parties, on a Consolidated Entity basis. Further details of the particulars of the grants can be found in the Directors' Report on page 144 to 148. Further details in relation to the MEREP PSU awards are disclosed in Note 32 *Employee equity participation*.

	Number of PSU awards held by current KMP at 1 Apr	Number of PSU awards held by new KMP at appointment date	PSU awards granted during the financial year[(2)]	Vested PSU awards transferred to the KMP's shareholding during the financial year	PSU awards for which performance hurdles were not met	PSU awards cancelled on termination	Number of PSU awards held by KMP at date of resignation/ retirement	Number of PSU awards held as at 31 Mar[(3)]
2023	**393,763**	**-**	**155,422**	**(110,236)**	**-**	**-**	**-**	**438,949**
2022	639,996	-	119,643	(58,470)	(68,548)	-	(238,858)	393,763

(1) DSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates.
(2) PSUs are granted in the financial year following the year of the Consolidated Entity's performance to which the grant relates. PSUs disclosed as granted above for 2023 relate to the Consolidated Entity's performance in 2022.
(3) PSU awards vested and not exercised as at 31 March 2023: nil (31 March 2022: 14,278).

Note 31
Key management personnel disclosure continued

Details of share-based payment grant dates whose vesting periods affected compensation for the financial years ended 31 March 2023 and 31 March 2022.

		GRANT DATE	
Financial year grant relates to	**Type of grant**	**Managing Director**	**All other KMP**
2015	Retained DPS	17 August 2015	6 July 2015
2016	Retained DPS	15 August 2016	17 June 2016
	PSUs	15 August 2016	15 August 2016
2017	Retained DPS	15 August 2017	22 June 2017
	PSUs	15 August 2017	15 August 2017
2018	Retained DPS	15 August 2018	21 June 2018
	PSUs	15 August 2018	15 August 2018
2019	Retained DPS	15 August 2019	24 June 2019
	PSUs	15 August 2019	15 August 2019
2020	Retained DPS	4 August 2020	9 June 2020
	PSUs	4 August 2020	4 August 2020
2021	Retained DPS	3 August 2021	9 June 2021
	PSUs	3 August 2021	3 August 2021
2022	Retained DPS	2 August 2022	21 June 2022
	PSUs	2 August 2022	2 August 2022

Loans to KMP and their related parties

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

Total for KMP and their related parties[(1)]	Opening balance as at 1 Apr $'000	Additions during the year[(2)] $'000	Interest charged $'000	Repayments during the year[(3)] $'000	Write-downs $'000	Closing balance as at 31 Mar[(4)] $'000
2023	**17,402**	**61**	**344**	**(1,577)**	**–**	**16,230**
2022	11,938	11,196	145	(5,877)	–	17,402

(1) All loans provided by Macquarie to KMP are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.
(2) Or loan held as at date of appointment of new KMP.
(3) Or loan held as at date ceased to be a KMP.
(4) Number of persons included in the aggregate as at 31 March 2023: 5 (31 March 2022: 7).

Note 32
Employee equity participation

MEREP

The Consolidated Entity continues to operate the MEREP in conjunction with other remuneration arrangements.

Award types under the MEREP

Restricted Share Units (RSUs)

An RSU is a beneficial interest in a 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	
	2023	2022
RSUs on issue at the beginning of the financial year	**11,503,940**	11,651,872
Granted during the financial year	**4,731,329**	3,443,210
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(3,252,760)**	(3,207,336)
Forfeited during the financial year	**(260,615)**	(383,806)
RSUs on issue at the end of the financial year	**12,721,894**	11,503,940
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**1,262**	25,130

The weighted average fair value of the RSU awards granted during the financial year was $165.57 (2022: $152.31).

Deferred Share Units (DSUs)

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

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

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

	NUMBER OF DSU AWARDS	
	2023	2022
DSUs on issue at the beginning of the financial year	**3,471,835**	3,512,371
Granted during the financial year	**1,379,684**	1,053,253
Exercised during the financial year	**(609,485)**	(878,592)
Forfeited during the financial year	**(63,568)**	(215,197)
DSUs on issue at the end of the financial year	**4,178,466**	3,471,835
DSUs exercisable at the end of the financial year	**1,373,742**	1,104,797

The weighted average fair value of the DSU awards granted during the financial year was $159.14 (2022: $147.15).

Note 32
Employee equity participation continued

Award types under the MEREP continued

Performance Share Units (PSUs)

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

	NUMBER OF PSU AWARDS	
	2023	2022
PSUs on issue at the beginning of the financial year	**682,751**	872,276
Granted during the financial year	**155,422**	133,838
Exercised during the financial year	**(234,130)**	(135,944)
Expired during the year	**–**	(150,230)
Forfeited during the financial year	**–**	(37,189)
PSUs on issue at the end of the financial year	**604,043**	682,751
PSUs exercisable at the end of the financial year	**12,069**	14,278

The weighted average fair value of the PSU awards granted during the financial year was $156.54 (2022: $134.04).

Restricted Shares

A Restricted Share is an MGL ordinary share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the voting rights of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

	NUMBER OF RESTRICTED SHARE AWARDS	
	2023	2022
Restricted shares on issue at the beginning of the financial year	**212,002**	360,187
Transfer from MEREP Trust during the financial year	**340,606**	101,792
Released during the financial year	**(301,400)**	(249,977)
Restricted shares on issue at the end of the financial year	**251,208**	212,002

The weighted average fair value of the Restricted Shares granted during the financial year was $nil (2022: $nil).

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

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

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 32
Employee equity participation continued

Award types under the MEREP continued

Vesting periods are as follows:

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

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 2022 retention, the allocation price was the weighted average price of the shares acquired for the 2022 purchase period, which was 16 May 2022 to 21 June 2022. That price was calculated to be $168.81 (2021 retention: $151.73).

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

Note 32
Employee equity participation continued

Performance Share Units (PSUs)

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

The hurdles are outlined below.

Performance hurdle 1

Hurdle	Reference group
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared to a reference group of global financial institutions. A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.	The current reference group comprises Bank of America Corporation, Barclays PLC, Citigroup Inc., Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.(1)

Performance hurdle 2

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

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

(1) Given the recent government-supported acquisition of Credit Suisse Group by UBS AG, Credit Suisse Group has been removed from the international reference group for PSU allocations in respect of FY2023 onwards. The BRC have approved Citigroup Inc. as a replacement, taking into account the markets in which it operates and the diversification of its business segments.

Assumptions used to determine fair value of MEREP awards

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

RSUs, DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of the 2022 performance. The accounting fair value of each of these grants is estimated using the Company's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 3.13% per annum
- expected vesting dates of PSUs: 1 July 2026
- dividend yield: 3.30% per annum.

While RSUs, DSUs and PSUs (for Executive Committee members) for FY2023 will be granted during the FY2024, the Company begins recognising an expense for these awards (based on an initial estimate) from 1 April 2022 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2023 and applying the amortisation profile to the retained amount.

For PSUs, the estimate also incorporates an interest rate to maturity of 4.24% per annum, expected vesting dates of PSUs of 1 July 2027, and a dividend yield of 3.28% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this valuation for recognising the expense over the remaining vesting period. The Consolidated Entity annually reviews its estimates of the number of awards (including those delivered through MEREP) that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the employment expenses in the income statement, with a corresponding adjustment to equity (for equity settled awards), or a corresponding adjustment to liabilities (for cash settled awards).

For the financial year ended 31 March 2023, compensation expense relating to the MEREP totalled $760,289 thousand (2022: $657,769 thousand).

For the equity settled awards, the estimated future withholding tax outflow is $534,218 thousand (2022: $529,960 thousand).

Employee Share Plan

The Consolidated Entity continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to $1,000 worth of fully paid MGL ordinary shares for no cash consideration.

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

The latest offer under the ESP was made during November 2022. A total of 2,195 (2022: 1,888) staff participated in this offer.

On 30 November 2022, the participants were each allocated 5 (2022: 4) fully paid ordinary shares based on the offer amount of $1,000 and the average market share price of $178.23 (2022: $202.00); resulting in a total of 10,975 (2022: 7,552) 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 2023, compensation expense relating to the ESP totalled $1,968 thousand (2022: $1,526 thousand).

Historical Share and Option Plans

Shares are no longer being issued under the Staff Share Acquisition Plan or the Non-Executive Director Share Acquisition Plan. However, employees and Non-Executive Directors still hold shares issued in previous years.

Options over fully paid unissued ordinary shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

Other plans

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

Shares purchased on-market/issued for the purpose of an employee incentive scheme

During the financial year ended 31 March 2023, the Consolidated Entity purchased 3,600,455 shares on-market and 1,870,038 shares via off-market transfer from its employees during the Staff Trading window (2022: issued 4,108,915 shares) for MEREP. A further 10,975 shares were purchased on-market for the ESP (2022: 7,552 shares were issued). The average price of all shares purchased during the financial year was $168.83 (2022: $151.82 for shares issued) and the average price of the purchases made on-market was $162.70 (2022: $nil).

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

Note 33
Contingent liabilities and commitments

	CONSOLIDATED		COMPANY	
	2023 $m	2022 $m	**2023 $m**	2022 $m
Credit commitments				
Letters of credit and guarantees[1]	**2,057**	1,836	**5,239**	4,840
Undrawn credit facilities and debt commitments[2],[3]	**26,703**	27,650	**–**	–
Total credit commitments	**28,760**	29,486	**5,239**	4,840
Other contingencies and commitments				
Equity investment commitments	**2,531**	2,640	**–**	–
Asset development and purchase commitments[4]	**2,358**	2,449	**1,225**	1,474
Performance-related contingencies	**469**	459	**–**	–
Total other contingencies and commitments	**5,358**	5,548	**1,225**	1,474
Total contingent liabilities and commitments	**34,118**	35,034	**6,464**	6,314

(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 include fully or partially undrawn commitments against which clients can borrow money under defined terms and conditions. During the financial year, the Consolidated Entity has updated its accounting policy regarding its undrawn commitments for certain retail banking products which despite being revocable are considered to be exposed to credit risk. The gross exposure of these undrawn commitments is $13,723 million (2022: 14,643 million) and is disclosed under undrawn credit facilities and debt commitments in the current period and comparative information has been represented.
(3) Includes $1,066 million (2022: $1,064 million) in undrawn facilities wherein loan positions will be sold to a third-party once drawn.
(4) Includes asset development commitments to third parties of $1,225 million (2022: $1,474 million) for which the Consolidated Entity and the Company have entered into sales agreement to divest off certain assets upon completion of their development.

Note 34
Structured entities

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

The Consolidated Entity engages with SEs for securitisation, asset-backed financing and structured financing arrangements in order to diversify its sources of funding for asset origination and capital efficiency purposes. The Consolidated Entity also engages with SEs when providing investment management and other fiduciary activities. The Consolidated Entity's involvement with SEs is primarily of the following nature.

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

Note 34
Structured entities continued

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

	CONSOLIDATED 2023				CONSOLIDATED 2022			
	Securitisations $m	Asset-backed financing $m	Structured Financing and other arrangements[2] $m	Total $m	Securitisations $m	Asset-backed financing $m	Structured Financing and other arrangements[2] $m	Total $m
Maximum exposure to loss								
Carrying value of assets:								
Loan assets	1,145	1,895	3,869	6,909	1,832	1,788	3,617	7,237
Financial investments	2,904	–	–	2,904	1,976	8	–	1,984
Margin money and settlement assets	251	–	–	251	593	–	–	593
Derivative assets	229	–	–	229	299	–	–	299
Trading assets	132	4	–	136	64	14	–	78
Total carrying value of assets[1]	4,661	1,899	3,869	10,429	4,764	1,810	3,617	10,191
Undrawn commitments[2]	12	193	276	481	30	50	266	346
Total maximum exposure to loss	4,673	2,092	4,145	10,910	4,794	1,860	3,883	10,537

Additionally, as part of its funds management and administration activities the Consolidated Entity has interests in certain funds including investments, receivables, contract assets; and undrawn commitments which represent the Consolidated Entity's maximum exposure to loss. In certain cases the Consolidated Entity invests alongside its own managed funds to demonstrate further alignment with investors. The carrying value of the Consolidated Entity's investments in funds is disclosed in Note 14 *Interests in associates and joint ventures*. Interests in the nature of receivables, contract assets and undrawn commitments are disclosed in Note 30 *Related party information* and Note 11 *Held for sale and other assets*.

The Assets Under Management (AUM) of $871 billion (2022: $793 billion) represent the indicative size of these funds and is measured as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises on. Private Markets AUM includes equity yet to deploy.

In respect of the Consolidated Entity's loan assets' exposure in securitisation, asset-backed financing entities and structured financing, the total size of the unconsolidated SEs is $44,114 million (2022: $54,951 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the latest available information with the Consolidated Entity.

The Consolidated Entity's exposure to securitisation entities in the nature of trading assets, margin money, derivatives and financial investments are acquired for the purpose of trading and liquidity management. These exposures are typically managed under market risk limits described in Note 36.3 *Market risk*. For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and have not been presented in the table above.

(1) Includes non-investment grade interests of $544 million (2022: $721 million) in securitisation activities, $1,267 million (2022: $1,250 million) in asset-backed financing activities and $474 million (2022: $450 million) in Structured Financing and other arrangements.
(2) Excludes $3,074 million (2022: $2,835 million) of guarantees provided by the Company in respect of a subsidiary to fulfil its obligations for certain prepaid commodity contracts towards unconsolidated structured entities. On consolidation these guarantees are accounted for as part of borrowings that represent the subsidiary obligations in terms of these commodity contracts.

Note 35
Hedge accounting

Hedging strategy

The use of derivative and non-derivative instruments to economically hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and non-derivative instruments and the related exposure. The Consolidated Entity's objective is to reduce the risk of volatility in earnings, 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.

Hedging ineffectiveness

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

Note 35
Hedge accounting continued

Cash flow hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 28(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statements of comprehensive income. The cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur is $2 million gain (2022: $1 million gain) for the Consolidated Entity and $nil (2022: $nil) for the Company. This amount will be transferred to the income statement when the hedged item affects the income statement.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						CONSOLIDATED 2023
Derivative assets						
Cross currency swaps	Foreign exchange	**(8)**	**832**	**1,828**	**2,811**	**5,463**
Interest rate swaps and options	Interest rate	**145**	**544**	**1,771**	**1,037**	**3,497**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**–**	**143**	**143**	**286**
Interest rate swaps and options	Interest rate	**123**	**1,026**	**3,292**	**354**	**4,795**
Commodity forwards and futures	Commodity price	**8**	**20**	**142**	**114**	**284**
Borrowings						
Foreign currency denominated borrowings	Foreign exchange	**–**	**–**	**254**	**–**	**254**
						CONSOLIDATED 2022
Derivative assets						
Cross currency swaps	Foreign exchange	(14)	308	1,043	574	1,911
Interest rate swaps and options	Interest rate	211	1,231	2,055	452	3,949
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	152	885	1,037
Interest rate swaps and options	Interest rate	468	399	2,377	445	3,689
Commodity forwards and futures	Commodity price	3	19	274	338	634

		CONSOLIDATED CARRYING AMOUNT			
		2023		2022	
Instrument type	Risk category	Asset $m	Liability $m	Asset $m	Liability $m
Cross currency swaps	Foreign exchange	**612**	**49**	190	53
Interest rate swaps and options	Interest rate	**204**	**191**	96	114
Commodity forwards and futures	Commodity price	**–**	**15**	–	102
Foreign currency denominated borrowings	Foreign exchange	**–**	**188**	–	–

Note 35
Hedge accounting continued

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						COMPANY 2023
Derivative liabilities						
Interest rate swaps	Interest rate	**52**	**157**	**716**	**–**	**925**

		COMPANY CARRYING AMOUNT			
		2023		2022	
Instrument type	Risk category	**Asset $m**	**Liability $m**	Asset $m	Liability $m
Interest rate swaps	Interest rate	**–**	**19**	–	–

Note 35
Hedge accounting continued

Hedge ineffectiveness

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

		GAIN/(LOSS) ON HEDGING INSTRUMENT		GAIN/(LOSS) ON HEDGED ITEM		HEDGE INEFFECTIVENESS GAIN/(LOSS)	
Hedging instrument	Risk category	**2023 $m**	2022 $m	**2023 $m**	2022 $m	**2023 $m**	2022 $m
							CONSOLIDATED
Cross currency swaps	Foreign exchange	**19**	12	**(16)**	(12)	**3**	–
Foreign currency denominated borrowings	Foreign exchange	**(9)**	–	**9**	–	**–**	–
Interest rate swaps and options	Interest rate	**44**	24	**(49)**	(28)	**(5)**	(4)
Commodity forwards and futures	Commodity price	**88**	(88)	**(88)**	87	**–**	(1)
Total		**142**	(52)	**(144)**	47	**(2)**	(5)
							COMPANY
Interest rate swaps	Interest rate	**(19)**	–	**19**	–	**–**	–
Total		**(19)**	–	**19**	–	**–**	–

Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments designated in cash flow hedges, which represent the contractual rates when the hedging instruments were traded.

		CONSOLIDATED		COMPANY	
Hedging instruments	Currency pair/currency	**2023**	2022	**2023**	2022
Cross currency swaps	AUD/EUR	**0.68**	0.68	**–**	–
	USD/GBP	**0.66**	0.66	**–**	–
	AUD/CHF	**0.66–0.72**	0.66–0.72	**–**	–
	GBP/CHF	**1.46**	1.46	**–**	–
	AUD/NOK	**5.88–6.31**	–	**–**	–
	AUD/JPY	**92.93–94.21**	–	**–**	–
Interest rate swaps	GBP	**0.97%–3.48%**	0.97%–2.49%	**–**	–
	USD	**0.99%–3.57%**	0.99%–2.42%	**2.90%**	–
	AUD	**3.64%–4.07%**	–	**–**	–

Note 35
Hedge accounting continued

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives, foreign denominated borrowings and other balance sheet items. Refer to Note 36 *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 recognised, together with the related foreign currency translation reserve, in the Consolidated Entity's other comprehensive income and is subsequently released to the income statement when the foreign operation is disposed of. Hedge ineffectiveness, if any is recognised in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Foreign exchange contracts and other foreign currency denominated balance sheet items(1)	Foreign exchange	**989**	153	**128**	55
Foreign currency denominated borrowings	Foreign exchange	**–**	–	**22,282**	18,371

		CONSOLIDATED NOTIONAL			
		ASSET		LIABILITY	
Hedging instrument	Risk category	**2023 $m**	2022 $m	**2023 $m**	2022 $m
Foreign exchange contracts and other foreign currency denominated balance sheet items(1)	Foreign exchange	**4,437**	4,148	**2,966**	1,913
Foreign currency denominated borrowings	Foreign exchange	**–**	–	**22,155**	18,512

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 $29,558 million (2022: $24,573 million) represents the notional of both the derivative hedging instrument and the foreign denominated issued debt and hence exceeds the $23,001 million (2022: $18,543 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 (2022: $nil).

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

Note 35
Hedge accounting continued

Fair value hedges

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

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						CONSOLIDATED 2023
Derivative assets						
Interest rate swaps	Interest rate	**244**	**1,790**	**2,147**	**2,300**	**6,481**
Commodity forwards and futures	Commodity price	**–**	**35**	**688**	**–**	**723**
Foreign exchange forwards and swaps	Foreign exchange	**27**	**41**	**369**	**–**	**437**
Derivative liabilities						
Cross currency swaps	Interest rate	**–**	**491**	**143**	**330**	**964**
Interest rate swaps	Interest rate	**26**	**2,506**	**22,694**	**16,802**	**42,028**
Commodity forwards and futures	Commodity price	**27**	**42**	**605**	**–**	**674**
Foreign exchange forwards and swaps	Foreign exchange	**–**	**36**	**929**	**–**	**965**
						CONSOLIDATED 2022
Derivative assets						
Cross currency swaps	Interest rate	–	326	–	–	326
Interest rate swaps	Interest rate	176	4,299	3,370	3,132	10,977
Foreign exchange forwards and swaps	Foreign exchange	–	–	856	–	856
Derivative liabilities						
Cross currency swaps	Interest rate	–	–	586	226	812
Interest rate swaps	Interest rate	646	1,508	13,285	13,261	28,700
Commodity forwards and futures	Commodity price	–	–	856	–	856

		CONSOLIDATED CARRYING AMOUNT			
		2023		2022	
Instrument type	Risk category	**Asset $m**	**Liability $m**	Asset $m	Liability $m
Cross currency swaps	Interest rate	**–**	**26**	4	11
Interest rate swaps	Interest rate	**158**	**3,219**	227	1,363
Commodity forwards and futures	Commodity price	**17**	**41**	–	83
Foreign exchange forwards and swaps	Foreign exchange	**10**	**67**	4	–

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 35
Hedge accounting continued

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the following table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is $8 million gain (2022: $5 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.

	CONSOLIDATED 2023		CONSOLIDATED 2022	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**1,996**	**-**	365	(1)
Loan assets	**227**	**(67)**	3,154	(69)
Property, plant and equipment	**970**	**3**	712	54
Liabilities				
Issued debt securities	**38,921**	**2,881**	31,690	1,067
Loan capital	**4,841**	**523**	4,097	243

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.

		(LOSS)/GAIN ON HEDGING INSTRUMENT		GAIN/(LOSS) ON HEDGED ITEM		HEDGE INEFFECTIVENESS GAIN/(LOSS)	
Hedging instrument	Risk category	2023 $m	2022 $m	2023 $m	2022 $m	2023 $m	2022 $m
							CONSOLIDATED
Cross currency swaps	Interest rate	**(47)**	(25)	**47**	25	**-**	-
Interest rate swaps	Interest rate	**(2,052)**	(1,774)	**2,061**	1,802	**9**	28
Commodity forwards and futures	Commodity price	**101**	(48)	**(101)**	48	**-**	-
Foreign exchange forwards and swaps	Foreign exchange	**(50)**	(5)	**50**	5	**-**	-
Total		**(2,048)**	(1,852)	**2,057**	1,880	**9**	28

(1) The carrying amounts in the table above exclude accrued interest and include fair value hedge adjustments.
(2) The carrying amount includes debt instruments classified at fair value through other comprehensive income. Where this applies the fair value hedge adjustment for interest rate risk is recognised in the income statement together with changes in the fair value of the hedging instrument.

Note 36
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, equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks.

The primary responsibility for risk management lies with the business. An important part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately.

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

Note 36.1 Credit risk

Credit risk is the risk that a counterparty will fail to complete its contractual obligations when they fall due. The consequential loss is 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. Derivative exposures are measured using high confidence potential future underlying asset prices.

To mitigate credit risk, where appropriate, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit and the purchase of credit default swaps).

Ratings and reviews

Refer to Note 13 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

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

Wholesale rating

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

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

Retail rating

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

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

Due from subsidiaries

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

Portfolio and country risk

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

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

During the financial year, the Consolidated Entity has made changes to the presentation of certain balances under credit quality of financial assets and credit risk concentration sections of Note 36.1 *Credit risk* and has restated comparative information to conform to changes in the current year. Refer to Note 44(xxx) *Comparatives* for the details on these changes.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *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
				CONSOLIDATED 2023
Investment grade				
Cash and bank balances	45,402	–	–	45,402
Cash collateralised lending and reverse repurchase agreements	41,189	–	–	41,189
Margin money and settlement assets	20,705	–	–	20,705
Financial investments	18,941	–	–	18,941
Held for sale and other assets	4,030	–	–	4,030
Loan assets	60,538	1,655	–	62,193
Off balance sheet exposures	10,395	75	–	10,470
Total investment grade	**201,200**	**1,730**	**–**	**202,930**
Non-investment grade				
Cash and bank balances	257	–	–	257
Cash collateralised lending and reverse repurchase agreements	8,090	–	–	8,090
Margin money and settlement assets	3,991	1	–	3,992
Financial investments	49	–	–	49
Held for sale and other assets	1,474	10	–	1,484
Loan assets	76,450	18,270	–	94,720
Loans to associates and joint ventures	21	459	–	480
Off balance sheet exposures	17,644	492	–	18,136
Total non-investment grade	**107,976**	**19,232**	**–**	**127,208**
Default				
Cash collateralised lending and reverse repurchase agreements	–	–	87	87
Margin money and settlement assets	–	–	41	41
Held for sale and other assets	–	–	63	63
Loan assets	–	–	2,025	2,025
Off balance sheet exposures	–	–	154	154
Total default	**–**	**–**	**2,370**	**2,370**
Total gross credit risk	**309,176**	**20,962**	**2,370**	**332,508**

(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. Accordingly, these exposures will not be equal to the amount as presented in the Statements of financial position.
(2) For definitions of Stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to Stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the Stage III assets includes the benefit of collateral and other credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Stage I[1] $m	Stage II[1] $m	Stage III[1] $m	Total $m
				CONSOLIDATED 2023
Total gross credit risk by ECL stage				
Cash and bank balances	45,659	-	-	45,659
Cash collateralised lending and reverse repurchase agreements	49,279	-	87	49,366
Margin money and settlement assets	24,696	1	41	24,738
Financial investments	18,990	-	-	18,990
Held for sale and other assets	5,504	10	63	5,577
Loan assets	136,988	19,925	2,025	158,938
Loans to associates and joint ventures	21	459	-	480
Off balance sheet exposures	28,039	567	154	28,760
Total gross credit risk ECL by stage	**309,176**	**20,962**	**2,370**	**332,508**

Further analysis of credit risk for loan assets, being the Consolidated Entity's most material credit exposure category, is presented below.

				OF WHICH PAST DUE				
	Investment grade $m	Non-investment grade $m	Total other than default $m	Up to 30 days $m	31 to <90 days $m	Total past due but not default $m	Default $m	Total $m
								CONSOLIDATED 2023
Home loans[2]	54,633	59,831	114,464	826	273	1,099	734	115,198
Asset financing	658	6,175	6,833	256	47	303	238	7,071
Corporate, commercial and other lending	6,902	28,714	35,616	42	22	64	1,053	36,669
Total[3]	**62,193**	**94,720**	**156,913**	**1,124**	**342**	**1,466**	**2,025**	**158,938**

(1) For definitions of Stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to Stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the Stage III assets includes the benefit of collateral and other credit enhancements.
(2) Includes $7,111 million home loans for which insurance has been obtained from Lenders Mortgage Insurance (LMI) counterparties and another $24,400 million home loans where the Consolidated Entity has bought risk protection from a panel of companies via an excess of loss structure. Refer to collateral and credit enhancements section of Note 36.1 *Credit risk* for further details.
(3) The credit quality is based on the counterparties credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount[1] of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9 *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
				CONSOLIDATED 2022
Investment grade				
Cash and bank balances	52,594	–	–	52,594
Cash collateralised lending and reverse repurchase agreements	41,036	–	–	41,036
Margin money and settlement assets	20,228	–	–	20,228
Financial investments	9,741	–	–	9,741
Held for sale and other assets	3,173	–	–	3,173
Loan assets	50,852	1,148	–	52,000
Off balance sheet exposures	11,873	4	–	11,877
Total investment grade	189,497	1,152	–	190,649
Non-investment grade				
Cash and bank balances	160	–	–	160
Cash collateralised lending and reverse repurchase agreements	5,991	–	–	5,991
Margin money and settlement assets	4,410	5	–	4,415
Financial investments	204	–	–	204
Held for sale and other assets	1,527	60	–	1,587
Loan assets	68,029	13,607	–	81,636
Loans to associates and joint ventures	160	412	–	572
Off balance sheet exposures	17,139	427	–	17,566
Total non-investment grade	97,620	14,511	–	122,131
Default				
Margin money and settlement assets	–	–	38	38
Held for sale and other assets	–	–	157	157
Loan assets	–	–	1,669	1,669
Loans to associates and joint ventures	–	–	77	77
Off balance sheet exposures	–	–	43	43
Total default	–	–	1,984	1,984
Total gross credit risk	287,117	15,663	1,984	304,764

(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 Statements of financial position.
(2) For definitions of Stage I, II and III, refer to Note 13 *Expected credit losses*. Whilst exposures may have migrated to Stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the Stage III assets includes the benefit of collateral and other credit enhancements.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Stage I[(1)] $m	Stage II[(1)] $m	Stage III[(1)] $m	Total $m
				CONSOLIDATED 2022
Total gross credit risk by ECL stage				
Cash and bank balances	52,754	–	–	52,754
Cash collateralised lending and reverse repurchase agreements	47,027	–	–	47,027
Margin money and settlement assets	24,638	5	38	24,681
Financial investments	9,945	–	–	9,945
Held for sale and other assets	4,700	60	157	4,917
Loan assets	118,881	14,755	1,669	135,305
Loans to associates and joint ventures	160	412	77	649
Off balance sheet exposures	29,012	431	43	29,486
Total gross credit risk ECL by stage	287,117	15,663	1,984	304,764

Further analysis of credit risk for loan assets being the Consolidated Entity's most material credit exposure is presented below.

				OF WHICH PAST DUE				
	Investment grade $m	Non-investment grade $m	Total other than default $m	Up to 30 days $m	31 to <90 days $m	Total past due but not default $m	Default $m	Total $m
								CONSOLIDATED 2022
Home loans[(2)]	44,440	49,934	94,374	491	233	724	569	94,943
Asset financing	911	9,115	10,026	238	73	311	311	10,337
Corporate, commercial and other lending	6,649	22,587	29,236	29	7	36	789	30,025
Total[(3)]	52,000	81,636	133,636	758	313	1,071	1,669	135,305

(1) For definitions of Stage I, II and III, refer to Note 44(xxii) *Significant accounting policies*. Whilst exposures may have migrated to Stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the Stage III assets includes the benefit of collateral and other credit enhancements.
(2) Includes $9,350 million home loans for which insurance has been obtained from Lenders Mortgage Insurance (LMI) counterparties and another $32,016 million home loans where the Consolidated Entity has bought risk protection from a panel of companies via an excess of loss structure. Refer to collateral and credit enhancements section of Note 36.1 *Credit risk* for further details.
(3) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

The following table below discloses, by credit rating grades, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of AASB 9 *Financial Instruments*. The credit quality is based on the rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis.

	COMPANY 2023		COMPANY 2022	
	Stage I $m	**Total $m**	Stage I $m	Total $m
Investment grade				
Due from subsidiaries	**44,993**	**44,993**	35,650	35,650
Off balance sheet exposures[1]	**5,239**	**5,239**	4,840	4,840
Total investment grade	**50,232**	**50,232**	40,490	40,490
Financial assets by ECL stage				
Due from subsidiaries	**44,993**	**44,993**	35,650	35,650
Off balance sheet exposures[1]	**5,239**	**5,239**	4,840	4,840
Financial assets by ECL stage	**50,232**	**50,232**	40,490	40,490

(1) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $10,071 million (2022: $7,004 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Credit risk concentration

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

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2023
Australia				
Cash and bank balances	–	33,049	2	33,051
Cash collateralised lending and reverse repurchase agreements	–	7,719	–	7,719
Margin money and settlement assets	329	2,634	1,260	4,223
Financial investments	5,296	9,512	–	14,808
Held for sale and other assets	25	264	881	1,170
Loan assets[(1)]	36	2,992	131,842	134,870
Loans to associates and joint ventures	–	–	2	2
Off balance sheet exposures	28	313	20,273	20,614
Total Australia	5,714	56,483	154,260	216,457
Asia Pacific				
Cash and bank balances	–	2,081	1	2,082
Cash collateralised lending and reverse repurchase agreements	–	3,774	–	3,774
Margin money and settlement assets	133	2,954	424	3,511
Financial investments	–	220	5	225
Held for sale and other assets	2	94	257	353
Loan assets	–	111	370	481
Off balance sheet exposures	–	–	46	46
Total Asia Pacific	135	9,234	1,103	10,472
Europe, Middle East and Africa				
Cash and bank balances	–	6,048	–	6,048
Cash collateralised lending and reverse repurchase agreements	–	20,743	–	20,743
Margin money and settlement assets	41	1,833	10,088	11,962
Financial investments	2,315	318	–	2,633
Held for sale and other assets	163	394	1,631	2,188
Loan assets	–	1,227	8,361	9,588
Loans to associates and joint ventures	–	406	72	478
Off balance sheet exposures	30	62	2,340	2,432
Total Europe, Middle East and Africa	2,549	31,031	22,492	56,072

(1) Loan assets in the Australia region includes home loans of $114,020 million, asset financing of $6,427 million and corporate, commercial and other lending of $14,423 million.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2023
Americas				
Cash and bank balances	–	4,478	–	4,478
Cash collateralised lending and reverse repurchase agreements	–	17,130	–	17,130
Margin money and settlement assets	37	1,617	3,388	5,042
Financial investments	1,118	206	–	1,324
Held for sale and other assets	3	1,457	406	1,866
Loan assets	136	4,195	9,668	13,999
Off balance sheet exposures	–	397	5,271	5,668
Total Americas	**1,294**	**29,480**	**18,733**	**49,507**
Total gross credit risk[1]	**9,692**	**126,228**	**196,588**	**332,508**

(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 Statements of financial position.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2022
Australia				
Cash and bank balances	–	40,865	–	40,865
Cash collateralised lending and reverse repurchase agreements	–	4,379	–	4,379
Margin money and settlement assets	39	1,778	1,054	2,871
Financial investments	2,323	4,457	–	6,780
Held for sale and other assets	15	169	1,109	1,293
Loan assets[(1)]	35	3,469	113,505	117,009
Loans to associates and joint ventures	–	–	1	1
Off balance sheet exposures	29	463	19,351	19,843
Total Australia	2,441	55,580	135,020	193,041
Asia Pacific				
Cash and bank balances	–	1,483	1	1,484
Cash collateralised lending and reverse repurchase agreements	–	3,232	–	3,232
Margin money and settlement assets	12	1,836	749	2,597
Financial investments	154	79	–	233
Held for sale and other assets	–	34	211	245
Loan assets	–	179	289	468
Off balance sheet exposures	5	12	56	73
Total Asia Pacific	171	6,855	1,306	8,332
Europe, Middle East and Africa				
Cash and bank balances	–	5,602	–	5,602
Cash collateralised lending and reverse repurchase agreements	–	26,814	–	26,814
Margin money and settlement assets	20	3,018	10,599	13,637
Financial investments	9	228	–	237
Held for sale and other assets	–	605	1,576	2,181
Loan assets	–	1,563	5,169	6,732
Loans to associates and joint ventures	–	–	412	412
Off balance sheet exposures	–	75	1,551	1,626
Total Europe, Middle East and Africa	29	37,905	19,307	57,241

(1) Loan assets in the Australia region includes home loans of $94,447 million, asset financing of $9,373 million and corporate, commercial and other lending of $13,189 million.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2022
Americas				
Cash and bank balances	–	4,803	–	4,803
Cash collateralised lending and reverse repurchase agreements	–	12,602	–	12,602
Margin money and settlement assets	45	2,244	3,287	5,576
Financial investments	2,684	11	–	2,695
Held for sale and other assets	2	675	521	1,198
Loan assets	119	3,676	7,301	11,096
Loans to associates and joint ventures	–	–	236	236
Off balance sheet exposures	21	327	7,596	7,944
Total Americas	2,871	24,338	18,941	46,150
Total gross credit risk[1]	5,512	124,678	174,574	304,764

(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 Statements of financial position.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	Due from subsidiaries(1) $m	Off balance sheet exposures(2) $m	Total $m
			COMPANY 2023
Australia			
Financial institutions	**41,233**	**197**	**41,430**
Other	**3,758**	**122**	**3,880**
Total Australia	**44,991**	**319**	**45,310**
Asia Pacific			
Financial institutions	**1**	**–**	**1**
Other	**1**	**239**	**240**
Total Asia Pacific	**2**	**239**	**241**
Europe, Middle East and Africa			
Other	**–**	**205**	**205**
Total Europe, Middle East and Africa	**–**	**205**	**205**
Americas			
Financial institutions	**–**	**213**	**213**
Other	**–**	**4,263**	**4,263**
Total Americas	**–**	**4,475**	**4,475**
Total gross credit risk	**44,993**	**5,239**	**50,232**
			COMPANY 2022
Australia			
Financial institutions	32,120	174	32,294
Other	3,527	133	3,660
Total Australia	35,647	307	35,954
Asia Pacific			
Financial institutions	–	168	168
Other	2	175	177
Total Asia Pacific	2	343	345
Europe, Middle East and Africa			
Financial institutions	–	332	332
Total Europe, Middle East and Africa	–	332	332
Americas			
Financial institutions	1	3,819	3,820
Other	–	40	40
Total Americas	1	3,859	3,860
Total gross credit risk	35,650	4,841	40,491

(1) Due from subsidiaries have been presented as Financial Institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(2) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $10,071 million (2022: $7,004 million) with the amount disclosed in the table above being the component of that guarantee value equivalent to the fair value of the underlying risk position at the reporting date.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 *Financial Instruments* since they are measured at fair value through profit and loss. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the table below.

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2023
Australia				
Cash collateralised lending and reverse repurchase agreements	–	462	–	462
Trading assets	988	127	5	1,120
Derivative assets	2	742	2,218	2,962
Held for sale and other assets	–	–	45	45
Loan assets	–	50	91	141
Total Australia	990	1,381	2,359	4,730
Asia Pacific				
Cash collateralised lending and reverse repurchase agreements	–	666	–	666
Trading assets	43	14	560	617
Margin money and settlement assets	–	–	2	2
Derivative assets	38	1,687	1,049	2,774
Financial investments	–	39	8	47
Held for sale and other assets	–	–	600	600
Loan assets	–	–	3	3
Loans to associates and joint ventures	–	–	161	161
Total Asia Pacific	81	2,406	2,383	4,870
Europe, Middle East and Africa				
Cash collateralised lending and reverse repurchase agreements	–	1,441	–	1,441
Trading assets	–	10	2,039	2,049
Derivative assets	–	6,737	13,775	20,512
Financial investments	–	57	–	57
Held for sale and other assets	–	–	979	979
Loan assets	–	46	505	551
Loans to associates and joint ventures	–	137	173	310
Total Europe, Middle East and Africa	–	8,428	17,471	25,899
Americas				
Cash collateralised lending and reverse repurchase agreements	–	2,394	–	2,394
Trading assets	1,044	11	1,803	2,858
Margin money and settlement assets	1	–	573	574
Derivative assets	46	7,226	3,150	10,422
Financial investments	–	419	198	617
Held for sale and other assets	–	4	836	840
Loan assets	–	96	319	415
Loans to associates and joint ventures	–	–	73	73
Total Americas	1,091	10,150	6,952	18,193
Total gross credit risk	2,162	22,365	29,165	53,692

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 *Financial Instruments* since they are measured at fair value through profit and loss. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the table below.

	Governments $m	Financial Institutions $m	Other $m	Total $m
				CONSOLIDATED 2022
Australia				
Trading assets	2	390	948	1,340
Derivative assets	5	1,806	1,863	3,674
Held for sale and other assets	–	–	76	76
Loan assets	–	91	61	152
Margin money and settlement assets	–	–	1	1
Loans to associates and joint ventures	–	–	3	3
Total Australia	7	2,287	2,952	5,246
Asia Pacific				
Cash collateralised lending and reverse repurchase agreements	–	1	–	1
Trading assets	124	366	4,091	4,581
Margin money and settlement assets	–	–	5	5
Derivative assets	86	5,212	3,033	8,331
Financial investments	–	10	6	16
Held for sale and other assets	–	–	302	302
Loan assets	–	–	24	24
Loans to associates and joint ventures	–	–	61	61
Total Asia Pacific	210	5,589	7,522	13,321
Europe, Middle East and Africa				
Cash collateralised lending and reverse repurchase agreements	–	2,805	–	2,805
Trading assets	11	102	2,849	2,962
Derivative assets	–	12,172	41,946	54,118
Financial investments	–	55	1	56
Held for sale and other assets	–	–	495	495
Loan assets	–	32	146	178
Loans to associates and joint ventures	–	145	98	243
Total Europe, Middle East and Africa	11	15,311	45,535	60,857
Americas				
Cash collateralised lending and reverse repurchase agreements	–	1,364	–	1,364
Trading assets	299	591	581	1,471
Margin money and settlement assets	–	121	397	518
Derivative assets	93	12,529	6,146	18,768
Financial investments	–	421	226	647
Held for sale and other assets	–	–	946	946
Loan assets	–	–	224	224
Loans to associates and joint ventures	–	–	10	10
Total Americas	392	15,026	8,530	23,948
Total gross credit risk	620	38,213	64,539	103,372

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

	COMPANY 2023	COMPANY 2022
	Due from subsidiaries[(1)] $m	Due from subsidiaries[(1)] $m
Australia		
Financial institutions	**2,787**	2,347
Other	**763**	502
Total Australia	**3,550**	2,849
Total gross credit risk	**3,550**	2,849

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer to Note 37 *Measurement categories of Financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount except for certain usage-based guarantees in which case the maximum exposure is determined with respect to the fair value of the underlying exposure and is disclosed in Note 13 *Expected credit losses*.

Collateral and credit enhancements held

Cash collateralised lending and reverse repurchase agreements

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

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

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

For securities and commodities borrowed in return for cash and reverse repurchase arrangements, the fair value of non-cash collateral received is $55,834 million (2022: $51,818 million). For securities borrowed in return for other securities, the fair value of the securities received is $11,807 million (2022: $8,936 million). For securities borrowed on an unsecured basis, the fair value of the securities received is $7,899 million (2022: $6,199 million).

Out of the above, the fair value of securities repledged is $20,933 million (2022: $18,526 million).

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

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

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

Loan assets

Home loans

Macquarie purchases risk protection for its home loans portfolio. Prior to 2017 this was in the form of Lenders Mortgage Insurance (LMI) from a well rated Australian LMI provider. Since then Macquarie has diversified its risk protection coverage to a global panel of reinsurers with diverse lines of business coverage and ratings ranging from AA+ to A– from external rating agencies. The length of risk protection cover is up to 10 years from the year of origination with the type of cover including excess of loss and quota share.

The following table provides information on the loan to collateral value ratio as determined using loan carrying values and the most recent valuation of the home loan collateral.

	2023			2022		
	Australia $m	**EMEA $m**	**Total $m**	Australia $m	EMEA $m	Total $m
						CONSOLIDATED
<=25%	**3,830**	**5**	**3,835**	2,982	5	2,987
>25% to 50%	**24,271**	**34**	**24,305**	19,074	36	19,110
>50% to 70%	**47,886**	**130**	**48,016**	39,930	153	40,083
>70% to 80%	**35,135**	**78**	**35,213**	29,248	72	29,320
>80% to 90%	**2,921**	**18**	**2,939**	3,176	10	3,186
>90% to 100%	**385**	**2**	**387**	549	1	550
Partly collateralised	**29**	**2**	**31**	34	2	36
Total home loans	**114,457**	**269**	**114,726**	94,993	279	95,272

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $7,119 million (2022: $10,046 million), the credit exposure after considering the depreciated value of collateral is $3,177 million (2022: $4,355 million).

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. Of the term lending of $36,727 million (2022: $29,426 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $6,613 million (2022: $4,860 million).

Derivative instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over-the-Counter (OTC) derivatives. The Consolidated Entity's and Company's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

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

Refer to Note 39 *Offsetting financial assets and financial liabilities* for impact of master netting arrangements and margins and other financial collateral held against the positions as at balance date.

Note 36
Financial risk management continued

Note 36.1 Credit risk continued

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, 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 $6,476 million (2022: $5,849 million) and $4,383 million (2022: $4,802 million) respectively presented under margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities, commodities and other securities sold. These assets are collateralised with the underlying securities, commodities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date varies as per regional regulatory and business norms.

Other financial assets

Commodity related receivables under other financial assets are typically either collateralised with underlying commodity held by the Consolidated Entity until the date of settlement or short-term receivables with standard credit terms which would be backed by a bank guarantee where required to remain within credit limits.

Credit commitments

Undrawn facilities and lending securities commitments of $28,760 million (2022: $29,486 million) are secured through collateral and credit enhancement. The remaining credit exposure after considering the estimated value of collateral is $5,877 million (2022: $9,042 million).

Additional collateral

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

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 Statements of financial position.

Note 36.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the MGL and MBL Asset and Liability Committees (ALCO), the MGL and MBL Boards and RMG. Macquarie's liquidity policies are approved by the MGL and MBL Boards after endorsement by the respective ALCO and liquidity reporting is provided to the Boards on a regular basis. The MGL and MBL ALCOs include the MGL CEO, MBL CEO, CFO, CRO, COO, Group General Counsel, Co-Heads of Group Treasury and relevant Operating Group Heads.

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

Liquidity policy and risk appetite

The MGL and MBL liquidity policies are designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet their obligations as they fall due. The *MBL Liquidity Policy* outlines the standalone framework for the Bank Group and its principles are consistent with the *MGL Liquidity Policy*. Macquarie's liquidity risk appetite is intended to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an authorised deposit-taking institution and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan* for MGL and a *Liquidity Contingency Plan* for MBL, which outline how a liquidity crisis would be managed for the Group and Bank respectively. The plans define roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

Specifically, the plans detail:

- factors that may constitute a crisis
- the officers responsible for enacting each plan
- a committee of senior executives responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy
- a high level checklist of possible actions to conserve or raise additional liquidity for the Group or Bank
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

In addition, Macquarie monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The *Liquidity Contingency Plans* are subject to regular review by both Group Treasury and RMG and are submitted annually to the MGL and MBL ALCO and respective Boards for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the *Liquidity Contingency Plans* contain either a supplement or a reference to a separate document providing the specific information required for those branches or subsidiaries.

Funding strategy

Macquarie prepares a *Funding Strategy* for MGL and a *Funding Strategy* for MBL on an annual basis and monitors progress against the strategies throughout the year.

The *Funding Strategies* aim to maintain diversity of funding sources for MGL and MBL, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth.

The *Funding Strategies* are reviewed by the MGL and MBL ALCO and approved by the respective Boards.

Scenario analysis

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

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

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie name-specific crisis over a twelve month time frame. This scenario assumes no access to wholesale funding markets, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets which are intended to ensure adequate liquidity is available under a range of market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario analysis and regulatory requirements.

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High-Quality Liquid Assets and other Reserve Bank of Australia (RBA) repo eligible securities. Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the funding costs arising from business actions and the separate funding tasks and liquidity requirements of the Bank and Non-Bank Groups. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

Contractual undiscounted cash flows

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

	Statements of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2023
Cash collateralised borrowing and repurchase agreements	18,737	269	7,076	1,759	9,657	–	18,761
Trading liabilities[1]	4,810	–	4,810	–	–	–	4,810
Margin money and settlement liabilities	27,482	17,108	10,374	–	–	–	27,482
Derivative liabilities (trading)[1]	29,070	–	29,070	–	–	–	29,070
Derivative liabilities (hedge accounting relationships):[2]	3,720						
Contractual amount payable		–	543	1,202	3,877	870	6,492
Contractual amount receivable		–	(169)	(252)	(1,756)	(266)	(2,443)
Deposits	134,714	111,070	12,690	10,672	731	11	135,174
Held for sale and other liabilities	4,422	679	1,968	706	1,000	221	4,574
Borrowings	18,912	521	3,828	1,165	12,373	5,182	23,069
Issued debt securities[3]	90,549	–	15,373	21,830	38,976	27,649	103,828
Loan capital[4]	12,891	–	210	645	9,377	7,146	17,378
Total	**345,307**	**129,647**	**85,773**	**37,727**	**74,235**	**40,813**	**368,195**
Total undiscounted contingent liabilities and commitments[5]		**24,515**	**2,582**	**1,951**	**2,303**	**2,767**	**34,118**

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently traded.
(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 requirements.
(3) Includes $11,424 million payables to SE note holders which is disclosed on the basis of expected maturity of the notes which are dependent on the repayment of the underlying loans that the SE holds.
(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 26 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(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.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

	Statements of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2022
Cash collateralised borrowing and repurchase agreements	16,947	55	5,479	142	11,297	–	16,973
Trading liabilities[1]	5,290	–	5,290	–	–	–	5,290
Margin money and settlement liabilities	27,158	16,288	10,323	547	–	–	27,158
Derivative liabilities (trading)[1]	82,683	–	82,683	–	–	–	82,683
Derivative liabilities (hedge accounting relationships):[2]	1,781						
Contractual amount payable		–	504	543	2,487	1,432	4,966
Contractual amount receivable		–	(480)	(392)	(1,110)	(1,033)	(3,015)
Deposits	101,667	93,082	5,220	3,116	311	20	101,749
Held for sale and other liabilities	4,767	509	2,430	986	815	79	4,819
Borrowings	13,896	450	2,472	284	7,530	4,111	14,847
Issued debt securities[3]	99,527	–	19,824	26,070	29,216	32,112	107,222
Loan capital[4]	9,513	–	86	284	2,357	8,954	11,681
Total	363,229	110,384	133,831	31,580	52,903	45,675	374,373
Total undiscounted contingent liabilities and commitments[5]		23,697	3,018	1,440	4,066	2,813	35,034

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently traded.
(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 requirements.
(3) Includes $13,380 million payables to SE note holders which is disclosed on the basis of expected maturity of the notes which are dependent on the repayment of the underlying loans that the SE holds.
(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 26 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(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.

Note 36
Financial risk management continued

Note 36.2 Liquidity risk continued

	Statements of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2023
Derivative liabilities (trading)[1]	**5**	**–**	**5**	**–**	**–**	**–**	**5**
Deposits	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**20**	**20**	**–**	**–**	**–**	**–**	**20**
Borrowings	**6,942**	**–**	**142**	**469**	**6,282**	**2,329**	**9,222**
Due to subsidiaries	**4,698**	**2,729**	**1,969**	**–**	**–**	**–**	**4,698**
Issued debt securities	**32,113**	**–**	**278**	**677**	**16,476**	**20,427**	**37,858**
Loan capital[2]	**3,362**	**–**	**55**	**160**	**2,257**	**1,726**	**4,198**
Total	**47,140**	**2,749**	**2,449**	**1,306**	**25,015**	**24,482**	**56,001**
Total undiscounted contingent liabilities and commitments[3]		**–**	**5,496**	**965**	**1**	**2**	**6,464**
							COMPANY 2022
Derivative liabilities (trading)[1]	6	–	6	–	–	–	6
Deposits	35	–	9	27	–	–	36
Other liabilities	17	17	–	–	–	–	17
Borrowings	6,280	–	25	73	3,084	3,640	6,822
Due to subsidiaries	3,084	2,006	1,078	–	–	–	3,084
Issued debt securities	25,638	–	460	490	10,841	17,787	29,578
Loan capital[2]	2,612	–	22	66	326	2,559	2,973
Total	37,672	2,023	1,600	656	14,251	23,986	42,516
Total undiscounted contingent liabilities and commitments[3]		–	5,026	657	631	–	6,314

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently traded.
(2) 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 26 *Loan capital*, further these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(3) 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.

Note 36
Financial risk management continued

Note 36.3 Market risk

Macquarie's balance sheet includes a '**trading book**', which is defined in accordance with APRA's traded market risk prudential statement (APS116), and subject to the traded market risk framework. Any position not deemed to be trading book is considered to be '**banking book**', and covered by either the non-traded market risk or equity risk frameworks.

Traded market risk

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

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

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis. RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets.

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

RMG sets three complementary limit structures:

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

Note 36
Financial risk management continued

Note 36.3 Market risk continued

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

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

	2023			2022		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
Equities	**4.15**	**7.75**	**1.91**	3.56	5.57	1.87
Interest rates	**6.57**	**11.24**	**2.98**	3.57	6.48	2.20
Foreign exchange	**3.71**	**9.07**	**0.89**	1.77	4.15	0.77
Commodities and commodity contracts	**54.71**	**118.42**	**33.99**	36.47	65.56	19.12
Aggregate	**55.51**	**115.88**	**34.48**	37.25	66.91	19.30

Value-at-Risk

The VaR model uses a Monte Carlo simulation where price and volatility paths are derived from multiple normal distributions, based on three years of historical data. The following factors can limit the effectiveness of VaR in predicting future price moves:

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

For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Non-traded market risk

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

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

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above. Responsibility for managing exposures rests with individual businesses, with independent monitoring performed by RMG and FMG.

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 44(x) *Derivative instruments and hedging activities* and Note 35 *Hedge accounting*.

Note 36
Financial risk management continued

Note 36.3 Market risk continued

Interest rate risk in the banking book (IRRBB)

Macquarie measures and monitors interest rate risk on both an economic value and earnings basis, which are modelled as the worst-case contingent loss from a set of six severe interest rate shocks, including both parallel and non-parallel shocks. Aggregate IRRBB exposures for the Consolidated Entity are constrained on both measures:

- **Economic Value Sensitivity (EVS)**: The EVS metric measures the change in net present value of the interest-bearing portfolios in the banking book as a result of changes in interest rates.
- **Earnings at Risk (EaR)**: The EaR model constrains the impact on reported net income over 12 months for a change in interest rates.

A central objective of the Consolidated Entity's *Non-traded Market Risk Policy* is to reduce earnings volatility to interest rate movements. A key component of this arises where shareholders equity invested in interest bearing assets and is managed by holding a portfolio of 'receive fixed' interest rate swaps. The duration of this hedging program is constrained by Board-approved limits, and subject to independent oversight by RMG.

Foreign exchange risk

The Consolidated Entity is active in various currencies globally. A key objective of the Consolidated Entity's *Non-traded Market Risk Policy* is to reduce this sensitivity of regulatory capital ratios to foreign currency movements.

This is achieved by leaving specific investments in foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital, which aligns the foreign exchange sensitivity of capital supply with that of foreign currency capital requirements.

The table below presents the sensitivity of the Consolidated Entity's net investment in foreign operations to the most material currencies. As a result of the policy described above, these movements will not have a material impact on the capital ratios.

	2023		2022	
	Movement in exchange rates %	**Sensitivity of other comprehensive income after tax $m**	Movement in exchange rates %	Sensitivity of other comprehensive income after tax $m
				CONSOLIDATED
United States dollar	**+10**	**(1,140)**	+10	(877)
Pound sterling	**+10**	**(183)**	+10	(125)
Euro	**+10**	**(101)**	+10	(67)
Canadian dollar	**+10**	**–**	+10	(15)
Total		**(1,424)**		(1,084)
United States dollar	**-10**	**1,394**	-10	1,071
Pound sterling	**-10**	**224**	-10	154
Euro	**-10**	**123**	-10	81
Canadian dollar	**-10**	**–**	-10	18
Total		**1,741**		1,324

Note 36
Financial risk management continued

Note 36.3 Market risk continued

Interest rate risk – Interest Rate Benchmark Reform (IBOR)

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

The Consolidated Entity's reform project oversaw the successful transition of contracts referencing LIBORs that ceased publication on 31 December 2021 in accordance with industry and regulatory guidance.

The remaining transition focus is on the USD LIBOR tenors and IBOR for other minor currencies that will cease publication on 30 June 2023, and the Canadian Dollar Offered Rate (CDOR) which will cease publication on 28 June 2024. The Consolidated Entity has actively begun to engage with clients to support them through the transition from USD LIBOR to SOFR.

Whilst the transition of legacy USD LIBOR contracts continues to expose the Consolidated Entity to inherent risks (including those outlined below), the remaining IBOR transition efforts and risk has significantly reduced. The Consolidated Entity's IBOR transition governance was decentralised from 1 April 2022, commensurate with the risk. Under the decentralised governance model, central oversight was reduced and operating groups manage remaining IBOR transition risks within the Consolidated Entity's existing risk management framework.

The Consolidated Entity is exposed to inherent risks arising from transition of legacy USD LIBOR contracts, including but not limited to:

- **financial risk**: This includes:
  - (i) value transfers arising from these transition to ARRs
  - (ii) basis risk from products and IBORs transitioning at different times
  - (iii) impacts arising from a change in accounting treatment including hedge accounting, capital, tax and reported earnings
  - (iv) loss in revenue/market share from not being ready to participate in ARR markets.
- **conduct risk**: This includes:
  - (i) real or perceived benefit of information asymmetry between financial institutions and clients during transition
  - (ii) real or perceived unfair treatment of clients during transition
  - (iii) market participants attempt to influence ARRs during transition or misconduct in markets where there is insufficient liquidity.
- **legal risk**: This includes:
  - (i) client disputes over amendment terms
  - (ii) litigation from clients and counterparties (including potential class actions) due to inappropriate/unenforceable contractual terms or losses from transition.
- **operational risk**: This includes:
  - (i) infrastructure and processes that result in errors upon transition
  - (ii) reduced model accuracy due to lack of historical data.

Whilst IBOR reforms, including the transition from LIBOR to ARRs, are important changes for the Consolidated Entity, they have not resulted in changes to the Consolidated Entity's risk management strategy and these risks are managed within the existing risk management framework.

Exposure yet to be transitioned to ARRs: The notional value of the Consolidated Entity's financial instruments which are yet to transition to ARRs as at the reporting date includes:

- **derivatives**: gross exposure of $79,673 million in USD LIBOR and $4,191 million in other currencies (2022: $71,853 million in USD LIBOR and $79 million in other currencies)
- **non-derivative financial assets**: exposure of $5,231 million in USD LIBOR and $856 million in other currencies. (2022: $8,762 million in USD LIBOR and $432 million in other currencies)
- **non-derivative financial liabilities**: exposure of $3,637 million in USD LIBOR (2022: $11,277 million).

The scope of the above-mentioned exposures has been determined as follows:

- the benchmark will be replaced, and the replacement date is known. Only exposures with contractual maturities extending beyond the replacement date have been included
- the gross notional values for derivatives and both on-balance sheet and off-balance sheet exposures have been included
- for contracts that reference more than one benchmark, such as a cross currency swap, the exposure includes both benchmarks to reflect the absolute exposure to different reference rates
- derivative contracts of $9,664 million (2022: $13,419 million) designated in hedge accounting relationships have synthetically transitioned and have been excluded, primarily relating to USD LIBOR to SOFR transition.

Note 36
Financial risk management continued

Note 36.3 Market risk continued

Equity price risk

The below table indicates the income statement effect of the Consolidated Entity's equity exposures held as part of its non-trading investment portfolio, due to a reasonably possible change in equity prices, with all other variables held constant. Equity exposures exclude interest in associate and joint ventures.

	2023		2022	
	Movement in equity price %	**Sensitivity of profit after tax $m**	Movement in equity price %	Sensitivity of profit after tax $m
				CONSOLIDATED
Listed	**+10**	**10**	+10	15
Unlisted	**+10**	**144**	+10	78
Increase in equity prices	**+10**	**154**	+10	93
Listed	**-10**	**(10)**	-10	(15)
Unlisted	**-10**	**(144)**	-10	(78)
Decrease in equity prices	**-10**	**(154)**	-10	(93)

Note 37
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 description of measurement categories are included in Note 44(vii) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 38 *Fair value of assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statements of financial position total $m	Fair value $m	Amortised cost $m
									CONSOLIDATED 2023
Assets									
Cash and bank balances	–	–	–	–	45,656	–	45,656	–	45,656
Cash collateralised lending and reverse repurchase agreements	–	–	4,963	33,463	15,897	–	54,323	38,426	15,897
Trading assets[1]	14,475	–	–	–	–	2,406	16,881	16,881	–
Margin money and settlement assets	–	–	576	–	24,680	–	25,256	576	24,680
Derivative assets	34,906	–	1,208	–	–	–	36,114	36,114	–
Financial investments:									
Equity	–	–	2,170	–	–	–	2,170	2,170	–
Debt[2]	–	–	721	17,262	1,721	–	19,704	17,983	1,721
Held for sale and other assets	–	–	2,453	4	4,493	4,409	11,359	3,386	4,493
Loan assets[2]	–	–	1,110	549	156,913	–	158,572	1,659	156,364
Interests in associates and joint ventures:									
Equity interests	–	–	–	–	–	4,610	4,610	–	–
Loans to associates and joint ventures[2]	–	–	544	–	420	–	964	544	420
Property, plant and equipment and right-of-use assets[2]	–	–	–	–	–	6,639	6,639	–	–
Intangible assets	–	–	–	–	–	3,827	3,827	–	–
Deferred tax assets	–	–	–	–	–	1,797	1,797	–	–
Total assets	**49,381**	**–**	**13,745**	**51,278**	**249,780**	**23,688**	**387,872**	**117,739**	**249,231**
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	277	–	–	18,460	–	18,737	277	18,460
Trading liabilities	4,810	–	–	–	–	–	4,810	4,810	–
Margin money and settlement liabilities	–	–	–	–	27,482	–	27,482	–	27,482
Derivative liabilities	29,055	–	3,735	–	–	–	32,790	32,790	–
Deposits	–	–	–	–	134,714	–	134,714	–	134,598
Held for sale and other liabilities[3]	–	1,330	–	–	3,092	8,263	12,685	1,330	2,390
Borrowings	–	260	–	–	18,652	–	18,912	260	18,774
Issued debt securities[2]	–	2,323	–	–	88,226	–	90,549	2,323	87,722
Deferred tax liabilities	–	–	–	–	–	196	196	–	–
Loan capital[2]	–	–	–	–	12,891	–	12,891	–	12,806
Total liabilities	**33,865**	**4,190**	**3,735**	**–**	**303,517**	**8,459**	**353,766**	**41,790**	**302,232**

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell.
(2) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.
(3) The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 37
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE							FAIR VALUE OF ITEMS CARRIED AT	
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statements of financial position total $m	Fair value $m	Amortised cost $m
									CONSOLIDATED 2022
Assets									
Cash and bank balances	–	–	–	–	52,754	–	52,754	–	52,754
Cash collateralised lending and reverse repurchase agreements	–	–	4,170	35,872	11,155	–	51,197	40,042	11,155
Trading assets[1]	10,354	–	–	–	–	3,224	13,578	13,578	–
Margin money and settlement assets	–	–	524	–	24,584	–	25,108	524	24,584
Derivative assets	84,217	–	674	–	–	–	84,891	84,891	–
Financial investments:									
Equity	–	–	1,502	–	–	–	1,502	1,502	–
Debt[2]	–	–	719	9,902	4	–	10,625	10,621	4
Held for sale and other assets	–	–	1,819	9	4,180	3,921	9,929	2,631	4,180
Loan assets[2]	–	78	500	244	133,922	–	134,744	822	134,251
Interests in associates and joint ventures:									
Equity interests	–	–	–	–	–	3,504	3,504	–	–
Loans to associates and joint ventures[2]	–	–	317	42	510	–	869	359	569
Property, plant and equipment and right-of-use assets[2]	–	–	–	–	–	5,143	5,143	–	–
Intangible assets	–	–	–	–	–	3,780	3,780	–	–
Deferred tax assets	–	–	–	–	–	1,552	1,552	–	–
Total assets	94,571	78	10,225	46,069	227,109	21,124	399,176	154,970	227,497
Liabilities									
Cash collateralised borrowing and repurchase agreements	–	241	–	–	16,706	–	16,947	241	16,706
Trading liabilities	5,290	–	–	–	–	–	5,290	5,290	
Margin money and settlement liabilities	–	–	–	–	27,158	–	27,158	–	27,158
Derivative liabilities	82,683	–	1,781	–	–	–	84,464	84,464	–
Deposits	–	–	–	–	101,667	–	101,667	–	101,683
Held for sale and other liabilities[3]	–	1,132	129	–	3,506	6,925	11,692	1,261	2,920
Borrowings	–	–	–	–	13,896	–	13,896	–	13,939
Issued debt securities[2]	–	2,503	–	–	97,024	–	99,527	2,503	96,839
Deferred tax liabilities	–	–	–	–	–	216	216	–	–
Loan capital[2]	–	–	–	–	9,513	–	9,513	–	9,767
Total liabilities	87,973	3,876	1,910	–	269,470	7,141	370,370	93,759	269,012

(1) Non-financial assets under 'Trading assets' represent commodities carried at fair value less costs to sell.
(2) Items measured at amortised cost or cost includes, where applicable, fair value hedge accounting adjustments for designated hedged risks.
(3) The fair value of other liabilities carried at amortised cost excludes lease liabilities.

Note 37
Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of assets and liabilities of the Company. The description of measurement categories are included in Note 44(vii) *Financial instruments*.

The methods and significant assumptions that have been applied in determining the fair values of assets and liabilities are disclosed in Note 38 *Fair value of assets and liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statements of financial position total $m	Fair value $m	Amortised cost $m
									COMPANY 2023
Assets									
Derivative assets	3	-	-	-	-	-	3	3	-
Other assets	-	-	-	-	7	23	30	-	7
Due from subsidiaries(1)	112	-	3,438	-	44,952	315	48,817	3,550	42,121
Investments in subsidiaries	-	-	-	-	-	32,604	32,604	-	-
Deferred tax assets	-	-	-	-	-	3	3	-	-
Total assets	**115**	**-**	**3,438**	**-**	**44,959**	**32,945**	**81,457**	**3,553**	**42,128**
Liabilities									
Derivative liabilities	5	-	-	-	-	-	5	5	-
Other liabilities(2)	-	-	-	-	20	221	241	-	20
Borrowings	-	-	-	-	6,942	-	6,942	-	6,966
Due to subsidiaries(3)	823	-	-	-	3,875	988	5,686	823	3,875
Issued debt securities	-	973	-	-	31,140	-	32,113	973	28,459
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Loan capital	-	-	-	-	3,362	-	3,362	-	3,451
Total liabilities	**828**	**973**	**-**	**-**	**45,339**	**1,209**	**48,349**	**1,801**	**42,771**

(1) Due from subsidiaries includes derivatives and trading positions classified as HFT and subordinated loan to subsidiaries classified as FVTPL. All other intercompany receivables are carried at amortised cost. Non-financial receivables primarily represent internal tax balances.
(2) Non-financial liabilities primarily represents provisions for tax payable and MEREP related obligations.
(3) Due to subsidiaries includes derivatives and trading positions classified as HFT; employee stock option related obligations and tax payables classified as non-financial liabilities. All other intercompany payables are carried at amortised cost.

Note 37
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF ITEMS CARRIED AT	
	FAIR VALUE								
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statements of financial position total $m	Fair value $m	Amortised cost $m
									COMPANY 2022
Assets									
Derivative assets	1	–	–	–	–	–	1	1	–
Other assets	–	–	–	–	10	18	28	–	10
Due from subsidiaries(1)	212	–	2,637	–	35,620	122	38,591	2,849	34,243
Investments in subsidiaries	–	–	–	–	–	32,449	32,449	–	–
Total assets	213	–	2,637	–	35,630	32,589	71,069	2,850	34,253
Liabilities									
Derivative liabilities	6	–	–	–	–	–	6	6	–
Deposits	–	–	–	–	35	–	35	–	35
Other liabilities(2)	–	–	–	–	17	194	211	–	17
Borrowings	–	–	–	–	6,280	–	6,280	–	6,322
Due to subsidiaries(3)	564	–	–	–	2,520	548	3,632	564	2,520
Issued debt securities	–	918	–	–	24,720	–	25,638	918	23,453
Deferred tax liabilities	–	–	–	–	–	21	21	–	–
Loan capital	–	–	–	–	2,612	–	2,612	–	2,740
Total liabilities	570	918	–	–	36,184	763	38,435	1,488	35,087

(1) Due from subsidiaries includes derivatives and trading positions classified as HFT and subordinated loan to subsidiaries classified as FVTPL. All other intercompany receivables are carried at amortised cost. Non-financial receivables primarily represent internal tax balances.
(2) Non-financial liabilities primarily represents provisions for tax payable and MEREP related obligations.
(3) Due to subsidiaries includes derivatives and trading positions classified as HFT; employee stock option related obligations and tax payables classified as non-financial liabilities. All other intercompany payables are carried at amortised cost.

Note 38
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 and non-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 such inputs.

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.

The following methods and significant assumptions have been applied in determining the fair values of the following items carried at amortised cost in the Statements of financial position.

Asset or liability	Valuation techniques, inputs and other significant assumptions
Cash and bank balances, Cash collateralised lending and reverse repurchase agreements, Cash collateralised borrowing and repurchase agreements	The fair value of cash and bank balance, cash collateralised lending and reverse repurchase agreements, cash collateralised borrowing and repurchase agreements approximates their carrying amounts as these are highly liquid and short-term in nature.
Loan assets and Deposits	The fair value of fixed rate loan assets and term deposits is determined with reference to changes in interest rates and credit spreads. The fair value of variable rate loan assets and deposits approximates their carrying amounts, subject to any adjustment for changes in the credit spreads. The fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand.
Financial investments	The fair value of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. The fair value of fixed rate debt investments is estimated by reference to current market rates offered on similar securities and the creditworthiness of the borrower. The fair value of variable rate investments approximate their carrying amounts.
Issued debt securities, Borrowings and Loan capital	The fair value of issued debt securities, borrowings and loan capital 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.
Margin money, settlement assets and settlement liabilities **Other financial assets and financial liabilities**	The fair value of margin money, settlement assets, settlement liabilities, other financial assets and financial liabilities approximate their carrying amounts.

Note 38
Fair value of assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of following items carried at fair value in the Statements of financial position.

Asset or liability	Valuation techniques, inputs and other significant assumptions
Trading assets, Trading liabilities and Derivatives	Trading assets, including commodities and commodity contracts, trading liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example, listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of other recognised valuation techniques. 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.
Repurchase and reverse repurchase agreements	Repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement.
Financial investments	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.
Loan assets and Issued debt securities	Fair values of loans and issued debt securities are measured by reference to quoted prices in active markets where available. If quoted prices are not available in active markets, the fair values are estimated with reference to current market rates.
Investment property	Investment property is measured at fair value based on the discounted future cash flows, unless market valuation is available based on recent transactions or current market prices.
Other financial assets and financial liabilities	Fair values of other financial assets and financial liabilities are based upon data or valuation techniques appropriate to the nature and type of the underlying instruments.

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, 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.

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. The output of a valuation technique is always an estimate of a fair value that cannot be measured with complete certainty. All models are reviewed before they are used. Models are calibrated periodically to test the outputs and reflect the prices from observable current market transactions in same instrument or other available observable market data.

To the extent possible, models use only observable market data (for example, OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument such as volatility and correlation.

Note 38
Fair value of assets and liabilities continued

Assets and liabilities measured at amortised cost

The fair values calculated for financial instruments which are carried in the Statements of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

The following table summarises the levels of the fair value hierarchy of financial assets and financial liabilities measured at amortised cost except where the carrying value is approximately equal to the fair value.

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2023
Assets				
Loan assets	**–**	**5,847**	**150,517**	**156,364**
Loans to associates and joint ventures	**–**	**–**	**420**	**420**
Total assets	**–**	**5,847**	**150,937**	**156,784**
Liabilities				
Deposits	**94,700**	**39,898**	**–**	**134,598**
Borrowings	**476**	**14,614**	**3,684**	**18,774**
Issued debt securities	**–**	**76,521**	**11,201**	**87,722**
Loan capital	**4,779**	**8,027**	**–**	**12,806**
Total liabilities	**99,955**	**139,060**	**14,885**	**253,900**
				CONSOLIDATED 2022
Assets				
Loan assets	–	5,494	128,757	134,251
Loans to associates and joint ventures	–	–	569	569
Total assets	–	5,494	129,326	134,820
Liabilities				
Deposits	80,732	20,951	–	101,683
Borrowings	446	12,425	1,068	13,939
Issued debt securities	–	84,216	12,623	96,839
Loan capital	4,091	5,676	–	9,767
Total liabilities	85,269	123,268	13,691	222,228

The financial assets and liabilities measured at amortised cost in the Company as at 31 March 2023 and 31 March 2022 are predominantly categorised as Level 2 in the fair value hierarchy except for loan capital which is classified as Level 1.

Note 38
Fair value of assets and liabilities continued

Assets and liabilities measured at fair value

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.

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2023
Assets				
Cash collateralised lending and reverse repurchase agreements	**–**	**38,426**	**–**	**38,426**
Trading assets	**8,296**	**7,781**	**804**	**16,881**
Margin money and settlement assets	**–**	**576**	**–**	**576**
Derivative assets	**13**	**35,305**	**796**	**36,114**
Financial investments	**5,373**	**12,918**	**1,862**	**20,153**
Held for sale and other assets[1]	**–**	**2,313**	**1,073**	**3,386**
Loan assets	**–**	**418**	**1,241**	**1,659**
Loans to associates and joint ventures	**–**	**–**	**544**	**544**
Total assets	**13,682**	**97,737**	**6,320**	**117,739**
Liabilities				
Cash collateralised lending and repurchase agreements	**–**	**277**	**–**	**277**
Trading liabilities	**4,671**	**139**	**–**	**4,810**
Derivative liabilities	**8**	**31,998**	**784**	**32,790**
Held for sale and other liabilities	**–**	**1,330**	**–**	**1,330**
Borrowings	**–**	**260**	**–**	**260**
Issued debt securities	**–**	**2,323**	**–**	**2,323**
Total liabilities	**4,679**	**36,327**	**784**	**41,790**
				CONSOLIDATED 2022
Assets				
Cash collateralised lending and reverse repurchase agreements	–	40,042	–	40,042
Trading assets	4,426	8,617	535	13,578
Margin money and settlement assets	–	524	–	524
Derivative assets	2	84,315	574	84,891
Financial investments	4,423	5,653	2,047	12,123
Held for sale and other assets[1]	–	1,615	1,016	2,631
Loan assets	–	256	566	822
Loans to associates and joint ventures	–	–	359	359
Total assets	8,851	141,022	5,097	154,970
Liabilities				
Cash collateralised borrowing and repurchase agreements	–	241	–	241
Trading liabilities	5,113	177	–	5,290
Derivative liabilities	10	83,111	1,343	84,464
Held for sale and other liabilities	–	1,261	–	1,261
Issued debt securities	–	2,503	–	2,503
Total liabilities	5,123	87,293	1,343	93,759

The Company does not hold financial instruments measured at fair value except for:

- $3,438 million (2022: $2,637 million) loan capital securities held in subsidiaries which are Level 3 financial instruments
- $112 million (2022: $212 million) derivative assets and $823 million (2022: $564 million) derivative liabilities due with subsidiaries and $973 million (2022: $918 million) structured notes issued which are Level 2 financial instruments

Fair value sensitivity of these intercompany balances to alternate assumptions and valuation inputs is not significant and hence not covered under the sensitivity analysis disclosures.

(1) Includes $917 million (2022: $748 million) of investment properties measured at fair value.

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 38

Fair value of assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	Trading assets $m	Financial investments $m	Held for sale and other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Derivative financial instruments (net fair value)[1] $m	Total $m
Balance as at 1 Apr 2021	499	1,554	418	575	96	(32)	3,110
Purchases, originations, issuances, and other additions	107	883	532	1,450	434	(25)	3,381
Sales, settlements and repayments	(75)	(604)	(61)	(1,317)	(12)	33	(2,036)
Reclassification	–	–	102	(17)	(85)	–	–
Transfers into Level 3[2]	59	399	–	–	9	(16)	451
Transfers out of Level 3[2]	(272)	(351)	(16)	(120)	–	115	(644)
Fair value movements recognised in the income statement:							
Net trading income/(loss)[3]	217	(4)	(5)	(27)	(10)	(844)	(673)
Other income/(loss)	–	160	46	19	(73)	–	152
Fair value movements recognised in OCI[3]	–	10	–	3	–	–	13
Balance as at 31 Mar 2022	535	2,047	1,016	566	359	(769)	3,754
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year[3]	226	23	25	(13)	(76)	(796)	(611)
Balance as at 1 Apr 2022	**535**	**2,047**	**1,016**	**566**	**359**	**(769)**	**3,754**
Purchases, originations, issuances and other additions	**272**	**1,130**	**204**	**1,127**	**298**	**329**	**3,360**
Sales, settlements and repayments	**(23)**	**(152)**	**(333)**	**(281)**	**(53)**	**219**	**(623)**
Reclassification	**–**	**–**	**86**	**–**	**(86)**	**–**	**–**
Transfers into Level 3[2]	**222**	**57**	**56**	**2**	**–**	**158**	**495**
Transfers out of Level 3[2]	**(180)**	**(1,295)**	**(5)**	**(65)**	**(85)**	**37**	**(1,593)**
Fair value movements recognised in the income statement:							
Net trading (loss)/income[3]	**(22)**	**190**	**63**	**(62)**	**31**	**4**	**204**
Other (loss)/income	**–**	**(50)**	**(14)**	**(38)**	**(19)**	**12**	**(109)**
Fair value movements recognised in OCI[3]	**–**	**(65)**	**–**	**(8)**	**99**	**22**	**48**
Balance as at 31 Mar 2023	**804**	**1,862**	**1,073**	**1,241**	**544**	**12**	**5,536**
Fair value movements for the financial year included in the income statements for assets and liabilities held at the end of the financial year[3]	**(16)**	**164**	**16**	**36**	**39**	**(22)**	**217**

(1) The derivative financial instruments in the table above are presented on a net basis. On a gross basis, derivative assets are $796 million (2022: $574 million) and derivative liabilities are $784 million (2022: $1,343 million)
(2) Assets and liabilities transferred in or out of Level 3 are presented as if the assets or liabilities were 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, are not presented in the table above.

Note 38
Fair value of assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year, the Consolidated Entity did not have significant transfers between Level 1 and 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 interest in the assets are still retained, are also presented as transfers into/out of Level 3.

Unrecognised gains or losses

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

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied in which significant unobservable inputs are used.

	CONSOLIDATED	
	2023 $m	2022 $m
Balance at the beginning of the financial year	**76**	87
Deferred gains on new transactions and other adjustments	**231**	51
Foreign exchange movements	**23**	1
Recognised in net trading income during the year	**(58)**	(63)
Balance at the end of the financial year	**272**	76

Notes to the financial statements

For the financial year ended 31 March 2023 continued

Note 38
Fair value of assets and liabilities continued

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations, and the valuation techniques used to measure fair value. The range of values represent the highest and lowest input used in the valuation techniques. The range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Fair value of assets $m	Fair value of liabilities $m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS Minimum value	Maximum value
						CONSOLIDATED 2023
Interest rate and other products	**3,268**	**16**	Discounted cash flows	Discount rate – Credit spreads	**5.5%**	**10.0%**
			Comparable transactions	Price in %	**5.6%**	**95.4%**
Commodities	**1,523**	**759**	Pricing model	Commodity margin curves	**(97.3)**	**626.9**
			Pricing model	Correlation	**(72.0%)**	**100.0%**
			Pricing model	Volatility and related variables	**1.3%**	**153.5%**
Equity and equity-linked products	**1,529**	**9**	Net Asset Value (NAV)	Fund's NAV[1]		
			Pricing model	Earnings multiples	**3.0x**	**14.8x**
Total	**6,320**	**784**				
						CONSOLIDATED 2022
Interest rate and other products	3,049	18	Discounted cash flows	Discount rate – Credit spreads	1.0%	10.0%
			Pricing model	Yield	2.7%	3.5%
			Comparable transactions	Price in %	33.8%	95.0%
Commodities	1,079	1,313	Pricing model	Commodity margin curves	(270.0)	1,665.0
			Pricing model	Correlation	40.0%	100.1%
			Pricing model	Volatility and related variables	(12.6%)	90.9%
Equity and equity-linked products	969	12	Net Asset Value (NAV)	Fund's NAV[1]		
			Pricing model	Earnings multiples	1.0x	15.8x
Total	5,097	1,343				

The following information contains details around the significant unobservable inputs which are utilised to fair value the Level 3 assets and liabilities.

Interest rate and other products

Discount rate – Credit spreads: 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. Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality which increase the discount factor applied to future cashflows thereby reducing the value of the asset. Credit spreads may be implied from the market prices and may not be observable in more illiquid markets.

Yield: Yield represents expected rate of annual return on an instrument. In certain circumstances, yield of a specific security is not observable in the market, it is estimated using the historical data or by adjusting the yield of similar securities to capture the characteristics of the security being valued.

Price in %: Comparable transactions are leveraged to price the fair value of the assets and liabilities and a percentage is applied to ascertain the proportion of the transaction price that is comparable with the specific asset/liability. This price percentage is an unobservable input and judgemental depending on the characteristics of the asset/liability.

(1) The range of inputs to NAV is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

Note 38
Fair value of assets and liabilities continued

Commodities

Commodity margin curves: Certain commodities are valued using related observable products from the market and a margin is applied to the observable market inputs to mitigate the impact of differences in the products. Judgement is involved in the calculation of these margin curves depending on the quality of commodity or delivery location and other economic conditions.

Correlation: Correlation is a measure of the relationship between the movements of input variables (i.e. how the change in one variable influences a change in the other variable). It is expressed as a percentage between –100% and +100%, where 100% represents perfectly correlated variables and –100% represents inversely correlated variables. Correlation is a key input into the valuation of derivatives with more than one underlying (e.g. interest rates, credit spreads, foreign exchanges rates, inflation rates or equity prices) and is generally used to value hybrid and exotic instruments.

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

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

Equity and equity-linked products

Unlisted equity securities are generally valued based on earnings or revenue multiples, referencing market transactions which are not directly comparable or quantifiable and are adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include NAV and discount rates determined using inputs specific to the underlying investment and forecast cash flows and earnings/revenues of investee entities.

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions for Level 3 instruments 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 or 2 is not included in the table below.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	OCI $m	Profit or loss $m	OCI $m
				CONSOLIDATED 2023
Product type				
Commodities	**344**	**12**	**(291)**	**–**
Interest rate and other products	**3**	**–**	**(3)**	**–**
Equity and equity-linked products	**16**	**–**	**(17)**	**–**
Total	**363**	**12**	**(311)**	**–**
				CONSOLIDATED 2022
Product type				
Commodities	134	–	(137)	–
Interest rate and other products	101	–	(96)	–
Equity and equity-linked products	94	–	(83)	–
Total	329	–	(316)	–

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

Note 39
Offsetting of financial assets and financial liabilities

The Consolidated Entity and the Company presents financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 44(vii) *Financial instruments*. The following tables provide information on the impact of offsetting of financial instruments in the Statements of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore presented gross in the Statements of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's and the Company's financial position in that circumstance is to settle these contracts as one arrangement.

The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity. Refer to Note 36.1 *Credit risk* for information on credit risk management.

	EFFECT OF OFFSETTING ON THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS[1]			
	Gross amount[2],[3] $m	Amounts offset on the Statements of financial position $m	Net amounts reported on the Statements of financial position $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Other collateral for exposures not subject to enforceable netting arrangements[1] $m	Net exposure $m
							CONSOLIDATED 2023
Cash collateralised lending and reverse repurchase agreements	**54,632**	**(309)**	**54,323**	**(166)**	**(48,275)**	**(5,831)**	**51**
Settlement assets[4]	**18,872**	**(8,013)**	**10,859**	**(3,685)**	**–**	**–**	**7,174**
Derivative assets	**45,304**	**(9,190)**	**36,114**	**(19,919)**	**(6,397)**	**(94)**	**9,704**
Total assets	**118,808**	**(17,512)**	**101,296**	**(23,770)**	**(54,672)**	**(5,925)**	**16,929**
Cash collateralised borrowings and repurchase agreements	**(19,046)**	**309**	**(18,737)**	**166**	**14,707**	**249**	**(3,615)**
Settlement liabilities[4]	**(18,386)**	**8,013**	**(10,373)**	**3,843**	**–**	**–**	**(6,530)**
Derivative liabilities	**(41,980)**	**9,190**	**(32,790)**	**19,761**	**6,330**	**149**	**(6,550)**
Total liabilities	**(79,412)**	**17,512**	**(61,900)**	**23,770**	**21,037**	**398**	**(16,695)**
							CONSOLIDATED 2022
Cash collateralised lending and reverse repurchase agreements	52,543	(1,346)	51,197	(28)	(46,057)	(4,949)	163
Settlement assets[4]	19,500	(8,850)	10,650	(4,117)	–	–	6,533
Derivative assets	104,680	(19,789)	84,891	(62,595)	(7,751)	–	14,545
Total assets	176,723	(29,985)	146,738	(66,740)	(53,808)	(4,949)	21,241
Cash collateralised borrowings and repurchase agreements	(18,293)	1,346	(16,947)	28	13,754	–	(3,165)
Settlement liabilities[4]	(19,655)	8,850	(10,805)	6,366	–	–	(4,439)
Derivative liabilities	(104,253)	19,789	(84,464)	60,346	8,886	–	(15,232)
Total liabilities	(142,201)	29,985	(112,216)	66,740	22,640	–	(22,836)

(1) Related amounts not offset have been limited to the net amount presented in the Statements of financial position so as not to include the effect of over-collateralisation.
(2) Gross amounts for assets include $5,831 million (2022: $4,949 million) of cash collateralised lending and reverse repurchase agreements, $1,408 million (2022: $1,195 million) of settlements assets and $1,804 million (2022: $1,986 million) of derivative assets not subject to enforceable netting arrangements. Gross amounts for liabilities include $249 million (2022: $nil) of cash collateralised borrowing and repurchase agreements, $1,675 million (2022: $1,399 million) of settlements liabilities and $1,522 million (2022: $4,408 million) of derivative liabilities not subject to enforceable netting arrangements.
(3) Amounts not subject to enforceable netting arrangements are where either there are no master netting agreements or enforceability of agreement is uncertain under bankruptcy laws in some countries or industries.
(4) Excludes margin money assets of $14,397 million (2022: $14,457 million) and liabilities of $17,109 million (2022: $16,353 million) presented under Note 8 *Margin money and settlement assets* and Note 20 *Margin money and settlement liabilities* respectively on the Statements of financial position.

Note 39
Offsetting financial assets and financial liabilities continued

	EFFECT OF OFFSETTING ON THE STATEMENTS OF FINANCIAL POSITION			RELATED AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS			
	Gross amount[(1),(2)] $m	Amounts offset on the Statements of financial position $m	Net amounts reported on the Statements of financial position $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Other collateral for exposures not subject to enforceable netting arrangements $m	Net exposure $m
							COMPANY 2023
Due from subsidiaries[(3)]	**50,088**	**(2,247)**	**47,841**	**(2,335)**	**-**	**-**	**45,506**
Due to subsidiaries[(3)]	**(6,945)**	**2,247**	**(4,698)**	**2,335**	**696**	**-**	**(1,667)**
							COMPANY 2022
Due from subsidiaries[(3)]	42,258	(4,185)	38,073	(1,623)	(48)	–	36,402
Due to subsidiaries[(3)]	(7,217)	4,185	(3,032)	1,623	389	–	(1,020)

(1) Gross assets include $33 million (2022: $27 million) of due from subsidiaries not subject to enforceable netting arrangements. Gross liabilities includes $19 million (2022: $14 million) of due to subsidiaries not subject to enforceable netting arrangements.
(2) Amounts not subject to enforceable netting arrangements include balances with subsidiaries which have not acceded to the MLA or other balances not governed by netting provisions of any Master Netting Agreement.
(3) Excludes margin money assets of $976 million (2022: $518 million) and liabilities of $988 million (2022: $600 million) presented under Due from subsidiaries and Due to subsidiaries respectively on the Statements of financial position.

Note 40
Pledged assets and transfers of financial assets

Pledged assets

Items pledged as security for liabilities include the following:

- securities and commodities included under trading assets and off balance sheet collateral securities pledged for repurchase transactions, stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the Consolidated SEs provided as collateral against issued debt securities or repurchase transactions
- 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.

	CONSOLIDATED	
	2023 $m	2022 $m
On Balance Sheet items		
Cash and bank balances	**657**	115
Trading assets[1]	**3,728**	3,604
Financial investments	**947**	1,115
Loan assets[2]	**33,950**	29,053
Margin money and settlement assets	**403**	1
Property, plant and equipment	**781**	346
Intangible assets	**1,006**	814
Other assets	**610**	536
Total On Balance Sheet assets pledged for liabilities	**42,082**	35,584
Off Balance Sheet items		
Securities and commodities[3]	**20,933**	18,526
Total On and Off Balance Sheet assets pledged for liabilities	**63,015**	54,110

(1) Includes assets transferred as part of cash collateralised borrowing and repurchase agreements or in return for a loan of other securities where there is no associated liability on the Consolidated Entity's Statements of financial position. For trading assets pledged by the Consolidated Entity, the transferee has the right to sell or repledge the entire value of securities received.
(2) Includes $19,862 million (2022: $15,013 million) held by Consolidated SEs, which are available as security to note holders and debt providers. Additionally, includes $13,972 million (2022: $13,934 million) held by Consolidated SEs wherein internally held bonds have been pledged against repurchase agreement liabilities.
(3) Off balance sheet securities and commodities held by the Consolidated Entity include $55,834 million (2022: $51,818 million) of securities and commodities borrowed in return for cash and reverse repurchase arrangements and $7,899 million (2022: $6,199 million) of securities borrowed on an unsecured basis. Of these, the Consolidated Entity repledged $20,933 million (2022: $18,526 million) as collateral for repurchase agreement liabilities, as margin for trading purposes or as transfers in return for the loan of other securities, for trading portfolio liabilities and borrowings. Refer to Note 36.1 *Credit risk* for further details.

Note 40
Pledged assets and transfers of financial assets continued

Transfer of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer risks and rewards of financial assets recognised in the Consolidated Entity's Statements of financial position to other entities. Depending on the criteria discussed in Note 44(vii) *Financial instruments*, the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

Transferred financial assets that are derecognised

When financial assets are derecognised, 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 2023 and 31 March 2022, there were no material transfers of financial assets where the Consolidated Entity has had continuing involvement.

Transferred financial assets that are not derecognised

The Consolidated Entity did not derecognise any financial assets to the extent of continuing involvement in the years ended 31 March 2023 and 31 March 2022. The following transactions typically result in the transferred assets continuing to be recognised in full.

Repurchase and securities lending agreements

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

Where securities are transferred in return for the loan of other securities or on an unsecured basis in return for a fee, the transferred asset continues to be recognised in full. There is no associated liability as the securities received 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.

Financial investment - Total return swap

Financial assets sold, while concurrently entering into a total return swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity does not have legal rights to these assets but has full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

Other financial transfers not derecognised

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

Note 40
Pledged assets and transfers of financial assets continued

The following tables provide a summary of financial assets that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition, together with the associated liabilities.

			FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS		
	Carrying amount of transferred assets $m	**Carrying amount of associated liabilities $m**	**Fair value of transferred assets $m**	**Fair value of associated liabilities $m**	**Net fair value $m**
					CONSOLIDATED 2023
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**2,122**	**(459)**	**–**	**–**	**–**
Financial investments	**742**	**(740)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**205**	**(189)**	**–**	**–**	**–**
Other financial assets not derecognised:					
Trading assets	**308**	**–**			
Loan assets	**116**	**(116)**	**116**	**(116)**	**–**
Total financial assets not derecognised	**3,493**	**(1,504)**	**116**	**(116)**	**–**
					CONSOLIDATED 2022
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,279	(269)	–	–	–
Financial investments	884	(852)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	231	(212)	–	–	–
Other financial assets not derecognised:					
Trading assets	270	–	–	–	–
Loan assets	105	(105)	105	(105)	–
Total financial assets not derecognised	2,769	(1,438)	105	(105)	–

There were no material transfers of financial assets for the Company where the financial assets were transferred but not derecognised during the financial years ended 31 March 2023 and 31 March 2022.

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

Note 41
Audit and other services provided by PricewaterhouseCoopers

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

	CONSOLIDATED	
	2023 $'000	2022[1] $'000
Audit of the Group and controlled entities:[2]		
PwC – Australia	**29,198**	27,792
Network firms of PwC Australia	**22,753**	21,056
Total audit services	**51,951**	48,848
Audit-related services:[3]		
PwC – Australia	**22,405**	5,666
Network firms of PwC Australia	**1,142**	1,228
Total audit-related services	**23,547**	6,894
Total audit and audit-related services	**75,498**	55,742
Taxation services:		
PwC – Australia	**584**	601
Network firms of PwC Australia	**1,372**	1,867
Total taxation services	**1,956**	2,468
Other services:		
PwC – Australia	**1,331**	1,457
Network firms of PwC Australia	**468**	776
Total other services	**1,799**	2,233
Total other non-audit services	**3,755**	4,701
Total remuneration paid to PwC for audit, audit-related and other non-audit services[4]	**79,253**	60,443

Use of PwC's services for engagements other than audit is restricted in accordance with the Consolidated Entity's *Audit and Assurance Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects and all non-audit services provided by PwC have been approved in accordance with its *Audit and Assurance Independence Policy*.

(1) Comparative information has been restated to conform to the presentation in the current year.
(2) Prior period includes additional fees of $1,955 thousand (2021: $1,680 thousand) for PwC Australia and $2,187 thousand (2021: $4,497 thousand) for network firms of PwC Australia that related to the year ended 31 March 2022 but were incurred during the 2023 financial year.
(3) Audit related services consist of assurance and related services traditionally performed by the independent external auditor of the Consolidated Entity. While in addition to their statutory audit role, these services are consistent with the role of the external auditor and include statutory assurance and other assurance services such as engagements required under regulatory, prudential, legislative or financing programmes as well as reviews requested by regulators and other agreed upon procedures.
(4) An additional amount of $21,295 thousand in 2022 (2021: $14,327 thousand) was paid or payable to PricewaterhouseCoopers as fees for audit services for Macquarie-managed funds that are not a part of the Consolidated Entity.

Note 42
Acquisitions and disposals of subsidiaries and businesses

Acquisitions of subsidiaries and businesses

The Consolidated Entity's acquisitions include subsidiaries and businesses acquired as part of core business operations as well as subsidiaries and businesses held for investment purposes.

Core business operations

During the current year, there were no businesses or subsidiaries acquired for core business operations. Subsidiaries and businesses acquired or consolidated during the previous financial year were Waddell & Reed Financial Inc, AMP Capital, Central Park Group LLC and Macquarie Global Value Equity Fund.

The table below presents aggregated details of the businesses or subsidiaries, acquired or consolidated during previous year.

	2022 $m
Fair value of net assets acquired	
Cash and bank balances	420
Intangible assets	895
Interest in associates and joint ventures	33
Other assets	461
Borrowings and other liabilities	(653)
Total fair value of net assets acquired	1,156
Consideration	
Cash consideration	1,805
Deferred consideration	76
Total consideration	1,881
Goodwill recognised on acquisition	725
Net cash flow	
Cash consideration	(1,805)
Less: cash and cash equivalents acquired	(420)
Net cash outflow	(2,225)

Held for investment purposes

Subsidiaries and businesses acquired or consolidated during the current year primarily includes Cowal Agriculture Unit Trust, Victorium Consortium Trust and Macquarie Real Estate Partners SCSp for a total consideration of $674 million. On acquisition, net assets of $1,877 million, non-controlling interests of $1,364 million and goodwill of $161 million were recognised in the Statements of financial position.

Subsidiaries and businesses acquired or consolidated during the previous year primarily includes Wavenet Group Holdings Limited and Radzyn Clean Energy Poland Sp. z o.o. for a total consideration of $682 million. On acquisition, net assets of $201 million, non-controlling interest of $46 million and goodwill of $435 million were recognised on the Statements of financial position.

Note 42
Acquisitions and disposals of subsidiaries and businesses continued

Disposals of subsidiaries and businesses

The Consolidated Entity's disposal include subsidiaries and businesses which form part of core business operations as well as subsidiaries and businesses held for investment purposes.

Core business operations

During the current year, there were no businesses or subsidiaries disposed of or deconsolidated for core business operations. Subsidiaries and businesses disposed of or deconsolidated during the previous financial year due to loss of control were Cortex Metering Solutions Limited and Macquarie Investment Management Korea Co., Ltd.

The table below presents aggregated details of the businesses or subsidiaries, disposed or deconsolidated during the previous year.

	2022 $m
Carrying value of net assets disposed	
Cash and bank balances	18
Other assets	19
Property, plant and equipment and right-of-use assets	59
Borrowings and other liabilities	(5)
Total carrying value of net assets disposed	91
Consideration	
Cash consideration	551
Total consideration	551
Net cash flow	
Cash consideration	551
Less: cash and cash equivalents disposed of or deconsolidated	(18)
Net cash inflow	533

Held for investment purposes

Subsidiaries and businesses disposed of or deconsolidated during the current year primarily includes Collfield Investments Sp. z o.o., Nordic Renewable Power (Holdings) AB, Nordic Renewable Power AB, Lake Wind AB, Tysvaer Vindpark AS, Buheii Vindkraft AS, and Victorium Consortium Trust, for a total consideration of $1,002 million. Disposal resulted in deconsolidation of net assets of $1,692 million and non-controlling interest of $1,071 million, resulting in the recognition of investment income (gain on disposal) of $381 million in the income statement.

Subsidiaries and businesses disposed of or deconsolidated during the previous year primarily includes Savion LLC, Dovel Holdings I LLC and Bernard Midco Limited for a total consideration of $3,114 million. These disposals resulted in deconsolidation of net assets of $857 million and non-controlling interests of $46 million, resulting in the recognition of investment income (gain on disposal) of $2,303 million in the income statement.

Note 43
Events after the reporting date

There were no material events subsequent to 31 March 2023 and up until the authorisation of the financial statements for issue, that have not been disclosed elsewhere in the financial statements.

Note 44
Significant accounting policies

(i) Principles of consolidation

Subsidiaries

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

- power to direct the relevant activities
- exposure, or rights, to 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 34 *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 statements, consolidated Statements of comprehensive income and consolidated Statements of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

Where control of an entity was obtained during the financial year, its results are included in the consolidated Income statements 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.

Note 44
Significant accounting policies continued

(i) Principles of consolidation continued

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

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

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

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

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

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

Changes in ownership interests

When acquiring additional interests:

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

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

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

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

(ii) Business combinations

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

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

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.

Note 44
Significant accounting policies continued

(ii) Business combinations continued

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

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

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

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

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

(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 35 *Hedge accounting* and Note 44(x) *Derivative instruments and hedging activities*).

Subsidiaries and other entities

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

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

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

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

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

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition

Net interest income

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

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

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

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

Fee and commission income

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

Base and other asset management fees, and performance fees

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

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

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

Mergers and acquisitions, advisory and underwriting fees

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

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

Brokerage and other trading-related income

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

Other fee and commission income

Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, lending services, stock borrow and lending activities and income on structured products which is recognised when the performance obligation is satisfied.

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition continued

Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term 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 44(i) *Principles of consolidation* for details on the timing of recognition of such gains or losses.

Dividends

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

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

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

Expenses

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

(v) Segment reporting

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

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

(vi) Taxation

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

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

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.

Note 44
Significant accounting policies continued

(vi) Taxation continued

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

Tax consolidation

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

The Company, together with all eligible Australian resident wholly owned subsidiaries, comprise a tax consolidated group (TCG) with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses or credits.

The TCG recognises its current and deferred taxes using the 'group allocation approach' detailed in AASB UIG Interpretation 1052 *Tax Consolidation Accounting*. Under the terms and conditions of a tax funding agreement, the Company charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

Goods and Services tax (GST)

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

(vii) Financial instruments

Recognition of financial instruments

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

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

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

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

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

Derecognition of financial instruments

Financial assets

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

- the contractual 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
   - 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.

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

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

Financial liabilities

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

Gains and losses 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
- 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
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of AASB 15 *Revenue from Contracts with Customers*.

Modification of financial instruments

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

For financial instruments measured at amortised cost, and for debt financial assets measured at FVOCI, when the modification does not result in derecognition, the gross carrying amount of the financial instrument is recalculated and a modification gain or loss is recognised in the income statement. 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 together to achieve a particular business objective. 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 business model and 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
- 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

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 assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements
- the financial asset has not been classified as DFVTPL.

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

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

Fair value through profit or loss

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

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

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

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 44(x) *Derivative instruments and hedging activities* for the detailed hedge accounting policy.

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

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

Offsetting of financial instruments

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

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

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

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

These transactions include:

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

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

Reverse repurchase agreements are measured as follows by the Consolidated Entity:

- agreements that are collateralised with commodities are measured at amortised cost when they are held in a business model to collect contractual cash flows and AASB 9's SPPI criteria are met
- agreements that are held within the Consolidated Entity's cash and liquid assets portfolio are measured at FVOCI as they are held in a business model to both collect contractual cash flows and with the intention to sell
- all other reverse repurchase agreements are measured at FVTPL to reflect the Consolidated Entity's business model to realise fair value gains and losses as opposed to a business model in which the objective is to collect contractual cash flows.

Also refer to Note 37 *Measurement categories of financial instruments*.

Repurchase agreements are subsequently measured at amortised cost, except where they are DFVTPL to eliminate an accounting mismatch created by managing the agreements together with the associated reverse repurchase agreements that are measured at FVTPL.

(ix) Trading assets and liabilities

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets and liabilities that are classified as HFT. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised gain or loss arising from revaluing that contract to fair value as part of net trading income, except for interest income on HFT debt financial assets which is recognised in interest income. Refer to Note 44(vii) *Financial instruments*.

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

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

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

When the Consolidated Entity becomes party to a sale contract, and the derecognition criteria are met (refer to Note 44(vii) *Financial instruments*), it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

(x) Derivative instruments and hedging activities

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

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

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

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 44(vii) *Financial instruments*.

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

Hedge accounting

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

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Nature of hedge	The hedge of the fair value risk of a financial or non-financial asset or liability.	The hedge of the change in cash flows of a financial asset or liability or a highly probable forecast transaction.	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
Nature of material hedged risks	• Interest rate risk • Foreign exchange risk • Commodity price risk.	• Interest rate risk • Foreign exchange risk • Commodity price risk.	• Foreign exchange risk.
Material hedged items	• Fixed interest rate financial assets and liabilities • Property, plant and equipment.	• Floating interest rate financial assets or liabilities • Highly probable forecast floating interest rate financial assets and liabilities • Highly probable forecast foreign currency payments • Highly probable forecast commodity sales • Foreign currency denominated interest bearing financial liabilities.	• Net investment in foreign operations.
Material hedging instruments	• Interest rate swaps • Cross currency swaps • Commodity forwards and futures • Foreign exchange forwards and swaps.	• Interest rate swaps and options • Cross currency swaps • Foreign currency denominated borrowings • Commodity forwards and futures.	• Foreign exchange contracts • Foreign currency denominated issued debt.
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: • an economic relationship exists between the hedged item and the hedging instrument • credit risk does not dominate the changes in value of either the hedged item or the hedging instrument • the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis or under other accounting standards as appropriate (such as executory contracts for the sale of commodities).	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

<table>
<tr><th></th><th>Fair value hedge</th><th>Cash flow hedge</th><th>Net investment hedge</th></tr>
<tr><td>Accounting treatment for hedge ineffectiveness</td><td>Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.</td><td colspan="2">Recognised as part of net trading income in the income statement to the extent to which changes in the fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.</td></tr>
<tr><td>Accounting treatment if the hedge relationship is discontinued</td><td>Where the hedged item still exists and is a financial instrument carried at amortised cost, adjustments to the hedged item are amortised to the income statement on an EIR basis. For non-financial items, the adjustment continues as part of the carrying value of the asset up until it is recovered through use or sale, or the item becomes impaired.</td><td>The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.

Where the hedged cash flows are no longer expected to take place, the gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.</td><td>The exchange gains or losses recognised in the NIHR within FCTR are reclassified to the income statement or reattributed within equity as follows:
• if the hedge is discontinued due to a disposal of the hedged foreign operation, then the accumulated NIHR is reclassified from OCI to investment income within other operating income and charges
• if there is a partial disposal of a foreign operation that is an associate or joint arrangement, without loss of significant influence or joint control, then a proportionate share of the accumulated NIHR is reclassified to investment income
• if there is a partial disposal of a foreign operation that is a subsidiary, without loss of control, then a proportionate share of the accumulated NIHR is reattributed within equity to non-controlling interests.</td></tr>
<tr><td>Other accounting policies</td><td colspan="3">Certain components of the hedging instrument such as the forward element of a forward contract, the time value of an option and the foreign currency basis spread (being the liquidity charge for exchanging different currencies), may be excluded from the hedge designation. These elements are deferred in the cost of hedging reserve and released to the income statement either at the time at which the hedged exposure affects the income statement, or on a systematic basis over the life of the hedge.</td></tr>
</table>

Note 44
Significant accounting policies continued

(xi) Margin money and settlement assets and liabilities

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

(xii) Financial investments

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

Debt investment securities in this category comprise liquid asset holdings, bonds, money markets 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 44(vii) *Financial instruments*.

(xiii) Loan assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 44(vii) *Financial instruments*.

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment of derecognition, refer to Note 44(vii) *Financial instruments*.

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

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

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

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

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

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

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

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2.5 to 3.3%
Furniture, fittings and leasehold improvements[1]	10 to 20%
Infrastructure assets and equipment[2]	2 to 33%
Aviation	4%
Meters	5 to 36%
Telecommunications	24 %
Equipment and other operating lease assets	2 to 30%

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

The depreciation charge is recognised as part of:

- net operating lease income for assets given on operating lease
- occupancy expenses for corporate buildings
- non-salary technology expenses for technology assets
- net trading income for depreciation relating to leased assets held by trading-related businesses for the purpose of facilitating trading activities
- other operating expenses for all other assets.

The Consolidated Entity does not recognise a ROU asset for short-term or low value leases, instead the expense is recognised over the lease term as appropriate as part of operating expenses.

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.
(2) Includes infrastructure assets, for which depreciation is calculated on a unit of production basis.

Note 44
Significant accounting policies continued

(xv) Goodwill and other identifiable intangible assets

Goodwill

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

Other acquired identifiable intangible assets

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

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

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

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

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

Software

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

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

(xvi) Deposits

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

(xvii) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

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

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

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

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 associated 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.

Note 44
Significant accounting policies continued

(xvii) Other assets and liabilities continued

Non-current assets and liabilities of disposal groups classified as held for sale 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 are either possible obligations whose existence will be confirmed only by uncertain future events, or they are present obligations where a transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless an outflow of economic resources is remote.

Contingent liabilities, which generally include letters of credit, performance-related contingents and guarantees are disclosed in Note 33 *Contingent liabilities and commitments*.

Employee benefit provisions

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

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

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

Dividends

Where a dividend is determined or resolved by the Company's Board of Directors, consideration is given to the record date when determining the date on which the provision for the dividend is recognised in the Statements of financial position as a liability, with a corresponding reduction in retained earnings.

(xviii) Borrowings

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

(xix) Due to/from subsidiaries

Transactions between the Company and its subsidiaries principally arise from the provision of lending arrangements and acceptance of funds on deposit, intercompany services and transactions and the provision of financial guarantees, and are accounted for in accordance with Note 44(iv) *Revenue and expense recognition* and Note 44(vii) *Financial instruments*. Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 44(vii)), such that the net amount is reported in the Statements of financial position.

(xx) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at either amortised cost or are DFVTPL and measured at fair value in accordance with the Consolidated Entity's accounting policy for financial instruments, refer to Note 44(vii) *Financial instruments*.

(xxi) Loan capital

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

Capital instruments are first assessed to determine whether the Consolidated Entity is required to deliver cash or another financial asset on the occurrence of a contingent event that is considered genuine and is beyond the control of both the issuer and the holder (such as Common Equity Tier 1 Trigger Events or Non-Viability Trigger Events). Where such a contingent event exists, the Consolidated Entity does not have the unconditional right to avoid delivering cash or another financial asset and the capital instrument is classified as a financial liability. The financial liability is initially measured at fair value plus directly attributable transaction costs and is subsequently measured at amortised 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.

Note 44
Significant accounting policies continued

(xxii) Impairment

Expected credit losses

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 13 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(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 13 *Expected credit losses*.

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

(iii) Stage III—Credit-impaired

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

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

Presentation of ECL allowances

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

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

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

Impairment of interests in associates and joint ventures

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

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

Note 44
Significant accounting policies continued

(xxii) Impairment continued

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

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

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

Impairment of investments in subsidiaries

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

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

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

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

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

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

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the Operating Segments (refer to Note 3 *Segment reporting*) and assessed for impairment.

(xxiii) Performance based remuneration

Share-based payments

The Consolidated Entity operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 32 *Employee equity participation*.

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

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with a corresponding increase in equity with reference to the vesting period of those awards. Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. On vesting, the amount recognised in the share-based payments reserve is transferred to contributed equity. For the Company, the accounting is dependent on whether the Company is compensated for its obligations under the MEREP award. To the extent that employing subsidiaries compensate the Company for the MEREP offered to their employees, a recharge liability due to subsidiaries is recognised by the Company at grant date representing the payment received in advance of the award being settled. This liability reduces over the vesting period with a corresponding increase in the share-based payments reserve. MEREP liabilities are recognised and disclosed in Note 30 *Related party information*. To the extent that employing subsidiaries do not compensate the Company for the MEREP offered to their employees', the Company reflects the provision of the equity settled award as a contribution to its subsidiary and as a result increases its investment in the subsidiary with a corresponding increase in the share-based payments reserve. On vesting, amounts recognised in the share-based payments reserve are transferred to contributed equity.

Note 44
Significant accounting policies continued

(xxiii) Performance based remuneration continued

Cash settled awards: The awards are measured at their grant date fair value and based on the number of instruments expected to vest. Expenses are recognised as part of employment expenses with reference to vesting period of those awards which are settled in cash. The award liability is measured with reference to the number of awards and the fair value of those awards at each reporting date.

Profit share remuneration

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

(xxiv) Leases

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

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases office premises, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 15 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 44(xiv) *Property, plant and equipment and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Consolidated Entity.

Lease liability

Lease liabilities are initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Lease payments are allocated between principal and interest expense.

Interest expense is, unless capitalised on a qualifying asset which is not measured at fair value, recognised as part of interest and similar expense over the lease period on the remaining lease liability balance for each period. Any variable lease payments not included in the measurement of the lease liability are also recognised as in the income statement in the period in which the event or condition that triggers those payments occurs.

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

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

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 15) and lease liabilities in Other liabilities (refer to Note 23) in the Statements 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 44(xiv) *Property, plant and equipment and right-of-use assets*. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment and right of-use assets.

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

Note 44
Significant accounting policies continued

(xxv) Contributed equity

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

(xxvi) Fiduciary assets and client money

The Consolidated Entity engages in trust, fund or other fiduciary activities as well as certain brokerage and other trading-related activities that result in the holding or placing of assets on behalf of third parties. Where such assets are controlled, and future economic benefits are expected to be realised by the Consolidated Entity, such assets and the income thereon are reflected in the Statements of financial position and income statement respectively.

Where this is not the case, these assets and the income thereon are excluded from the Consolidated Entity's financial statements as they are not the assets of the Consolidated Entity. Fee income earned by the Consolidated Entity relating to its responsibilities from fiduciary and brokerage and other trading-related activities is included as part of fee and commission income.

(xxvii) Cash and bank balances

Cash and bank balances includes currency on hand, demand deposits and short-term balances with Central and other banks including unallocated precious metal balances. These balances are subsequently measured at amortised cost except unallocated precious metals which are held at FVTPL.

(xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances (except unallocated precious metal balances) as well as certain liquid financial investments and non trading reverse repurchase agreements that have a contractual maturity of three months or less from the date of acquisition and which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are available to meet the Consolidated Entity's short-term cash commitments. Cash and cash equivalents exclude margin money balances, trading assets and certain client-related balances which are segregated from the Consolidated Entity's own funds and are thus restricted from use.

(xxix) Investment property

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

(xxx) Comparatives

During the financial year, the Consolidated Entity has re-presented information in the following matters:

- Undrawn commitments for certain retail banking products which despite being revocable have been considered to be exposed to credit risk and accordingly the comparative credit commitment exposures have been re-presented under Note 33 *Contingent liabilities and commitments* and Note 36 *Financial risk management*.
- Credit concentration in the Note 36.1 *Credit risk*, covering the geographical locations and counterparty type for certain debt securities under Financial investment has been re-presented. Additionally, Credit quality in the Note 36.1 *Credit risk* for Loan assets has been re-presented for the Consolidated Entity and the Company to reflect a refinement in the methodology for portfolio grading.

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

(xxxi) Rounding of amounts

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

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

(i) AASB 17 *Insurance Contracts*

AASB 17 *Insurance Contracts*, amends the accounting for insurance contracts and will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The standard is mandatorily effective for the Consolidated Entity's annual reporting period beginning on 1 April 2023. Based on the Consolidated Entity's current business activities AASB 17 *Insurance Contracts* will not 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

Macquarie Group Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 153 to 285 are in accordance with the *Corporations Act 2001* (Cth) including:
   (i) complying with Australian Accounting Standards, and
   (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2023 and their performance for the financial year ended on that date, and

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

Note 1(i) includes a statement that the Financial Report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth). This declaration is made in accordance with a resolution of the Directors.

Glenn Stevens AC
Independent Director and Chair

Shemara Wikramanayake
Managing Director and Chief Executive Officer

Sydney
5 May 2023

Independent auditor's report

To the members of Macquarie Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2023 and of their financial performance for the year then ended

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

What we have audited

The Consolidated Entity and Company financial report comprises:

- the Consolidated and Company statements of financial position as at 31 March 2023
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company income statements for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

Our audit approach for the Consolidated Entity

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.

The Consolidated Entity is structured into four operating groups and a corporate segment. It undertakes operational activities that are important to the financial reporting process in multiple locations overseas, including sites in Gurugram in India, Jacksonville in the United States and Manila in the Philippines.

Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of $313 million, which represents approximately 4.5% of the Consolidated Entity's profit before tax.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity profit before tax because, in our view, it is the benchmark against which the performance of the Consolidated Entity is most commonly measured.

We utilised a threshold of approximately 4.5% based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To identify these subjective judgements, we considered the inherent risks arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the four operating groups and the corporate segment. These component audit teams, in consultation with the group audit team, established an audit strategy tailored for each operating group and the corporate segment.

Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other member firms of the PwC global network to perform audit procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by component audit teams, including the component audit teams' review and supervision of the overseas audit teams they, in turn, instructed.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate only to the audit of the Consolidated Entity. There were no key audit matters identified for the Company. We communicated the key audit matters to the Board Audit Committee.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loan assets (Refer to Note 13)	
Under the credit impairment model required by AASB 9: *Financial Instruments* (AASB 9), losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios. The global economic outlook remains uncertain. Significant regulatory intervention has been necessary in order to contain further crises in the financial sector. Rising interest rates and rising inflation continue to place pressure on the economies throughout the World, and the ongoing conflict in Europe shows little sign of resolution. As a result, significant judgement was required to be exercised by the Consolidated Entity in calculating the ECL. Specifically, this includes judgements around the use of forward-looking information, including developing macroeconomic scenarios and their associated weightings and the use of post model adjustments in the calculation of the ECL. In order to meet the ECL requirements of AASB 9, the Consolidated Entity has developed models that involve judgement including determining assumptions such as defining a significant increase in credit risk (SICR). The ECL models of the Consolidated Entity rely on numerous data elements and certain post model adjustments are applied based on the Consolidated Entity's judgement. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to: • review, challenge and approval of certain forward-looking macroeconomic assumptions and scenario weightings, including specifically the consideration of impacts of rising inflation and interest rates • monitoring of the effectiveness of models used to support ECL estimates, and the validation of new and revised models implemented assessment of the credit quality of counterparties • accuracy of certain critical data elements used in key ECL models, and • review and challenge forums to assess the ECL output and post model adjustments. In addition to controls testing, we also performed substantive procedures including: • together with PwC credit modelling experts, assessing the appropriateness of conclusions reached by the Consolidated Entity from model monitoring performed on key models. This included assessing key model components such as SICR and reperformance of certain tests performed as part of the model monitoring • together with PwC credit modelling experts, testing the appropriateness of a selection of changes to key models • together with PwC credit modelling experts, assessing whether the list of critical data elements identified by the Consolidated Entity was appropriate for key models • together with PwC economics experts, assessing the appropriateness of relevant macroeconomic scenarios and certain forward-looking economic data developed by the Consolidated Entity • test the completeness and accuracy of certain critical data elements used in key ECL models • assessing a selection of post model adjustments identified by the Consolidated Entity, including developing an understanding of the methodology used for overlay derivation and testing the underlying datasets used for the calculations, and • considering the impacts on the ECL events occurring subsequent to balance date. For credit impaired loan (Stage III) provisions, we examined a sample of individual loan exposures to consider the appropriateness of provisions recognised. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Valuation of complex or illiquid financial instruments carried at fair value through profit and loss which are based on significant unobservable inputs (level 3 financial instruments) (Refer to Note 38)	
The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments. For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivative financial instruments, trading assets, financial investments and loan assets. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs. Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.	Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over: • approval and validation of the models adopted • accuracy of inputs to models • the price verification process performed by the Consolidated Entity using prices and model inputs sourced from third parties • calculation and approval of key valuation adjustments • governance, review and challenge forums. Together with PwC valuation experts, we tested the Consolidated Entity's estimate for a sample of level 3 derivative financial instruments and trading assets. We considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations. We tested a sample of valuation adjustments at period end, including evaluating the methodology applied and underlying assumptions. For a sample of financial investments and loan assets, together with PwC valuation experts, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of significant inputs used, such as forecasts and comparable market information. For a sample of financial instruments, we tested the allocation of financial instruments to the appropriate level within the fair value hierarchy. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of Australian Accounting Standards.
Valuation of interests in associates and joint ventures (Refer to Note 14)	
In accordance with Australian Accounting Standards, interests in associates and joint ventures need to be assessed by the Consolidated Entity for indicators of impairment or reversal of impairment at the reporting date. If indicators of impairment, or reversal of impairment exist, the recoverable amount for each asset needs to be estimated. These assessments involve significant judgements such as estimating future cash flows, discount rates applied to future cash flows and in evaluating fair value less costs to sell. Given the financial significance of the Consolidated Entity's recorded interests in associates and joint ventures, and the judgement and subjectivity involved in determining assumptions, we considered this to be a key audit matter.	We evaluated the Consolidated Entity's valuation methodologies used to estimate the recoverable amount of a sample of interests in associates and joint ventures and the process by which they were developed. Assisted where relevant by PwC Valuation experts, for interests in associates and joint ventures, our procedures included: • evaluating the Consolidated Entity's assessment of whether there were any indicators of impairment or whether impairment losses recognised in prior periods should be reversed • evaluating the appropriateness of the impairment assessment methodology and significant assumptions applied in calculating the recoverable amount • comparing previous cashflow forecasts to actual results, or comparing previous net asset values to underlying investment values, to assess the ability of the Consolidated Entity to forecast accurately • assessing the appropriateness of discount rates used in valuations • assessing certain underlying data used in determining the carrying value and recoverable amount • testing the mathematical accuracy of the Consolidated Entity's discounted cashflow models which were used to determine the recoverable amount of the asset. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of the Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
IT systems and controls over financial reporting	
The Consolidated Entity's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions. A fundamental component of these IT systems and controls is ensuring that risks in relation to inappropriate user access management, unauthorised program changes and IT operating protocols are managed. Due to this, we consider the operation of IT systems and controls over financial reporting to be a key audit matter.	For material financial statement balances we developed an understanding of the business processes, IT systems used to generate and support those balances and associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating the design and testing the operating effectiveness, where relevant, of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing, where relevant to the audit: • change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems • system development: the project disciplines which ensure that significant developments or implementation are appropriately tested before implementation and that data is migrated/converted and transferred completely and accurately • security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means • IT operations: the controls over operations are used to ensure that any issues that arise are managed appropriately. Within the scope of our audit where technology services are provided by a third party, we obtained assurance through independent testing or, where available, considered assurance reports from the third party's auditor on the design and operating effectiveness of controls for the reporting period. We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative or additional audit procedures, which included considering mitigating controls in order to respond to the impact on our overall audit approach.
Estimation of tax payable relating to tax uncertainties (Refer to Note 23)	
The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity in each local territory, and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities. Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess the completeness and quantum of the provisions for tax. We considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of the Australian Accounting Standards.
Recognition of performance fees and fee income (Refer to Note 2)	
In some cases, judgement is required by the Consolidated Entity to estimate the timing and amount of fee income and performance fees recognised in accordance with the requirements of Australian Accounting Standards. Given the extent of the judgement involved, we considered this to be a key audit matter.	Our audit procedures included evaluating the design and testing the operating effectiveness of relevant controls relating to the recognition and measurement of fee income and performance fees. In assessing the appropriateness of the recognition of fee income and performance fees, we tested the Consolidated Entity's estimate for a sample of fee income based on relevant information in supporting documents including contracts, fund constitutions and management agreements. Specifically for performance fees, we also considered the nature of the underlying fund assets, the proportion of assets already realised, the returns on the assets realised to date and the potential for volatility in the valuation of the remaining unrealised assets. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report against the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2023, 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 through our opinion on the financial report. We have issued a separate audit opinion on the remuneration report and a limited assurance conclusion on specified metrics in the Environmental Social and Governance section of the annual report.

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: **https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf**. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 104 to 149 of the directors' report for the year ended 31 March 2023.

In our opinion, the remuneration report of Macquarie Group Limited for the year ended 31 March 2023 complies with section 300A of the *Corporations Act 2001* (Cth).

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

Kristin Stubbins
Partner

Sydney
5 May 2023

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