BASE LISTING DOCUMENT DATED 28 MAY 2021

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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Non-collateralised Structured Products Base Listing Document relating to Structured Products to be issued by

MACQUARIE BANK

MACQUARIE BANK LIMITED

(ABN 46 008 583 542)

(incorporated under the laws of Australia)

This document, for which we accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to Macquarie Bank Limited (the "**Issuer**", "**Macquarie Bank**", "**we**" or "**us**") and our standard warrants ("**Warrants**"), callable bull/bear contracts ("**CBBCs**") and other structured products (together, the "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

We, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The Structured Products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

The Structured Products are complex products. You should exercise caution in relation to them. Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute general unsecured contractual obligations of us as the Issuer and of no other person and will rank equally among themselves with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon the creditworthiness of us, and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Other than Macquarie Bank Limited ABN 46 008 583 542 (Macquarie Bank Limited), any Macquarie Group entity noted in this document is not an authorised deposit taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The Structured Products do not represent protected accounts for the purposes of the financial claim scheme or deposits of Macquarie Bank Limited or any other member of the Macquarie Group. Macquarie Bank Limited does not guarantee the payment or repayment of any moneys owing to the Structured Products holders or the return of any principal invested or any particular rate of return or otherwise provide assurance in respect of the obligations of that entity, unless noted otherwise. The holding of the Structured Products is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Structured Products do not represent deposits or liabilities in relation to protected accounts with Macquarie Bank Limited.

Sponsor
Macquarie Capital Limited

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What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or an invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

A launch announcement and supplemental listing document will be issued in respect of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time), together with such launch announcement and supplemental listing document (including any addendum to such launch announcement and supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Product. You should carefully study the risk factors set out in the Listing Documents.

What are our credit ratings?

Our long term credit ratings as of 27 May 2021 were:

Rating agency	*Credit ratings**
S&P Global Ratings ("**S&P**")	A+ (negative outlook)
Moody's Investors Service, Inc. ("**Moody's**")	A2 (stable outlook)

* Credit ratings are subject to change or withdrawal at anytime within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our ratings from time to time.

Our credit ratings are only an assessment by the rating agencies of our overall financial capacity to pay our debts.

A+ is among the top three major credit rating categories and is the fifth highest investment-grade ranking of the ten investment-grade ratings (including + or - modifiers) assigned by S&P.

A2 is among the top three major credit rating categories and is the sixth highest investment-grade ranking of the ten investment-grade ratings (including 1, 2 and 3 modifiers) assigned by Moody's.

Please refer to the brief guide in Appendix 4 to this document for more information about credit ratings.

Rating agencies usually receive a fee from the companies that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;

(b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;

(c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the above date are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products;

(d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and

(e) a credit rating may be downgraded if the credit quality of the Issuer declines or by other events that are not related to the MBL Group.

The Structured Products are not rated.

Are we regulated by the Hong Kong Monetary Authority as referred to in Rule 15A.13(2) or by the Securities and Futures Commission as referred to in Rule 15A.13(3) of the Listing Rules?

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also regulated by, among others, the Australian Prudential Regulation Authority.

Are we subject to any litigation?

There are currently claims against us and some of our subsidiaries and affiliates (the "**Group**"). Details of these claims or the Group's position in respect of them are confidential. Where necessary, appropriate provisions have been made in the financial statements. Save as disclosed in this document, the Group does not consider that the outcome of any such claims known to exist at this date, either individually or in aggregate, is likely to have a material effect on its operations or financial position.

Authorisation for the issue of the Structured Products

The issue of the Structured Products was authorised by our board of directors on 29 August 2002.

Has our financial position changed since last financial year-end?

There has been no material adverse change in our financial or trading position since 31 March 2021. You may access our latest publicly available financial information by visiting our website at *www.macquarie.com.*

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 percent and the Securities and Futures Commission charges a transaction levy of 0.0027 percent in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

Taxation in Hong Kong

An investor would only be subject to Hong Kong profits tax if (a) it were to carry on a trade, profession or business in Hong Kong and (b) profits from that trade, profession or business were to arise in or be derived from Hong Kong. Hong Kong profits tax will not be payable in respect of profits which are capital in nature.

You do not need to pay any Hong Kong stamp duty in respect of purely cash settled Structured Products.

Where Hong Kong stock is to be delivered, stamp duty will normally be payable since any person who effects a sale or purchase of "Hong Kong Stock", as defined in the Stamp Duty Ordinance (Cap 117, The Laws of Hong Kong), whether as principal or as agent and whether such transaction is effected in Hong Kong or elsewhere, is required to execute a contract note evidencing such sale or purchase and have such contract note stamped with Hong Kong stamp duty.

Where the underlying shares are not Hong Kong stock (as defined in the Stamp Duty Ordinance) but are shares listed in other jurisdictions, stamp duty and other taxes may be payable on the transfer of such shares under the laws of such other jurisdictions.

Placing, sale and grey market dealings

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us. See the section "Placing and Sale" for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party.

The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of the HKEX at *http://www.hkexnews.hk.*

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of Macquarie Capital Limited at Level 22, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong:

(a) our published 2021 annual report for the year ended 31 March 2021 ("**2021 Annual Report**");

(b) the consent letter issued by PricewaterhouseCoopers ("**Auditor**");

(c) this document (and any addendum to this document) and the relevant launch announcement and supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and

(d) the instrument executed by us by way of deed poll on 30 May 2006 which constitutes the Structured Products.

Please refer to the base listing document dated 28 May 2020 for our annual financial statements and independent audit report in 2020.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the cost of making such copies.

The Listing Documents are also available on:

(a) the website of the HKEX at *http://www.hkexnews.hk*; and

(b) our website at *www.warrants.com.hk.*

各上市文件亦可於下列網站瀏覽:

(a) 香港交易所披露易網站 *http://www.hkexnews.hk/index_c.htm*; 及

(b) 我們的網站 *www.warrants.com.hk.*

Has the Auditor consented to the inclusion of its

report in this document?

Our Auditor has given and has not withdrawn its written consent to the inclusion of its report dated 7 May 2021 relating to our financial statements for the year ended 31 March 2021 in this document and/or the references to its name in this document, in the form and context in which they are included. The independent audit report was not prepared for incorporation into this document. The Auditor does not hold our shares or shares in any member of our group, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any member of our group.

Authorised Representatives

We have appointed Ashley Miles and Kathleen Kan (c/o Macquarie Capital Limited, Level 22, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong) to accept services of process and notices pursuant to the Listing Rules.

How can you get further information about Macquarie Bank or the Structured Products?

You may visit *www.macquarie.com* and/or *www.warrants.com.hk* to obtain further information about us and/or the Structured Products.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us. HKEX, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

This document has not been reviewed by the Securities and Futures Commission. You are advised to exercise caution in relation to the offer of the Structured Products.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions set out in Appendix 1 and the Product Conditions applicable to the relevant series of Structured Products set out in Appendix 2 and Appendix 3 (together, the "**Conditions**").

PLACING AND SALE

GENERAL

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Product in any jurisdiction (other than Hong Kong) where action for the purpose is required.

UNITED STATES OF AMERICA

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Structured Products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to U.S. persons, except as permitted by the base placing agreement between us and the Sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Regulation, each dealer has represented and agreed, and each further dealer appointed in respect of the Structured Products will be required to represent and agree that, it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any Structured Products which are the subject of the offering as contemplated by this Base Listing Document to any retail investor in the European Economic Area. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Structured Products or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Structured Products or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPS Regulation.

For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

   (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

   (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended and superseded, the "**Prospectus Regulation**"); and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products.

UNITED KINGDOM

Each dealer has represented and agreed, and each further dealer appointed in respect of the Structured Products will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Structured Products which are the subject of the offering contemplated by this Base Listing Document to any retail investor in the United Kingdom.

For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European

Union (Withdrawal) Act 2018 (“**EUWA**”); or

(ii) a customer within the meaning of the provisions of the Financial Services and Markets Act, as amended (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and

(b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe for the Structured Products.

Each dealer has represented and agreed, and each further dealer appointed in respect of the Structured Products will be required to represent and agree, that:

(a) in respect of Structured Products having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a contravention of Section 19 of the FSMA, by us;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Structured Products in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

AUSTRALIA

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

(a) has not offered or invited applications, and will not make any offer, or invite applications, for the issue, sale or purchase of any Structured Product in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this document, any addendum to this document and the relevant launch announcement and supplemental listing document or any other offering material or advertisement relating to any Structured Product in Australia,

Unless:

(a) the offeree or invitee is a “wholesale client”, “sophisticated investor” or “professional investor” (as defined in the Act);

(b) the minimum aggregate consideration payable by each offeree or invitee is at least A$500,000 (or its equivalent in other currencies but disregarding moneys lent by the offeror or its associates); or

(c) the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Act.

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

OVERVIEW OF WARRANTS

What is a Warrant?

A Warrant is a type of derivative warrant.

A derivative warrant linked to a share, a unit, an index or other asset (each an "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price or Strike Level on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

Our Warrants are European style warrants. That means they can only be exercised on the Expiry Date. A warrant will, upon exercise on the Expiry Date, entitle the holder to a cash amount called the "**Cash Settlement Amount**" (if positive) according to the relevant Product Conditions of that warrant.

You will receive the Cash Settlement Amount (if any) less any Exercise Expenses upon settlement at expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry.

How do our Warrants work?

The potential payoff of the Warrant is calculated by us by reference to the difference between:

(a) for a Warrant linked to a share or a unit, the Exercise Price and the Average Price; and

(b) for a Warrant linked to an index, the Strike Level and the Closing Level.

Call warrants

A call warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the warrant.

A call warrant will be exercised if the Average Price/Closing Level is greater than the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), an investor in the call warrant will lose all of his investment.

Put warrants

A put warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the warrant.

A put warrant will be exercised if the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Exercise Price/Strike Level is at or below the Average Price/Closing Level (as the case may be), an investor in the put warrant will lose all of his investment.

Other types of warrants

The launch announcement and supplemental listing document applicable to other types of warrants will specify the type of such warrants.

Where can you find the Product Conditions applicable to our Warrants?

You should review the Product Conditions applicable to each type of the Warrants before your investment.

The Product Conditions applicable to each type of our Warrants are set out in Parts A to C of Appendix 2 (as may be supplemented by any addendum or the relevant launch announcement and supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or Strike Level (as the case may be);

(b) the value and volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset over time);

(c) the time remaining to expiry: generally, the longer the remaining life of a warrant, the greater its value;

(d) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(e) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(f) the supply and demand for the warrant;

(g) our related transaction cost; and/or

(h) our creditworthiness.

What is your maximum loss in warrants?

Your maximum loss in warrants will be your entire investment amount plus any transaction costs.

How can you get information about the Warrants after issue?

You may visit the HKEX website at *https://www.hkex.com.hk/products/securities/structured-products/overview?sc_lang=en* to obtain further information on our Warrants or any notice given by us or the Stock Exchange in relation to our Warrants.

OVERVIEW OF CBBCS

What are CBBCs?

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

(a) shares listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index, Hang Seng TECH Index and Hang Seng China H-Financials Index;

(c) unit trusts or exchange traded funds listed on the Stock Exchange; and/or

(d) overseas securities, indices, currencies or commodities (such as oil, gold and platinum).

A list of eligible Underlying Assets for CBBCs is available on the website of the HKEX at *https://www.hkex.com.hk/Products/Securities/Structured-Products/Eligible-Underlying-Assets?sc_lang=en*.

CBBCs are issued either as bull CBBCs or bear CBBCs, allowing you to take either bullish or bearish positions on the Underlying Asset. Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset. Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See "What are the mandatory call features of CBBCs?" below for further information.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs. See "Category R CBBCs vs. Category N CBBCs" below for further information.

If no Mandatory Call Event occurs, the CBBCs may be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level. See "Category R CBBCs vs. Category N CBBCs" below.

What are the mandatory call features of CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price/Spot Level of the Underlying Asset is:

(a) at or below the Call Price/Call Level (in the case of a bull CBBC); or

(b) at or above the Call Price/Call Level (in the case of a bear CBBC),

at any time during the Observation Period.

The Observation Period starts from and includes the Observation Commencement Date of the relevant CBBCs and ends on and includes the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event; and

(b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session,

will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities listed on the Stock Exchange ("**Single Equity CBBCs**") or CBBCs over single unit trust listed on the Stock Exchange ("**Single Unit Trust CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (in the case of a bull CBBC) or is at or above the Call Price (in the case of a bear CBBC); or

(b) in respect of CBBCs over index ("**Index CBBCs**"), the time the relevant Spot Level is published by the Index Compiler at which the Spot Level is at or below the Call Level (in the case of a bull CBBC) or is at or above the Call Level (in the case of a bear CBBC),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category R CBBCs vs. Category N CBBCs

The launch announcement and supplemental listing document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category R CBBCs**" refer to CBBCs for which the Call Price/Call Level is different from their Strike Price/Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of a bull CBBC, the difference between the Minimum Trade Price/Minimum Index Level of the Underlying Asset and the Strike Price/Strike Level; and

(b) in respect of a bear CBBC, the difference between the Strike Price/Strike Level and the Maximum Trade Price/Maximum Index Level of the Underlying Asset.

"**Category N CBBCs**" refer to CBBCs for which the Call Price/Call Level is equal to their Strike Price/Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

You must read the relevant Product Conditions and the relevant launch announcement and supplemental listing document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

If a Mandatory Call Event occurs, you may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Minimum Trade Price/Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of bear CBBCs, the Maximum Trade Price/Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price/Strike Level.

If no Mandatory Call Event occurs, you may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Closing Price/Closing Level is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of bear CBBCs, the Closing Price/Closing Level is equal to or greater than the Strike Price/ Strike Level.

How is the funding cost calculated?

The issue price of a CBBC represents the difference between the initial reference Spot Price/Spot Level of the Underlying Asset and the Strike Price/Strike Level, plus the applicable initial funding cost as at the launch date.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant launch announcement and supplemental listing document and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price/Strike Level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends or distributions in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant launch announcement and supplemental listing document.

Do you own the Underlying Asset?

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

Where can you find the Product Conditions applicable to our CBBCs?

You should review the Product Conditions applicable to each type of the CBBCs before your investment.

The Product Conditions applicable to each type of our CBBCs are set out in Parts A to C of Appendix 3 (as may be supplemented by any addendum or the relevant launch announcement and supplemental listing document).

What are the factors determining the price of a CBBC?

The price of a CBBC tends to follow closely the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price/Strike Level and the Call Price/Call Level (as the case may be);

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value (if any) payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(f) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(g) the supply and demand for the CBBCs;

(h) the probable range of the Cash Settlement Amount;

(i) our related transaction cost; and/ or

(j) our creditworthiness.

What is your maximum loss in CBBCs?

Your maximum loss in CBBCs will be your entire investment amount plus any transaction costs.

How can you get information about the CBBCs after issue?

You may visit the HKEX website at *https://www.hkex.com.hk/products/securities/structured-products/overview?sc_lang=en* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

INFORMATION IN RELATION TO US

MACQUARIE BANK LIMITED

Macquarie Bank Limited is an Australian Prudential Regulation Authority (APRA) regulated Authorised Deposit-taking Institution ("**ADI**") headquartered in Sydney, Australia and is a wholly owned subsidiary of Macquarie Group Limited. Macquarie Bank's expertise covers asset finance, lending, banking and risk and capital solutions across debt, equity and commodities. Macquarie Bank acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to clients.

The Banking Group comprises two operating groups: Banking & Financial Services and Commodities & Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities which are undertaken from within the Non-Banking Group).

The Non-Banking Group consists of Macquarie Capital; Macquarie Asset Management; certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities in Commodities & Global Markets.

The registered office of Macquarie Bank is at Level 6, 50 Martin Place, Sydney, NSW 2000, Australia. Macquarie Bank's principal administrative office is 50 Martin Place, Sydney, NSW 2000, Australia.

Commodities & Global Markets

Commodities and Global Markets (CGM) comprises the following businesses in the Banking Group:

- Commodities Markets and Finance: provides risk management, lending and financing, and physical execution and logistics services across the energy, metals and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.

- Credit Markets: Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans. Certain activities in Credit Markets form part of the Non-Banking Group in certain jurisdictions due to local regulation.

- Equity Derivatives and Trading: Issues retail derivatives in key locations, and provides derivative products and equity finance solutions to its institutional client base, and conducts risk and market making activities. Generally, the Derivatives and Trading division's activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

- Fixed Income & Currencies: provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally.

- Futures: Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of all major markets globally.

- Specialised and Asset Finance: delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes.

- Central: Fosters and develops various non-division specific, early stage or cross-divisional initiatives, as well as housing various CGM-wide services including cross-product sales and structured global markets.

On 1 April 2021, APRA announced actions required regarding Macquarie Bank Limited's risk management practices and ability to calculate and report key prudential ratios. APRA increased Macquarie Bank Limited's operational risk capital requirement and made adjustments to requirements for certain liquidity prudential ratios, effective from 1 April 2021. The actions relate to specific intra-group funding arrangements as well as breaches of APRA's reporting standards on liquidity between 2018 and 2020. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions.

While specific historical matters leading to these actions have been addressed, we acknowledge that continued work is required on its risk governance and operating platform and has programs in place to strengthen capital and liquidity reporting and its risk management framework. We will work closely with APRA on these programs through a period of intensified supervision.

DIRECTORS AND COMPANY SECRETARIES

Directors' Qualifications and Membership of Other Board Committees

Peter H Warne
BA (Macquarie), FAICD
Independent Chairman since 1 April 2016
Independent Voting Director since July 2007
Member of the Board Risk Committee

Mary J Reemst
BA (Macquarie), Dip Fin Mgt (Accountancy) (UNE), MAICD
Managing Director and Chief Executive Officer of Macquarie Bank Limited since July 2014
Executive Voting Director since July 2014

Shemara R Wikramanayake
BCom, LLB (UNSW)
Executive Voting Director since August 2018
Managing Director and Chief Executive Officer of Macquarie Group Limited since December 2018

Jillian R Broadbent AC
BA (Maths & Economics) (Sydney)
Independent Voting Director since November 2018
Member of the Board Risk Committee

Philip M Coffey
BEc (Hons) (Adelaide), GAICD, SF Finsia
Independent Voting Director since August 2018
Member of the Board Audit Committee
Member of the Board Risk Committee

Michael J Coleman
MCom (UNSW), FCA, FCPA, FAICD
Independent Voting Director since November 2012
Chairman of the Board Audit Committee
Member of the Board Risk Committee

Diane J Grady AO
BA (Mills), MA (Hawaii), MBA (Harv), FAICD
Independent Voting Director since May 2011
Member of the Board Risk Committee

Rebecca J McGrath
BTP (Hons) (UNSW), MAppSc (ProjMgt) (RMIT), FAICD
Independent Voting Director since January 2021
Member of the Board Risk Committee

Mike Roche
BSc (UQ), GAICD, FIA (London), FIAA
Independent Voting Director since January 2021
Member of the Board Risk Committee

Glenn R Stevens AC
BEc (Hons) (Sydney), MA (Econ) (UWO)
Independent Voting Director since November 2017
Chairman of the Board Risk Committee
Member of the Board Audit Committee

Nicola M Wakefield Evans
BJuris/BLaw (UNSW), FAICD
Independent Voting Director since February 2014
Member of the Board Audit Committee
Member of the Board Risk Committee

The Company Secretary of Macquarie Bank is Dennis Leong. Simone Kovacic is the Assistant Company Secretary of Macquarie Bank.

The business address of each Voting Director and the Company Secretary is Level 6, 50 Martin Place, Sydney, NSW 2000, Australia.

At the request of the Macquarie Group Limited and Macquarie Bank Limited's Boards, Peter Warne intends to stand for re-election as Chair at the 2021 Annual General Meeting for one additional year given his oversight of the ongoing process of Board renewal and as a period of global uncertainty continues to abate into 2022. Over the course of the financial year of 2022 (being the 12 month period ending 31 March 2022), the Board will nominate a new Chair and will advise shareholders in due course. Mr Warne intends to step down at the 2022 Annual General Meeting.

Mary J Reemst will retire from her role as Managing Director and Chief Executive Officer of Macquarie Bank, and as an Executive Voting Director of Macquarie Bank, on 1 July 2021. From 1 July 2021, and subject to regulatory approvals, Stuart Green will become Managing Director and Chief Executive Officer of Macquarie Bank and join the Macquarie Bank Board as an Executive Voting Director.

As at 31 March 2021, Macquarie Bank Limited employed over 12,500 staff globally.

Not all of the risk factors described below will be applicable to a particular series of Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investments in the Structured Products. Please read the following section together with the risk factors set out in the relevant launch announcement and supplemental listing document.

General risks relating to us

Non-collateralised structured products

The Structured Products are not secured on any of our assets or any collateral. Each series of Structured Products constitutes our general unsecured contractual obligations and of no other person and will rank equally with our other unsecured contractual obligations and unsecured and unsubordinated debt. At any given time, the number of our Structured Products outstanding may be substantial.

Repurchase of our Structured Products

Our Group may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

Our creditworthiness

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under these products against:

(a) any company which issues the underlying shares;

(b) the trustee or the manager of the underlying trust; or

(c) any index compiler of the underlying index.

We do not guarantee the repayment of your investment in any Structured Product.

Any downgrading of our rating by rating agencies such as S&P and Moody's could result in a reduction in the value of the Structured Products.

No deposit liability or debt obligation

We are obliged to deliver to you the Cash Settlement Amount (if any) under the Conditions upon expiry. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

Structured Products are not bank deposits and they are not liabilities in relation to protected accounts with Macquarie Bank Limited (ADI). They are unsecured obligations of Macquarie Bank, and in the event of the winding up of Macquarie Bank, they would rank equally with other unsecured obligations and liabilities of Macquarie Bank, in the order of their priority. Section 13A(3) of the Banking Act provides that if Macquarie Bank becomes unable to meet its obligations or suspends payment, the assets of Macquarie Bank in Australia are to be available to satisfy specified liabilities in priority to all other liabilities of Macquarie Bank (including the obligations of Macquarie Bank under the Structured Products). The specified liabilities include first, certain obligations of Macquarie Bank to APRA in respect of amounts payable by APRA to holders of protected accounts and any administration costs incurred by APRA, and then as the next priority other liabilities of Macquarie Bank in Australia in relation to protected accounts that account-holders keep with the ADI, following this any debts that the ADI owes to the Reserve Bank of Australia and any liabilities under an industry support contract (certified under section 11CB of the Banking Act) and then, any other liabilities, in the order of their priority.

Conflicts of interest

The Group is a diversified financial institution with relationships in countries around the world. The Group engages in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for our own account or the account of others. In addition, the Group, in connection with our other business activities, may possess or acquire material information about the Underlying Assets or may issue or update research reports on the Underlying Assets. Such activities, information and/or research reports may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Group:

(a) has no obligation to disclose such information about the Underlying Assets or such activities. The Group and our officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

(b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share, unit or other security or in a commercial banking capacity for the issuer of any share, units or other security or the trustee or the manager of the trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

Our business and financial condition have been and may, in the future be, negatively affected by global credit and other market conditions.

The Macquarie Group's businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, constrained access to funding and the decline in equity and capital market activity have adversely affected and may again affect transaction flow in a range of industry sectors.

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

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. Concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions, financial instruments losing their value and liquidity, and interruptions to capital markets that may further affect us. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. If any of our counterpart financial institutions fail, our financial exposures to that institution may lose some or all of their value. Any of these events would have a serious adverse effect on our liquidity, profitability and value.

Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy

We operate various kinds of businesses across multiple jurisdictions or sectors which are regulated by more than one regulator. Additionally, some members of the Macquarie Group own or manage assets and businesses that are regulated. Our businesses include an Authorised Deposit-taking Institution (ADI) in Australia (regulated by the Australian Prudential Regulation Authority (APRA)), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and representative offices in the United States, Brazil, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of Macquarie Bank's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation, as well as laws, regulations and oversight specific to the industries applicable to our businesses and assets.

Regulatory agencies and governments frequently review and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the type of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in markets in which we operate, particularly for financial institutions, and may lead to further significant changes of this kind. Health, safety and environmental laws and regulations can also change rapidly and significantly. The occurrence of any adverse health, safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards could have a significant impact on operations and/or result in material expenditures. In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "**Royal Commission**") was established in December 2017 and concluded on 1 February 2019. The Royal Commission inquired into the causes of and responses to misconduct by financial services entities and conduct following below community standards and expectations and held rounds of public hearings on a wide range of matters, including consumer and SME lending, financial advice, superannuation, insurance, culture, governance, remuneration, and the remits of regulators. The Royal Commission's final report was published on 4 February 2019 and contains 76 recommendations. No findings were made by the Royal Commission in relation to the Macquarie Group or Macquarie Bank. The Royal Commission's recommendations are likely to result in a range of significant legislative, regulatory and industry practice changes. Such changes may adversely impact Macquarie Bank's business, operations, compliance costs, financial performance and prospects. The Federal Government anticipates that it will introduce all necessary legislation to implement the recommendations of the Royal Commission by mid calendar year 2021. We are closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

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

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to Macquarie Bank as an ADI. Any such event could result in changes to the organisational structure of Macquarie Group and adversely affect Macquarie Bank and/or its controlled entities (the "**MBL Group**").

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments, counter-terrorism financing, anti-bribery and corruption and adherence to anti-money laundering obligations, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries ("**AML/CTF laws**"). The geographical diversity of our business increases the risk that we may be found in violation of such rules or regulations. Emerging technologies, such as cryptocurrencies, could limit our ability to track the movement of funds thereby heightening the risk of our breaching AML/CTF laws. Our ability to comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity

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

Changes and increased volatility in currency exchange rates may adversely impact our financial results and our financial and regulatory capital positions

While our consolidated financial statements are presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies. Changes in the rate at which the Australian dollar is translated from other currencies can impact our financial statements and the economics of our business. Insofar as we are unable to hedge or have not completely hedged our exposure to currencies other than Australian dollar, our reported profit and foreign currency translation reserve would be affected.

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

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

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

Future growth, including through acquisitions, mergers and other corporate transactions, may also place significant demands on our legal, accounting, IT, risk management and operational infrastructure and result in increased expenses. A number of our recent and planned business initiatives and further expansions of existing businesses may also expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from IT systems and reputational concerns with the manner in which these businesses are being operated or conducted.

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

Our business depends on our brand and reputation

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

Our business may be adversely affected by negative publicity or poor financial performance in relation to any of the entities using the Macquarie name, including any Macquarie-managed fund or funds that Macquarie has promoted or is associated with. If funds that use the Macquarie name or are otherwise associated with Macquarie-managed assets are perceived to be managed inappropriately, those managing entities could be subject to criticism and negative publicity, harming our reputation and the reputation of other entities that use the Macquarie name.

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

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

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power which may enhance the competitive position of Macquarie's competitors.

The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins.

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

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

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

Current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business and growth opportunities or potential efficiencies.

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

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees, due to changes in interest rates, exchange rates, equity and commodity prices and credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors.

We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are complex and these complex structured products often do not have readily available markets to access in times of liquidity stress. We may incur losses as a result of decreased market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in equity market prices or increases in interest rates may reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive prices for other investments could cause our clients to transfer their assets out of our funds or other products.

Interest rate benchmarks around the world (for example, the London Interbank Offered Rate or LIBOR) have been subject to regulatory scrutiny and are subject to change. Changes to such benchmarks can result in market disruption and volatility impacting the value of securities, financial returns and potentially impact our ability to effectively hedge market risk.

Interest rate risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates can affect earnings or the value of the Macquarie Group.

Failure of third parties to honor their commitments in connection with our trading, lending and other activities may adversely impact our business

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

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

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

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

MBL Group relies on services provided by Macquarie Group

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

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

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

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems and risk management processes

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers including cloud-based outsourced technology platforms, or external events.

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

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

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

Our businesses depend on the security and efficacy of our data management systems and technology, as well as those of third parties with whom we interact or on whom we rely. While we seek to operate in a control environment that limits the likelihood of a cyber and information security incident, and to ensure that the impact of a cyber and information security incident can be minimized by information security capability and incident response, there can be no assurances that our security control will provide absolute security.

Cyber and information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of attackers. Despite efforts to protect the integrity of our systems and implement protective measures, we may not be able to anticipate all security breaches or implement preventive measures against such security breaches.

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

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

We could suffer losses due to environmental and social factors

Our businesses and assets are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events, occurrence of diseases, leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events.

Any significant environmental change or external event (including increased frequency and severity of storms, floods and other catastrophic events such as earthquake, pandemic (such as COVID-19), other widespread health emergencies, civil unrest or terrorism events) has the potential to disrupt business activities, impact our operations or reputation, increase credit risk and other credit exposures, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. In addition, we may implement measures to provide short term financial assistance to customers who are facing financial difficulties as a consequence of such environmental or social factors and may be unable to pay amounts due to us.

The occurrence of any such events may prevent us from performing under our agreements with clients, may disrupt our business activities, impair our operations or financial results, affect the value of assets held in the affected locations, and may result in litigation, regulatory action, negative publicity or other reputational harm. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses. Any such long-term, adverse environmental consequences could prompt us to exit certain businesses altogether. Such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

We also face increasing public scrutiny, laws and regulations related to environmental and social factors. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, support for local communities, corporate governance and transparency and considering environmental and social factors in our investment processes. Failure to effectively manage these risks may result in breaches of our statutory obligations and could adversely affect our business, prospects, reputation, financial performance or financial condition.

We could suffer losses due to climate change

Our businesses could also suffer losses due to climate change. Climate change is systemic in nature and is a significant long-term driver of both financial and non-financial risks. Climate change related impacts include physical risks from changing climatic conditions and transition risks such as changes to laws and regulations, technology development and disruptions and consumer preferences. A failure to respond to the potential and expected impacts of climate change may affect MBL Group's performance and could have wide-ranging impacts for the MBL Group. These include, but are not limited to, impacts on the probability of default and losses arising from defaults, asset valuations and collateral, may result in litigation, regulatory action, negative publicity or other reputational harm or could prompt us to exit certain businesses altogether. Failure to effectively manage these risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

Conflicts of interest could limit our current and future business opportunities

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

Litigation and regulatory actions may adversely impact our results of operations

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

We are subject to global economic, market and business risks with respect to the COVID-19 pandemic

The COVID-19 pandemic has caused, and will likely continue to cause, severe impacts on global, regional and national economies and disruption to international trade and business activity. While financial markets have rebounded from the significant declines that occurred earlier in the pandemic and global economic conditions showed signs of improvement during the second half of calendar year 2020, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persisted through the year, including (i) muted levels of business activity across many sectors of the economy, relatively weak consumer confidence and high unemployment rates; (ii) elevated levels of market volatility; (iii) yields on government bonds near zero; (v) heightened credit risk with regard to industries that have been most severely impacted by the pandemic; and (vii) higher cyber security, information security and operational risks as a result of work-from-home arrangements. This may in turn reduce the level of activity in sectors in which certain of our businesses operate and thus have a negative impact on such businesses' ability to generate revenues or profits.

Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates, however it is unclear whether these actions or any future actions taken by governments and central banks will be successful in mitigating the economic disruption. Additionally, any such fiscal and monetary actions are subject to withdrawal by the relevant governments or central banks or may lapse without renewal. If the COVID-19 pandemic is prolonged and/or actions of governments and central banks are unsuccessful in mitigating the economic disruption, the negative impact on global growth and global financial markets could be amplified, and may lead to recessions in national, regional or global economies.

In March 2020, we implemented a range of support measures to provide short term financial assistance to certain customers facing difficulties as a consequence of COVID-19. The removal of these support measures may increase customer defaults and the credit risks faced by the MBL Group. This may in turn adversely impact the MBL Group's business, results of operations, financial condition and prospects.

The impact of COVID-19 has and may lead to further reduced client activity and demand for our products and services, higher credit and valuation losses in our loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on our financial position, including possible constraints on capital and liquidity, as well as higher costs of capital, and possible changes or downgrades to our credit ratings. Additionally, despite the business continuity and crisis management policies currently in place, travel restrictions or potential impacts on personnel and operations may disrupt our business and increase operational risk losses. The expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy and our personnel and operations are unclear. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and our ability to replace maturing liabilities may be limited, which could adversely affect our ability to fund and grow our business. This may adversely impact our results of operations and financial condition.

We may not manage risks associated with the replacement of benchmark indices effectively

The expected discontinuation of LIBOR or any other interest rate benchmarks (collectively, the "**IBORs**") and the adoption of "risk-free" rates ("**RFR**") by the market introduce a number of risks for us, our clients, and the financial services industry more widely. These include, but are not limited to:

(a) Conduct risks – where, by undertaking actions to transition away from using the IBORs, we face conduct risks which may lead to customer complaints, regulatory sanctions or reputational impact if the MBL Group is (i) considered to be undertaking market activities that are manipulative or create a false or misleading impression; (ii) misusing sensitive information or not identifying or appropriately managing or mitigating conflicts of interest; (iii) not taking an appropriate or consistent response to remediation activity or customer complaints; or (iv) providing regulators with inaccurate regulatory reporting.

(b) Legal and execution risks – relating to documentation changes required for new RFR products and for the transition of legacy contracts to RFRs, which transition will, in turn, depend, to a certain extent, on the availability of RFR products and on the participation of customers and third-party market participants in the transition process; legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts; and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates.

(c) Financial risks and pricing risks – arising from: (i) any changes in the pricing mechanisms of financial instruments linked to RFRs which could impact the valuations of these instruments; and (ii) the implementation of the International Swaps and Derivatives Association's protocol for the transition of derivatives contracts, and similar guidance for cash products which could cause earnings volatility depending on the nature of contract modifications and changes in hedge accounting.

(d) Operational risks – due to the potential need for us, our customers and the market to adapt IT systems, operational processes and controls to accommodate one or more RFRs for a large volume of trades.

Any of these factors may have a material adverse effect on MBL Group's business, results of operations, financial condition and prospects.

General risks relating to Structured Products

You may lose all your investment in the Structured Products

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest rate, foreign exchange, time value, market, and/or political risks. Structured Products may expire worthless.

Options, warrants and asset linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The prices of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the price or level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

The Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the entire amount of your investment and transaction costs.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on your investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset as may be specified in the relevant launch announcement and supplemental listing document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in the anticipated direction.

The value of the Structured Products may be disproportionate or opposite to movement in the price/level of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the price/level of the Underlying Assets is increasing (for a call warrant or a bull CBBC), the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset specified in the relevant launch announcement and supplemental listing document, you should recognise the complexities of utilizing Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict:

(a) if and to what extent a secondary market may develop in any series of Structured Products;

(b) at what price such series of Structured Products will trade in the secondary market; and

(c) whether such market will be liquid or illiquid.

The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is closed out, the number of Structured Products outstanding in that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Investments in the Structured Products may involve interest rate risk. A variety of factors influence interest rates such as macroeconomic, governmental, speculative and market sentiment factors. Fluctuations in interest rates (whether short term or long term, and whether of the currency in which the Structured Products are settled or of the currency in which the Underlying Assets are denominated) may affect the value of the Structured Products.

Time decay

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the length of the period remaining to expiration and expectations concerning the range of possible future price/level of the Underlying Assets. The value of a Structured Product is likely to decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

Exchange rate risk

There may be an exchange rate risk in the case of Structured Products where the Cash Settlement Amount will be converted from a foreign currency into the Settlement Currency. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation.

Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the General Conditions and/or the relevant Product Conditions using a fixed exchange rate. The cost to us of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products, which will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar Structured Product issued without such a quanto feature.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See "Do you need to pay any tax?" in the section headed "Important Information" for further information.

Modification to the Conditions

Under the Conditions, we may without your consent, effect any modification of the terms and conditions of the Structured Products or Instrument which in our opinion, is:

(a) not materially prejudicial to the interest of the Structured Products holders generally (without considering the circumstances of any individual Structured Products holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Possible early termination for illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (i) for us to perform our obligations under the Structured Products in whole or in part as a result of: (a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or (b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (a) and (b), a "**Change in Law Event**"); or (ii) for us or any of our affiliates to maintain our hedging arrangements with respect to the Structured Products due to a Change in Law Event. We may at our absolute discretion terminate the Structured Products. In such event, we will, if and to the extent permitted by applicable law, pay an amount calculated by us to be the fair market value of the Structured Products prior to such termination notwithstanding the illegality or impracticability less our cost of unwinding any related hedging arrangements.

Hong Kong resolution regime

The Financial Institutions (Resolution) Ordinance ("**FIRO**") came into operation on 7 July 2017. The FIRO provides a regime for the orderly resolution of financial institutions, including authorised institutions, with a view to avoiding or mitigating the risks otherwise posted by their non-viability to the stability and effective working of the financial system of Hong Kong. As an authorised institution in Hong Kong, we are subject to the FIRO.

The FIRO seeks to provide the relevant resolution authorities, including the Hong Kong Monetary Authority, with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. The relevant resolution authority is empowered to suspend, write-off, cancel, convert, modify or change the form of the Structured Products.

The exercise of any resolution power by the relevant resolution authority under the FIRO in respect of us may have a material adverse effect on the value of the Structured Products and as a result, you may not be able to recover all or any amount due under the Structured Products.

Our hedging activities may adversely affect the price/level of the Underlying Asset

We and/or any of our affiliates may carry out activities that minimise our risks related to the Structured Products, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the offering of any Structured Products, we and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any of our affiliates, we and/or any of our affiliates may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price/level of the Underlying Asset and/or the value of Structured Products and which could be deemed to be adverse to your interests. We and/or our affiliates are likely to modify our hedging positions throughout the life of the Structured Products whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we and/or our affiliates provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Foreign Account Tax Compliance withholding may affect payments on the Structured Products

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

Withholding with respect to "foreign passthru payments" will not be effective before the date that is two years after the publication of final regulations defining the term "foreign pass-thru payment".

While the Structured Products are in dematerialized form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. An Issuer's obligations under the Structured Products are discharged once it has paid the clearing systems and an Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

FATCA IS PARTICULARLY COMPLEX. EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO DETERMINE HOW THIS LEGISLATION MIGHT AFFECT EACH INVESTOR IN ITS PARTICULAR CIRCUMSTANCES.

Risks relating to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to:

(a) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the shares or units would normally be entitled to; or

(b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macroeconomic factors, speculation and (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

You must be experienced with dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

In the case of Structured Products relating to a single equity or a unit trust ("**Security**"), certain corporate events relating to the Security require or, as the case may be, permit us to make certain adjustments or amendments to the General Conditions and/or the relevant Product Conditions. You have limited anti-dilution protection under the General Conditions and the relevant Product Conditions of the Structured Products. We may in a commercially reasonable manner adjust, among other things, the Entitlement, the Exercise Price (if applicable), the Call Price (if applicable), the Strike Price (if applicable) or any other terms (including without limitation the Closing Price of the Security) of any series of Structured Product for events such as rights issue, bonus issue, subdivision, consolidation, cash distribution or restructuring event. However, we are not required to make an adjustment for every event that may affect a Security, in which case the market price of the Structured Products and the return upon the expiry of the Structured Products may be affected.

In addition, if the Security ceases to be listed on the Stock Exchange during the term of the Structured Products, we may make adjustments and/or amendments to the rights attaching to the Structured Products pursuant to the Conditions of the Structured Products. Such adjustments and/or amendments will be conclusive and binding on you.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more shares comprising in the index are not trading. If this occurs on the Valuation Date but such occurrence does not constitute a Market Disruption Event under the Conditions then the value of such share(s) may not be included in the level of the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

Suspension of trading

If the Underlying Asset of a series of Structured Products is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products will be suspended for a similar period. In addition, if an Underlying Asset is an index and the calculation and/or publication of the index level by the index compiler is suspended for whatever reasons, trading in the relevant series of Structured Products may be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. In such circumstances, you should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

Delay in settlement

Unless otherwise specified in the General Conditions and/or the relevant Product Conditions, in the case of any expiry of Structured Products, there may be a time lag between the date on which the Structured Products expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of expiry and the determination of the settlement amount will be specified in the General Conditions and/or the relevant Product Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such Structured Products arising from our determination that a Market Disruption Event, Settlement Disruption Event or delisting of a company or trust has occurred at any relevant time or that adjustments are required in accordance with the General Conditions and/or the relevant Product Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the General Conditions and the relevant Product Conditions.

Risks relating to Structured Products over trusts

General risks

In the case of Structured Products which relate to the units of a trust:

(a) neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

Where the Underlying Asset of Structured Products comprises the units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Synthetic exchange traded funds

Additionally, where the Underlying Asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

*ETF investing through QFII, RQFII and/or China Connect ("**China ETF**")*

An ETF may be issued and traded outside Mainland China with direct investment in the Mainland China securities markets through the Qualified Foreign Institutional Investor ("**QFII**") regime, the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, "**China Connect**"). Where the Underlying Asset comprises the units of such an ETF, you should note that, amongst others:

(a) the relatively recent introduction and untested nature of China Connect make China ETFs riskier than traditional ETFs investing directly in more developed markets. The policy and rules for the QFII regime, the RQFII regime and China Connect prescribed by the Mainland China government are relatively new and subject to change, and there may be uncertainty to their implementation. The uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of China ETFs and the trading price of the relevant units;

(b) a China ETF primarily invests in securities traded in the Mainland China securities markets and is subject to concentration risk. Investment in the Mainland China securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets;

(c) trading of securities invested by the China ETF under

China Connect will be subject to a daily quota which is utilised on a first-come-first-serve basis under China Connect. In the event that the daily quota under China Connect is reached, the manager may need to suspend creation of further units of such China ETF, and therefore the liquidity in such China ETF may be affected. In such event, the trading price of a unit of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile. The People's Bank of China and the State Administration of Foreign Exchange have published the detailed implementation rules removing the investment quota allocated to such China ETF under the QFII and RQFII regimes with effect from 6 June 2020; and

(d) there are risks and uncertainties associated with the current mainland Chinese tax laws applicable to China ETF investing in the Mainland China through QFII, RQFII and/or China Connect. Although such China ETF may have made a tax provision in respect of potential tax liability, the provision may be excessive or inadequate. Any shortfall between the provisions and actual tax liabilities may be covered by the assets of such China ETF and may therefore adversely affect the net asset value of such China ETF and the market value and/or potential payout of the Structured Products.

The above risks may have a significant impact on the performance of the China ETFs and the price of the Structured Products.

Please read the offering documents of the China ETF to understand its key features and risks.

ETF traded through dual counters model

Where the Underlying Asset comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi ("**RMB**") and Hong Kong dollars ("**HKD**") separately, the relatively recent introduction and untested nature of the Stock Exchange's dual counters model may bring the following additional risks:

(a) the Structured Products may be linked to the HKD-traded units or the RMB-traded units. If the Underlying Asset is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the Structured Products. Similarly, if the Underlying Asset is the RMB-traded units, movements in the trading prices of the HKD-traded units should not directly affect the price of the Structured Products;

(b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the Structured Products; and

(c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of the Underlying Asset in HKD or RMB (as the case may be) may adversely affect the price of the Structured Products.

*Real estate investment trust ("**REIT**")*

Where the Underlying Asset comprises the units of a REIT, you should note that the investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

Commodity market risk

Where the Underlying Asset comprises the units of an ETF whose value relates directly to the value of a commodity, you should note that fluctuations in the price of the commodity could materially adversely affect the value of the underlying units. Commodity markets are generally subject to greater risks than other markets. The price of a commodity is highly volatile. Price movement of a commodity is influenced by, among other things, interest rates, changing market supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and international political and economic events and policies.

Risks relating to CBBCs

Correlation between the price of a CBBC and the price/level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price/level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price/level of the Underlying Asset.

Mandatory Call Event is irrevocable except in limited circumstances

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Price/Call Level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Non-recognition of Post MCE Trades

The Stock Exchange and its recognised exchange controller, HKEX, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

Residual Value will not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event will not include the residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of a Category R CBBC upon a Mandatory Call Event.

Delay in announcements of a Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called. You must however be aware that there may be delay in the announcements of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Unwinding of hedging arrangements

The trading and/or hedging activities of us or our affiliates related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset which may trigger a Mandatory Call Event and/or affect the Residual Value of the CBBC. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, the unwinding activities of us or our affiliates may cause a fall or rise (as the case may be) in the trading price/level of the Underlying Asset, potentially leading to a Mandatory Call Event and affecting the Residual Value for the CBBCs as a result of such unwinding activities.

In respect of Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of Category R CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value for the CBBCs.

Risk relating to the legal form of the Structured Products

Each series of Structured Products will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

Structured Products issued in global registered form and held on your behalf within a clearing system effectively means that the evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your broker/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEX website and/or released by HKSCC to its participants via CCASS. You will need to check the HKEX website regularly and/or rely on your brokers/custodians to obtain such notices/announcements; and

(e) following the expiry date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount in accordance with the General Conditions and the relevant Product Conditions to HKSCC Nominees Limited as the "**holder**" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

Fee arrangements with brokers and conflicts of interest of brokers

We may enter into fee arrangements with brokers and/or any of its affiliates with respect to the primary market in the Structured Products. You should note that any brokers with whom we have a fee arrangement does not, and cannot be expected to deal, exclusively in the Structured Products, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

Effect of the combination of risk factors unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

APPENDIX 1 — GENERAL CONDITIONS OF STRUCTURED PRODUCTS

These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the relevant Product Conditions set out in Appendix 2 and Appendix 3 to this Base Listing Document and the relevant Launch Announcement and Supplemental Listing Document in relation to the particular series of Structured Products. These General Conditions, the relevant Product Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document together constitute the Conditions of the relevant Structured Products, and will be endorsed on the Global Certificate representing the relevant Structured Products. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Structured Products may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these General Conditions and the relevant Product Conditions, replace or modify these General Conditions and the relevant Product Conditions for the purpose of such series of Structured Products.

1. Definitions

"**Applicable Law**" means any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power;

"**Base Listing Document**" means the base listing document relating to the Structured Products dated 28 May 2021 and issued by the Issuer (including any addenda to such base listing document issued by the Issuer from time to time);

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Cash Settlement Amount**" has the meaning given to it in the relevant Product Conditions;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the terms "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Conditions**" means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Structured Products;

"**Expiry Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**General Conditions**" means these general terms and conditions. These General Conditions apply to each series of Structured Products;

"**Global Certificate**" means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

"**HKEX**" means Hong Kong Exchanges and Clearings Limited;

"**HKSCC**" means Hong Kong Securities Clearing Company Limited;

"**Holder**" means each person who is for the time being shown in the Register as the holder of the Structured Products, and such person shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Structured Products;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Instrument**" means an instrument by way of deed poll dated 30 May 2006 and executed by the Issuer;

"**Issuer**" means Macquarie Bank Limited;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document relating to a particular series of Structured Products.

"**Nominee**" means HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS);

"**Product Conditions**" means, in respect of each series of Structured Product, the product specific terms and conditions that apply to that particular series of Structured Product;

"**Register**" means, in respect of each series of Structured Products, the register of the Holders of such series kept by the Issuer outside of Hong Kong;

"**Sponsor**" means Macquarie Capital Limited;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Structured Products**" means standard warrants ("**Warrants**"), callable bull/bear contracts ("**CBBCs**") or such other structured products to be issued by the Issuer from time to time. References to "Structured Products" are to be construed as references to a particular series of Structured Products and, unless the context otherwise requires, any further Structured Products issued pursuant to General Condition 9.

2. Form, Status, Transfer, Title and Additional Costs and Expenses

2.1 The Structured Products are issued in registered form subject to and with the benefit of the Instrument. The Holders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Sponsor.

The Structured Products are represented by a Global Certificate. No definitive certificate will be issued. The Structured Products can only be exercised by HKSCC or the Nominee.

2.2 The settlement obligation of the Issuer in respect of the Structured Products represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Structured Products represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of structured products, deposit liabilities of the Issuer or a debt obligation of any kind.

2.3 Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

2.4 Holders shall note that they shall be responsible for additional costs and expenses in connection with any exercise of the Structured Products including the Exercise Expenses which amount shall, subject to the applicable Product Conditions and to the extent necessary, be payable to the Issuer and collected from the Holders.

3. Rights and Exercise Expenses relating to Structured Products

3.1 Every Board Lot initially entitles the Holder, upon due exercise and upon compliance with the applicable Product Conditions, the rights to receive payment of the Cash Settlement Amount, if any.

3.2 Upon exercise of the Structured Products, the Holder will be required to pay a sum equal to all the expenses resulting from the exercise of such Structured Products. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with the applicable Product Conditions.

4. Sponsor

4.1 The Sponsor will not assume any obligation or duty to or any relationship of agency or trust for the Holder.

4.2 The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Structured Products are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with General Condition 8.

5. Purchase

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

6. Global Certificate

A Global Certificate representing the Structured Products will be deposited within CCASS in the name of the Nominee.

7. Meetings of Holders and Modification

7.1 *Meetings of Holders*. The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 percent of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 percent of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

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

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

7.2 *Modification*. The Issuer may, without the consent of the Holder, effect any modification of the terms and conditions of the Structured Products or the Instrument which, in the opinion of the Issuer, is:

(a) not materially prejudicial to the interests of the Holder generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with General Condition 8 but failure to give such notice will not affect the validity of such modification.

8. Notices

All notices to the Holder will be validly given if published in English and in Chinese on the HKEX website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

9. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further structured products so as to form a single series with the Structured Products.

10. Illegality or Impracticability

The Issuer is entitled to terminate the Structured Products if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Structured Products, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Structured Products due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Structured Product held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 8.

11. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under the Conditions will be made in good faith and in a commercially reasonable manner.

12. Contracts (Rights of Third Parties) Ordinance

No person other than the Holder has any right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Structured Products.

13. Governing Law

The Structured Products and the Instrument are governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the Structured Products) shall be deemed to have submitted for all purposes in connection with the Structured Products and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

A Chinese translation of these General Conditions and the applicable Product Conditions will be made available for collection during normal office hours from the Sponsor's office. In the event of any inconsistency between the Chinese translation and the English version of these General Conditions and/or the applicable Product Conditions, the English version of these General Conditions and/or the applicable Product Conditions shall prevail.

15. Prescription

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

Sponsor:

Macquarie Capital Limited
Level 22
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS

PART A — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Company**" means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Exercise Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Valuation Date during the one-half hour period that ends at the close of trading, of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Average Price is determined in accordance with the Conditions;

"**Share**" means the share specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments

3.1 *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement shall be adjusted on the Business Day on which trading in the Shares becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 *Cash Distribution.* No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's Closing Price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

5. Delisting

5.1 If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

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PART B — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED INDEX WARRANTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Divisor**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**First Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

    (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

    (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

    (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

    For the purposes of this paragraph (a), (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Product Conditions**" means these product terms and conditions;

"**Second Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions;

"**Strike Level**" means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to adjustment in accordance with Product Condition 3;

"**Successor Index Compiler**" has the meaning given to it in Product Condition 3.1; and

"**Valuation Date**" shall have the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments to the Index

3.1 *Successor Index Compiler Calculates and Reports Index*. If the Index is (a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or (b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 *Modification and Cessation of Calculation of Index*. If (a) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or (b) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

Sponsor:

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PART C — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Exercise Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Valuation Date during the one-half hour period that ends at the close of trading, of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Units;

or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Average Price is determined in accordance with the Conditions;

"**Trust**" means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments

3.1 *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations.* If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events.* If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving trust in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (**"Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 *Cash Distribution.* No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special dividend or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's Closing Price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Unit

OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Termination or Liquidation

4.1 In the event of a Termination or liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

4.2 For the purpose of this Product Condition 4, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (d) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

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APPENDIX 3 — PRODUCT CONDITIONS OF CBBCS

PART A — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Company**" means the Company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time on any Trading Day during the Observation Period;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock

Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Share**" means the share specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

"**Strike Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEX and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date,

whichever is the earlier.

3. Adjustments

3.1 *Rights Issues*

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 *Cash Distribution*

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's Closing Price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the Applicable Law.

5. Delisting

5.1 If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

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Hong Kong

PART B — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBC:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is different from the Strike Level;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Divisor**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**First Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

"**Index**" means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Index Currency Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Level is:

(a) in the case of a series of bull CBBCs, at or below the Call Level; or

(b) in the case of a series of bear CBBCs, at or above the Call Level,

at any time on any Index Business Day during the Observation Period;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of the following events:

    (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

    (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

    (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

    For the purposes of this paragraph (a), (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by the relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which the Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

  (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

  (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

  (i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

  (ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only; and

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Launch Announcement and Supplemental Listing Document;

“**Minimum Index Level**” means the lowest Spot Level during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Price Source**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Product Conditions**” means these product terms and conditions;

“**Residual Value**” means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

“**Second Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Settlement Currency**” means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Settlement Date**” means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions (as the case may be);

“**Spot Level**” means:

(a) if no Price Source is specified, the spot level of the Index as compiled and published by the Index Compiler; or

(b) if a Price Source is specified, the spot level of the Index as published on the Price Source;

“**Strike Level**” means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Trading Day**” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEX and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable (such as miscalculation of the index level by the Index Compiler) and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities comprising the Index.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

3. Adjustments to the Index

3.1 *Successor Index Compiler Calculates and Reports Index*

If the Index is:

(a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or

(b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 *Modification and Cessation of Calculation of Index*

If:

(a) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities and other routine events); or

(b) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

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PART C — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

  (i) in the case of a series of Category R CBBCs, the Residual Value; or

  (ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

  (i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

  (ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time on any Trading Day during the Observation Period;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Launch Announcement and Supplemental

Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trust**" means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEX and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such

CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Units.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date,

whichever is the earlier.

3. Adjustments

3.1 *Rights Issues*

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*

If it is announced that the Trust is to or may merge with or into another trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving trust in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 *Cash Distribution*

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's Closing Price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Unit

OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Termination or liquidation

4.1 In the event of a Termination or liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the Applicable Law.

4.2 For the purposes of this Product Condition 4, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorized under the Trust to hold the property of the Trust in its name and perform its obligation under the Trust Deed; or (d) the Trust ceases to be authorized as an authorized collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

Macquarie Capital Limited
Level 22
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

APPENDIX 4 — A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Appendix 4 is based on, extracted or reproduced from the website of S&P at https://www.spglobal.com/ratings/en/ and the website of Moody's at https://www.moodys.com, as of the day immediately preceding the date of this document. Information appearing on those websites does not form part of this document, and we accept no responsibility for the accuracy or completeness of the information appearing on those websites, except that we have accurately extracted and reproduced such information in this Appendix 4 and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Appendix 4 and/or what a credit rating means, you should seek independent professional advice.

What is a credit rating?

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

What do the credit ratings mean?

Below are guidelines issued by S&P and Moody's on what each of their investment-grade ratings means, as of the day immediately preceding the date of this document.

S&P long-term issuer credit ratings

AAA
An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA
An obligor rated 'AA' has very strong capacity to meet its financial commitments.

A
An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat susceptible to economic conditions and changes in circumstances.

BBB
An obligor rated 'BBB' has adequate capacity to meet its financial commitments, but is more subject to adverse economic conditions.

Plus (+) or minus (-)
The above ratings (except for 'AAA') may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Please refer to https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings for further details.

Moody's long-term ratings definitions

Aaa
Obligations rated Aaa are judged to be of the highest quality, with minimal risk.

Aa
Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A
Obligations rated A are considered upper medium-grade and are subject to low credit risk.

Baa

Obligations rated Baa are considered medium-grade and subject to moderate credit risk and as such may possess speculative characteristics.

Modifiers "1", "2" and "3"
Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to https://ratings.moodys.io/ratings for further details.

Rating Outlooks

A rating outlook is an opinion regarding the likely rating direction over the medium term (for example, this is typically six to twenty-four months for S&P). A rating outlook issued by S&P or Moody's will usually indicate whether the rating direction is likely to be "positive", "negative", "stable" or "developing". Please refer to the abovementioned websites of the relevant credit rating agencies for further details regarding rating outlooks published by the relevant credit rating agencies.

APPENDIX 5 — OUR ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021 AND INDEPENDENT AUDIT REPORT EXTRACTED FROM THE 2021 ANNUAL REPORT

Our annual financial statements for the year ended 31 March 2021 and independent audit report set out in this Appendix 5 are extracted from the 2021 Annual Report. Unless otherwise stated, these financial statements have been prepared in accordance with our usual accounting policies and procedures.

References to page numbers in this Appendix 5 are to the pages in our annual financial statements for the year ended 31 March 2021 and independent audit report extracted from the 2021 Annual Report.

Please refer to the base listing document dated 28 May 2020 for our annual financial statements and independent audit report in 2020.

The financial statements of Macquarie Bank for the year ended 31 March 2021 included in this Base Listing Document have been audited by PricewaterhouseCoopers, Chartered Accountants, as stated in its opinion appearing therein. The audit opinion of PricewaterhouseCoopers for these financial statements was provided to the addressees of the report at the date of its issue and is subject to the disclaimers and qualifications contained therein. To the extent permitted by law, PricewaterhouseCoopers expressly disclaims and accepts no responsibility to any party other than the addressees of such report at the date of its issue.

Contents

For the financial year ended 31 March 2021

The Financial Report was authorised for issue by the Board of Directors on 7 May 2021.
The Board of Directors has the power to amend and reissue the Financial Report.

Income statements

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Interest and similar income					
Effective interest rate method	2	**3,101**	3,777	**2,489**	3,267
Other	2	**261**	686	**222**	512
Interest and similar expense	2	**(1,273)**	(2,423)	**(1,310)**	(2,540)
Net interest income		**2,089**	2,040	**1,401**	1,239
Fee and commission income	2	**1,326**	1,185	**990**	904
Net trading income	2	**3,315**	2,615	**2,020**	1,250
Net operating lease income	2	**395**	371	**130**	114
Share of net profits from associates and joint ventures	2	**41**	27	**-**	-
Net credit impairment charges	2	**(287)**	(451)	**(132)**	(220)
Other impairment (charges)/reversal	2	**(46)**	(21)	**44**	30
Other operating income and charges	2	**162**	406	**1,765**	892
Net operating income		**6,995**	6,172	**6,218**	4,209
Employment expenses	2	**(2,103)**	(1,347)	**(1,008)**	(970)
Brokerage, commission and trading-related fee expenses	2	**(525)**	(596)	**(662)**	(586)
Occupancy expenses	2	**(150)**	(104)	**(91)**	(82)
Non-salary technology expenses	2	**(327)**	(170)	**(138)**	(132)
Other operating expenses	2	**(1,592)**	(2,060)	**(1,730)**	(1,642)
Total operating expenses		**(4,697)**	(4,277)	**(3,629)**	(3,412)
Operating profit from continuing operations before income tax		**2,298**	1,895	**2,589**	797
Income tax expense	4	**(622)**	(586)	**(166)**	(324)
Profit from continuing operations after income tax		**1,676**	1,309	**2,423**	473
Profit from discontinued operations after income tax	41	**-**	164	**-**	164
Profit from continuing and discontinued operations after income tax		**1,676**	1,473	**2,423**	637
Profit attributable to equity holders of Macquarie Bank Limited		**1,676**	1,473	**2,423**	637
Distribution paid or provided for on:					
Macquarie Income Securities (MIS)	5	**-**	(12)	**-**	-
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		**1,676**	1,461	**2,423**	637
From continuing operations		**1,676**	1,297	**2,423**	473
From discontinued operations		**-**	164	**-**	164

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

Statements of comprehensive income

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
	Notes	**2021 $m**	2020 $m	**2021 $m**	2020 $m
Profit from continuing and discontinued operations after income tax		**1,676**	1,473	**2,423**	637
Other comprehensive (loss)/income[1]:					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve:					
Revaluation movement	27	**71**	(46)	**46**	(11)
Changes in allowance for expected credit losses	27	**(3)**	6	**1**	–
Cash flow hedges:					
Revaluation movement	27	**7**	(93)	**(20)**	(29)
Transferred to income statement	27	**39**	44	**27**	12
Share of other comprehensive gains/(losses) of associates and joint ventures	27	**1**	(2)	**–**	–
Foreign exchange movements on translation and hedge accounting of foreign operations	27	**(800)**	566	**(6)**	13
Movements in items that will not be subsequently reclassified to the income statement:					
Fair value (loss)/gain attributable to own credit risk on debt that is designated at fair value through profit or loss (DFVTPL)	27	**(79)**	50	**(79)**	50
Total other comprehensive (loss)/income from continuing operations		**(764)**	525	**(31)**	35
Total comprehensive income		**912**	1,998	**2,392**	672
Total comprehensive income attributable to Macquarie Income Securities holders		**–**	(12)	**–**	–
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited					
From continuing operations		**912**	1,822	**2,392**	508
From discontinued operations	41	**–**	164	**–**	164
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		**912**	1,986	**2,392**	672

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 2021

		CONSOLIDATED		COMPANY	
	Notes	2021 $m	2020 $m	2021 $m	2020 $m
Assets					
Cash and bank balances		**15,966**	7,847	**14,012**	6,037
Cash collateral on securities borrowed and reverse repurchase agreements		**34,555**	37,708	**31,034**	36,034
Trading assets	6	**21,212**	16,251	**19,128**	14,499
Margin money and settlement assets	7	**8,302**	12,183	**6,417**	10,015
Derivative assets	8	**20,552**	44,845	**19,328**	41,604
Financial investments	9	**7,999**	7,484	**7,916**	7,366
Held for sale and other assets	10	**3,066**	3,267	**1,622**	2,266
Loan assets	11	**98,992**	87,719	**83,676**	64,975
Due from subsidiaries	29	**–**	–	**21,500**	27,040
Due from related body corporate entities	29	**2,154**	5,278	**1,645**	5,105
Interests in associates and joint ventures	13	**281**	251	**40**	42
Property, plant and equipment and right-of-use assets	14	**2,797**	2,598	**672**	819
Intangible assets	15	**146**	185	**55**	78
Investments in subsidiaries	16	**–**	–	**6,618**	5,592
Deferred tax assets	17	**826**	520	**493**	470
Total assets		**216,848**	226,136	**214,156**	221,942
Liabilities					
Cash collateral on securities lent and repurchase agreements		**4,542**	2,322	**4,542**	2,322
Trading liabilities	18	**6,134**	5,363	**6,137**	5,395
Margin money and settlement liabilities	19	**16,251**	19,052	**13,632**	16,662
Derivative liabilities	20	**17,475**	37,823	**15,732**	35,973
Deposits	21	**84,140**	67,253	**83,994**	67,186
Other liabilities	22	**4,350**	2,946	**2,054**	1,774
Borrowings		**2,473**	3,047	**1,967**	2,304
Due to subsidiaries	29	**–**	–	**16,532**	18,249
Due to related body corporate entities	29	**15,901**	22,115	**15,684**	22,013
Debt issued	23	**44,668**	46,922	**34,764**	34,235
Deferred tax liabilities	17	**36**	69	**–**	21
Total liabilities excluding loan capital		**195,970**	206,912	**195,038**	206,134
Loan capital	25	**6,804**	4,997	**6,804**	4,997
Total liabilities		**202,774**	211,909	**201,842**	211,131
Net assets		**14,074**	14,227	**12,314**	10,811
Equity					
Contributed equity	26	**8,523**	8,899	**8,400**	8,789
Reserves	27	**306**	991	**(10)**	(58)
Retained earnings	27	**5,245**	4,336	**3,924**	2,080
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited		**14,074**	14,226	**12,314**	10,811
Non-controlling interests	27	**–**	1	**–**	–
Total equity		**14,074**	14,227	**12,314**	10,811

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

Statements of change in equity

For the financial year ended 31 March 2021

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							CONSOLIDATED
Balance as at 1 Apr 2019		7,898	516	2,824	11,238	2	11,240
Profit from continuing and discontinued operations after income tax		–	–	1,473	1,473	–	1,473
Other comprehensive income, net of tax		–	475	50	525	–	525
Total comprehensive income		–	475	1,523	1,998	–	1,998
Transactions with equity holders:							
Contributions of ordinary equity	26	1,000	–	–	1,000	–	1,000
Dividends and distributions paid or provided for	5	–	–	(12)	(12)	–	(12)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	1	1	(1)	–
Other equity movements:							
Contribution from ultimate parent entity[(1)] in relation to share-based payments	26	1	–	–	1	–	1
		1,001	–	(11)	990	(1)	989
Balance as at 31 Mar 2020		8,899	991	4,336	14,226	1	14,227
Profit from continuing operations after income tax		**–**	**–**	**1,676**	**1,676**	**–**	**1,676**
Other comprehensive loss, net of tax		**–**	**(685)**	**(79)**	**(764)**	**–**	**(764)**
Total comprehensive (loss)/income		**–**	**(685)**	**1,597**	**912**	**–**	**912**
Transactions with equity holders:							
Redemption of Macquarie Income Securities	26	**(400)**	**–**	**–**	**(400)**	**–**	**(400)**
Dividends and distributions paid or provided for	5	**–**	**–**	**(500)**	**(500)**	**–**	**(500)**
Change attributable to group restructure	27	**–**	**–**	**(189)**	**(189)**	**–**	**(189)**
Non-controlling interests:							
Changes in non-controlling ownership interests		**–**	**–**	**1**	**1**	**(1)**	**–**
Other equity movements:							
Contribution from ultimate parent entity[(1)] in relation to share-based payments	26	**24**	**–**	**–**	**24**	**–**	**24**
		(376)	**–**	**(688)**	**(1,064)**	**(1)**	**(1,065)**
Balance as at 31 Mar 2021		**8,523**	**306**	**5,245**	**14,074**	**–**	**14,074**

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

(1) Macquarie Group Limited.

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
					COMPANY
Balance as at 1 Apr 2019		7,785	(43)	1,393	9,135
Profit from continuing and discontinued operations after income tax		–	–	637	637
Other comprehensive (loss)/income, net of tax		–	(15)	50	35
Total comprehensive (loss)/income		–	(15)	687	672
Transactions with equity holders:					
Contributions of ordinary equity	26	1,000	–	–	1,000
Other equity movements:					
Contributions from ultimate parent entity[1] in relation to share-based payments	26	4	–	–	4
		1,004	–	–	1,004
Balance as at 31 Mar 2020		8,789	(58)	2,080	10,811
Profit from continuing operations after income tax		**–**	**–**	**2,423**	**2,423**
Other comprehensive (loss)/income, net of tax		**–**	**48**	**(79)**	**(31)**
Total comprehensive income		**–**	**48**	**2,344**	**2,392**
Transactions with equity holders:					
Redemption of Macquarie Income Securities	26	**(400)**	**–**	**–**	**(400)**
Dividends paid	5	**–**	**–**	**(500)**	**(500)**
Other equity movements:					
Contributions from ultimate parent entity[1] in relation to share-based payments	26	**11**	**–**		**11**
		(389)	**–**	**(500)**	**(889)**
Balance as at 31 Mar 2021		**8,400**	**(10)**	**3,924**	**12,314**

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

(1) Macquarie Group Limited.

Statements of cash flows

For the financial year ended 31 March 2021

		CONSOLIDATED		COMPANY	
		2021	2020	2021	2020
	Notes	$m	$m	$m	$m
Cash flows generated from operating activities					
Interest income and expense:					
Received		**3,370**	4,482	**2,691**	3,804
Paid		**(1,397)**	(2,467)	**(1,430)**	(2,579)
Fees, commissions and other income and charges:					
Received		**1,455**	1,252	**1,325**	1,262
Paid		**(522)**	(630)	**(650)**	(619)
Operating lease income received		**933**	1,196	**398**	617
Dividends and distributions received		**5**	4	**1,369**	134
Operating expenses paid:					
Employment expenses		**(1,751)**	(1,385)	**(932)**	(978)
Other operating expenses		**(2,005)**	(2,544)	**(1,924)**	(2,074)
Income tax paid		**(212)**	(278)	**(45)**	(1)
Changes in operating assets:					
Loan assets and balances with related body corporate entities		**(13,629)**	(13,242)	**(17,475)**	(5,170)
Assets under operating lease		**(407)**	(516)	**71**	(25)
Other assets		**(596)**	(454)	**307**	(160)
Trading assets and liabilities, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities), and trading income		**(1,579)**	3,746	**(4,119)**	939
Changes in operating liabilities:					
Deposits		**17,205**	10,916	**17,118**	10,939
Borrowings		**(164)**	1,516	**(36)**	1,276
Debt issued		**2,321**	8,573	**6,425**	2,935
Other liabilities		**18**	(12)	**(25)**	(17)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		**30**	426	**–**	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		**(28)**	(422)	**–**	–
Net cash flows generated from operating activities	28	**3,047**	10,161	**3,068**	10,283
Cash flows utilised in investing activities					
Net proceeds/(payments) for financial investments		**204**	(1,363)	**153**	(1,325)
Associates, joint ventures, subsidiaries and businesses:					
Proceeds from the disposal of discontinued operations, net of cash deconsolidated			–	**–**	102
Proceeds from the disposal or capital return, net of cash deconsolidated		**13**	273	**415**	436
Payments for the acquisition of or additional capital contribution, net of cash acquired		**(324)**	(29)	**(1,637)**	(368)
Proceeds from the disposal of property, plant and equipment, right-of-use assets and intangible assets		**20**	-	**-**	-
Payment for the acquisition of property, plant and equipment, right-of-use assets and intangible assets		**(153)**	(71)	**(133)**	(68)
Net cash flows utilised in investing activities		**(240)**	(1,190)	**(1,202)**	(1,223)
Cash flows generated from/(utilised in) financing activities					
Issuance of ordinary shares		**–**	1,000	**–**	1,000
Redemption of Macquarie Income Securities		**(400)**	–	**(400)**	–
Payment to non-controlling interests		**(1)**	(1)	**–**	–
Loan capital:					
Issuance		**3,694**	–	**3,694**	–
Redemption		**(740)**	(429)	**(740)**	(429)
Dividends and distributions paid		**(503)**	(573)	**(500)**	(560)
Net cash flows generated from/(utilised in) financing activities		**2,050**	(3)	**2,054**	11
Net increase in cash and cash equivalents		**4,857**	8,968	**3,920**	9,071
Cash and cash equivalents at the beginning of the financial year	28	**27,290**	16,743	**26,192**	15,795
Effect of exchange rate movement on cash and cash equivalents		**(2,829)**	1,579	**(2,463)**	1,326
Cash and cash equivalents at the end of the financial year	28	**29,318**	27,290	**27,649**	26,192

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 2021

Note 1
Basis of preparation

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

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

(i) Compliance with IFRS as issued by the IASB

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

(ii) Basis of measurement

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

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

(iii) Critical accounting estimates and significant judgements

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

- determining the appropriate business model for a group of financial assets which includes determining the level at which the business model condition is applied and whether past or expected sales activity is consistent with a held to collect business model (Note 44(vii))
- assessing whether the cash flows generated by a financial asset constitute solely payment of principal and interest (SPPI) may require the application of judgement, particularly for certain subordinated or non-recourse positions, and in the determination of whether compensation for early termination of a contract is reasonable (Note 44(vii))
- the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss, including the determination of significant increase in credit risk (SICR), forecasts of economic conditions and the weightings assigned thereto (Note 44(xxii) and Note 12)
- timing and amount of impairment of interests in associates and joint ventures and investments in subsidiaries, including the reversal thereof (Note 44(i), Note 44(xxii), Note 13 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 37)
- 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 17)
- recognition and measurement of provisions related to actual and potential claims and the determination of contingent liabilities (Note 44(xvii) and Note 32)
- the application of hedge accounting principles, including the assessment that a forecast transaction is highly probable (Note 44(x) and Note 34)
- the determination of whether an asset or group of assets is held for sale (and/or constitutes a discontinued operation of the Consolidated Entity) (Note 44 (xvii)
- the 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)).

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.

Note 1
Basis of preparation continued

(iv) Coronavirus (COVID-19) impact

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

The Consolidated Entity's processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 31 March 2020 and 30 September 2020 financial statements. Those processes identified that expected credit losses (Note 12 *Expected credit losses*) required continued judgement as a result of the impact of COVID-19.

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

The impact of COVID-19 has been discussed further in each of the related notes.

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

(i) AASB Revised Conceptual Framework for Financial Reporting

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

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

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The application of the revised AASB Framework did not have a material impact on the Consolidated Entity's financial statements.

(ii) AASB 2020-8 *Interest Rate Benchmark Reform Phase 2*

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

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

The nature of the reforms varies across different jurisdictions. For example, in Australia the existing IBOR benchmark (BBSW) has undergone reform and is expected to continue for the foreseeable future alongside the nominated ARR for AUD which is AONIA (AUD Overnight Index Average). By contrast, due to a lack of observable transactions to support robust LIBOR reference rates, LIBOR publication is expected to cease. A transition away from LIBOR is therefore necessary. The cessation date for all tenors of GBP, CHF, EUR, JPY LIBOR and the one week and two-month tenors for USD LIBOR is 31 December 2021. The cessation date for the remaining USD LIBOR tenors is 30 June 2023.

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 will need to be applied.

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

Note 1
Basis of preparation continued

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

Impacts on financial reporting

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

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

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

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

(vi) Other amendments made to existing standards

Other amendments made to existing standards that were mandatorily effective for the annual reporting period beginning on 1 April 2020 did not result in a material impact to the Consolidated Entity's financial statements.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 2				
Operating profit from continuing operations before income tax				
Net interest income				
Interest and similar income				
Effective interest rate method[1]	**3,101**	3,777	**2,489**	3,267
Other	**261**	686	**222**	512
Interest and similar expense[2]	**(1,273)**	(2,423)	**(1,310)**	(2,540)
Net interest income	**2,089**	2,040	**1,401**	1,239
Fee and commission income				
Brokerage and other trading-related fee income	**360**	501	**259**	386
Portfolio administration fees	**216**	233	**55**	33
Lending fees	**129**	149	**163**	209
Service fee from related body corporates[3]	**365**	–	**–**	–
Other fee and commission income	**256**	302	**513**	276
Total fee and commission income	**1,326**	1,185	**990**	904
Net trading income[4]				
Commodities[5],[6]	**2,439**	1,857	**1,036**	821
Equities	**341**	410	**237**	290
Credit, interest rate, foreign exchange and other products	**535**	348	**747**	139
Net trading income	**3,315**	2,615	**2,020**	1,250
Net operating lease income				
Rental income	**846**	1,197	**321**	671
Depreciation and other operating lease-related charges (Note 14)	**(451)**	(826)	**(191)**	(557)
Net operating lease income	**395**	371	**130**	114
Share of net profits from associates and joint ventures	**41**	27	**–**	–

(1) Includes interest income of $3,032 million (2020: $3,674 million) in the Consolidated Entity and $2,420 million (2020: $1,654 million) in the Company on financial assets measured at amortised cost and $69 million (2020: $103 million) in the Consolidated Entity and $69 million (2020: $1,613 million) in the Company on financial assets measured at FVOCI. Following an assessment of the Company's business model, certain loan assets were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI). Refer to Note 36 *Measurement categories of financial instruments*.

(2) Includes interest expense on financial liabilities measured at amortised cost calculated using the effective interest rate method of $1,242 million (2020: $2,249 million) in the Consolidated Entity and $1,284 million (2020: $2,401 million) in the Company.

(3) Represents fee and service income earned from the Non-Bank Group by the service entities acquired from MGL during the year. For details, refer to Note 42 *Acquisition and disposals of subsidiaries and businesses*.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedge relationships, fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk and foreign currency gains and losses on foreign currency-denominated monetary assets and liabilities. Refer to Note 44(x) *Derivative instruments and hedging activities*.

(5) Includes $485 million (2020: $492 million) in the Consolidated Entity and $126 million (2020: $51 million) in the Company for transportation, storage and certain other trading related costs.

(6) Includes $11 million (2020: $15 million) depreciation on right-of-use (ROU) assets held for trading-related business.

Note 2
Operating profit from continuing operations before income tax continued

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Credit and other impairment (charges)/reversal				
Credit impairment (charges)/reversal				
Loan assets	**(196)**	(325)	**(110)**	(148)
Margin money and settlement assets	**(29)**	(66)	**1**	(28)
Financial investments, other assets, undrawn commitments and financial guarantees	**(64)**	(72)	**(23)**	(49)
Gross credit impairment charges	**(289)**	(463)	**(132)**	(225)
Recovery of loans previously written off	**2**	12	**–**	5
Net credit impairment charges	**(287)**	(451)	**(132)**	(220)
Other impairment (charges)/reversal				
Interests in associates and joint ventures	**(24)**	(7)	**(2)**	(5)
Intangible and other non-financial assets	**(22)**	(14)	**(14)**	(11)
Investments in subsidiaries	**–**	–	**60**	46
Total other impairment (charges)/reversal	**(46)**	(21)	**44**	30
Total credit and other impairment charges	**(333)**	(472)	**(88)**	(190)
Other operating income and charges				
Investment income				
Net gain/(loss) on:				
Equity and debt investments	**100**	9	**67**	134
Interests in associates and joint ventures	**1**	18	**–**	13
Non-financial assets	**16**	3	**11**	(6)
Disposal of businesses and subsidiaries	**8**	241	**9**	185
Dividends from subsidiaries	**–**	–	**1,369**	131
Total investment income	**125**	271	**1,456**	457
Other income and charges	**37**	135	**309**	435
Total other operating income and charges	**162**	406	**1,765**	892
Net operating income	**6,995**	6,172	**6,218**	4,209

Note 2
Operating profit from continuing operations before income tax continued

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Employment expenses				
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,875)**	(1,154)	**(893)**	(841)
Share-based payments	**(206)**	(192)	**(97)**	(129)
Provision for long service leave and annual leave	**(22)**	(1)	**(18)**	–
Total employment expenses	**(2,103)**	(1,347)	**(1,008)**	(970)
Brokerage, commission and trading-related fee expenses				
Brokerage and other trading-related fee expenses	**(457)**	(530)	**(338)**	(390)
Other fee and commission expenses	**(68)**	(66)	**(324)**	(196)
Total brokerage, commission and trading-related fee expenses	**(525)**	(596)	**(662)**	(586)
Occupancy expenses				
Lease and other occupancy expenses[1]	**(134)**	(100)	**(88)**	(79)
Depreciation on own use assets: buildings, furniture, fittings and leasehold improvements (Note 14)	**(16)**	(4)	**(3)**	(3)
Total occupancy expenses	**(150)**	(104)	**(91)**	(82)
Non-salary technology expenses				
Information services	**(92)**	(83)	**(58)**	(61)
Depreciation on own use assets: equipment (Note 14)	**(10)**	(4)	**(4)**	(3)
Service provider and other non-salary technology expenses	**(225)**	(83)	**(76)**	(68)
Total non-salary technology expenses	**(327)**	(170)	**(138)**	(132)
Other operating expenses				
Service cost recoveries by related entities	**(1,108)**	(1,643)	**(1,404)**	(1,344)
Professional fees	**(178)**	(145)	**(111)**	(104)
Indirect and other taxes	**(86)**	(78)	**(69)**	(57)
Audit fees	**(28)**	(22)	**(18)**	(11)
Amortisation of intangible assets	**(22)**	(20)	**(19)**	(16)
Advertising and promotional expenses	**(26)**	(19)	**(22)**	(16)
Communication expenses	**(12)**	(11)	**(8)**	(7)
Travel and entertainment expenses	**(6)**	(41)	**(4)**	(27)
Other expenses	**(126)**	(81)	**(75)**	(60)
Total other operating expenses	**(1,592)**	(2,060)	**(1,730)**	(1,642)
Total operating expenses	**(4,697)**	(4,277)	**(3,629)**	(3,412)
Operating profit from continuing operations before income tax	**2,298**	1,895	**2,589**	797

(1) Includes $37 million (2020: $5 million) of depreciation on ROU assets relating to property leases.

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 year, certain activities of CGM's Cash Equities business which operated within the Bank Group were transferred to Macquarie Capital in the Non-Bank Group. Comparatives have been reclassified to reflect this reorganisation.

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

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

- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance[(1)] products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes.

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

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

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Segments

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

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

Accounting for derivatives that hedge interest rate risk

With respect to businesses that predominately earn income from lending activities, derivatives that hedge interest rate risk are required to be measured at fair value through profit or loss (FVTPL). Changes in fair value are presented in net trading income and give rise to income statement volatility unless designated in a hedge accounting relationship, in which case the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk to reduce volatility in the income statement. If designated in a cash flow hedge accounting relationship, the effective portion of the derivative's fair value gains or losses is deferred in the cash flow hedge reserve as part of Other comprehensive income (OCI), and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. For segment reporting, 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.

(1) Includes general plant and equipment.

Note 3
Segment reporting continued

(i) Operating segments continued

Central Service Groups

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

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

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

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

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

Please refer to Note 42 *Acquisition and disposals of subsidiaries and businesses* for additional information.

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Reportable segment assets

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

Note 3
Segment reporting continued

(i) Operating segments continued

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate[1] $m	Total $m
				CONSOLIDATED 2021
Net interest and trading income	**1,746**	**3,576**	**82**	**5,404**
Fee and commission income	**416**	**447**	**463**	**1,326**
Net operating lease income	**–**	**384**	**11**	**395**
Share of net (losses)/profits of associates and joint ventures	**(3)**	**44**	**–**	**41**
Credit and other impairment (charges)/reversal	**(115)**	**(240)**	**22**	**(333)**
Other operating income and charges	**30**	**96**	**36**	**162**
Internal management revenue/(charges)	**1**	**(3)**	**2**	**–**
Net operating income	**2,075**	**4,304**	**616**	**6,995**
Total operating expenses	**(1,306)**	**(1,880)**	**(1,511)**	**(4,697)**
Operating profit/(loss) before income tax	**769**	**2,424**	**(895)**	**2,298**
Income tax expense	**–**	**–**	**(622)**	**(622)**
Operating profit/(loss) after income tax	**769**	**2,424**	**(1,517)**	**1,676**
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	**769**	**2,424**	**(1,517)**	**1,676**
Reportable segment assets	**90,227**	**94,668**	**31,953**	**216,848**
				CONSOLIDATED 2020
Net interest and trading income	1,728	2,933	(6)	4,655
Fee and commission income	441	511	233	1,185
Net operating lease income	–	360	11	371
Share of net profits/(losses) of associates and joint ventures	3	25	(1)	27
Credit and other impairment charges	(149)	(238)	(85)	(472)
Other operating income and charges	9	75	322	406
Internal management revenue/(charges)	2	24	(26)	–
Net operating income	2,034	3,690	448	6,172
Total operating expenses	(1,267)	(1,870)	(1,140)	(4,277)
Operating profit/(loss) before income tax	767	1,820	(692)	1,895
Income tax expense	–	–	(586)	(586)
Operating profit/(loss) after income tax	767	1,820	(1,278)	1,309
Distributions paid or provided for on MIS	–	–	(12)	(12)
Net profit/(loss) attributable to the ordinary equity holder from continuing operations	767	1,820	(1,290)	1,297
Reportable segment assets	76,776	126,224	23,136	226,136

(1) The Corporate segment in the current and prior comparative periods includes certain balances relating to the Cash Equities business – primarily being margin money and settlements assets amounting to $335 million (2020: $5,150 million). Following the transfer of the business from the CGM segment to the Macquarie Capital segment in the Non-Bank Group during the year, certain balances will remain on the Consolidated Entity's balance sheet for an interim transition period.

Note 3
Segment reporting continued

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

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

	Banking and Financial Services $m	Commodities and Global Markets $m	Corporate $m	Total $m
Fee and commission income				**CONSOLIDATED 2021**
Brokerage and other trading-related fee income	**47**	**201**	**112**	**360**
Portfolio administration fee	**212**	**4**	**–**	**216**
Lending fees	**118**	**11**	**–**	**129**
Service fee from related body corporates[1]	**–**	**–**	**365**	**365**
Other fee and commission income/(expenses)	**39**	**231**	**(14)**	**256**
Total fee and commission income	**416**	**447**	**463**	**1,326**
Fee and commission income				CONSOLIDATED 2020
Brokerage and other trading-related fee income	49	244	208	501
Portfolio administration fee	219	5	9	233
Lending fees	130	19	–	149
Other fee and commission income	43	243	16	302
Total fee and commission income	441	511	233	1,185

(1) Represents fee and service income earned by the service entities from the Non-Bank Group. The service entities was acquired from MGL during the year. For details, refer to Note 42 *Acquisition and disposals of subsidiaries and businesses.*

Note 3
Segment reporting continued

(iii) Products and services

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

- **Financial markets:** trading in fixed income, equities, foreign exchange and commodities and broking services
- **Lending:** corporate and structured finance, banking activities, home loans, asset financing and leasing
- **Corporate services:** business support services (including staff, technology, occupancy and other ancillary services) provided for day to day operations
- **Asset and wealth management:** distribution and management of wealth management products.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m
Revenue from external customers		
Financial markets	**4,874**	5,160
Lending	**4,008**	4,690
Corporate services	**365**	–
Asset and wealth management	**304**	555
Total revenue from external customers(1)	**9,551**	10,405

(iv) Geographical areas

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

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Revenue from external customers $m	Non current assets(2) $m	Revenue from external customers $m	Non current assets(2) $m
Australia	**4,684**	**1,092**	5,489	990
Americas(3)	**2,448**	**252**	2,127	318
Europe, Middle East and Africa(4)	**1,684**	**1,593**	2,066	1,665
Asia Pacific	**735**	**287**	723	61
Total	**9,551**	**3,224**	10,405	3,034

(v) Major customers

The Consolidated Entity does not rely on any major customer.

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, service fees from related body corporates, share of net profits/losses of associates and joint ventures, income associated with investing activities and other operating income.
(2) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and right-of-use assets.
(3) Includes external revenue generated in the United States of America of $2,276 million (2020: $1,934 million).
(4) Includes external revenue generated in the United Kingdom of $1,606 million (2020: $2,014 million).

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Note 4				
Income tax expense				
(i) Income tax expense				
Current tax expense	**(755)**	(556)	**(172)**	(340)
Deferred tax benefit	**133**	32	**6**	78
Total income tax expense	**(622)**	(524)	**(166)**	(262)
Income tax expense is attributable to:				
Profit from continuing operations	**(622)**	(586)	**(166)**	(324)
Profit from discontinued operations	**–**	62	**–**	62
(ii) Reconciliation of income tax expense to *prima facie* tax expense				
Prima facie income tax expense on operating profit[1]	**(689)**	(599)	**(777)**	(269)
Tax effect of amounts which are non-assessable/ (non-deductible) in calculating taxable income:				
Rate differential on offshore income	**68**	19	**197**	(129)
Impairment reversal on subsidiaries	**–**	–	**18**	14
Intra-group dividends	**–**	–	**411**	39
Gain on sale of discontinued operations	**–**	93	**–**	93
Other items	**(1)**	(37)	**(15)**	(10)
Total income tax expense	**(622)**	(524)	**(166)**	(262)
(iii) Tax benefit/(expense) relating to OCI items				
FVOCI reserve	**(14)**	3	**(13)**	(22)
Own credit risk	**34**	(21)	**34**	(21)
Cash flow hedge reserve	**(4)**	(7)	**12**	(18)
Total tax benefit/(expense) relating to OCI items	**16**	(25)	**33**	(61)
(iv) Deferred tax benefit/(expense) represents movements in deferred tax assets and liabilities				
Property, plant and equipment	**6**	(10)	**(3)**	(9)
Intangible assets	**17**	2	**14**	(4)
Financial investments, associates and joint ventures	**(29)**	4	**(14)**	(10)
Tax losses	**(42)**	(21)	**(29)**	(15)
Operating and finance leases	**48**	33	**(21)**	99
Loan assets and derivatives	**6**	(14)	**1**	10
Other assets and liabilities	**127**	38	**58**	7
Total deferred tax benefit represents movements in deferred tax assets and liabilities	**133**	32	**6**	78

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

(1) *Prima facie* income tax expense on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2020: 30%).

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m

Note 5
Dividends

(i) Dividends to ordinary equity holder

	2021 $m	2020 $m	2021 $m	2020 $m
Dividend paid[(1)]	**500**	560	**500**	560
Total dividends paid (Note 27)	**500**	560	**500**	560

(ii) Distributions on MIS

MIS were stapled arrangements, which included perpetual preference shares previously issued by the Company. Distributions paid and provided for during previous year amounts to $12 million. MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Refer to Note 26 *Contributed equity* for further details on these instruments.

Note 6
Trading assets

	2021 $m	2020 $m	2021 $m	2020 $m
Commodities	**6,691**	3,540	**4,980**	2,110
Equity securities				
Listed	**6,657**	4,405	**6,593**	4,324
Debt securities				
Commonwealth and foreign government securities	**4,385**	6,763	**4,385**	6,751
Corporate loans and securities	**133**	281	**132**	175
Treasury notes	**–**	318	**–**	318
Other debt securities	**1**	1	**1**	1
Commodity contracts	**3,345**	943	**3,037**	820
Total trading assets	**21,212**	16,251	**19,128**	14,499

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

(1) Previous year represents dividend declared during March 2019 which was paid on 5 April 2019.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Note 7				
Margin money and settlement assets				
Margin money	**4,552**	6,842	**4,027**	5,959
Security settlements	**1,828**	3,207	**1,457**	2,839
Commodity settlements	**1,922**	2,134	**933**	1,217
Total margin money and settlement assets	**8,302**	12,183	**6,417**	10,015

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Note 8				
Derivative assets				
Held for trading	**19,972**	42,988	**18,755**	39,997
Designated in hedge relationships[1]	**580**	1,857	**573**	1,607
Total derivative assets	**20,552**	44,845	**19,328**	41,604

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Note 9				
Financial investments				
Equity securities				
Listed	**53**	39	**50**	36
Unlisted	**153**	115	**97**	73
Debt securities				
Bonds and Negotiable Certificate of Deposits (NCDs)	**7,638**	7,163	**7,638**	7,163
Other	**155**	167	**131**	94
Total financial investments	**7,999**	7,484	**7,916**	7,366

Of the above amounts, $2,023 million (2020: $3,253 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $2,023 million (2020: $3,237 million) by the Company.

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 34 *Hedge accounting*.

Note 10
Held for sale and other assets

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Assets held for sale[1]	**74**	–	**–**	–
Other assets				
Commodity-related receivables	**1,661**	1,525	**1,091**	1,295
Debtors and prepayments[2]	**1,016**	1,077	**364**	779
Income tax receivable	**277**	330	**165**	190
Life investment linked contracts and other unitholder assets[3]	**12**	308	**–**	–
Other	**26**	27	**2**	2
Total held for sale and others assets	**3,066**	3,267	**1,622**	2,266

Of the above amounts, $2,755 million (2020: $3,118 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $1,388 million (2020: $1,831 million) by the Company.

(1) Subsequent to 31 March 2021, the Consolidated Entity and the Company disposed of certain assets that were classified as held for sale for a pre-tax gain of approximately $450 million. The gain on disposal will be recognised by the Consolidated Entity and the Company in the half-year ending 30 September 2021.
(2) Includes $117 million (2020: $182 million) of fee and commission receivables.
(3) Certain assets were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

Note 11
Loan assets

	2021			2020		
	Gross $m	ECL allowance[1] $m	Net $m	Gross $m	ECL allowance[1] $m	Net $m
						CONSOLIDATED
Home loans[2]	71,588	(67)	71,521	56,106	(62)	56,044
Asset financing[2]	13,584	(343)	13,241	16,453	(294)	16,159
Corporate, commercial and other lending	12,333	(365)	11,968	13,288	(331)	12,957
Investment lending	2,263	(1)	2,262	2,560	(1)	2,559
Total loan assets	**99,768**	**(776)**	**98,992**	88,407	(688)	87,719
						COMPANY
Home loans	69,124	(65)	69,059	52,895	(26)	52,869
Corporate, commercial and other lending	9,836	(289)	9,547	9,677	(286)	9,391
Asset financing	4,370	(33)	4,337	2,477	(59)	2,418
Investment lending	733	–	733	297	–	297
Total loan assets	**84,063**	**(387)**	**83,676**	65,346	(371)	64,975

Of the above amounts, $26,937 million (2020: $26,195 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $21,381 million (2020: $17,588 million) by the Company.

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, which are monitored through its credit policies, is reported under Note 35.1 *Credit risk*.

The carrying value of the exposure in the corporate, commercial and other lending segments reduced in the current year as a result of repayments and the impact of the stronger Australian dollar, partially offset by new originations. Repayments, lower drawdowns and the impact of the stronger Australian dollar contributed to the reduction in the asset financing segment during the current year.

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 and the Company did not have any material amounts of such collateral recognised in its Statement of financial position.

(1) The ECL allowance carried against loan assets measured at FVOCI is not represented in the table as the allowance is included in reserves. Refer to Note 12 *Expected credit losses*.
(2) Includes $11,344 million (2020: $16,402 million) held by consolidated Structured Entities (SEs), which are available as security to note holders and debt providers.

Note 11
Loan assets continued

Finance lease receivables

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

	2021			2020		
	Gross investment in finance lease receivables $m	**Unearned income $m**	**Present value of minimum lease payments receivable $m**	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
						CONSOLIDATED
Within one year	**1,458**	**(117)**	**1,341**	2,039	(197)	1,842
Between one to two years	**1,095**	**(84)**	**1,011**	1,540	(139)	1,401
Between two to three years	**725**	**(55)**	**670**	1,079	(98)	981
Between three to four years	**388**	**(30)**	**358**	628	(59)	569
Between four to five years	**128**	**(9)**	**119**	280	(26)	254
Later than five years	**43**	**(1)**	**42**	68	(3)	65
Total	**3,837**	**(296)**	**3,541**	5,634	(522)	5,112
						COMPANY
Within one year	**140**	**(10)**	**130**	123	(11)	112
Between one to two years	**133**	**(10)**	**123**	100	(8)	92
Between two to three years	**108**	**(8)**	**100**	81	(6)	75
Between three to four years	**75**	**(5)**	**70**	29	(2)	27
Between four to five years	**78**	**(5)**	**73**	6	–	6
Later than five years	**7**	**–**	**7**	1	–	1
Total	**541**	**(38)**	**503**	340	(27)	313

Note 12
Expected credit losses

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantee contract 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 Expected Credit Losses (ECL). These models incorporate a range of inputs notably that of Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) ('credit inputs') as well as Forward-Looking Information (FLI). For retail portfolios, behavioural variables are also considered in the determination of inputs for ECL modelling.

The key model inputs used in measuring the ECL include:

- exposure at default (EAD): The EAD represents the estimated exposure in the event of a default
- probability of default (PD): The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. 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.

Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Qualitative factors include, but are not limited to, 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. Where exposures' credit risk profiles deteriorate, the exposures are monitored through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

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

Retail exposures

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

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

Wholesale exposures

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

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

For both retail and wholesale portfolios:

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

Definition of default

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

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

Note 12
Expected credit losses continued

Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR 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 inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, calibration and validation process.

The Consolidated Entity applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. These overlays consider the risk that losses predicted to occur at points of particular economic stress, which have since been passed, are yet to occur and that uncertainty exists as to whether enhanced levels of government and other-related support measures may cause the loss emergence profile to differ to that for which the models have been calibrated. These overlays also 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 counterparties or industries which are difficult to account for within the modelled outcomes. Overtime the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was approximately $350 million. These judgements are reviewed by FMG and RMG at each reporting date.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the 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 continued to anchor the upside and downside scenarios with COVID-19 as the key driver of the macroeconomic outlook.

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

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

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

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

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

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

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

The modelled ECL for each scenario is sensitive to the speed and resilience of post-COVID economic normalisation, and the longevity of monetary and fiscal intervention, as these influence both the probability of default, and the value of collateral that may be utilised.

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

Note 12
Expected credit losses continued

Scenario	Weighting	Expectation
Baseline A 100% weighting to this scenario would result in a total expected credit loss provision on balance sheet at the reporting date of ~$850 million (2020: $800 million)[(1)]	Probable	**Global:** The baseline assumes the global economic recovery continues through the first half of 2021, helped by the continuation of localised health policies and enduring fiscal and monetary stimulus across most economies. Job retention schemes and other policy measures are expected to ease gradually through 2021 as recoveries take hold, ensuring that official unemployment rates remain stable as economic activity returns gradually towards normalised levels. In developed markets outside Europe, GDP is expected to return to pre-COVID-19 levels by mid-2021. **Australia:** The Australian economy is expected to recover ahead of other economies having experienced a relatively small contraction in 2020. Equity markets are expected to continue to stabilise and return to modest growth reaching pre-COVID-19 peaks at the end of 2021. With localised restrictions generally eased, unemployment rates continue to fall from a peak of 7.1% in mid-2020 declining to ~5% by the end of 2020. House prices increase by 8% in 2021, supported by low rates as the RBA maintains the cash rate at historic lows until 2023. **United States:** The unemployment rate continues to fall from its high of ~13% in the first half of 2020, albeit at a slowing pace remaining above pre-COVID-19 levels, reaching ~5% in early 2022. US GDP contracted by ~10% in the first half of 2020 but is expected to return to pre-COVID-19 levels in the second quarter of 2021 fuelled by robust stimulus measures. 10-year government bond yields are expected to remain at historical lows while equities trend higher. **Europe:** European GDP is not expected to recover to pre-COVID-19 levels until the second half of 2022. The unemployment rate is expected to peak at ~9% in mid-2021 and return slowly to pre-COVID-19 levels of ~7% by 2025. The European Central Bank (ECB) is expected to maintain its policy rate in slightly negative territory.

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

Note 12
Expected credit losses continued

Scenario	Weighting	Expectation
Downside A 100% weighting to this scenario would result in a of total expected credit loss provision on balance sheet at the reporting date of ~$1,350 million (2020: $1,150 million)[1]	Possible	**Global:** The downside assumes the COVID-19 recovery is more protracted as fresh outbreaks trigger renewed lockdown measures, while delayed or ineffectual vaccination programmes fail are unable to facilitate a return to pre-COVID economic environments. The impact to global economic output is significantly less than the initial wave in early 2020, but the recovery trajectory is slow as low interest rates and limited fiscal capacity constrain the scope for further stimulus. Employment rates in this scenario stagnate at elevated levels across developed markets throughout 2021. With equity markets reversing many of their gains in 2021 as it becomes clear that recovery will be more prolonged. **Australia:** Returning to recession in 2021, the downward trend in unemployment rates ends and remains above 6% (~1% above pre-COVID-19 levels) until mid-2023. Australian GDP in this scenario would to return to pre-COVID-19 levels in mid-2022 and growth rates would remain modest thereafter. House prices may continue to rise by 3% in 2021 before correcting sharply in 2022, falling by 8% and not recovering to pre-pandemic levels until late 2024. The RBA would maintain the cash rate at historic lows until the end of 2024. **United States:** GDP growth briefly tips into negative territory in the second half of 2021 but avoids the severe shocks of 2020, ultimately restoring pre-pandemic output by early 2022. The declining unemployment rate reverses only modestly but remains at ~6% and above into late 2022 at ~2.5% above the pre-COVID-19 levels. 10-year government bond yields remain below 1% for the forecast period and central bank rates are kept at all-time lows until 2025. **Europe:** Hardest-hit of developed markets, European GDP stagnates through 2021, with GDP still remaining ~5% below pre-COVID-19 levels at the end of 2021 only returning to pre-pandemic highs in 2025. Increases in the unemployment rate are contained by fiscal measures though the rate remains slightly above pre-COVID-19 levels at 8-9% through to 2025. The ECB maintains interest rates in negative territory for the forecast period.
Upside A 100% weighting to this scenario would result in the recognition of total expected credit loss provision on balance sheet at the reporting date of ~$800 million (2020: $650 million)	Unlikely	**Global:** The scenario assumes swift results through medical developments allow for faster removal of restrictions without triggering subsequent outbreaks of Covid 19 , enabling normalisation and the release of pent-up demand. Governments and central banks would gradually ease accommodative monetary and fiscal policies without economic harm in this scenario. The growth trajectory is steeper and maintained, allowing for the removal of active stimulus by governments and central banks without prompting reversals. Global GDP surpasses pre-COVID-19 levels in by mid-2021 facilitating higher employment and stimulating commodity prices. Equity markets also rally, driven by the positive economic and health developments, and continued support from monetary policy. **Australia's** GDP surpasses pre-COVID-19 levels in mid-2021 and continues to grow at upwards of 3% annually through to 2024. The uptick in economic activity segues with the withdrawal of job retention schemes, while unemployment rates fall to 5% by the end of 2021 and continue to fall to a low of 4.5%. House prices respond to this improved outlook and increase sharply by ~9% in 2021 and 6% in 2022.

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

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 12

Expected credit losses continued

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

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI	Other[2]	Total exposure	Amortised cost $m	FVOCI	Other $m	Total ECL allowance $m
								CONSOLIDATED 2021
Cash and bank balances	**15,966**	**–**	**–**	**15,966**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**9,284**	**17,362**	**–**	**26,646**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**8,024**	**–**	**–**	**8,024**	**54**	**–**	**–**	**54**
Financial investments	**18**	**7,624**	**–**	**7,642**	**–**	**6**	**–**	**6**
Held for sale and other assets	**1,155**	**–**	**–**	**1,155**	**106**	**–**	**–**	**106**
Loan assets	**99,575**	**–**	**–**	**99,575**	**776**	**–**	**–**	**776**
Due from related body corporate entities	**1,508**	**–**	**–**	**1,508**	**1**	**–**	**–**	**1**
Loans to associates and joint ventures	**5**	**–**	**–**	**5**	**5**	**–**	**–**	**5**
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	**–**	**–**	**6,338**	**6,338**	**–**	**–**	**24**	**24**
Total	**135,535**	**24,986**	**6,338**	**166,859**	**942**	**6**	**24**	**972**
								CONSOLIDATED 2020
Cash and bank balances	7,847	–	–	7,847	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	6,687	23,064	–	29,751	–	–	–	–
Margin money and settlement assets	11,694	–	–	11,694	66	–	–	66
Financial investments	–	7,256	–	7,256	–	10	–	10
Other assets	1,454	–	–	1,454	73	–	–	73
Loan assets	88,158	–	–	88,158	688	–	–	688
Due from related body corporate entities	4,347	–	–	4,347	1	–	–	1
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	4,885	4,885	–	–	10	10
Total	120,192	30,320	4,885	155,397	832	10	10	852

(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 amortised cost before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal the amount presented in the Statement of financial position.
(2) Other exposures included in other assets represent fee-related contract assets.
(3) Gross exposure for undrawn credit commitments, letters of credit and financial guarantees contracts (not measured at FVTPL) represents the notional values of these contracts.

Note 12
Expected credit losses continued

	GROSS EXPOSURE FOR FINANCIAL ASSETS CARRIED AT[1]				ECL ALLOWANCE ON FINANCIAL ASSETS CARRIED AT			
	Amortised cost $m	FVOCI	Other[2]	Total exposure	Amortised cost $m	FVOCI	Other $m	Total ECL allowance $m
								COMPANY 2021
Cash and bank balances	**14,012**	**–**	**–**	**14,012**	**–**	**–**	**–**	**–**
Cash collateral on securities borrowed and reverse repurchase agreements	**6,588**	**16,896**	**–**	**23,484**	**–**	**–**	**–**	**–**
Margin money and settlement assets	**6,438**	**–**	**–**	**6,438**	**25**	**–**	**–**	**25**
Financial investments	**–**	**7,623**	**–**	**7,623**	**–**	**1**	**–**	**1**
Held for sale and other assets	**608**	**–**	**–**	**608**	**73**	**–**	**–**	**73**
Loan assets[3]	**81,195**	**2,692**	**–**	**83,887**	**387**	**46**	**–**	**433**
Due from related body corporate entities	**1,181**	**–**	**–**	**1,181**	**–**	**–**	**–**	**–**
Loans to associates and joint ventures	**4**	**–**	**–**	**4**	**4**	**–**	**–**	**4**
Due from subsidiaries	**17,975**	**–**	**–**	**17,975**	**15**	**–**	**–**	**15**
Undrawn credit commitments, letters of credit and financial guarantee contracts[4]	**–**	**–**	**5,831**	**5,831**	**–**	**–**	**14**	**14**
Total	**128,001**	**27,211**	**5,831**	**161,043**	**504**	**47**	**14**	**565**
								COMPANY 2020
Cash and bank balances	6,037	–	–	6,037	–	–	–	–
Cash collateral on securities borrowed and reverse repurchase agreements	5,534	22,543	–	28,077	–	–	–	–
Margin money and settlement assets	9,709	–	–	9,709	28	–	–	28
Financial investments	–	7,240	–	7,240	–	10	–	10
Other assets	1,281	–	–	1,281	49	–	–	49
Loan assets	15,937	49,164	–	65,101	371	36	–	407
Due from related body corporate entities	4,254	–	–	4,254	–	–	–	–
Loans to associates and joint ventures	5	–	–	5	4	–	–	4
Due from subsidiaries	21,093	–	–	21,093	22	–	–	22
Undrawn credit commitments, letters of credit and financial guarantee contracts[4]	–	–	4,377	4,377	–	–	9	9
Total	63,850	78,947	4,377	147,174	474	46	9	529

(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 amortised cost before fair value adjustments and ECL allowance. Accordingly, these exposure values will not equal to amount presented in the Statement of financial position.
(2) Other exposures represent contract assets and undrawn credit commitments, letters of credit and financial guarantee contracts (not measured at FVTPL).
(3) Following an assessment of the Company's business model during the year, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(4) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts. The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 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. Given the nature of these guarantees, the ECL at the balance sheet date is not material.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 12

Expected credit losses continued

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

	Margin money and settlement assets $m	Financial Investments $m	Other assets $m	Loan assets $m	Due from related body corporate entities $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
								CONSOLIDATED
Balance as at 1 Apr 2019	–	–	21	511	1	1	6	540
Impairment charge (Note 2)	66	10	59	325	–	–	3	463
Amount written off, previously provided for	–	–	(5)	(150)	–	–	–	(155)
Foreign exchange, reclassifications and other movements	–	–	(2)	2	–	3	1	4
Balance as at 31 Mar 2020	66	10	73	688	1	4	10	852
Impairment charge/(reversal) (Note 2)	**29**	**(3)**	**52**	**196**	**–**	**–**	**15**	**289**
Amount written off, previously provided for	**(33)**	**–**	**(7)**	**(75)**	**–**	**–**	**–**	**(115)**
Foreign exchange, reclassifications and other movements	**(8)**	**(1)**	**(12)**	**(33)**	**–**	**1**	**(1)**	**(54)**
Balance as at 31 Mar 2021	**54**	**6**	**106**	**776**	**1**	**5**	**24**	**972**

	Margin money and settlement assets $m	Financial investments $m	Other assets $m	Loan assets $m	Due from subsidiaries $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
								COMPANY
Balance as at 1 Apr 2019	–	–	4	316	31	–	5	356
Impairment charge/(reversal) (Note 2)	28	10	45	148	(9)	–	3	225
Amount written off, previously provided for	–	–	–	(59)	–	–	–	(59)
Foreign exchange, reclassifications and other movements	–	–	–	2	–	4	1	7
Balance as at 31 Mar 2020	28	10	49	407	22	4	9	529
Impairment (reversal)/charge (Note 2)	**(1)**	**(9)**	**33**	**110**	**(7)**	**–**	**6**	**132**
Amount written off, previously provided for	**–**	**–**	**(3)**	**(29)**	**–**	**–**	**–**	**(32)**
Foreign exchange, reclassifications and other movements	**(2)**	**–**	**(6)**	**(55)**	**–**	**–**	**(1)**	**(64)**
Balance as at 31 Mar 2021	**25**	**1**	**73**	**433**	**15**	**4**	**14**	**565**

The $120 million in the Consolidated Entity and $36 million in the Company increase in ECL allowance during the year reflects the net impact of impairment charges partially offset by amounts written off, and foreign exchange movements with the appreciation of the Australian dollar during the year.

Note 12
Expected credit losses continued

ECL on loan assets

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

		LIFETIME ECL		
	Stage I 12 month ECL $m	Stage II Not credit impaired $m	Stage III Credit impaired $m	Total ECL Allowance $m
				CONSOLIDATED
Balance as at 1 Apr 2019	135	173	203	511
Transfers during the period	31	(17)	(14)	–
Impairment charge (Note 2)	3	130	192	325
Amount written off, previously provided for	–	–	(150)	(150)
Foreign exchange, reclassifications and other movements	4	2	(4)	2
Balance as at 31 Mar 2020	173	288	227	688
Transfers during the period	**30**	**(25)**	**(5)**	**–**
Impairment charge (Note 2)	**123**	**(57)**	**130**	**196**
Amount written off, previously provided for	**–**	**–**	**(75)**	**(75)**
Foreign exchange, reclassifications and other movements	**(11)**	**(4)**	**(18)**	**(33)**
Balance as at 31 Mar 2021	**315**	**202**	**259**	**776**
				COMPANY
Balance as at 1 Apr 2019	85	118	113	316
Transfers during the period	24	(18)	(6)	–
Impairment charge (Note 2)	3	72	73	148
Amount written off, previously provided for	–	–	(59)	(59)
Foreign exchange, reclassifications and other movements	2	(3)	3	2
Balance as at 31 Mar 2020	114	169	124	407
Transfers during the period	**25**	**(21)**	**(4)**	**–**
Impairment charge/(reversal) (Note 2)	**31**	**(2)**	**81**	**110**
Amount written off, previously provided for	**–**	**–**	**(29)**	**(29)**
Foreign exchange, reclassifications and other movements	**(13)**	**(14)**	**(28)**	**(55)**
Balance as at 31 Mar 2021	**157**	**132**	**144**	**433**

Note 13
Interests in associates and joint ventures

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Equity investments with no provisions for impairment	**216**	149	**40**	41
Equity investments with provisions for impairment				
Gross carrying value	**198**	253	**1**	5
Less: provisions for impairment	**(133)**	(153)	**(1)**	(5)
Equity investments with provisions for impairment	**65**	100	**–**	–
Total equity investments in associates and joint ventures	**281**	249	**40**	41
Loans to associates and joint ventures	**5**	6	**4**	5
Less: credit impairment charges	**(5)**	(4)	**(4)**	(4)
Total loans to associates and joint ventures	**–**	2	**–**	1
Total interests in associates and joint ventures[(1),(2),(3)]	**281**	251	**40**	42

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

(1) Includes $281 million (2020: $250 million) relating to interests in associates and $Nil (2020: $1 million) relating to interests in joint ventures held by the Consolidated Entity, and $40 million (2020: $41 million) relating to interests in associates and $Nil (2020: $1 million) relating to interests in joint ventures held by the Company.
(2) Financial statements of associates and joint ventures have various reporting dates which have been adjusted to align with the Consolidated Entity's reporting date.
(3) There were no associates or joint ventures that are individually material to the Consolidated Entity or the Company.

Note 14
Property, plant and equipment and right-of-use assets

	2021 Cost $m	2021 Accumulated depreciation and impairment $m	2021 Carrying value $m	2020 Cost $m	2020 Accumulated depreciation and impairment $m	2020 Carrying value $m
						CONSOLIDATED
Assets for own use						
Land and buildings	491	(31)	460	136	–	136
Furniture, fittings and leasehold improvements	511	(417)	94	42	(29)	13
Equipment	85	(58)	27	26	(19)	7
Infrastructure assets	2	–	2	1	–	1
Total assets for own use	1,089	(506)	583	205	(48)	157
Assets under operating lease						
Meters	2,184	(813)	1,371	2,454	(910)	1,544
Telecommunications	733	(602)	131	1,139	(715)	424
Other	423	(81)	342	623	(187)	436
Total assets under operating lease	3,340	(1,496)	1,844	4,216	(1,812)	2,404
Asset under right-of-use						
Property	550	(201)	349	25	(5)	20
Commodity storage	34	(21)	13	32	(15)	17
Others	20	(12)	8	–	–	–
Total assets under right-of-use	604	(234)	370	57	(20)	37
Total property, plant and equipment and right-of-use assets	5,033	(2,236)	2,797	4,478	(1,880)	2,598
						COMPANY
Assets for own use						
Land and buildings	250	–	250	133	–	133
Furniture, fittings and leasehold improvements	22	(10)	12	19	(12)	7
Equipment	8	(4)	4	16	(11)	5
Total assets for own use	280	(14)	266	168	(23)	145
Assets under operating lease						
Telecommunications	727	(595)	132	1,117	(704)	413
Other	385	(111)	274	357	(96)	261
Total assets under operating lease	1,112	(706)	406	1,474	(800)	674
Total property, plant and equipment and right-of-use assets	1,392	(720)	672	1,642	(823)	819

Of the above amounts, $18 million (2020: $434 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $3 million (2020: $295 million) by the Company.

Note 14
Property, plant and equipment and right-of-use assets continued

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

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Assets for own use					
Balance as at 1 Apr 2019	85	15	11	–	111
Acquisitions and additions	51	2	3	1	57
Disposals	–	(1)	–	–	(1)
Reclassification and other adjustments	–	–	(3)	–	(3)
Foreign exchange movements	–	1	–	–	1
Depreciation expense (Note 2)	–	(4)	(4)	–	(8)
Balance as at 31 Mar 2020	136	13	7	1	157
Acquisitions and additions[1]	**116**	**99**	**34**	**1**	**250**
Disposals	**–**	**(2)**	**–**	**–**	**(2)**
Reclassification and other adjustments	**210**	**5**	**(1)**	**–**	**214**
Foreign exchange movements	**–**	**(7)**	**(3)**	**–**	**(10)**
Depreciation expense (Note 2)	**(2)**	**(14)**	**(10)**	**–**	**(26)**
Balance as at 31 Mar 2021	**460**	**94**	**27**	**2**	**583**

	Meters $m	Telecommunication $m	Other $m	Total $m
Assets under operating lease				
Balance as at 1 Apr 2019	1,248	966	413	2,627
Acquisitions and additions	421	348	105	874
Disposals	–	(330)	(25)	(355)
Reclassification and other adjustments	(51)	–	(19)	(70)
Impairments	–	(11)	–	(11)
Foreign exchange movements	142	1	22	165
Depreciation expense (Note 2)	(216)	(550)	(60)	(826)
Balance as at 31 Mar 2020	1,544	424	436	2,404
Acquisitions and additions	**304**	**–**	**228**	**532**
Disposals	**–**	**(93)**	**(18)**	**(111)**
Reclassification and other adjustments	**(98)**	**(3)**	**(220)**	**(321)**
Impairments	**–**	**(14)**	**–**	**(14)**
Foreign exchange movements	**(163)**	**(1)**	**(31)**	**(195)**
Depreciation expense (Note 2)	**(216)**	**(182)**	**(53)**	**(451)**
Balance as at 31 Mar 2021	**1,371**	**131**	**342**	**1,844**

(1) Includes assets acquired by the Consolidated Entity as part of the acquisition of service entities from MGL during the year. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses.*

Note 14
Property, plant and equipment and right-of-use assets continued

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

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Total $m
Assets for own use				
Balance as at 1 Apr 2019	82	8	5	95
Acquisitions and additions	51	2	3	56
Depreciation expense (Note 2)	–	(3)	(3)	(6)
Balance as at 31 Mar 2020	133	7	5	145
Acquisitions and additions	**117**	**7**	**4**	**128**
Disposals	**–**	**–**	**(1)**	**(1)**
Depreciation expense (Note 2)	**–**	**(2)**	**(4)**	**(6)**
Balance as at 31 Mar 2021	**250**	**12**	**4**	**266**

	Meters $m	Telecommunication $m	Others $m	Total $m
Assets under operating lease				
Balance as at 1 Apr 2019	–	949	273	1,222
Acquisitions and additions	–	345	9	354
Disposals	–	(328)	(6)	(334)
Impairments	–	(11)	–	(11)
Depreciation expense (Note 2)	–	(542)	(15)	(557)
Balance as at 31 Mar 2020	–	413	261	674
Acquisitions and additions	**–**	**–**	**29**	**29**
Disposals	**–**	**(88)**	**(1)**	**(89)**
Reclassifications and other adjustments	**–**	**(3)**	**–**	**(3)**
Impairments	**–**	**(14)**	**–**	**(14)**
Depreciation expense (Note 2)	**–**	**(176)**	**(15)**	**(191)**
Balance as at 31 Mar 2021	**–**	**132**	**274**	**406**

Note 14
Property, plant and equipment and right-of-use assets continued

	Property $m	Commodity storage $m	Others $m	Total $m
Right-of-use assets				
Balance as at 1 Apr 2019	21	18	11	50
Acquisitions and additions	2	18	–	20
Amortisation expense	(5)	(15)	–	(20)
Foreign exchange movements	2	2	–	4
Other	–	(6)	(11)	(17)
Balance as at 31 Mar 2020	20	17	–	37
Acquisitions and additions[1]	**399**	**10**	**11**	**420**
Disposals	**(20)**	**–**	**–**	**(20)**
Amortisation expense	**(37)**	**(11)**	**(3)**	**(51)**
Impairment	**(7)**	**–**	**–**	**(7)**
Foreign exchange movements	**(7)**	**(3)**	**–**	**(10)**
Other	**1**	**–**	**–**	**1**
Balance as at 31 Mar 2021	**349**	**13**	**8**	**370**

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Assets under operating lease				
Within one year	**176**	306	**113**	250
Between one and two years	**153**	75	**109**	32
Between two and three years	**127**	46	**103**	21
Between three and four years	**75**	28	**89**	21
Between four and five years	**5**	21	**38**	21
Later than five years	**–**	38	**–**	38
Total future minimum lease payments receivable	**536**	514	**452**	383

(1) Includes ROU assets acquired by the Consolidated Entity as part of the acquisition of service entities from MGL during the year. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses.*

Note 15
Intangible assets

	2021			2020		
	Cost $m	**Accumulated amortisation and impairment $m**	**Carrying value $m**	Cost $m	Accumulated amortisation and impairment $m	Carrying value $m
						CONSOLIDATED
Goodwill	**98**	**(33)**	**65**	115	(40)	75
Other identifiable intangible assets	**276**	**(195)**	**81**	367	(257)	110
Total intangible assets	**374**	**(228)**	**146**	482	(297)	185
						COMPANY
Other identifiable intangible assets	**215**	**(160)**	**55**	302	(224)	78
Total intangible assets	**215**	**(160)**	**55**	302	(224)	78

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

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

	CONSOLIDATED			COMPANY	
	Goodwill $m	**Other identifiable intangible assets $m**	**Total $m**	**Other identifiable intangible assets $m**	**Total $m**
Balance as at 1 Apr 2019	68	109	177	81	81
Acquisitions	–	19	19	16	16
Disposals, reclassifications and other adjustments	–	1	1	–	–
Amortisation(1)	–	(20)	(20)	(16)	(16)
Foreign exchange movements	7	1	8	(3)	(3)
Balance as at 31 Mar 2020	75	110	185	78	78
Acquisitions	**–**	**6**	**6**	**5**	**5**
Amortisation(1)	**–**	**(31)**	**(31)**	**(28)**	**(28)**
Foreign exchange movements	**(10)**	**(4)**	**(14)**	**–**	**–**
Balance as at 31 Mar 2021	**65**	**81**	**146**	**55**	**55**

(1) Includes amortisation of $9 million (2020: $Nil) presented under Net trading income and $22 million (2020: $20 million) under Other operating expenses.

Note 16
Investments in subsidiaries

	COMPANY 2021 $m	COMPANY 2020 $m
Investments at cost with no provisions for impairment	**5,802**	4,702
Investments at cost with provisions for impairment	**1,314**	1,475
Less: provisions for impairment[1]	**(498)**	(585)
Investments with provisions for impairment[1]	**816**	890
Total investments in subsidiaries	**6,618**	5,592

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

The following are the Consolidated Entity's significant subsidiaries:

Australia

- Boston Australia Pty Limited
- Macquarie Group Treasury Funding Pty Limited
- Macquarie Group Services Australia Pty Ltd
- Macquarie International Finance Limited
- Macquarie Equities Limited
- Macquarie Finance Pty Limited
- Macquarie Investment Management Ltd
- Macquarie Life Limited
- Macquarie Leasing Pty Limited

Europe, Middle East And Africa

- Macquarie Corporate And Asset Finance 2 Limited (United Kingdom)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Equipment Finance Designated Activity Company (Ireland)
- Macquarie Bank Europe Designated Activity Company (Ireland)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Leasing Limited (United Kingdom)
- Macquarie Meters 3 (UK) Limited (United Kingdom)
- Macquarie Corporate And Asset Finance 1 Limited (United Kingdom)

Asia Pacific

- Macquarie Commodities Trading (Shanghai) Co, Ltd (China) (Reporting date 31 December)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)

Americas

- Macquarie Energy LLC (United States)
- Macquarie Inc. (United States)
- Macquarie Futures USA LLC (United States)
- Macquarie Energy Canada Ltd (Canada)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Physical Metals (USA) Inc. (United States)

The list of significant subsidiaries has been categorised based on the geographic region of their incorporation. The country of incorporation has been stated in brackets. For entities in Australia region, the country of incorporation is Australia.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all significant subsidiaries is 100%.

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

(1) During the financial year, the Company performed an impairment assessment of its investments in subsidiaries. The impairment assessment resulted in the recognition of reversals of previously recognised impairment losses in the current and previous financial year. The recoverable value, which was determined as the higher of value-in-use and fair value less costs to sell, was based on the subsidiary's maintainable earnings, growth rates, price earnings' multiples and discount rates. The recoverable values are classified as Level 3 in the fair value hierarchy as defined in Note 37 *Fair value of financial assets and financial liabilities.*

Note 17
Deferred tax assets/(liabilities)

The balance comprises temporary differences attributable to:

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Other assets and liabilities	**747**	516	**368**	316
Tax losses	**39**	80	**3**	32
Property, plant and equipment	**67**	16	**10**	13
Intangible assets	**115**	84	**86**	72
Financial investments and interests in associates and joint ventures	**11**	38	**9**	22
Loan assets and derivatives	**43**	17	**71**	54
Operating and finance lease assets	**1**	1	**–**	1
Set-off of deferred tax liabilities	**(197)**	(232)	**(54)**	(40)
Net deferred tax assets	**826**	520	**493**	470
Operating and finance lease assets	**(176)**	(231)	**(20)**	–
Loan and derivative assets	**(17)**	(37)	**(33)**	(60)
Other assets and liabilities	**(29)**	(26)	**–**	(1)
Financial investments and interests in associates and joint ventures	**(5)**	(2)	**(1)**	–
Property, plant and equipment	**(1)**	–	**–**	–
Intangible assets	**(5)**	(5)	**–**	–
Set-off of deferred tax assets	**197**	232	**54**	40
Net deferred tax liabilities	**(36)**	(69)	**–**	(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 $98 million (2020: $113 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are $Nil gross losses (2020: $2 million) that will expire within 2 years; $Nil (2020: $20 million) that will expire in 2–5 years; $4 million (2020: $Nil) that will expire in 5–10 years and $68 million (2020: $128 million) that will expire in 10–20 years. $393 million (2020: $509 million) of gross losses do not expire and can be carried forward indefinitely.

Note 18
Trading liabilities

Equity securities				
Listed	**6,134**	5,358	**6,137**	5,370
Debt Securities				
Corporate loans and securities	**–**	2	**–**	2
Commodities	**–**	3	**–**	23
Total trading liabilities	**6,134**	5,363	**6,137**	5,395

Note 19
Margin money and settlement liabilities

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Margin money	12,336	13,871	10,620	12,271
Security settlements	1,929	3,200	1,849	3,123
Commodity settlements	1,986	1,981	1,163	1,268
Total margin money and settlement liabilities	**16,251**	19,052	**13,632**	16,662

Note 20
Derivative liabilities

Held for trading	16,801	37,299	15,333	35,770
Designated in hedge relationships[1]	674	524	399	203
Total derivative liabilities	**17,475**	37,823	**15,732**	35,973

Note 21
Deposits

Interest bearing deposits				
Call	63,951	48,231	63,924	48,202
Term	9,247	12,338	9,136	12,314
Non-interest bearing deposits	10,942	6,684	10,934	6,670
Total deposits	**84,140**	67,253	**83,994**	67,186

Note 22
Other liabilities

Accrued charges, employment-related liabilities and provisions[2]	2,038	1,188	945	920
Creditors	674	812	382	507
Commodity-related payables	604	314	492	259
Lease liabilities[3]	479	43	1	1
Income tax payable	396	262	102	77
Life investment linked contracts and other unitholder liabilities[4]	12	307	–	–
Other	147	20	132	10
Total other liabilities	**4,350**	2,946	**2,054**	1,774

(1) For details of net derivative assets and liabilities designated in hedge relationships refer to Note 34 *Hedge accounting*.
(2) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current year in each of these matters did not have, and is not currently expected to have, a material impact on the Consolidated Entity and the Company.
(3) Includes lease liabilities and employee related provisions acquired by the Consolidated Entity as part of the acquisition of Macquarie's service entities from MGL. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses*.
(4) Certain liabilities were transferred to an investment platform which is managed by the Consolidated Entity as an asset manager.

Note 23
Debt issued

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Bonds, NCDs and commercial paper[1]	**42,555**	44,088	**32,562**	31,319
Structured notes[2]	**2,113**	2,834	**2,202**	2,916
Total debt issued[3],[4]	**44,668**	46,922	**34,764**	34,235

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

Reconciliation of debt issued by major currency				
(In Australian dollar equivalent)				
Australian dollar	**17,168**	20,023	**7,175**	7,393
United States dollar	**22,146**	19,009	**22,232**	18,911
Euro	**3,195**	4,906	**3,197**	4,906
Swiss franc	**1,031**	1,260	**1,031**	1,260
Pound sterling	**580**	1,028	**580**	1,028
Japanese yen	**168**	214	**168**	213
Norwegian krone	**157**	164	**157**	164
Korean won	**107**	123	**107**	123
Chinese renminbi	**68**	120	**68**	120
Hong Kong dollar	**48**	61	**49**	61
Other	**–**	14	**–**	56
Total debt issued	**44,668**	46,922	**34,764**	34,235

(1) The Consolidated Entity includes $9,994 million (2020: $13,665 million) payable to note holders and debt holders for which loan assets are held by consolidated SEs and are available as security.
(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates, other assets or credit risk of a counterparty.
(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer to Note 36 *Measurement categories of financial instruments*) for the Consolidated Entity is $2,136 million (2020: $3,333 million). This amount is based on the final notional amount rather than the fair value.
(4) The Consolidated Entity includes a cumulative fair value loss of $10 million (2020: $103 million gain) due to changes in own credit risk on DFVTPL debt securities recognised directly in OCI.

Note 24
Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

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

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

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

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

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

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments on issue during the current and previous years included Macquarie Additional Capital Securities, Macquarie Bank Capital Notes 2 (issued on 2 June 2020), Macquarie Bank Capital Notes (repaid on 24 March 2020) and Macquarie Income Securities (repaid on 15 April 2020). Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, SEs and non-financial entities are fully deducted from Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

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

Note 25
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 payment obligations issued by the Consolidated Entity and the Company:

Contract feature	Macquarie Additional Capital Securities	Macquarie Bank Capital Notes 2
Code	MACS	BCN2[1]
Issuer	Macquarie Bank Limited	Macquarie Bank Limited
Par value	n/a	$100
Currency	USD	AUD
Carrying value at reporting date	$US750 million/($A1,055 million)	$641 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost
Issued date	8 March 2017	2 June 2020
Interest rate	6.125% per annum	180-day BBSW plus a fixed margin of 4.70% per annum, adjusted for franking credits
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears
Interest payment	Discretionary, non-cumulative	Discretionary, non-cumulative
Dividend stopper	MBL only	MBL only
Outstanding notes at reporting date	–[2]	6.41 million
Maturity	Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances	Perpetual unless redeemed, resold, converted, exchanged or written-off in accordance with the terms of the instrument
Convertible into ordinary shares	Yes	Yes
Convertible into issuer shares	MGL	MGL
Mandatory conversion date	n/a	21 December 2028
Maximum number of shares on conversion	56,947,286	30,530,834
Optional exchange dates	n/a	• 21 December 2025 • 21 June 2026 • 21 December 2026 or, • earlier in specified circumstances at the discretion of MBL subject to APRA approval
Other exchange events	• 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 a public sector injection of capital (or equivalent support) • where MBL's common equity Tier 1 Capital ratio falls below 5.125%
Capital Treatment	Additional Tier 1 capital	Additional Tier 1 capital

(1) BCN2 is newly issued on 2 June 2020.
(2) The MACS are held by a custodian on behalf of the security holders.

Note 25
Loan capital continued

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

The table below discloses the carrying value of Loan Capital at 31 March. Where these instruments are designated in fair value hedge accounting relationships, the carrying value includes the fair value hedge adjustment, refer to Note 34 *Hedge accounting*. The contractual undiscounted cash flows are disclosed in Note 35 *Financial risk management*.

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Original contractual maturity of Loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	**71**	92	**71**	92
Subordinated debt instruments with fixed repayment obligations:				
21 September 2020	**–**	826	**–**	826
7 April 2021	**1,085**	1,386	**1,085**	1,386
10 June 2025	**1,048**	1,333	**1,048**	1,333
28 May 2030	**750**	–	**750**	–
3 June 2030	**903**	–	**903**	–
3 March 2036	**1,280**	–	**1,280**	–
Instruments with conditional repayment obligations:				
MACS	**1,055**	1,373	**1,055**	1,373
BCN2	**641**	–	**641**	–
	6,833	5,010	**6,833**	5,010
Less: directly attributable issue costs	**(29)**	(13)	**(29)**	(13)
Total loan capital	**6,804**	4,997	**6,804**	4,997
Reconciliation of loan capital by major currency:				
(In Australian dollar equivalent):				
United States dollar	**5,439**	4,158	**5,439**	4,158
Australian dollar	**1,394**	–	**1,394**	–
Euro	**–**	852	**–**	852
	6,833	5,010	**6,833**	5,010
Less: directly attributable issue costs	**(29)**	(13)	**(29)**	(13)
Total loan capital	**6,804**	4,997	**6,804**	4,997

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 26
Contributed equity

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Ordinary share capital	8,288	8,288	8,288	8,288
Other equity	235	220	112	110
MIS	–	391	–	391
Total contributed equity	**8,523**	8,899	**8,400**	8,789

(i) Ordinary share capital[1]

	CONSOLIDATED AND COMPANY 2021 Number of shares	2020 Number of shares	2021 $m	2020 $m
Opening balance of fully paid ordinary shares	**634,361,966**	589,276,303	**8,288**	7,288
Issue of shares to parent entity[2] on 23 March 2020 at $22.18 per share	**–**	45,085,663	**–**	1,000
Closing balance of fully paid ordinary shares	**634,361,966**	634,361,966	**8,288**	8,288

(ii) Other equity

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(a) Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**220**	219	**110**	106
Additional paid up capital	**24**	1	**11**	4
Balance at the end of the financial year	**244**	220	**121**	110

MEREP awards are primarily settled in MGL ordinary shares. Where MEREP awards are issued by MGL to employees of the Consolidated Entity, and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP, refer to Note 31 *Employee equity participation*.

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(b) Others				
Balance at the beginning of the financial year	**–**	–	**–**	–
Transaction costs in relation to MIS[3]	**(9)**	–	**(9)**	–
Balance at the end of the financial year	**(9)**	–	**(9)**	–
(iii) MIS[3]				
4,000,000 MIS of $100 each	**–**	400	**–**	400
Less: transaction costs for original placement	**–**	(9)	**–**	(9)
Total Macquarie Income Securities	**–**	391	**–**	391

(1) Ordinary shares have no par value.
(2) Macquarie B.H. Pty Limited.
(3) Balance represents transaction cost relating to original issuance of MIS which was transferred to other equity on redemption of MIS during the year. The MIS were redeemed on 16 April 2020, for which the redemption cash was paid to holders on 15 April 2020. Distributions on the MIS have been presented in Note 5 *Dividends*.

Note 27
Reserves, retained earnings and non-controlling interests
(i) Reserves

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Foreign currency translation reserve and net investment hedge reserve				
Balance at the beginning of the financial year	**1,197**	631	**(15)**	(28)
Foreign exchange movement on translation and hedge accounting of foreign operations, net of tax[1]	**(800)**	566	**(6)**	13
Balance at the end of the financial year	**397**	1,197	**(21)**	(15)
FVOCI reserve				
Balance at the beginning of the financial year	**(33)**	7	**12**	23
Revaluation movement for the year, net of tax	**71**	(46)	**46**	(11)
Changes in ECL allowance, net of tax	**(3)**	6	**1**	–
Balance at the end of the financial year	**35**	(33)	**59**	12
Cash flow hedge reserve				
Balance at the beginning of the financial year	**(157)**	(113)	**(45)**	(33)
Revaluation movement for the financial year, net of tax	**7**	(88)	**(20)**	(24)
Transferred to income statement on realisation, net of tax[2]	**37**	44	**25**	12
Balance at the end of the financial year	**(113)**	(157)	**(40)**	(45)
Cost of hedging reserve[3]				
Balance at the beginning of the financial year	**(10)**	(5)	**(10)**	(5)
Revaluation movement for the financial year, net of tax	**–**	(5)	**–**	(5)
Transferred to income statement on realisation, net of tax	**2**	–	**2**	–
Balance at the end of the financial year	**(8)**	(10)	**(8)**	(10)
Share of reserves of interests in associates and joint ventures				
Balance at the beginning of the financial year	**(6)**	(4)	**–**	–
Share of other comprehensive gains/(losses) of associates and joint ventures during the year, net of tax	**1**	(2)	**–**	–
Balance at the end of the financial year	**(5)**	(6)	**–**	–
Total reserves at the end of the financial year	**306**	991	**(10)**	(58)

(1) The current year movement represents the revaluation of the Group's unhedged investments in foreign operations primarily driven by the appreciation of the Australian dollar against the United States dollar. Refer to Note 35.3 *Market risk* for the Consolidated Entity's foreign exchange risk management policy in relation to the alignment of capital supply to capital requirements.
(2) Includes $0.4 million loss for the Consolidated Entity (2020: $12 million loss for both the Consolidated Entity and Company) related to a previously designated hedge relationship for which the hedged future cash flows are no longer highly probable to occur.
(3) Relates to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

Note 27
Reserves, retained earnings and non-controlling interests continued

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
(ii) Retained earnings				
Balance at the beginning of the financial year	**4,336**	2,824	**2,080**	1,393
Change attributable to group restructure[(1)]	**(189)**	–	**–**	–
Profit attributable to the ordinary equity holder of MBL	**1,676**	1,473	**2,423**	637
Distributions paid or provided for on MIS (Note 5)	**–**	(12)	**–**	–
Dividends paid on ordinary share capital (Note 5)	**(500)**	–	**(500)**	–
Gain/(loss) on change in non-controlling ownership interest	**1**	1	**–**	–
Fair value changes attributable to own credit risk on debt classified at DFVTPL, net of tax	**(79)**	50	**(79)**	50
Balance at the end of the financial year	**5,245**	4,336	**3,924**	2,080
(iii) Non-controlling interests[(2)]				
Share capital and partnership interests	**46**	47	**–**	–
Reserve	**4**	4	**–**	–
Accumulated losses	**(50)**	(50)	**–**	–
Total non-controlling interests	**–**	1	**–**	–

(1) Represents adjustment to retained earnings for the difference between purchase price and book value of the net assets acquired during the year as a part of the acquisition of Macquarie's service entities from the Non-Bank Group. Refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses*.
(2) Non-controlling interests represents equity in subsidiaries that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

Note 28
Notes to the statements of cash flows

(i) Reconciliation of cash and cash equivalents

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Cash and cash equivalents at the end of the financial year are reflected in the related items in the Statements of financial position as follows:				
Cash and bank balances[(1),(2)]	**13,590**	5,308	**12,387**	4,558
Cash collateral on securities borrowed and reverse repurchase agreements	**15,480**	21,469	**15,014**	21,121
Financial investments	**248**	513	**248**	513
Cash and cash equivalents at the end of the financial year	**29,318**	27,290	**27,649**	26,192

(1) Cash and bank balances includes $946 million (2020: $682 million) (for the Company at 2021: $505 million, 2020: $491 million) of balances held by consolidated SEs that are restricted from use by the Consolidated Entity, balances required to be maintained with central banks and other regulatory authorities and balances held in countries where remittance of cash outside the country is subject to certain restrictions.
(2) Amounts excluded from cash and cash equivalents but presented in the Statements of financial position as cash and bank balances primarily relates to $2,294 million (2020: $2,257 million) (for the Company 2021: $1,548 million, 2020: $1,283 million) of funds received from clients which are segregated from the Consolidated Entity and the Company's own funds and are not available to meet the short-term cost commitments.

Note 28
Notes to the statements of cash flows continued

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

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Profit after income tax	**1,676**	1,473	**2,423**	637
Adjustments to profit after income tax:				
Depreciation and amortisation	**551**	853	**226**	579
Expected credit losses and impairment charges	**333**	472	**88**	190
Investment income and gain on sale of operating lease assets and other non-financial assets	**(133)**	(235)	**(87)**	(310)
Profit from discontinued operations	**–**	(164)	**–**	(164)
Share of net (profits)/losses of associates and joint ventures	**(41)**	(27)	**–**	–
Changes in assets and liabilities:				
Carrying values of associates due to dividends received	**2**	2	**–**	–
Interest, fees and commissions payable	**(45)**	(112)	**(79)**	(137)
Tax balances	**410**	247	**121**	325
Debtors, prepayments, accrued charges and creditors	**415**	(279)	**163**	(304)
Trading assets, derivatives, cash collateral and repurchase transactions, margin money and settlement balances (net of related liabilities)[1]	**(4,869)**	1,150	**(6,172)**	(311)
Other assets and liabilities	**(578)**	(466)	**282**	(177)
Loan assets and balances with related body corporates	**(13,629)**	(13,242)	**(17,475)**	(5,170)
Operating lease assets	**(407)**	(516)	**71**	(25)
Deposits	**17,205**	10,916	**17,118**	10,939
Borrowings	**(164)**	1,516	**(36)**	1,276
Debt issued	**2,321**	8,573	**6,425**	2,935
Net cash flows generated from operating activities	**3,047**	10,161	**3,068**	10,283

(iii) Reconciliation of loan capital:

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Balance at the beginning of the financial year	**4,997**	4,550	**4,997**	4,550
Cash flows:				
Issuance[2]	**3,694**	–	**3,694**	–
Redemption[3]	**(740)**	(429)	**(740)**	(429)
Non-cash changes:				
Foreign currency translation and other movements	**(1,147)**	876	**(1,147)**	876
Balance at the end of the financial year	**6,804**	4,997	**6,804**	4,997

(1) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.
(2) On 2 June 2020, the Consolidated Entity and the Company issued Macquarie Bank Capital Notes (BCN2) amounting to $641 million. Refer to Note 25 *Loan capital* for further details. The Consolidated Entity also raised $3,053 million through the issue of Tier 2 Loan Capital.
(3) During the year, the Consolidated Entity and the Company redeemed $740 million of loan capital.

Note 29
Related party information

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

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

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

Ultimate and immediate parent entities

The Consolidated Entity's and Company's ultimate parent entity is MGL and the immediate parent entity is Macquarie B.H. Pty Limited (MBHPL). Both MGL and MBHPL are incorporated in Australia. MGL produces consolidated financial statements that are available for public use.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 44(vi) *Taxation*. Amounts receivable from MGL includes amounts receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL and MBHPL are included in Due from related body corporate entities or Due to related body corporate entities, as appropriate, in the Statements of financial position.

Current period transaction under common control

During the current financial year, the Consolidated Entity acquired Macquarie's service entities from the Non-Bank Group. The entities provide services to other entities and recover their costs on either a time and effort allocation basis or a fee service basis. For details, refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses*.

Note 29
Related party information continued

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

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Interest income	**434**	1,503	**398**	1,369
Interest expense	**(2,357)**	(1,589)	**(2,162)**	(1,323)
Dividend paid	**500,000**	560,000	**500,000**	560,000
Fee and commission income	**2,019**	1,556	**878**	644

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

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Off Balance Sheet:				
Due from related body corporates(1)	**501,455**	604,590	**312,944**	527,810
Due to related body corporates(2)	**(293,653)**	(459,281)	**(270,841)**	(435,250)

(1) Due from related body corporates primarily represents the amounts receivable by the Consolidated Entity and the Company, in respect of amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense (refer to Note 44(xxiii) *Performance based remuneration*), loans and receivables as per the terms of the funding arrangements under the MLA and trading-related balances including derivatives designated in hedge accounting relationships.

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

Note 29
Related party information continued

Subsidiaries

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

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

A list of significant subsidiaries is set out in Note 16 *Investments in subsidiaries*.

The following transactions occurred with subsidiaries during the financial year:

	COMPANY	
	2021 $'000	2020 $'000
Interest income	**364,157**	734,280
Interest expense	**(266,532)**	(454,782)
Fee and commission income	**422,819**	220,974
Other operating expenses(1)	**(559,899)**	(42,275)
Dividends and distributions	**1,368,778**	131,137
Management fees, group service charges and cost recoveries	**293,994**	329,524
Brokerage, commission and trading-related expenses	**(273,000)**	(142,762)
Other income/(expenses)	**703**	(6,623)

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

On Balance Sheet:		
Due from subsidiaries(2)	**21,499,672**	27,039,802
Due to subsidiaries(3),(4)	**(16,532,680)**	(18,248,934)
Off Balance Sheet:		
Guarantees(5)	**(1,085,573)**	(1,069,879)
Performance related contingencies	**(101,154)**	–
Letter of credit	**(45,329)**	(78,363)

(1) Current financial year includes costs recovered from the Company by service entities acquired from MGL during the year. Before acquisition these cost were disclosed under transactions with other related body corporates.
(2) Due from subsidiaries primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge relationship.
(3) Due to subsidiaries primarily represents payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivative designated in hedge relationship.
(4) The Company enters into repurchase transaction and pledges collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As at 31 March 2021, the collateral placed was $136,416 thousand (March 2020: $104,197 thousand).
(5) Includes guarantees to counterparties with respect to their exposures to certain subsidiaries. The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 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 29
Related party information continued

Other related parties

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

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

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Interest income	**7,447**	14,318	**5,499**	12,753
Interest expense	**(46,701)**	(293,391)	**(44,801)**	(244,793)
Rental income	**16,469**	22,855	**22,855**	22,855
Fee and commission income/(expense)(1)	**318,852**	(19,406)	**(131,468)**	(115,697)
Other operating expenses(2)	**(655,553)**	(1,673,378)	**(797,507)**	(1,239,243)
Gain on sale of the subsidiaries and businesses(3)	**–**	342,869	**–**	287,512
Other income	**3**	7,570	**869**	7,593

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

	CONSOLIDATED 2021 $'000	CONSOLIDATED 2020 $'000	COMPANY 2021 $'000	COMPANY 2020 $'000
On Balance Sheet:				
Due from other related body corporate entities(4)	**1,651,613**	4,673,525	**1,332,316**	4,577,322
Due to other related body corporate entities(5),(6)	**(15,606,943)**	(21,655,062)	**(15,412,352)**	(21,577,514)
Off Balance Sheet:				
Undrawn Credit facilities and securities underwriting	**(21,000)**	–	**(21,000)**	–
Performance related contingencies(7)	**(591,019)**	(763,832)	**(591,019)**	(763,862)
Letter of credit	**(212,025)**	(233,709)	**(212,025)**	(233,709)

Guarantees of $3,445,848 thousand (March 2020: $3,457,568 thousand) were received from a related group entity, Macquarie Financial Holdings Pty Limited (MFHPL) by the Company for certain exposures of the Company with MFHPL, its subsidiaries and the Company's own subsidiaries. MFHPL has placed cash collateral of a similar amount with the Company as per the terms of the guarantee arrangement included in the amounts payable balance above.

(1) Current financial year includes service fees earned by the service entities from the Non-Bank Group after the date of acquisition from MGL.
(2) Current financial year includes the recovery of costs by service entities acquired from MGL till the date of acquisition.
(3) Previous year includes $102,173 thousand gain on sale of CAF's Principal Finance and Transportation Finance businesses to MFHPL and $240,696 thousand gain on sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL) for the Consolidated Entity.
(4) Due from other related body corporates primarily represents loans and receivables as per the terms of the funding arrangements under MLA, loans and receivables under bespoke funding agreements and trading-related balances including derivatives designated in hedge relationship.
(5) Due to other related body corporates primarily represents payables as per the terms of the funding arrangements under MLA, payables under bespoke funding agreements and trading-related balances including derivative designated in hedge relationship.
(6) Includes $629,946 thousand (2020: $3,500,496 thousand) repurchase agreements under new liquidity arrangement with MFHPL and Macquarie Capital (Europe) Limited (MCEL) wherein the Company has repledged collateral amounting to $571,016 thousand (2020: $3,196,180 thousand).
(7) Includes performance related contingent liability to MFHPL for which collateral of a similar amount has been received.

Note 29
Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans and the provision of management services. Balances may arise from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures which are generally extended on a term basis and where appropriate may be either subordinated or collateralised. During the financial year, the following amounts of income/(expense) arose from transactions with associates and joint ventures:

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Interest income	**706**	1,736	**706**	(512)
Fee and commission income/(expense)	**614**	(7,014)	**(924)**	(7,698)
Other income	**46,586**	29,794	**49,651**	31,888
Brokerage and commission expense	**(14,946)**	(10,500)	**(14,946)**	(10,500)

Dividends and distributions of $3,255 thousand (2020: $2,597 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from the carrying amount of the investment.

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

	CONSOLIDATED		COMPANY	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Amount receivable	**6,659**	4,614	**5,506**	4,614
Amount payable	**(11,373)**	(17,093)	**(11,373)**	(17,093)

Note 30
Key management personnel disclosure

Key management personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2021 and 31 March 2020, unless indicated otherwise:

Executive Voting Directors

S.R. Wikramanayake	Macquarie Group CEO
M.J. Reemst	Macquarie Bank CEO[1]

Non-Executive Directors

P.H. Warne	Chairman
J.R. Broadbent AC	
G.M. Cairns[2]	
P.M. Coffey	
M.J. Coleman	
D.J. Grady AO	
R.J. McGrath	(appointed effective 20 January 2021)
M. Roche	(appointed effective 20 January 2021)
G.R Stevens AC[3]	
N.M. Wakefield Evans	

Former Non-Executive Director

G.R. Banks AO	(retired effective 30 July 2020)
M.J. Hawker AM	(retired effective 30 September 2020)

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MBL during the financial years ended 31 March 2021 and 31 March 2020, unless otherwise indicated.

Current Executives[4]

A.H. Harvey	CFO, Head of FMG
N. O'Kane	Head of CGM
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Head of BFS

Former Executives

G.A. Farrell	Former Co Head of Corporate and Asset Finance (ceased to be a member of the Executive Committee on 1 September 2019)

The remuneration arrangements for all of the persons listed above are described on pages 35 to 57 of the Remuneration Report, contained in the Directors' Report.

(1) Ms Mary Reemst will retire as Managing Director and Chief Executive Officer (CEO) of Macquarie Bank (MBL) at close of business on 1 July 2021 and, subject to regulatory approvals, Stuart Green will then become Managing Director and CEO of MBL and join the Executive Committee on 1 July 2021.
(2) Will cease to be a member of the Board effective 7 May 2021.
(3) The Board approved a leave of absence, due to illness, for Mr Stevens for the period 1 February 2019 to 31 May 2019.
(4) Except where indicated otherwise, all of the Executives, as well as the CEO were members of the Executive Committee as at 7 May 2021.

Note 30
Key management personnel disclosure continued

Key management personnel remuneration

The following table details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including superannuation) $	Performance related remuneration[(1)] $	Other benefits $	Total short-term employee benefits $	Restricted profit share including earnings on restricted profit share[(2)] $	Equity awards[(3)] $	PSUs[(4)] $	Total remuneration $
Executive remuneration								
2021	**3,723,231**	**19,683,727**	**–**	**23,406,958**	**3,447,232**	**29,609,864**	**3,299,411**	**59,763,465**
2020	3,790,881	–	–	3,790,881	8,713,979	27,153,374	9,117,494	48,775,728
Non-Executive remuneration								
2021	**909,032**	**–**	**2,000**	**911,032**	**–**	**–**	**–**	**911,032**
2020	969,000	–	12,000	981,000	–	–	–	981,000

Loans to KMP and their related parties

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

Total for key management personnel and their related parties	Opening balance at 1 April $'000	Additions during the year $'000	Interest charged $'000	Repayments during the year $'000	Write-downs $'000	Closing balance at 31 March[(5)] $'000
2021	**11,469**	**180**	**135**	**(556)**	**–**	**11,228**
2020	1,309	10,122	109	(71)	–	11,469

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.
(2) The amount of the retained profit share held via the DPS plan including earnings on notional investments from retained profit share in prior financial years.
(3) The current year amortisation for retained profit share calculated as described in 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) Number of persons included in the aggregate as at 31 March 2021: 5 (31 March 2020: 5).

Note 31
Employee equity participation

MEREP

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

Award types under the MEREP

Restricted Share Units (RSUs)

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

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

	NUMBER OF RSU AWARDS	
	2021	2020
RSUs on issue at the beginning of the financial year	**3,521,083**	3,789,442
Granted during the financial year	**1,263,771**	1,255,720
Forfeited during the financial year	**(67,286)**	(27,367)
Vested RSUs withdrawn or sold from the MEREP during the financial year	**(981,056)**	(1,429,019)
Net transfers from/(to) related body corporate entities(1)	**2,505,118**	(67,693)
RSUs on issue at the end of the financial year	**6,241,630**	3,521,083
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**–**	–

The weighted average fair value of the RSU awards granted during the financial year was $124.40 (2020: $126.99).

Deferred Share Units (DSUs)

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

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

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

	NUMBER OF DSU AWARDS	
	2021	2020
DSUs on issue at the beginning of the financial year	**812,489**	865,164
Granted during the financial year	**276,303**	318,796
Forfeited during the financial year	**(4,288)**	(44,253)
Exercised during the financial year	**(121,363)**	(149,722)
Net transfers from/(to) related body corporate entities(1)	**159,159**	(177,496)
DSUs on issue at the end of the financial year	**1,122,300**	812,489
DSUs exercisable at the end of the financial year	**416,301**	289,474

The weighted average fair value of the DSU awards granted during the financial year was $117.16 (2020: $115.97).

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

Note 31
Employee equity participation continued

Award Types under the MEREP continued

Performance Share Units (PSUs)

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

	NUMBER OF PSU AWARDS	
	2021	2020
PSUs on issue at the beginning of the financial year	**291,357**	366,296
Granted during the financial year	**39,217**	65,310
Forfeited during the financial year	**–**	(14,081)
Exercised during the financial year	**(59,857)**	(126,168)
Expired during the Year	**(59,858)**	–
Net transfers from/(to) related body corporate entities[1]	**443,980**	–
PSUs on issue at the end of the financial year	**654,839**	291,357
PSUs exercisable at the end of the financial year	**–**	–

The weighted average fair value of the PSU awards granted during the financial year was $105.09 (2020: $98.99).

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

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards)
- staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Bank staff with retained commission (Commission Awards)
- new Macquarie Bank staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value (New Hire Awards)
- members of the MBL Executive Committees who are eligible for PSUs (PSU awards)
- in limited circumstances, Macquarie Bank staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of Macquarie Bank upon the acquisition of their employer by a Macquarie entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

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

Note 31
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 2012 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 on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

In limited cases, the 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 2020 retention, the allocation price was the weighted average price of the shares issued for the 2020 issue period, which was 25 May 2020 to 5 June 2020. That price was calculated to be $112.15 (2019 retention: $122.37).

Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles related to MGL's performance. Only members of the MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded.

The hurdles are outlined below.

Performance hurdle 1

Hurdle	REFERENCE GROUP
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period 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 Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.

Performance hurdle 2

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

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

Note 31
Employee equity participation continued

Performance Share Units (PSUs) continued

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

Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value[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 2020. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

- interest rate to maturity: 0.2023% per annum
- expected vesting dates of PSUs: 1 July 2024
- dividend yield: 4.33% per annum.

While RSUs DSUs, and PSUs (for Executive Committee members) for FY2021 will be granted during FY2022, the Company begins recognising an expense for these awards (based on an initial estimate) from 1 April 2020 related to these future grants. The expense is estimated using the estimated MEREP retention for FY2021 and applying the amortisation profile to the retained amount.

For PSUs, the estimate also incorporates an interest rate to maturity of 0.44% per annum, expected vesting date of PSUs of 1 July 2025, and a dividend yield of 3.96% per annum. In the following financial year, the Consolidated Entity will adjust the accumulated expense recognised for the final determination of fair value for each RSU, DSU and PSU when granted and will use this validation for recognising the expense over the remaining vesting period.

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

For the financial year ended 31 March 2021, compensation expense relating to the MEREP totalled $204,594 thousand (2020: $191,519 thousand).

Employee Share Plan

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

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

The latest offer under the ESP was made during November 2020. A total of 1,790 (2020: 752) staff participated in this offer. On 9 December 2020, the participants were each allocated 7 (2020: 7) fully paid ordinary shares based on the offer amount of $1,000 and the average market share price of $139.70 (2020: $136.37), resulting in a total of 12,530 (2020: 5,264) 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 2021, compensation expense relating to the ESP totalled $1,750 thousand (2020: $710 thousand).

Other plans

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

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

Note 32
Contingent liabilities and commitments

	CONSOLIDATED 2021 $m	CONSOLIDATED 2020 $m	COMPANY 2021 $m	COMPANY 2020 $m
Contingent liabilities exist in respect of:				
Letters of credit	**1,197**	1,206	**1,206**	1,254
Performance-related contingencies[1]	**888**	1,076	**989**	1,075
Guarantees[2]	**195**	144	**1,280**	1,214
Indemnities	**164**	336	**164**	336
Total contingent liabilities[3]	**2,444**	2,762	**3,639**	3,879
Commitments exist in respect of:				
Undrawn credit facilities and securities commitments[4]	**5,865**	4,665	**5,374**	4,173
Other asset developments	**754**	891	**754**	891
Total commitments	**6,619**	5,556	**6,128**	5,064
Total contingent liabilities and commitments	**9,063**	8,318	**9,767**	8,943

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

(1) Includes $591 million (31 March 2020: $763 million) in favour of a related party for which collateral of a similar amount has been received.
(2) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 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.
(3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.
(4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity. Securities underwriting represents firm commitments to underwrite debt and equity securities issuances and private equity commitments.

Note 33
Structured entities

The Consolidated Entity engages with structured entities (SEs) for securitisation, asset backed financing businesses in order to diversify its sources of funding for asset origination and capital efficiency purposes. SEs are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual agreements. Often, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets, including mortgages, finance leases of the Consolidated Entity or of its clients.

The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Asset-backed financing

Asset-backed financing vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders. The Consolidated Entity engages in raising finance for assets such as vessels, electronic and IT equipment.

Consolidated structured entities

The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

SEs are consolidated when they meet the criteria described in Note 44(i) *Principles of consolidation*.

Interests held in unconsolidated structured entities

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- creates variability instead of absorbing (for example purchase of credit protection under a credit default swap)
- acts as an underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs
- transfers assets and does not have any other interest deemed to be significant in the SE.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

Note 33
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 2021		CONSOLIDATED 2020	
	Securitisations $m	Asset-backed financing $m	Securitisations $m	Asset-backed financing $m
Carrying value of assets				
Trading assets	113	–	547	–
Derivative assets	414	–	551	–
Financial investments[1]	2,088	18	2,056	–
Loan assets	698	2,034	501	2,769
Total carrying value of assets[2]	3,313	2,052	3,655	2,769
Maximum exposure to loss[3]				
Debt, equity and derivatives held	3,313	2,052	3,655	2,769
Undrawn commitments	180	–	–	–
Total maximum exposure to loss	3,493	2,052	3,655	2,769

The Consolidated Entity's exposure to securitisation entities in the nature of trading assets, derivatives and debt financial investment positions are acquired for the purpose of trading and liquidity management are typically managed under market risk described in Note 35.3 *Market risk*. For these reasons, information on the size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented.

In respect of the Consolidated Entity's loan assets' exposure in securitisation and asset backed financing entities, the total size of the unconsolidated SEs is $32,075 million (2020: $6,649 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

(1) Securitisations includes $1,336 million (2020: $1,645 million) of investments that are managed by the Consolidated Entity under the liquid assets' holding policy described in Note 35.2 *Liquidity risk*.
(2) Includes non-investment grade interests of $80 million (March 2020: $182 million) in securitisation activities and $1,195 million (March 2020: $1,433 million) in asset-backed financing activities. Of these non-investment grade interests in asset-backed financing activities, the potential loss borne by holders of notes whose interests rank lower is $Nil (2020: $110 million).
(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

Note 34
Hedge accounting

Hedging strategy

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

Hedging instruments

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

Hedging ineffectiveness

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

IBOR reform

The Consolidated Entity designates hedging relationships where the hedged item and/or hedging instrument reference IBOR. These rates are being transitioned to alternative reference rates (ARRs) as described in Note 1 *Basis of preparation* and Note 35 *Financial risk management*. IBOR reform primarily impacts the Consolidated Entity's hedge relationships referencing USD LIBOR and GBP LIBOR. The hedge relationships disclosed as impacted by IBOR reform includes all those referencing transitioning LIBOR rates at the reporting date and includes relationships that are expected to expire before mandatory transition to ARRs. The majority of these derivatives are subject to the ISDA Fallbacks Protocols for converting LIBORs to ARRs plus a spread when an index cessation event occurs.

The UK Financial Conduct Authority's (FCA) announcement on the future cessation and loss of representativeness of LIBOR benchmarks on 5 March 2021 constituted such an index cessation event which fixed the spread adjustment to be applied to such derivative contracts upon fallback. Despite the announcement uncertainty remains with respect to the timing of transition of the IBOR-based cash flows of these hedging instruments. As markets continue to develop, regulators continue to monitor the progress of transition and have encouraged the proactive transition of positions from IBORs to ARRs rather than reliance on fallback clauses. As a result, the relief afforded to the Consolidated Entity under AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 1 relief), which was early adopted during the 31 March 2020 financial year, continues to apply. Certain hedge accounting relationships have transitioned to ARRs during the current period and consequently the Consolidated Entity has made use of the relief provided by AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* (Phase 2 relief) to amend the formal designation of these hedging relationships.

Note 34
Hedge accounting continued

The absolute notional amounts of hedging instruments designated in hedge accounting relationships represent the extent of the risk exposure managed by the Consolidated Entity that are impacted by IBOR reform per the following table:

	NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM					
	USD $m	GBP $m	Other[1] $m	Total $m	Other not affected by reform[2] $m	Total notional[3] $m
						CONSOLIDATED 2021
Cash flow hedges	**1,002**	**1,378[4]**	**731**	**3,111**	**6,845**	**9,956**
Fair value hedges	**11,545**	**–**	**891**	**12,436**	**12,590**	**25,026**
						CONSOLIDATED 2020
Cash flow hedges	1,201	1,969	1,225	4,395	6,713	11,108
Fair value hedges	12,471	–	1,429	13,900	14,459	28,359

	NOTIONAL VALUE IN AUD EQUIVALENT IMPACTED BY IBOR REFORM					
	USD $m	GBP $m	Other[1] $m	Total $m	Other not affected by reform[2] $m	Total notional[3] $m
						COMPANY 2021
Cash flow hedges	**1,002**	**2,032[4]**	**731**	**3,765**	**6,664**	**10,429**
Fair value hedges	**11,545**	**–**	**891**	**12,436**	**3,073**	**15,509**
						COMPANY 2020
Cash flow hedges	1,067	2,579	1,225	4,871	4,564	9,435
Fair value hedges	12,337	–	1,429	13,766	2,933	16,699

(1) Other includes balances impacted by the IBOR reform of JPY LIBOR and CHF LIBOR.
(2) The Consolidated Entity has exposure to rates such as BBSW and EURIBOR that are not subject to mandatory replacement and therefore do not make use of the relief (as described in Note 1 *Basis of preparation*).
(3) Where a cross currency swap in a cash flow hedge designation references more than one interest rate, the risk exposure has been shown twice to reflect the absolute risk exposure to different reference rates. For all other hedge accounting disclosures, the notional has been shown once. To reconcile this notional to other hedge accounting disclosures an amount of $3,047 million would need to be deducted from both the Consolidated Entity and Company (2020: $5,050 million and $4,017 million respectively). The notional of commodity swaps and futures shown in the hedging instrument maturity tables on pages 126 and 130 are not included in the notionals disclosed above.
(4) Excludes hedge relationships of $220 million notional which have been synthetically transitioned to SONIA during the current year (making use of the Phase 2 relief) and thus meet the requirement for end of Phase 1 relief.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 34
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 27(i) *Reserves*. Changes in this reserve are reported in the Consolidated Entity's Statements of comprehensive income. The cumulative gains and losses remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur are $3 million (2020: $Nil) for the Consolidated Entity and $2 million (2020: $Nil) for the Company. These amounts will be reclassified to the income statement as a loss as and when the hedged item affects the income statement.

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						**CONSOLIDATED 2021**
Cross currency swaps	Foreign exchange	**(20)**	**(48)**	**477**	**1,079**	**1,488**
Interest rate swaps	Interest rate	**–**	**–**	**1,043**	**–**	**1,043**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**1,038**	**884**	**–**	**1,922**
Interest rate swaps	Interest rate	**(44)**	**522**	**1,222**	**756**	**2,456**
Derivative assets						CONSOLIDATED 2020
Cross currency swaps	Foreign exchange	12	935	2,212	1,353	4,512
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(43)	(141)	198	995	1,009

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	**Asset $m**	**Liability $m**	Asset $m	Liability $m
Cross currency swaps	Foreign exchange	**105**	**82**	697	38
Interest rate swaps	Interest rate	**1**	**101**	–	164

Note 34
Hedge accounting continued

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
		MATURITY ANALYSIS PER NOTIONAL				
Derivative assets						**COMPANY 2021**
Cross currency swaps	Foreign exchange	**(20)**	**(48)**	**477**	**1,079**	**1,488**
Interest rate swaps	Interest rate	**(22)**	**(54)**	**1,216**	**557**	**1,697**
Derivative liabilities						
Cross currency swaps	Foreign exchange	**–**	**1,038**	**884**	**–**	**1,922**
Interest rate swaps	Interest rate	**(44)**	**397**	**1,166**	**756**	**2,275**
Derivative assets						COMPANY 2020
Cross currency swaps	Foreign exchange	(22)	(62)	2,212	1,353	3,481
Interest rate swaps	Interest rate	(24)	(68)	(9)	740	639
Derivative liabilities						
Cross currency swaps	Foreign exchange	–	–	537	–	537
Interest rate swaps	Interest rate	(47)	(152)	(35)	995	761

Instrument type	Risk category	2021 Asset $m	2021 Liability $m	2020 Asset $m	2020 Liability $m
		COMPANY CARRYING AMOUNT			
Cross currency swaps	Foreign exchange	**105**	**82**	538	38
Interest rate swaps	Interest rate	**84**	**89**	131	142

Note 34
Hedge accounting continued

Hedge ineffectiveness

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

		CONSOLIDATED					
		Gain/(loss) on hedged item		(Loss)/gain on hedging instrument		Hedge ineffectiveness gain/(loss)	
Hedging instruments	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Foreign exchange	**(27)**	18	**28**	(19)	**1**	(1)
Interest rate swaps	Interest rate	**72**	(103)	**(72)**	107	**–**	4
Total		**45**	(85)	**(44)**	88	**1**	3

		COMPANY					
		(Loss)/gain on hedged item		Gain/(loss) on hedging instrument		Hedge ineffectiveness (loss)/gain	
Hedging instruments	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Foreign exchange	**(29)**	11	**28**	(13)	**(1)**	(2)
Interest rate swaps	Interest rate	**17**	(17)	**(19)**	21	**(2)**	4
Total		**(12)**	(6)	**9**	8	**(3)**	2

Hedge accounting executed rates

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

		CONSOLIDATED		COMPANY	
Hedging instruments	Currency pair	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	AUD/EUR	**0.62–0.68**	0.62–0.68	**0.62–0.68**	0.62–0.68
	USD/GBP	**0.66**	0.66	**0.66**	0.66
	AUD/CHF	**0.72**	0.72	**0.72**	0.72
	USD/CHF	**0.93**	0.93	**0.93**	0.93
Interest rate swaps	AUD	**0.06–4.96%**	4.00–4.99%	**0.06–0.40%**	n/a
	GBP	**1.54–2.13%**	1.54–2.13%	**1.54–2.17%**	1.54–2.17%

Note 34
Hedge accounting continued

Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign currency denominated borrowings. Refer to Note 35.3 *Market risk: Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied resulting in foreign exchange gains or losses on the hedging instruments being recognised in the Consolidated Entity's other comprehensive income, within the foreign currency translation reserve. The cumulative gains or losses are reclassified out of the foreign currency translation reserve following the partial disposal or disposal of the foreign operation (refer to Note 44 *Significant accounting policies*). Hedge ineffectiveness is recognised in net trading income in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

		CONSOLIDATED CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts	Foreign exchange	29	241	148	1
Foreign currency denominated borrowings[1]	Foreign exchange	–	–	6,528	6,665

		CONSOLIDATED NOTIONAL AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts[2]	Foreign exchange	1,102	3,653	2,879	112
Foreign currency denominated borrowings	Foreign exchange	–	–	7,054	7,481

		COMPANY CARRYING AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts	Foreign exchange	19	151	95	1
Foreign currency denominated borrowings[1]	Foreign exchange	–	–	3,242	3,621

		COMPANY NOTIONAL AMOUNT			
		ASSET		LIABILITY	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m
Foreign exchange contracts[2]	Foreign exchange	726	2,334	2,057	103
Foreign currency denominated borrowings	Foreign exchange	–	–	3,907	4,424

In order to hedge the currency exposure of certain net investments in foreign operations, the Consolidated Entity jointly designates both foreign exchange contracts (from the currency of the underlying foreign operation to USD) and foreign currency denominated borrowings (from USD to AUD). As a result, the notional value of hedging instruments presented by the Consolidated Entity of $11,035 million (2020: $11,246 million) and Company of $6,690 million (2020: $6,861 million) represents the notional of both the derivative hedging instruments and the foreign currency denominated borrowings and hence exceeds the $7,264 million (2020: $7,242 million) and $3,980 million (2020: $4,274 million) notional of the underlying hedged component of the Consolidated Entity's and Company's respective net investment in foreign operations.

Hedge ineffectiveness is the extent to which the absolute change in either the fair value of the derivative or the carrying amount of foreign currency denominated borrowings attributable to the change in exchange rates exceeds that of the hedged item. There was no ineffectiveness recognised in the income statement by the Consolidated Entity or the Company in the current year (2020: $Nil).

(1) The carrying amount of Foreign currency denominated borrowings includes amounts of $310 million and $169 million (2020: $407 million and $Nil) for the Consolidated Entity and the Company which are disclosed in the respective Statements of financial position as 'Due to other related body corporate entities'.
(2) Where the fair value of the derivative is positive/(negative), the notional of the derivative has been similarly included in the table as an asset/(liability).

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 34
Hedge accounting continued

Fair value hedges

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

Hedging instruments

		MATURITY ANALYSIS PER NOTIONAL AMOUNT				
Instrument type	Risk category	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						**CONSOLIDATED 2021**
Cross currency swaps	Interest rate	**–**	**–**	**884**	**435**	**1,319**
Interest rate swaps	Interest rate	**1,085**	**783**	**8,385**	**987**	**11,240**
Commodity forward contracts	Commodity price	**1**	**2**	**–**	**–**	**3**
Derivative liabilities						
Interest rate swaps	Interest rate	**938**	**3,622**	**5,395**	**2,512**	**12,467**
Derivative assets						CONSOLIDATED 2020
Cross currency swaps	Interest rate	34	997	1,382	605	3,018
Interest rate swaps	Interest rate	–	3,340	6,595	4,398	14,333
Commodity forward contracts	Commodity price	4	15	4	–	23
Derivative liabilities						
Interest rate swaps	Interest rate	645	3,328	7,035	–	11,008

		CONSOLIDATED CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	**Asset $m**	**Liability $m**	Asset $m	Liability $m
Cross currency swaps	Interest rate	**56**	**–**	106	–
Interest rate swaps	Interest rate	**388**	**343**	798	313
Commodity forward contracts	Commodity price	**–**	**–**	7	–

Note 34
Hedge accounting continued

Instrument type	Risk category	MATURITY ANALYSIS PER NOTIONAL Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Derivative assets						**COMPANY 2021**
Cross currency swaps	Interest rate	**–**	**–**	**884**	**435**	**1,319**
Interest rate swaps	Interest rate	**1,085**	**783**	**7,464**	**1,017**	**10,349**
Derivative liabilities						
Interest rate swaps	Interest rate	**125**	**230**	**974**	**2,512**	**3,841**
Derivative assets						COMPANY 2020
Cross currency swaps	Interest rate	–	–	1,382	605	1,987
Interest rate swaps	Interest rate	–	3,340	6,640	4,472	14,452
Derivative liabilities						
Interest rate swaps	Interest rate	–	93	167	–	260

The Company designates certain equity investments in foreign currency denominated subsidiaries as hedged items in fair value hedges of foreign exchange risk. The notional of the foreign currency denominated borrowings designated as hedging instruments amounted to $1,002 million (2020: $341 million). These balances change periodically, which results in periodic rebalancing of the hedge designations.

		COMPANY CARRYING AMOUNT			
		2021		2020	
Instrument type	Risk category	**Asset $m**	**Liability $m**	Asset $m	Liability $m
Cross currency swaps	Interest rate	**56**	**–**	103	–
Interest rate swaps[(1)]	Interest rate	**392**	**144**	807	14
Foreign currency denominated borrowings	Foreign exchange	**–**	**610**	–	343

Hedged item

As the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of the fair value hedge adjustments remaining in the Statements of financial positions for hedged items that have ceased to be adjusted for hedging gains and losses is $8 million gain (2020: $9 million loss) for the Consolidated Entity and $16 million gain for the Company (2020: $5 million gain) and have been included in the fair value hedge adjustment in the table that follows. These amounts will be amortised to the income statement on an effective interest rate basis.

(1) The carrying amounts of hedging instrument derivative assets and liabilities includes amounts of $83 million and $11 million (2020: $131 million and $Nil) which are disclosed in the Company's Statement of financial position as 'Due from other related body corporate entities' and 'Due to other related body corporate entities' respectively.

Note 34
Hedge accounting continued

	CONSOLIDATED 2021		CONSOLIDATED 2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**313**	**–**	104	4
Loan assets	**10,166**	**90**	10,646	191
Commodity transportation contracts	**–**	**–**	2	2
Liabilities				
Debt issued	**8,748**	**(246)**	13,210	(462)
Loan capital	**5,372**	**(10)**	4,920	(318)

	COMPANY 2021		COMPANY 2020	
	Carrying amount[1] $m	Fair value hedge adjustment $m	Carrying amount[1] $m	Fair value hedge adjustment $m
Assets				
Financial investments[2]	**313**	**–**	104	4
Loan assets[2]	**1,229**	**–**	162	2
Investments in subsidiaries	**961**	**(34)**	341	32
Liabilities				
Debt issued	**8,855**	**(246)**	12,298	(461)
Loan capital	**5,372**	**(10)**	4,920	(318)

Hedge ineffectiveness

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

		CONSOLIDATED					
		(Loss)/gain on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Interest rate	**(49)**	43	**48**	(45)	**(1)**	(2)
Interest rate swaps and options	Interest rate	**(323)**	598	**381**	(557)	**58**	41
Commodity forward contracts[3]	Commodity price	**(7)**	64	**(2)**	(53)	**(9)**	11
Total		**(379)**	705	**427**	(655)	**48**	50

		COMPANY					
		(Loss)/gain on hedging instrument		Gain/(loss) on hedged item		Hedge ineffectiveness gain/(loss)	
Hedging instrument	Risk category	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Cross currency swaps	Interest rate	**(46)**	709	**46**	(707)	**–**	2
Interest rate swaps	Interest rate	**(458)**	(1)	**467**	3	**9**	2
Foreign currency denominated borrowings	Foreign exchange	**66**	(32)	**(66)**	32	**–**	–
Total		**(438)**	676	**447**	(672)	**9**	4

(1) The carrying amounts in the table exclude accrued interest and includes fair value hedge adjustments.
(2) The carrying amount includes debt instruments classified at 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.
(3) These hedges remain highly effective despite temporary dislocations in the market during the current period.

Note 35
Financial risk management

Risk Management and Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The material risks faced by the Consolidated Entity include aggregate, asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks.

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

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

On 1 April 2021, APRA announced actions required regarding the Company's risk management practices and ability to calculate and report key prudential ratios. APRA increased the Company's operational risk capital requirement and made adjustments to requirements for certain liquidity prudential ratios, effective from 1 April 2021. The actions relate to specific intra-group funding arrangements as well as breaches of APRA's reporting standards on liquidity between 2018 and 2020. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions.

While specific historical matters leading to these actions have been addressed, Macquarie acknowledges that continued work is required on its risk governance and operating platform and has programs in place to strengthen capital and liquidity reporting and its risk management framework. Macquarie will work closely with APRA on these programs through a period of intensified supervision.

Note 35.1 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 either the amount of the loan or financial obligation not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

Credit risk assessment and approval

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

After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required. Retail credit exposures are monitored by the business units and overseen by RMG Credit on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loan assets are reported at amortised cost. Derivative exposures are measured using high confidence potential future underlying asset prices.

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

Ratings and reviews

Refer to Note 12 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

Wholesale rating

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

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

Retail rating

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

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

Due from subsidiaries/due from related body corporate entities

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

Portfolio and country risk

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

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

Note 35
Financial risk management continued

Note 35.1 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. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				CONSOLIDATED 2021
Cash and bank balances	15,872	–	–	15,872
Cash collateral on securities borrowed and reverse repurchase agreements	21,362	–	–	21,362
Margin money and settlement assets	6,713	–	–	6,713
Financial investments	7,571	–	–	7,571
Held for sale and other assets	594	–	–	594
Loan assets	46,689	1,257	–	47,946
Due from related body corporate entities	1,508	–	–	1,508
Undrawn credit commitments, letters of credit and financial guarantees	3,014	–	–	3,014
Total investment grade	**103,323**	**1,257**	**–**	**104,580**
Non-investment grade				
Cash and bank balances	94	–	–	94
Cash collateral on securities borrowed and reverse repurchase agreements	5,284	–	–	5,284
Margin money and settlement assets	1,010	5	–	1,015
Financial investments	71	–	–	71
Held for sale and other assets	444	14	–	458
Loan assets	40,408	9,888	–	50,296
Undrawn credit commitments, letters of credit and financial guarantees	3,078	76	–	3,154
Total non-investment grade	**50,389**	**9,983**	**–**	**60,372**
Default				
Margin money and settlement assets	–	–	296	296
Financial investments	–	–	–	–
Held for sale and other assets	–	–	103	103
Loan assets	–	–	1,333	1,333
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantee contracts	–	–	170	170
Total default	**–**	**–**	**1,907**	**1,907**
Total	**153,712**	**11,240**	**1,907**	**166,859**

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

	Stage I[(1)] $m	Stage II[(1)] $m	Stage III[(1)] $m	Total $m
Financial assets by ECL stage				CONSOLIDATED 2021
Cash and bank balances	15,966	–	–	15,966
Cash collateral on securities borrowed and reverse repurchase agreements	26,646	–	–	26,646
Margin money and settlement assets	7,723	5	296	8,024
Financial investments	7,642	–	–	7,642
Held for sale and other assets	1,038	14	103	1,155
Due from related body corporate entities	1,508	–	–	1,508
Loan assets	87,097	11,145	1,333	99,575
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantee contracts	6,092	76	170	6,338
Total financial assets ECL by stage	153,712	11,240	1,907	166,859

(1) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount[1] of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				COMPANY 2021
Cash and bank balances	14,000	–	–	14,000
Cash collateral on securities borrowed and reverse repurchase agreements	19,378	–	–	19,378
Margin money and settlement assets	5,569	–	–	5,569
Financial investments	7,570	–	–	7,570
Other assets	313	–	–	313
Loan assets	40,739	1,186	–	41,925
Due from related body corporate entities	1,181	–	–	1,181
Due from subsidiaries	17,965	–	–	17,965
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,559	–	–	2,559
Total investment grade	109,274	1,186	–	110,460
Non-investment grade				
Cash and bank balances	12	–	–	12
Cash collateral on securities borrowed and reverse repurchase agreements	4,106	–	–	4,106
Margin money and settlement assets	574	1	–	575
Financial investments	53	–	–	53
Other assets	200	5	–	205
Loan assets	32,406	8,594	–	41,000
Due from subsidiaries	10	–	–	10
Undrawn credit commitments, letters of credit and financial guarantees[3]	3,049	68	–	3,117
Total non-investment grade	40,410	8,668	–	49,078
Default				
Margin money and settlement assets	–	–	294	294
Other assets	–	–	90	90
Loan assets	–	–	962	962
Loans to associates and joint ventures	–	–	4	4
Undrawn credit commitments, letters of credit and financial guarantee contracts[3]	–	–	155	155
Total default	–	–	1,505	1,505
Total	149,684	9,854	1,505	161,043
Cash and bank balances	14,012	–	–	14,012
Cash collateral on securities borrowed and reverse repurchase agreements	23,484	–	–	23,484
Margin money and settlement assets	6,143	1	294	6,438
Financial investments	7,623	–	–	7,623
Other assets	513	5	90	608
Loan assets	73,145	9,780	962	83,887
Due from related body corporate entities	1,181	–	–	1,181
Due from subsidiaries	17,975	–	–	17,975
Loans to associates and joint ventures	–	–	4	4
Undrawn credit commitments, letters of credit and financial guarantees[3]	5,608	68	155	5,831
Total financial assets by ECL stage	149,684	9,854	1,505	161,043

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 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 35
Financial risk management continued

Note 35.1 Credit risk continued

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

	Investment grade $m	Non-investment grade $m	Total other than default $m	OF WHICH PAST DUE Up to 30 days $m	31 to <90 days $m	Total past due but not default[1] $m	Default $m	Total $m
CONSOLIDATED 2021								
Home loans[1]	38,188	32,827	71,015	420	134	554	572	71,587
Asset financing	3,669	9,521	13,190	301	60	361	394	13,584
Corporate, commercial and other lending	4,040	7,732	11,772	55	109	164	367	12,139
Investment lending	2,047	216	2,263	–	–	–	–	2,263
Total[2]	47,944	50,296	98,240	776	303	1,079	1,333	99,573
COMPANY 2021								
Home loans	37,023	31,549	68,572	399	125	524	552	69,124
Asset financing	1,164	3,117	4,281	68	11	79	89	4,370
Corporate, commercial and other lending	3,103	6,236	9,339	55	109	164	321	9,660
Investment lending	635	98	733	–	–	–	–	733
Total	41,925	41,000	82,925	522	245	767	962	83,887

(1) Includes $12,190 million home loans for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another $39,909 million home loans where the Consolidated Entity has bought risk protection from a global panel of investment grade reinsurers via an excess of loss and quota share structure. Refer to Note 35.1 *Credit risk: Collateral and credit enhancements held* for further details.

(2) The credit quality is based on the counterparties' credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

Note 35
Financial risk management continued

Note 35.1 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. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				**CONSOLIDATED 2020**
Cash and bank balances	7,783	–	–	7,783
Cash collateral on securities borrowed and reverse repurchase agreements	23,432	–	–	23,432
Margin money and settlement assets	9,515	–	–	9,515
Financial investments	7,196	–	–	7,196
Other assets	861	–	–	861
Loan assets	46,862	416	–	47,278
Due from related body corporate entities	2,948	–	–	2,948
Undrawn credit commitments, letters of credit and financial guarantees	2,197	–	–	2,197
Total non-investment grade	100,794	416	–	101,210
Non-investment grade				
Cash and bank balances	64	–	–	64
Cash collateral on securities borrowed and reverse repurchase agreements	6,319	–	–	6,319
Margin money and settlement assets	1,988	104	–	2,092
Financial investments	60	–	–	60
Other assets	503	18	–	521
Loan assets	26,470	13,234	–	39,704
Due from related body corporate entities	1,399	–	–	1,399
Undrawn credit commitments, letters of credit and financial guarantees	2,613	59	–	2,672
Total non-investment grade	39,416	13,415	–	52,831
Default				
Margin money and settlement assets	–	–	87	87
Other assets	–	–	72	72
Loan assets	–	–	1,176	1,176
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantees	–	–	16	16
Total default	–	–	1,356	1,356
Total	140,210	13,831	1,356	155,397
Financial assets by ECL stage				
Cash and bank balances	7,847	–	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	29,751	–	–	29,751
Margin money and settlement assets	11,503	104	87	11,694
Financial investments	7,256	–	–	7,256
Other assets	1,364	18	72	1,454
Loan assets	73,332	13,650	1,176	88,158
Due from related body corporate entities	4,347	–	–	4,347
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments, letters of credit and financial guarantees	4,810	59	16	4,885
Total financial assets by ECL stage	140,210	13,831	1,356	155,397

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount[1] of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I[2] $m	Stage II[2] $m	Stage III[2] $m	Total $m
Investment grade				COMPANY 2020
Cash and bank balances	6,018	–	–	6,018
Cash collateral on securities borrowed and reverse repurchase agreements	22,677	–	–	22,677
Margin money and settlement assets	8,287	–	–	8,287
Financial investments	7,180	–	–	7,180
Other assets	374	–	–	374
Loan assets	39,002	391	–	39,393
Due from related body corporate entities	2,875	–	–	2,875
Due from subsidiaries	21,093	–	–	21,093
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,025	–	–	2,025
Total investment grade	109,531	391	–	109,922
Non-investment grade				
Cash and bank balances	19	–	–	19
Cash collateral on securities borrowed and reverse repurchase agreements repurchase agreements	5,400	–	–	5,400
Margin money and settlement assets	1,311	68	–	1,379
Financial investments	60	–	–	60
Held for sale and other assets	837	3	–	840
Loan assets	15,857	9,079	–	24,936
Due from subsidiaries	1,379	–	–	1,379
Undrawn credit commitments, letters of credit and financial guarantees[3]	2,280	59	–	2,339
Total non-investment grade	27,143	9,209	–	36,352
Default				
Margin money and settlement assets	–	–	43	43
Other assets	–	–	67	67
Loan assets	–	–	772	772
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees[3]	–	–	13	13
Default total	–	–	900	900
Total	136,674	9,600	900	147,174
Financial assets by ECL stage				
Cash and bank balances	6,037	–	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements repurchase agreements	28,077	–	–	28,077
Margin money and settlement assets	9,598	68	43	9,709
Financial investments	7,240	–	–	7,240
Other assets	1,211	3	67	1,281
Loan assets	54,859	9,470	772	65,101
Due from related body corporate entities	4,254	–	–	4,254
Due from subsidiaries	21,093	–	–	21,093
Loans to associates and joint ventures	–	–	5	5
Undrawn credit commitments and financial guarantees[3]	4,305	59	13	4,377
Total financial assets by ECL stage	136,674	9,600	900	147,174

(1) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.
(2) For definitions of stage I, II and III, refer to Note 12 *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.
(3) The Company includes guarantees to counterparties with respect to their exposures to certain subsidiaries. These guarantees have a maximum value of $11,826 million (31 March 2020: $12,430 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 35
Financial risk management continued

Note 35.1 Credit risk continued

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

				OF WHICH PAST DUE				
	Investment grade – strong $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[(1)] $m	Default $m	Total $m
								CONSOLIDATED 2020
Home loans[(2)]	39,805	15,852	55,657	253	167	420	449	56,106
Asset financing	1,845	14,305	16,150	729	103	832	303	16,453
Corporate, commercial and other lending	3,201	9,414	12,615	60	75	135	424	13,039
Investment lending	2,427	133	2,560	–	–	–	–	2,560
Total[(3)]	47,278	39,704	86,982	1,042	345	1,387	1,176	88,158
								COMPANY 2020
Home loans	37,256	15,170	52,426	253	158	411	427	52,853
Asset financing	193	2,201	2,394	101	19	120	83	2,477
Corporate, commercial and other lending	1,647	7,565	9,212	60	75	135	262	9,474
Investment lending	297	–	297	–	–	–	–	297
Total	39,393	24,936	64,329	414	252	666	772	65,101

(1) Loan assets of $177 million in the Consolidated Entity and $38 million in the Company, for which borrowers have been meeting their repayment obligations until recently and have applied for payment deferrals as a result of COVID-19, are not considered past due by the Consolidated Entity and the Company.
(2) Includes $14,263 million home loans for which insurance has been obtained from Lenders Mortgage Insurance (LMI) counterparties and another $35,837 million home loans where the Consolidated Entity has bought risk protection from a panel of counterparties via an excess of loss structure. Refer to Note 35.1 *Credit risk: Collateral and credit enhancements held* 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 35
Financial risk management continued

Note 35.1 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. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Held for sale and other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
										CONSOLIDATED 2021
Australia										
Governments	–	–	16	12	5	42	–	–	11	86
Financial institutions	11,538	2,372	5,114	608	92	2,708	859	1	549	23,841
Other	–	–	583	788	214	90,450	7	4	4,328	96,374
Total Australia	11,538	2,372	5,713	1,408	311	93,200	866	5	4,888	120,301
Asia Pacific										
Governments	–	–	–	12	–	–	–	–	–	12
Financial institutions	889	1,771	571	372	–	–	159	–	5	3,767
Other	–	–	–	158	148	295	4	–	5	610
Total Asia Pacific	889	1,771	571	542	148	295	163	–	10	4,389
Europe, Middle East and Africa										
Governments	–	–	–	12	88	4	–	–	1	105
Financial institutions	879	13,733	892	957	11	578	143	–	84	17,277
Other	–	–	–	2,483	239	1,779	17	–	159	4,677
Total Europe, Middle East and Africa	879	13,733	892	3,452	338	2,361	160	–	244	22,059
Americas										
Governments	–	–	–	21	5	10	–	–	3	39
Financial institutions	2,660	8,770	448	1,127	10	2,437	319	–	175	15,946
Other	–	–	18	1,474	343	1,272	–	–	1,018	4,125
Total Americas	2,660	8,770	466	2,622	358	3,719	319	–	1,196	20,110
Total gross credit risk[3]	**15,966**	**26,646**	**7,642**	**8,024**	**1,155**	**99,575**	**1,508**	**5**	**6,338**	**166,859**

(1) Loan assets in the Australia region includes home loans of $71,590 million, Asset financing of $12,472 million, Corporate, commercial and other lending of $8,453 million and Investment lending of $685 million.
(2) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are subject to impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the below table.

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Due from subsidiaries[3] $m	Loans to associates and joint ventures $m	Undrawn credit commitments and financial guarantees $m	Total $m
											COMPANY 2021
Australia											
Governments	–	–	16	12	–	–	–	–	–	11	39
Financial institutions	11,118	1,895	5,115	586	78	2,593	701	12,829	–	546	35,461
Other	–	–	583	689	194	78,570	4	27	4	4,057	84,128
Total Australia	11,118	1,895	5,714	1,287	272	81,163	705	12,856	4	4,614	119,628
Asia Pacific											
Governments	–	–	–	12	–	–	–	–	–	–	12
Financial institutions	587	1,771	571	306	–	–	80	299	–	–	3,614
Other	–	–	–	147	146	136	3	117	–	5	554
Total Asia Pacific	587	1,771	571	465	146	136	83	416	–	5	4,180
Europe, Middle East and Africa											
Governments	–	–	–	12	–	–	–	–	–	1	13
Financial institutions	703	12,923	892	943	10	460	130	950	–	83	17,094
Other	–	–	–	2,256	53	995	1	3,007	–	149	6,461
Total Europe, Middle East and Africa	703	12,923	892	3,211	63	1,455	131	3,957	–	233	23,568
Americas											
Governments	–	–	–	–	5	9	–	–	–	3	17
Financial institutions	1,604	6,895	446	984	10	198	262	739	–	91	11,229
Other	–	–	–	491	112	926	–	7	–	885	2,421
Total Americas	1,604	6,895	446	1,475	127	1,133	262	746	–	979	13,667
Total gross credit risk[3]	14,012	23,484	7,623	6,438	608	83,887	1,181	17,975	4	5,831	161,043

(1) Loan assets in the Australia region includes home loans of $69,125 million, Asset financing of $4,327 million, Corporate, commercial and other lending of $7,217 million and Investment lending of $494 million.
(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before. ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

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

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Held for sale and other assets $m	Loan assets $m	Due from related body corporate entities[(1)] $m	Loans to associates and joint ventures $m	Total $m
										CONSOLIDATED 2021
Australia										
Governments	–	3,842	10	–	–	–	–	–	–	3,852
Financial institutions	–	1,239	1,553	–	–	–	60	336	–	3,188
Other	–	5	1,470	–	–	9	67	–	–	1,551
Total Australia	–	5,086	3,033	–	–	9	127	336	–	8,591
Asia Pacific										
Governments	–	125	41	–	–	–	–	–	–	166
Financial institutions	264	18	582	105	–	–	–	4	–	973
Other	–	936	692	–	6	335	–	–	–	1,969
Total Asia Pacific	264	1,079	1,315	105	6	335	–	4	–	3,108
Europe, Middle East and Africa										
Governments	–	–	18	–	–	–	38	–	–	56
Financial institutions	2,203	15	4,505	–	–	–	–	6	–	6,729
Other	–	957	5,355	5	–	390	28	36	–	6,771
Total Europe, Middle East and Africa	2,203	972	9,878	5	–	390	66	42	–	13,556
Americas										
Governments	–	402	16	–	–	–	–	–	–	418
Financial institutions	5,438	1	4,058	–	–	–	–	2	–	9,499
Other	4	324	2,252	–	326	532	–	–	–	3,438
Total Americas	5,442	727	6,326	–	326	532	–	2	–	13,355
Total gross credit risk	7,909	7,864	20,552	110	332	1,266	193	384	–	38,610

(1) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments and commodities have been excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets $m	Due from subsidiaries[1] $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
											COMPANY 2021
Australia											
Governments	–	3,841	10	–	–	–	–	–	–	–	3,851
Financial institutions	–	1,239	1,529	–	–	–	6	1,219	332	–	4,325
Other	–	5	1,470	–	–	9	69	6	–	–	1,559
Total Australia	–	5,085	3,009	–	–	9	75	1,225	332	–	9,735
Asia Pacific											
Governments	–	125	41	–	–	–	–	–	–	–	166
Financial institutions	264	18	563	104	–	–	–	154	4	–	1,107
Other	–	936	690	–	4	335	–	–	–	–	1,965
Total Asia Pacific	264	1,079	1,294	104	4	335	–	154	4	–	3,238
Europe, Middle East and Africa											
Governments	–	–	18	–	–	–	38	–	–	–	56
Financial institutions	2,203	15	4,468	–	–	–	–	808	6	–	7,500
Other	–	957	4,672	–	–	388	25	165	37	–	6,244
Total Europe, Middle East and Africa	2,203	972	9,158	–	–	388	63	973	43	–	13,800
Americas											
Governments	–	402	–	–	–	–	–	–	–	–	402
Financial institutions	5,079	1	4,031	–	–	–	32	1,150	2	–	10,295
Other	4	16	1,836	–	–	132	–	–	–	–	1,988
Total Americas	5,083	419	5,867	–	–	132	32	1,150	2	–	12,685
Total gross credit risk	7,550	7,555	19,328	104	4	864	170	3,502	381	–	39,458

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

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

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[(1)] $m	Due from related body corporate entities[(2)] $m	Loans to associates and joint ventures $m	Undrawn credit commitment and financial guarantees $m	Total $m
										CONSOLIDATED 2020
Australia										
Governments	–	–	186	–	6	109	–	–	–	301
Financial institutions	2,017	2,146	4,007	1,539	88	2,539	1,324	–	272	13,932
Other	–	–	990	1,026	196	75,802	–	4	3,341	81,359
Total Australia	2,017	2,146	5,183	2,565	290	78,450	1,324	4	3,613	95,592
Asia Pacific										
Governments	–	–	–	316	–	–	–	–	–	316
Financial institutions	856	3,231	558	711	–	–	1,010	–	2	6,368
Other	–	–	–	826	438	524	20	1	70	1,879
Total Asia Pacific	856	3,231	558	1,853	438	524	1,030	1	72	8,563
Europe, Middle East and Africa										
Governments	668	–	–	–	151	10	–	–	58	887
Financial institutions	779	13,854	1,259	1,512	27	493	736	–	30	18,690
Other	–	–	–	2,679	361	2,593	–	–	202	5,835
Total Europe, Middle East and Africa	1,447	13,854	1,259	4,191	539	3,096	736	–	290	25,412
Americas										
Governments	–	–	–	23	–	17	–	–	4	44
Financial institutions	3,527	10,520	256	1,612	7	4,381	1,257	–	84	21,644
Other	–	–		1,450	180	1,690	–	–	822	4,142
Total Americas	3,527	10,520	256	3,085	187	6,088	1,257	–	910	25,830
Total gross credit risk[(3)]	7,847	29,751	7,256	11,694	1,454	88,158	4,347	5	4,885	155,397

(1) Loan assets in the Australia region includes home loans of $56,106 million, Asset financing of $14,813 million, Corporate, commercial and other lending, of $7,361 million and Investment lending of $170 million.
(2) Due from related body corporates have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

	Cash and bank balances $m	Cash collateral on securities borrowed and reverse repurchase agreements $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets[1] $m	Due from related body corporate entities[2] $m	Due from subsidiaries[2] $m	Loans to associates and joint ventures $m	Undrawn credit commitment and financial guarantees $m	Total $m
											COMPANY 2020
Australia											
Governments	–	–	187	–	5	50	–	–	–	–	242
Financial institutions	1,823	2,079	3,994	1,524	68	2,316	1,296	8,199	–	266	21,565
Other	–	–	990	815	541	59,406	–	7,612	4	3,069	72,437
Total Australia	1,823	2,079	5,171	2,339	614	61,772	1,296	15,811	4	3,335	94,244
Asia Pacific											
Governments	–	–	–	316	–	–	–	–	–	–	316
Financial institutions	615	3,231	558	591	–	–	977	678	–	2	6,652
Other	–	–	–	749	434	347	12	17	1	68	1,628
Total Asia Pacific	615	3,231	558	1,656	434	347	989	695	1	70	8,596
Europe, Middle East and Africa											
Governments	668	–	–	–	–	–	–	–	–	58	726
Financial institutions	627	13,393	1,258	1,508	24	329	734	948	–	23	18,844
Other	–	–	–	2,629	125	1,176	–	2,857	–	161	6,948
Total Europe, Middle East and Africa	1,295	13,393	1,258	4,137	149	1,505	734	3,805	–	242	26,518
Americas											
Governments	–	–	–	–	–	17	–	–	–	4	21
Financial institutions	2,304	9,374	253	1,201	7	318	1,235	782	–	3	15,477
Other	–	–	–	376	77	1,142	–	–	–	723	2,318
Total Americas	2,304	9,374	253	1,577	84	1,477	1,235	782	–	730	17,816
Total gross credit risk[3]	6,037	28,077	7,240	9,709	1,281	65,101	4,254	21,093	5	4,377	147,174

(1) Loan assets in the Australia region includes home loans of $52,853 million, Asset financing of $2,460 million, Corporate, commercial and other lending of $6,459 million.
(2) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.
(3) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before. ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

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

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Money margin and settlement assets $m	Other assets $m	Loan assets $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
										CONSOLIDATED 2020
Australia										
Governments	–	4,613	165	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,316	52	–	–	52	567	–	7,047
Other	–	–	1,996	–	3	17	–	–	–	2,016
Total Australia	–	4,673	8,477	52	3	17	52	567	–	13,841
Asia Pacific										
Governments	–	441	28	–	–	–	–	–	–	469
Financial institutions	822	106	578	55	–	–	–	110	–	1,671
Other	–	90	1,617	–	224	278	–	–	–	2,209
Total Asia Pacific	822	637	2,223	55	224	278	–	110	–	4,349
Europe, Middle East and Africa										
Governments	–	–	13	–	–	–	16	–	–	29
Financial institutions	1,782	48	13,004	–	–	–	–	8	–	14,842
Other	–	503	11,605	5	–	477	2	79	–	12,671
Total Europe, Middle East and Africa	1,782	551	24,622	5	–	477	18	87	–	27,542
Americas										
Governments	–	2,014	57	–	3	–	–	–	–	2,074
Financial institutions	5,353	17	6,901	–	12	–	76	40	–	12,399
Other	–	415	2,565	–	313	175	103	–	–	3,571
Total Americas	5,353	2,446	9,523	–	328	175	179	40	–	18,044
Total gross credit risk	7,957	8,307	44,845	112	555	947	249	804	–	63,776

(1) Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia (SISCA) classification.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to the impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements $m	Trading assets $m	Derivative assets $m	Financial investments $m	Margin money and settlement assets $m	Other assets $m	Loan assets $m	Due from subsidiaries[1] $m	Due from related body corporate entities[1] $m	Loans to associates and joint ventures $m	Total $m
											COMPANY 2020
Australia											
Governments	–	4,613	165	–	–	–	–	–	–	–	4,778
Financial institutions	–	60	6,196	–	–	–	7	1,111	567	–	7,941
Other	–	–	1,995	–	3	17	–	246	–	–	2,261
Total Australia	–	4,673	8,356	–	3	17	7	1,357	567	–	14,980
Asia Pacific											
Governments	–	423	28	–	–	–	–	–	–	–	451
Financial institutions	822	23	567	55	–	–	–	160	83	–	1,710
Other	–	77	1,613	–	225	278	–	–	–	–	2,193
Total Asia Pacific	822	523	2,208	55	225	278	–	160	83	–	4,354
Europe, Middle East and Africa											
Governments	–	–	13	–	–	–	16	–	–	–	29
Financial institutions	1,782	48	12,847	–	–	–	–	2,017	8	–	16,702
Other	–	503	9,435	–	–	477	2	620	79	–	11,116
Total Europe, Middle East and Africa	1,782	551	22,295	–	–	477	18	2,637	87	–	27,847
Americas											
Governments	–	2,014	–	–	–	–	–	–	–	–	2,014
Financial institutions	5,353	16	6,955	–	–	–	84	1,815	40	–	14,263
Other	–	288	1,790	–	106	9	95	–	–	–	2,288
Total Americas	5,353	2,318	8,745	–	106	9	179	1,815	40	–	18,565
Total gross credit risk	7,957	8,065	41,604	55	334	781	204	5,969	777	–	65,746

(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 35
Financial risk management continued

Note 35.1 Credit risk continued

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer to Note 36 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 12 *Expected credit losses*.

Collateral and credit enhancements held

Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of collateral.

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

The fair value of non-cash collateral held not recognised in the Statement of financial position as at 31 March 2021 is $35,045 million (2020: $38,070 million). The Consolidated Entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $8,796 million (2020: $8,508 million).

For the Company, the fair value of non-cash collateral held not recognised in the Statement of financial position as at 31 March 2021 is $31,131 million (2020: $36,511 million). The Company is allowed to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is $8,707 million (2019: $8,738 million). The value attributed to collateral held is judgemental and is generally subject to valuation movements. Macquarie may also incur additional selling costs when a defaulted position is closed out.

Loan assets

Home loans

Macquarie purchases risk protection for its portfolio of Home Loans. Prior to 2017 this was in the form of Lenders Mortgage Insurance from a well rated Australian LMI provider. Since then Macquarie has diversified its risk protection coverage to a global panel of reinsurers (panel) via an excess of loss structure for all loans whereby Macquarie is exposed to a defined first loss on a pooled basis for each year of home loan origination after which loss protection is in place to certain pre-defined levels and is thereafter exposed to any excess loss. From 1 April 2020 Macquarie began purchasing quota share protection for greater than 80% LVR loans from the panel as well as excess of loss for greater than 70% LVR loans. The panel has diverse lines of business coverage and ratings ranging from AA to A– from external rating agencies. The length of cover is up to 10 years.

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

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

	AUSTRALIA		AUSTRALIA	
	2021 $m	2020 $m	2021 $m	2020 $m
	CONSOLIDATED		COMPANY	
<= 25%	**2,162**	1,676	**2,018**	1,505
>25% and <= 50%	**13,288**	10,024	**12,708**	9,346
>50% and <= 70%	**29,528**	22,368	**28,660**	21,287
>70% and <= 80%	**22,187**	17,984	**21,478**	16,994
>80% and <= 90%	**3,653**	3,434	**3,492**	3,179
>90% and <= 100%	**674**	524	**674**	524
Partly collateralised	**29**	34	**29**	34
Total home loans	**71,521**	56,044	**69,059**	52,869

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying assets are held by the Consolidated Entity as collateral. Of the asset finance portfolio of $13,241 million (2020: $16,159 million), the credit exposure after considering the depreciated value of collateral is $5,810 million (2020: $7,358 million). For the Company, of the asset finance portfolio of $4,337 million (2020: $2,418 million), the credit exposure after considering the depreciated value of collateral is $1,712 million (2020: $970 million).

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

Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of $11,968 million (2020: $12,957 million), the credit exposure after considering the estimated value of collateral and credit enhancements is $1,374 million (2020: $1,524 million). For the Company, of the term lending of $9,547 million (2020: $9,391 million), the credit exposure after the estimated value of collateral and credit enhancements is $1,144 million (2020: $1,257 million).

Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. For the Consolidated Entity and the Company, the investment lending portfolio of $2,262 million (2020: $2,559 million) and $733 million (2020: $297 million) is fully collateralised.

Derivative instruments

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

Exchange traded derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its obligations when they become due.

Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held net exchange traded derivatives with positive replacement values as at 31 March 2021 of $1,354 million (2020: $5,084 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2021 of $1,282 million (2020: $4,727 million).

For OTC derivative contracts, the Consolidated Entity and Company often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements which, in the event of default, require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis.

The Consolidated Entity and Company also often execute a Credit Support Annexure in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2021, the Consolidated Entity held net OTC contracts with a positive replacement value of $19,198 million (2020: $39,761 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $11,038 million (2020: $24,154 million) and margins and financial collateral held (excluding the impact of over-collateralisation) of $3,053 million (2020: $5,744 million).

As at 31 March 2021, the Company held OTC contracts with a positive replacement value of $18,046 million (2020: $36,877 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of $10,565 million (2020: $23,464 million) and margins held (excluding the impact of over-collateralisation) of $3,012 million (2020: $5,583 million).

Financial investments

This classification mainly includes debt securities held by the Consolidated Entity primarily in nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities for liquidity management purposes and other securities for short-term gains.

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

Note 35
Financial risk management continued

Note 35.1 Credit risk continued

Margin money and settlement assets

Security and commodity settlements of $1,828 million (2020: $3,207 million) and $1,922 million (2020: $2,134 million) in the Consolidated Entity respectively and $1,457 million (2020: $2,839 million) and $933 million (2020: $1,217 million) respectively, in the Company are included in Margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities (or bought on behalf of a client), other commodities and securities sold. These assets are collateralised with the underlying equity securities, commodities or cash held by the Consolidated Entity until the date of settlement. The period between trade and settlement date varies as per regional regulatory and business norms.

Other assets

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

Credit commitments

Undrawn facilities and lending commitments of $3,183 million (2020: $2,256 million) in the Consolidated Entity and $3,110 million (2020: $2,130 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of $5,865 million (2020: $4,665 million) in the Consolidated Entity and $5,374 million (2020: $4,173 million) in the Company.

Additional collateral

Apart from the collateral detail disclosed above, the Consolidated Entity and the Company also holds other types of collateral, such as unsupported guarantees.

While such mitigants have value as a credit risk mitigant often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

The Consolidated Entity's loan balance includes $11,344 million (2020: $16,402 million) of loans which have been securitised by consolidated SEs.

Note 35.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie Bank's liquidity policy is approved by the MBL Board after endorsement by the ALCO and liquidity reporting is provided to the Board on a regular basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Co-Heads of Group Treasury and Operating Group Heads.

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

Liquidity policy and risk appetite

The *MBL Liquidity Policy* is designed so that the Bank Group maintains sufficient liquidity to meet its obligations as they fall due.

The *MBL Liquidity Policy* outlines the standalone framework for the Bank Group and its principles are consistent with the *MGL Liquidity Policy*.

Macquarie Bank's liquidity risk appetite is intended to ensure that Macquarie Bank is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in Macquarie Bank's franchise businesses. MBL is an authorised deposit-taking institution and is funded mainly with capital, long-term liabilities and deposits.

Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

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

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

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

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

Funding strategy

Macquarie Bank prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie Bank's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the MBL Board.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

Scenario analysis

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

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

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

Liquid asset holdings

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

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or be eligible as collateral in the Reserve Bank of Australia's (RBA) facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

Funds transfer pricing

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

Undrawn credit lines and facilities

The Consolidated Entity has $Nil (March 2020: $236 million) available undrawn credit lines and facilities at 31 March 2021. On 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit-taking institutions three year funding at a rate of 0.25% per annum in response to COVID-19. Subsequent to the Initial and Additional Allowances, the RBA expanded the facility by introducing a Supplementary Allowance and also reduced the rate on subsequent drawdowns to 0.10% (for Additional and Supplementary Allowances). As at March 2021, MBL has been granted a Funding Allowance of $7,625 million (March 2020: $1,911 million) and has drawn $1,723 million (March 2020: $Nil) of this Funding Allowance. MBL has not included the TFF in the available undrawn credit lines and facilities balance.

Contractual undiscounted cash flows

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

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2021
Cash collateral on securities lent and repurchase agreements[1]	4,542	487	2,183	147	1,736	–	4,553
Trading liabilities[2]	6,134	–	6,134	–	–	–	6,134
Margin money and settlement liabilities	16,251	12,998	2,657	596	–	–	16,251
Derivative liabilities (trading)[2]	16,801	–	16,801	–	–	–	16,801
Derivative liabilities (hedge accounting relationships)[3]	674	–					
Contractual amount payable		–	760	2,301	1,699	192	4,952
Contractual amount receivable		–	(711)	(2,060)	(1,456)	(29)	(4,256)
Deposits	84,140	74,901	6,064	2,995	188	7	84,155
Other liabilities[4]	1,668	135	783	409	359	46	1,732
Borrowings	2,473	410	883	383	819	–	2,495
Debt issued[5]	44,668	121	9,285	9,573	17,514	11,101	47,594
Due to other related body corporate entities	15,878	3,608	8,665	667	2,938	1	15,879
Loan capital[6]	6,804	–	1,129	191	3,245	3,711	8,276
Total	**200,033**	**92,660**	**54,633**	**15,202**	**27,042**	**15,029**	**204,566**
Contingent liabilities	–	–	2,444	–	–	–	2,444
Commitments	–	–	578	2,172	2,392	1,477	6,619
Total undiscounted contingent liabilities and commitments[7]		–	3,022	2,172	2,392	1,477	9,063

(1) Includes the TFF provided by the RBA.
(2) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, as they are frequently settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(4) Excludes non-contractual accruals and provisions.
(5) Includes $9,994 million payables to SE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.
(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(7) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							CONSOLIDATED 2020
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities[1]	5,363	–	5,363	–	–	–	5,363
Margin money and settlement liabilities	19,052	13,872	5,180	–	–	–	19,052
Derivative liabilities (trading)[1]	37,299	–	37,299	–	–	–	37,299
Derivative liabilities (hedge accounting relationships)[2]	524						
Contractual amount payable		–	162	208	784	58	1,212
Contractual amount receivable		–	(111)	(9)	(559)	–	(679)
Deposits	67,253	54,840	8,865	3,436	150	11	67,302
Other liabilities[3]	1,314	358	248	668	31	11	1,316
Borrowings	3,047	120	876	559	1,534	–	3,089
Debt issued[4]	46,922	–	5,327	9,896	19,922	18,948	54,093
Due to other related body corporate entities	22,104	5,124	12,608	1,056	3,389	–	22,177
Loan capital[5]	4,997	–	49	1,013	1,882	2,603	5,547
Total	210,197	75,335	76,948	17,048	27,133	21,631	218,095
Contingent liabilities		–	2,762	–	–	–	2,762
Commitments		582	1,618	243	2,176	937	5,556
Total undiscounted contingent liabilities and commitments[6]		582	4,380	243	2,176	937	8,318

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(3) Excludes non-contractual accruals and provisions.
(4) Includes $18,237 million payables to SE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2021
Cash collateral on securities lent and repurchase agreements(1)	4,542	487	2,183	147	1,736	–	4,553
Trading liabilities(2)	6,137	–	6,137	–	–	–	6,137
Margin money and settlement liabilities	13,632	10,626	2,534	472	–	–	13,632
Derivative liabilities (trading)(2)	15,333	–	15,333	–	–	–	15,333
Derivative liabilities (hedge accounting relationships)(3)	399						
Contractual amount payable		–	650	1,839	1,341	190	4,020
Contractual amount receivable		–	(630)	(1,733)	(1,208)	(27)	(3,598)
Deposits	83,994	74,874	5,953	2,995	176	7	84,005
Other liabilities(4)	821	56	569	195	40	–	860
Borrowings	1,967	410	815	308	447	–	1,980
Debt issued	34,764	121	9,081	8,937	16,038	1,203	35,380
Due to subsidiaries	16,524	2,978	7,264	–	314	5,970	16,526
Due to related body corporate entities	15,678	3,657	8,417	667	2,938	–	15,679
Loan capital(5)	6,804	–	1,129	191	3,245	3,711	8,276
Total	**200,595**	**93,209**	**59,435**	**14,018**	**25,067**	**11,054**	**202,783**
Contingent liabilities		–	3,639	–	–	–	3,639
Commitments		–	503	1,951	2,197	1,477	6,128
Total undiscounted contingent liabilities and commitments(6)	**–**	**–**	**4,142**	**1,951**	**2,197**	**1,477**	**9,767**

(1) Includes the TFF provided by the RBA.
(2) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(3) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for disclosure requirements.
(4) Excludes non-contractual accruals and provisions.
(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, these instruments may be converted into ordinary shares on the occurrence of an other exchange event, and this may impact their maturity profile.
(6) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions and may or may not result in an outflow of resources. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.2 Liquidity risk continued

	Statement of financial position carrying value $m	On demand $m	0 to 3 months $m	3 to 12 months $m	1 to 5 years $m	More than 5 years $m	Total $m
							COMPANY 2020
Cash collateral on securities lent and repurchase agreements	2,322	1,021	1,082	221	–	–	2,324
Trading liabilities(1)	5,395	–	5,395	–	–	–	5,395
Margin money and settlement liabilities	16,662	12,272	4,390	–	–	–	16,662
Derivative liabilities (trading)(1)	35,770	–	35,770	–	–	–	35,770
Derivative liabilities (hedge accounting relationships)(2)	203						
Contractual amount payable		–	114	79	–	–	193
Contractual amount receivable		–	(102)	(9)	–	–	(111)
Deposits	67,186	54,811	8,840	3,436	137	11	67,235
Other liabilities(3)	685	46	104	534	1	–	685
Borrowings	2,304	120	681	497	1,035	–	2,333
Debt issued	34,235	–	5,026	8,829	17,145	4,899	35,899
Due to subsidiaries	18,249	4,088	6,816	275	204	6,866	18,249
Due to other related body corporate entities	22,013	5,153	12,454	1,056	3,389	37	22,089
Loan capital(4)	4,997	–	49	1,013	1,882	2,603	5,547
Total	210,021	77,511	80,619	15,931	23,793	14,416	212,270
Contingent liabilities		–	3,879	–	–	–	3,879
Commitments		484	1,434	215	2,003	928	5,064
Total undiscounted contingent liabilities and commitments(5)		484	5,313	215	2,003	928	8,943

(1) Derivative liabilities (trading) and trading liabilities are included in the '0 to 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value.
(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.
(3) Excludes non-contractual accruals and provisions.
(4) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities, refer to Note 25 *Loan capital*. Further, as explained in Note 25 *Loan capital*, 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. These are reported in the '0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

Note 35
Financial risk management continued

Note 35.3 Market risk

Traded market risk

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

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

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than that which has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** 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 35
Financial risk management continued

Note 35.3 Market risk continued

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

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

	2021			2020		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						CONSOLIDATED
Equities	**3.93**	**5.93**	**2.34**	7.68	11.34	3.37
Interest rates	**3.58**	**5.44**	**2.46**	2.33	3.03	1.58
Foreign exchange and bullion	**2.21**	**3.88**	**1.26**	1.82	4.33	0.82
Commodities[(1)]	**16.09**	**40.96**	**11.33**	16.07	25.46	11.31
Aggregate	**17.62**	**42.05**	**12.77**	18.12	27.62	13.19

	2021			2020		
	Average $m	**Maximum $m**	**Minimum $m**	Average $m	Maximum $m	Minimum $m
						COMPANY
Equities	**3.78**	**5.75**	**2.05**	7.65	11.15	3.32
Interest rates	**3.55**	**5.39**	**2.45**	2.31	3.02	1.61
Foreign exchange and bullion	**4.93**	**11.67**	**1.87**	2.66	6.61	0.82
Commodities[(1)]	**12.12**	**18.37**	**8.25**	11.23	16.71	7.68
Aggregate	**14.54**	**22.46**	**10.45**	13.99	18.83	8.58

(1) Includes commodity contracts.

Note 35
Financial risk management continued

Note 35.3 Market risk continued

Value-at-Risk

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

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

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

Non-traded market risk

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

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

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

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

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

Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 44(x) *Derivative instruments and hedging activities* and Note 34 *Hedge accounting*.

Interest rate risk – Interest Rate Benchmark Reform (IBOR)

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

In addition to the project's scoping and assessments outlined in the Consolidated Entity's annual financial report for the year ended 31 March 2020, and the progress reported in 30 September 2020 interim financial statements, the project achieved several important milestones in line with recommendations from industry working groups that included:

- the Consolidated Entity's successful transition of its internal funding from GBP LIBOR to SONIA
- an increasing range of ARR products becoming available to offer clients, supported by changes to key systems and processes
- several Group entities have adhered to the ISDA Fallbacks Protocol which introduce robust fallbacks for legacy derivatives, and work has progressed on the development of a transition framework for managing client transitions.

Macquarie has identified the following four risks arising from IBOR transitions:

- **Financial Risk:** This includes (i) value transfers during transition to ARRs, or triggering of fallback terms and default interest payment terms, (ii) basis risk from products and currencies moving at different times, (iii) change in accounting treatment impacts including hedge accounting, capital, tax and reported earnings, and (iv) loss in revenue/market share from not being ready to participate in ARR markets
- **Conduct Risk:** This includes (i) real or perceived benefit of information asymmetry between financial institutions and clients during transition, (ii) clients being sold LIBOR contracts today who are unaware of the impending transition or inappropriate advice given to clients, (iii) real or perceived unfair treatment of clients during transition, and (iv) 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

Note 35
Financial risk management continued

Note 35.3 Market risk continued

- **Operational Risk:** This includes (i) infrastructure and processes not ready to support ARR products, (ii) infrastructure and processes that result in errors upon transition, and (iii) 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 transited to ARRs:

Notional value information relating to the Consolidated Entity and the Company's financial instruments which have yet to transition to ARRs as at the reporting date includes[1]:

- **Derivatives:** Primarily includes USD LIBOR (Consolidated Entity: $73,472 million; Company: $73,874 million), GBP LIBOR (Consolidated Entity: $27,142 million; Company: $28,343 million), JPY LIBOR (Consolidated Entity: $1,042 million; Company: $1,042 million) and other currencies (Consolidated Entity: $188 million; Company: $188 million)
- **Non-Derivative financial assets:** Primarily includes USD LIBOR (Consolidated Entity: $2,421 million; Company: $251 million) and other currencies (Consolidated Entity: $26 million; Company: $26 million)
- **Non-Derivative financial liabilities:** Primarily includes USD LIBOR (Consolidated Entity: $573 million; Company: $573 million).

The scope of the above mentioned exposures was determined as follows:

- the benchmark will be replaced and the replacement date is known. Only exposures with contractual maturities extending beyond the replacement date have been included
- the gross notional values of both on-balance sheet and off-balance sheet exposures have been included
- for contracts that reference more than one benchmark, such as a cross currency swap, the exposure includes both benchmarks to reflect the absolute exposure to different reference rates
- exposures where a benchmark rate is not subject to mandatory replacement (e.g. BBSW exposures), will be considered in scope only if the Consolidated Entity makes a determination to transition to an ARR
- derivative contracts of (Consolidated Entity: $616 million; Company: $616 million) designated in hedge accounting relationships and synthetically transitioned from GBP LIBOR to SONIA have been excluded.

(1) The notional amounts of hedge items and/or hedging instruments designated in hedge relationship are covered in Note 34 *Hedge accounting*.

Note 35
Financial risk management continued

Note 35.3 Market risk continued

Foreign currency risk

The Consolidated Entity and the Company are active in various currencies globally. The net investment in foreign operations generates capital requirements in foreign currencies and results in sensitivity of the capital ratio to movements in the Australian dollar rate against various foreign currencies. The Consolidated Entity and the Company hedge this exposure by leaving specific investments in foreign operations exposed to foreign currency translation movements, which aligns the currency of capital supply with capital requirements. Refer to Note 44(x) *Derivative instruments and hedging activities* and Note 34 *Hedge accounting* for details regarding the application of hedge accounting to the Consolidated Entity and the Company's net investment in foreign operations.

The sensitivity of the Consolidated Entity's net investment in foreign operation to the most material currencies after considering related hedges is presented in the table below. The sensitivity of the Company's net investment in foreign operations is not material after considering related hedges.

	2021		2020	
	Movement in exchange rates %	**Sensitivity of equity after tax $m**	Movement in exchange rates %	Sensitivity of equity after tax $m
				CONSOLIDATED
United States dollar	**+10**	**(276)**	+10	(342)
Pound sterling	**+10**	**(48)**	+10	(53)
Canadian dollar	**+10**	**(13)**	+10	(15)
Total		**(337)**		(410)
United States dollar	**–10**	**338**	–10	418
Pound sterling	**–10**	**58**	–10	65
Canadian dollar	**–10**	**16**	–10	18
Total		**412**		501

Equity price risk

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

Note 36
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 financial instruments of the Consolidated Entity. The descriptions 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 financial instruments are disclosed in Note 37 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE				FINANCIAL INSTRUMENTS CARRIED AT			FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									**CONSOLIDATED 2021**
Cash and bank balances	–	–	–	–	15,966	–	15,966	–	15,966
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,909	17,362	9,284	–	34,555	25,271	9,284
Trading assets[1]	21,212	–	–	–	–	–	21,212	21,212	–
Margin money and settlement assets	–	–	332	–	7,970	–	8,302	332	7,970
Derivative assets[2]	19,973	–	579	–	–	–	20,552	20,552	–
Financial investments									
Equity	–	–	206	–	–	–	206	206	–
Debt	–	–	110	7,665	18	–	7,793	7,775	18
Held for sale and other assets[3]	–	1,266	12	–	1,049	739	3,066	1,278	1,049
Loan assets[4]	–	64	129	–	98,799	–	98,992	193	99,177
Due from related body corporate entities[5]	384	–	–	–	1,507	263	2,154	384	1,507
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	281	281	–	–
Loans to associates and joint ventures	–	–	–	–	–	–	–	–	–
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,797	2,797	–	–
Intangible assets	–	–	–	–	–	146	146	–	–
Deferred tax assets	–	–	–	–	–	826	826	–	–
Total assets	**41,569**	**1,330**	**9,277**	**25,027**	**134,593**	**5,052**	**216,848**	**77,203**	**134,971**
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,134	–	–	–	–	–	6,134	6,134	–
Margin money and settlement liabilities	–	–	–	–	16,251	–	16,251	–	16,251
Derivative liabilities[2]	16,801	–	674	–	–	–	17,475	17,475	–
Deposits	–	–	–	–	84,140	–	84,140	–	84,157
Other liabilities[6]	–	605	–	–	1,063	2,682	4,350	605	584
Borrowings	–	–	–	–	2,473	–	2,473	–	2,484
Due to related body corporate entities[7]	902	–	–	–	14,976	23	15,901	902	14,976
Debt issued[4]	–	2,113	–	–	42,555	–	44,668	2,113	42,893
Deferred tax liabilities	–	–	–	–	–	36	36	–	–
Loan capital[4]	–	–	–	–	6,804	–	6,804	–	7,072
Total liabilities	**23,837**	**3,063**	**674**	**–**	**172,459**	**2,741**	**202,774**	**27,574**	**172,614**

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedge accounting relationships are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from other related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables. Fair value of other liabilities excludes the fair value of lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as HFT and all other intercompany payables are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets								CONSOLIDATED 2020	
Cash and bank balances	–	–	–	–	7,847	–	7,847	–	7,847
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	23,064	6,687	–	37,708	31,021	6,687
Trading assets(1)	16,251	–	–	–	–	–	16,251	16,251	–
Margin money and settlement assets	–	–	555	–	11,628	–	12,183	555	11,628
Derivative assets(2)	42,988	–	1,857	–	–	–	44,845	44,845	–
Financial investments									
Equity	–	–	154	–	–	–	154	154	–
Debt	–	–	112	7,218	–	–	7,330	7,330	–
Held for sale and other assets(3)	–	947	308	–	1,381	631	3,267	1,255	1,381
Loan assets(4)	–	83	166	–	87,470	–	87,719	249	87,690
Due from other related body corporate entities(5)	804	–	–	–	4,346	128	5,278	804	4,346
Property, plant and equipment and right-of-use assets	–	–	–	–	–	2,598	2,598	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	250	250	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Intangible assets	–	–	–	–	–	185	185	–	–
Deferred tax assets	–	–	–	–	–	520	520	–	–
Total assets	60,043	1,030	11,109	30,282	119,360	4,312	226,136	102,464	119,580
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities	5,363	–	–	–	–	–	5,363	5,363	–
Margin money and settlement liabilities	–	–	–	–	19,052	–	19,052	–	19,052
Derivative liabilities(2)	37,299	–	524	–	–	–	37,823	37,823	–
Deposits	–	–	–	–	67,253	–	67,253	–	67,324
Other liabilities(6)	–	622	–	–	692	1,632	2,946	622	649
Borrowings	–	–	–	–	3,047	–	3,047	–	3,065
Due to related body corporate entities(7)	1,811	3,500	–	–	16,793	11	22,115	5,311	16,793
Debt issued(4)	–	2,810	–	–	44,112	–	46,922	2,810	43,592
Deferred tax liabilities	–	–	–	–	–	69	69	–	–
Loan capital(4)	–	–	–	–	4,997	–	4,997	–	4,730
Total liabilities	44,473	8,224	524	–	156,976	1,712	211,909	53,221	156,235

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(6) Non financial liabilities primarily represent accrued charges, employee related provisions and tax payables. Fair value of other liabilities excludes the fair value of lease liabilities.
(7) Due to related body corporate entities includes derivatives and trading positions classified as held for HFT and internal repurchase transactions classified as DFVTPL. All other non financial payables include income tax liabilities and all other intercompany payables are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories (i.e. Held for trading (HFT), FVTPL, DFVTPL, FVOCI or Amortised cost) of financial instruments, including commodities, of the Company. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 37 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	HFT $m	DFVTPL $m	FVTPL $m	FVOCI $m	Amortised cost $m	Non-financial instruments $m	Statement of financial position total $m	Fair value $m	Amortised cost $m
Assets									**COMPANY 2021**
Cash and bank balances	–	–	–	–	14,012	–	14,012	–	14,012
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,550	16,896	6,588	–	31,034	24,446	6,588
Trading assets(1)	19,128	–	–	–	–	–	19,128	19,128	–
Margin money and settlement assets	–	–	4	–	6,413	–	6,417	4	6,413
Derivative assets(2)	18,755	–	573	–	–	–	19,328	19,328	–
Financial investments									
Equity	–	–	147	–	–	–	147	147	–
Debt	–	–	104	7,665	–	–	7,769	7,769	–
Held for sale and Other assets(3)	–	864	–	–	535	223	1,622	864	535
Loan assets(4),(5)	–	64	106	2,698	80,808	–	83,676	2,868	80,926
Due from related body corporate entities(6)	381	–	–	–	1,181	83	1,645	381	1,181
Due from subsidiaries(7)	2,478	–	1,024	–	17,960	38	21,500	3,502	17,960
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	40	40	–	–
Loans to associates and joint ventures	–	–	–	–	–	–	–	–	–
Property, plant and equipment and right-of-use assets	–	–	–	–	–	672	672	–	–
Intangible assets	–	–	–	–	–	55	55	–	–
Investments in subsidiaries	–	–	–	–	–	6,618	6,618	–	–
Deferred tax assets	–	–	–	–	–	493	493	–	–
Total assets	**40,742**	**928**	**9,508**	**27,259**	**127,497**	**8,222**	**214,156**	**78,437**	**127,615**
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	345	–	–	4,197	–	4,542	345	4,197
Trading liabilities	6,137	–	–	–	–	–	6,137	6,137	–
Margin money and settlement liabilities	–	–	–	–	13,632	–	13,632	–	13,632
Derivative liabilities(2)	15,333	–	399	–	–	–	15,732	15,732	–
Deposits	–	–	–	–	83,994	–	83,994	–	84,011
Held for sale and other liabilities(8)	–	482	–	–	339	1,233	2,054	482	339
Borrowings	–	–	–	–	1,967	–	1,967	–	1,978
Due to related body corporate entities(9)	899	–	–	–	14,779	6	15,684	899	14,779
Due to subsidiaries(9)	2,830	–	204	–	13,490	8	16,532	3,034	13,490
Debt issued(4)	–	2,202	–	–	32,562	–	34,764	2,202	32,836
Deferred tax liabilities	–	–	–	–	–	–	–	–	–
Loan capital(4)	–	–	–	–	6,804	–	6,804	–	7,072
Total liabilities	**25,199**	**3,029**	**603**	**–**	**171,764**	**1,247**	**201,842**	**28,831**	**172,334**

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Following a review of the Company's business model, $64,855 million of loan assets have been classified as at the reporting date as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(6) Due from related body corporate entities includes derivatives and trading positions classified as HFT and all other receivables from related body corporate entities are carried at amortised cost.
(7) Due from subsidiaries includes derivatives and trading positions classified as HFT and investment in loans to SEs classified as FVTPL. All other receivables from subsidiaries are carried at amortised cost.
(8) Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.
(9) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and continuing involvement in certain securitised SEs at FVTPL. All other payables to related body corporate entities are carried at amortised cost.

Note 36
Measurement categories of financial instruments continued

	FINANCIAL INSTRUMENTS CARRIED AT							FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT	
	FAIR VALUE								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Statement of financial position total	Fair value	Amortised cost
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									COMPANY 2020
Cash and bank balances	–	–	–	–	6,037	–	6,037	–	6,037
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	7,957	22,543	5,534	–	36,034	30,500	5,534
Trading assets[1]	14,499	–	–	–	–	–	14,499	14,499	–
Margin money and settlement assets	–	–	334	–	9,681	–	10,015	334	9,681
Derivative assets[2]	39,997	–	1,607	–	–	–	41,604	41,604	–
Financial investments									
Equity	–	–	109	–	–	–	109	109	–
Debt	–	–	55	7,202	–	–	7,257	7,257	–
Other assets[3]	–	781	–	–	1,232	253	2,266	781	1,232
Loan assets[4]	–	83	120	49,206	15,566	–	64,975	49,409	15,692
Due from other related body corporate entities[5]	777	–	–	–	4,254	74	5,105	777	4,254
Due from subsidiaries[6]	5,048	–	921	–	21,071	–	27,040	5,969	21,071
Property, plant and equipment and right-of-use assets	–	–	–	–	–	819	819	–	–
Interests in associates and joint ventures									
Equity interests	–	–	–	–	–	41	41	–	–
Loans to associates and joint ventures	–	–	–	–	1	–	1	–	1
Intangible assets	–	–	–	–	–	78	78	–	–
Investments in subsidiaries	–	–	–	–	–	5,592	5,592	–	–
Deferred tax assets	–	–	–	–	–	470	470	–	–
Total assets	60,321	864	11,103	78,951	63,376	7,327	221,942	151,239	63,502
Liabilities									
Cash collateral on securities lent and repurchase agreements	–	1,292	–	–	1,030	–	2,322	1,292	1,030
Trading liabilities	5,395	–	–	–	–	–	5,395	5,395	–
Margin money and settlement liabilities	–	–	–	–	16,662	–	16,662	–	16,662
Derivative liabilities[4]	35,770	–	203	–	–	–	35,973	35,973	–
Deposits	–	–	–	–	67,186	–	67,186	–	67,257
Other liabilities[7]	–	260	–	–	425	1,089	1,774	260	425
Borrowings	–	–	–	–	2,304	–	2,304	–	2,321
Due to other related body corporate entities[8]	1,811	3,500	–	–	16,702	–	22,013	5,311	16,702
Due to subsidiaries[6]	3,503	603	–	–	14,143	–	18,249	4,106	14,143
Debt issued[4]	–	2,892	–	–	31,343	–	34,235	2,892	30,958
Deferred tax liabilities	–	–	–	–	–	21	21	–	–
Loan capital[4]	–	–	–	–	4,997	–	4,997	–	4,730
Total liabilities	46,479	8,547	203	–	154,792	1,110	211,131	55,229	154,228

(1) Includes commodities carried at fair value which are held for trading purposes.
(2) Derivatives designated in effective hedges are presented as FVTPL. Further detail regarding the carrying amount of hedging instruments is included in Note 34 *Hedge accounting*.
(3) Non-financial assets primarily represents prepayments and tax receivables.
(4) Items measured at amortised cost includes, where applicable, fair value hedge accounting adjustments for the designated hedged risk.
(5) Due from other related body corporate entities includes derivatives and trading positions classified as held for trading and all other receivables from related body corporate entities are carried at amortised cost.
(6) Due from subsidiaries includes derivatives and trading positions classified as HFT and investment in loans to SEs classified as FVTPL. All other receivables from subsidiaries are carried at amortised cost.
(7) Non financial liabilities primarily represent accrued charges, employee related provisions and tax payables.
(8) Due to related body corporate entities and subsidiaries includes derivatives and trading positions classified as HFT and repurchase transactions classified as DFVTPL. All other payables to related body corporate entities are carried at amortised cost.

Note 37
Fair value of financial assets and financial liabilities

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

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

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

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

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

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

The fair values calculated for financial instruments which are carried in the Statements of financial position at amortised cost (as disclosed in Note 36 *Measurement categories of financial instruments*) are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold for or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities
- the fair value of demand deposits with no fixed maturity approximates to their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed, cash collateral on securities lent, repurchase agreements approximates their carrying amounts
- the fair value of all loan assets, term deposits and debt liabilities carried at amortised cost, are determined with reference to changes in interest rates and credit spreads
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of issued debt and loan capital, where carried at amortised cost is based on quoted prices in active markets where available. Where quoted prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and incorporates changes in the Consolidated Entity's own credit spread
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments
- the fair value of balances due from or to subsidiaries and other related body corporate entities is approximated by their carrying amount as the balances are generally at variable rates.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments including balances with subsidiaries and other related body corporate entities measured at fair value:

- trading assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques
- repurchase and reverse repurchase agreements, being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing agreement
- financial investments classified at FVTPL or FVOCI are measured at fair value by reference to quoted prices in active markets where available (for example listed securities). If quoted prices in active markets are not available, the fair values are estimated on the basis of pricing models or other recognised valuation techniques that maximise the use of market price and observable market inputs. Unrealised gains and losses on FVOCI debt assets, excluding changes in ECL on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of variable rate loans classified at FVOCI is equal to its carrying value on the basis that the interest rates are reflective of market rates offered on similar loans

Note 37
Fair value of financial assets and financial liabilities continued

- fair values of fixed rate loans classified as FVTPL or FVOCI and issued debt classified as DFVTPL are estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, an adjustment is incorporated into the valuation. Where exposures are managed on a portfolio basis then the adjustment is calculated on a counterparty basis for those exposures
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, an adjustment is incorporated into the valuation
- the Consolidated Entity has incorporated market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying the Consolidated Entity's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

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

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

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the fair value of financial assets and financial liabilities measured at amortised cost, including the level within the fair value hierarchy:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Loan assets	**–**	**4,310**	**94,867**	**99,177**
Total assets	**–**	**4,310**	**94,867**	**99,177**
Liabilities				
Deposits	**68,600**	**15,557**	**–**	**84,157**
Borrowings	**405**	**1,929**	**150**	**2,484**
Debt issued	**–**	**33,945**	**8,948**	**42,893**
Loan capital	**696**	**6,376**	**–**	**7,072**
Total liabilities	**69,701**	**57,807**	**9,098**	**136,606**
				CONSOLIDATED 2020
Assets				
Loan assets	–	6,054	81,636	87,690
Total assets	–	6,054	81,636	87,690
Liabilities				
Deposits	51,498	15,826	–	67,324
Borrowings	119	2,847	99	3,065
Debt issued	–	31,464	12,128	43,592
Loan capital	5	4,725	–	4,730
Total liabilities	51,622	54,862	12,227	118,711

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities measured at amortised cost:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				COMPANY 2021
Assets				
Loan assets[1]	**–**	**3,163**	**77,763**	**80,926**
Total assets	**–**	**3,163**	**77,763**	**80,926**
Liabilities				
Deposits	**68,462**	**15,549**	**–**	**84,011**
Borrowings	**406**	**1,572**	**–**	**1,978**
Debt issued	**–**	**32,836**	**–**	**32,836**
Loan capital	**696**	**6,376**	**–**	**7,072**
Total liabilities	**69,564**	**56,333**	**–**	**125,897**
				COMPANY 2020
Assets				
Loan assets	–	3,516	12,176	15,692
Total assets	–	3,516	12,176	15,692
Liabilities				
Deposits	51,453	15,804	–	67,257
Borrowings	119	2,196	6	2,321
Debt issued	–	30,958	–	30,958
Loan capital	5	4,725	–	4,730
Total liabilities	51,577	53,683	6	105,266

(1) Following an assessment of the Company's business model, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments, including commodities, measured at fair value[1]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				CONSOLIDATED 2021
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	25,271	–	25,271
Trading assets[2]	10,188	10,604	420	21,212
Margin money and settlement assets	–	332	–	332
Derivative assets	232	20,059	261	20,552
Financial investments	507	6,822	652	7,981
Held for sale and other assets	–	1,253	25	1,278
Loan assets	–	138	55	193
Due from related body corporates[3]	–	384	–	384
Total assets	10,927	64,863	1,413	77,203
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	345	–	345
Trading liabilities	6,024	110	–	6,134
Derivative liabilities	224	16,973	278	17,475
Other liabilities	–	605	–	605
Due to related body corporate entities[3]	–	902	–	902
Debt issued	–	2,113	–	2,113
Total liabilities	6,248	21,048	278	27,574
				CONSOLIDATED 2020
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	31,021	–	31,021
Trading assets[2]	10,334	5,607	310	16,251
Margin money and settlement assets	–	555	–	555
Derivative assets	958	43,066	821	44,845
Financial investments	493	6,464	527	7,484
Held for sale and other assets	5	1,250	–	1,255
Loan assets	–	185	64	249
Due from related body corporate entities[3]	–	804	–	804
Total assets	11,790	88,952	1,722	102,464
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,988	375	–	5,363
Derivative liabilities	1,040	36,420	363	37,823
Held for sale and other liabilities	3	619	–	622
Due to related body corporate entities[3]	–	5,311	–	5,311
Debt issued	–	2,810	–	2,810
Total liabilities	6,031	46,827	363	53,221

(1) The fair value of non-financial assets and liabilities, where applicable, is disclosed under the respective notes.
(2) Includes commodities measured at fair value which are held for trading purposes.
(3) Includes balances with related body corporates. For details, refer to Note 36 *Measurement categories of financial instruments*.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 37
Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial instruments, including commodities, measured at fair value[1]:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				COMPANY 2021
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	**–**	**24,446**	**–**	**24,446**
Trading assets[2]	**10,161**	**8,794**	**173**	**19,128**
Margin money and settlement assets	**–**	**4**	**–**	**4**
Derivative assets	**232**	**18,944**	**152**	**19,328**
Financial investments	**503**	**6,820**	**593**	**7,916**
Held for sale and other assets	**–**	**846**	**18**	**864**
Loan assets[3]	**–**	**113**	**2,755**	**2,868**
Due from related body corporate entities[4]	**–**	**381**	**–**	**381**
Due from subsidiaries[3]	**–**	**2,935**	**567**	**3,502**
Total assets	**10,896**	**63,283**	**4,258**	**78,437**
Liabilities				
Cash collateral on securities lent and repurchase agreements	**–**	**345**	**–**	**345**
Trading liabilities	**6,027**	**110**	**–**	**6,137**
Derivative liabilities	**224**	**15,365**	**143**	**15,732**
Other liabilities	**–**	**482**	**–**	**482**
Due to related body corporate entities[3]	**–**	**899**	**–**	**899**
Due to subsidiaries[3]	**–**	**2,691**	**343**	**3,034**
Debt issued	**–**	**2,202**	**–**	**2,202**
Total liabilities	**6,251**	**22,094**	**486**	**28,831**
				COMPANY 2020
Assets				
Cash collateral on securities borrowed and reverse repurchase agreements	–	30,500	–	30,500
Trading assets[1]	10,618	3,648	233	14,499
Margin money and settlement assets	–	334	–	334
Derivative assets	946	40,219	439	41,604
Financial investments	491	6,394	481	7,366
Held for sale and other assets	–	781	–	781
Loan assets	–	150	49,260	49,410
Due from related body corporate entities[3]	–	777	–	777
Due from subsidiaries[3]	–	5,041	928	5,969
Total assets	12,055	87,844	51,341	151,240
Liabilities				
Cash collateral on securities lent and repurchase agreements	–	1,292	–	1,292
Trading liabilities	4,923	472	–	5,395
Derivative liabilities	990	34,748	235	35,973
Other liabilities	–	260	–	260
Due to related body corporate entities[3]	–	5,311	–	5,311
Due to subsidiaries[3]	–	3,583	523	4,106
Debt issued	–	2,892	–	2,892
Total liabilities	5,913	48,558	758	55,229

(1) The fair value of non-financial assets and liabilities, where applicable, is disclosed under the respective notes.
(2) Includes commodities measured at fair value which are held for trading purposes.
(3) Following an assessment of the Company's business model, loan assets of $64,855 million were reclassified as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).
(4) Includes balances with related body corporates and subsidiaries, for details refer to Note 36 *Measurement categories of financial instruments*.

Note 37
Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

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

	Trading assets $m	Financial investments $m	Other assets $m	Loan assets $m	Loans to associates and joint ventures $m	Other liabilities $m	Derivative financial instruments (net replacement value)[1] $m	Total $m
							CONSOLIDATED 2020	
Balance as at 1 Apr 19	172	576	–	50	3	–	228	1,029
Purchases and other additions	117	177	3	5	–	–	219	521
Sales and settlements	(18)	(198)	–	–	(3)	–	(110)	(329)
Transfers into Level 3[2]	44	36	–	–	–	–	14	94
Transfers out of Level 3[2]	(16)	(58)	(3)	–	–	–	(2)	(79)
Fair value movements recognised in the income statement								
Net trading income[3],[4]	11	1	–	1	–	–	109	122
Other operating income[5]	–	1	–	8	–	–	–	9
Fair value movements recognised in OCI[3]	–	(8)	–	–	–	–	–	(8)
Balance as at 31 Mar 20	310	527	–	64	–	–	458	1,359
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	11	(1)	–	9	–	–	109	128
							CONSOLIDATED 2021	
Balance as at 1 Apr 20	**310**	**527**	**–**	**64**	**–**	**–**	**458**	**1,359**
Purchases and other additions	**454**	**281**	**22**	**95**	**–**	**–**	**186**	**1,038**
Sales and settlements	**(105)**	**(60)**	**–**	**–**	**–**	**–**	**(279)**	**(444)**
Transfers into Level 3[2]	**116**	**–**	**–**	**–**	**–**	**–**	**5**	**121**
Transfer out of Level 3[2]	**(164)**	**(127)**	**–**	**(28)**	**–**	**–**	**(24)**	**(343)**
Fair value movements recognised in the income statement								
Net trading loss[3],[4]	**(191)**	**(52)**	**–**	**(5)**	**–**	**–**	**(363)**	**(611)**
Other operating income/(loss)[5]	**–**	**46**	**3**	**(71)**	**–**	**–**	**–**	**(22)**
Fair value movements recognised in OCI[3]	**–**	**37**	**–**	**–**	**–**	**–**	**–**	**37**
Balance as at 31 Mar 21	**420**	**652**	**25**	**55**	**–**	**–**	**(17)**	**1,135**
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[3]	**(191)**	**(6)**	**3**	**(64)**	**–**	**–**	**(361)**	**(619)**

(1) The derivative financial instruments in the table above are presented on a net basis. On a gross basis derivative assets are $261 million (2020: $821 million) and derivative liabilities are 278 million (2020: $363 million).
(2) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.
(3) The Consolidated Entity employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(4) Net trading loss for the year for trading assets and derivatives include trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange losses only.
(5) Includes investment income and impairment charges on financial investments, loan assets.

Notes to the financial statements

For the financial year ended 31 March 2021 continued

Note 37

Fair value of financial assets and financial liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading assets $m	Financial investments $m	Loan assets $m	Due from/to Subsidiaries[1] $m	Loans to associates and joint ventures $m	Other Assets $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
								COMPANY 2020
Balance as at 1 Apr 19	129	522	37,744	736	3	–	171	39,305
Purchases and other additions	102	169	21,670	145	–		129	22,215
Sales and settlements	(18)	(185)	(10,227)	(470)	(3)	–	(93)	(10,996)
Transfers into Level 3[3]	38	36	–	–	–		8	82
Transfers out of Level 3[3]	(14)	(58)	–	–	–	–	1	(71)
Fair value movements recognised in the income statement								
Net trading loss[4],[5]	(4)	–	–	–	–	–	(12)	(16)
Other operating income/(loss)[6]	–	5	10	(6)	–	–	–	9
Fair value movements recognised in OCI[4]	–	(8)	63	–	–	–	–	55
Balance as at 31 Mar 20	233	481	49,260	405	–	–	204	50,583
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[4]	(4)	5	72	(6)	–	–	(12)	55
								COMPANY 2021
Balance as at 1 Apr 20	**233**	**481**	**49,260**	**405**	**–**	**–**	**204**	**50,583**
Purchases and other additions	**454**	**269**	**3,195**	**224**	**–**	**18**	**186**	**4,346**
Sales and settlements	**(105)**	**(51)**	**(404)**	**(585)**	**–**	**–**	**(258)**	**(1,403)**
Transfers into Level 3[3]	**23**	**–**	**–**	**209**	**–**	**–**	**5**	**237**
Transfer out of Level 3[3],[7]	**(164)**	**(127)**	**(49,234)**	**–**	**–**	**–**	**(17)**	**(49,542)**
Fair value movements recognised in income statement								
Net trading loss[4],[5]	**(268)**	**(40)**	**(6)**	**–**	**–**	**–**	**(111)**	**(425)**
Other operating income/(loss)[6]	**–**	**24**	**(61)**	**–**	**–**	**1**	**–**	**(36)**
Fair value movements recognised in OCI[4]	**–**	**37**	**5**	**(30)**	**–**	**–**	**–**	**12**
Balance as at 31 Mar 21	**173**	**593**	**2,755**	**223**	**–**	**19**	**9**	**3,772**
Fair value movements for the financial year included in the current and prior year income statements for assets and liabilities held at the end of the financial year[4]	**(268)**	**(3)**	**(54)**	**–**	**–**	**1**	**(110)**	**(434)**

(1) The balance due from/to subsidiaries in the table above is presented on a net basis. On a gross basis, due from subsidiaries are $567 million (2020: $928 million) and due to subsidiaries are $343 million (2020: $523 million).
(2) The derivative financial instruments in the table above are presented on a net basis. On a gross basis, derivative assets are $152 million (2020: $439 million) and derivative liabilities are $143 million (2020: $235 million).
(3) Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the financial year.
(4) The Company employs various hedging techniques in order to manage market risks including foreign exchange risks in Level 3 positions. The gains and losses relating to such hedging techniques, that may include the purchase or sale of financial instruments measured at fair value that are classified as Level 1 or 2 positions or foreign currency denominated financial instruments that are measured at amortised cost, are not presented in the table above.
(5) Net trading loss for the year for trading assets and derivatives include trading-related gains and losses and foreign exchange gains and losses. For all other Statement of financial position items, trading loss represents foreign exchange losses only.
(6) Includes investment income and impairment charges on financial investments, loan assets.
(7) Following a review of the Company's business model, loan assets have been classified as at the reporting date as held to collect and measured at amortised cost (previously classified as held to collect and sell and measured at FVOCI).

Note 37
Fair value of financial assets and financial liabilities continued

Significant transfers between levels of the fair value hierarchy

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

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the financial year. Financial assets reclassified in/out of the fair value hierarchy disclosure due to recognition and measurement category changes, or due to changes in significant influence or control are also presented as transfers into/out of Level 3.

Unrecognised gains or losses

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

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Balance at the beginning of the financial year	**168**	183	**154**	152
Deferrals on new transactions and other adjustments	**5**	44	**(8)**	32
Exchange differences	**(23)**	8	**(20)**	8
Recognised in net trading income during the year[1]	**(75)**	(67)	**(61)**	(38)
Balance at the end of the financial year	**75**	168	**65**	154

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 financial instruments whose fair values are determined in whole or in part using unobservable inputs, valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience. The impact of sensitivity of financial instruments which hedge the Level 3 positions but are classified as Level 1 or 2 is not included in the table below.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
				CONSOLIDATED 2021
Product type				
Equity and equity-linked products	**4**	–	**(14)**	–
Commodities	**112**	–	**(73)**	–
Interest rate and other products	**11**	–	**(11)**	–
Total	**127**	–	**(98)**	–
				CONSOLIDATED 2020
Product type				
Equity and equity-linked products	7	–	(20)	–
Commodities	162	–	(129)	–
Interest rate and other products	16	–	(19)	–
Total	185	–	(168)	–

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

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

Note 37
Fair value of financial assets and financial liabilities continued

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
				COMPANY 2021
Product type				
Equity and equity-linked products	**2**	**–**	**(12)**	**–**
Commodities	**22**	**–**	**(23)**	**–**
Interest rate and other products	**6**	**–**	**(6)**	**–**
Total	**30**	**–**	**(41)**	**–**
				COMPANY 2020
Product type				
Equity and equity-linked products	5	–	(18)	–
Commodities	101	–	(93)	–
Interest rate and other products	17	3	(19)	(3)
Total	123	3	(130)	(3)

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

Note 37
Fair value of financial assets and financial liabilities continued

Significant unobservable inputs

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

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	RANGE OF INPUTS Minimum value	RANGE OF INPUTS Maximum value
						CONSOLIDATED 2021
Equity and equity-linked products	**161**	**–**	Market comparability	Price in %[1]		
Commodities	**596**	**278**	Pricing model	Commodity margin curves	**(121.4)**	**1,458**
			Pricing model	Correlation	**(43.0%)**	**100.0%**
			Pricing model	Volatility and related variables	**8.3%**	**290.5%**
Interest rate and other products	**656**	**–**	Pricing model	Correlation	**0%**	**100.0%**
			Pricing model	Model parameter	**0.5%**	**40.8%**
Total	**1,413**	**278**				
						CONSOLIDATED 2020
Equity and equity-linked products	281	–	Market comparability	Price in %[1]		
Commodities	955	363	Pricing model	Commodity margin curves	(126.3)	967.5
			Pricing model	Correlation	(55.0%)	100.0%
			Pricing model	Volatility and related variables	0.0%	293.4%
Interest rate and other products	486	–	Pricing model	Correlation	(36.0%)	100.0%
			Pricing model	Model parameter	0.0%	52.3%
Total	1,722	363				

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

Note 37
Fair value of financial assets and financial liabilities continued

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

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

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

Inputs for unlisted equity securities
Unlisted equity securities are generally valued based on earnings or revenue multiples, referencing market transactions for comparable companies adjusted as appropriate for current economic conditions. Other significant unobservable inputs may include Net Asset Value(NAV), discount rates, determined using inputs specific to the underlying investment, and forecast cash flows and earnings/revenues of investee entities.

Inputs for interest rate products (discount rate)
Loans are generally valued using discount rates. Significant unobservable inputs may include interest rates and credit spreads of counterparties and original issue discounts on primary debt issuances.

Note 38
Offsetting of financial assets and financial liabilities

The Consolidated Entity and the Company present financial assets and financial liabilities on a net basis in the Statements of financial position when they meet the criteria described in Note 44(vii) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting of financial instruments in the Statements of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting and therefore are presented gross in the Statements of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's and 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 35.1 *Credit risk* for information on credit risk management.

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET(1)				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments(2) $m	Cash and other financial collateral(3) $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2021
Cash collateral on securities borrowed and reverse repurchase agreements	31,714	(583)	31,131	(26)	(30,656)	449	3,424	34,555
Settlement assets(4)	5,370	(3,611)	1,759	(21)	–	1,738	1,991	3,750
Derivative assets	26,393	(6,421)	19,972	(11,038)	(4,407)	4,527	580	20,552
Due from related body corporate entities	1,104	(950)	154	(18)	–	136	2,000	2,154
Total assets	64,581	(11,565)	53,016	(11,103)	(35,063)	6,850	7,995	61,011
Cash collateral on securities lent and repurchase agreements	(4,669)	583	(4,086)	26	3,964	(96)	(456)	(4,542)
Settlement liabilities(4)	(5,358)	3,611	(1,747)	21	–	(1,726)	(2,168)	(3,915)
Derivative liabilities	(22,689)	6,421	(16,268)	11,038	2,759	(2,471)	(1,207)	(17,475)
Due to related body corporate entities	(10,762)	950	(9,812)	18	–	(9,794)	(6,089)	(15,901)
Total liabilities	(43,478)	11,565	(31,913)	11,103	6,723	(14,087)	(9,920)	(41,833)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangements with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $4,552 million and liabilities of $12,336 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[1]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								CONSOLIDATED 2020
Cash collateral on securities borrowed and reverse repurchase agreements	37,309	(944)	36,365	(351)	(35,269)	745	1,343	37,708
Settlement assets[4]	5,434	(4,282)	1,152	–	–	1,152	4,189	5,341
Derivative assets	59,263	(16,901)	42,362	(24,154)	(10,512)	7,696	2,483	44,845
Due from related body corporate entities	780	(553)	227	(81)	–	146	5,051	5,278
Total assets	102,786	(22,680)	80,106	(24,586)	(45,781)	9,739	13,066	93,172
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Settlement liabilities[4]	(5,431)	4,282	(1,149)	–	–	(1,149)	(4,122)	(5,271)
Derivative liabilities	(53,274)	16,901	(36,373)	24,154	7,930	(4,289)	(1,450)	(37,823)
Due to related body corporate entities	(10,736)	553	(10,183)	81	–	(10,102)	(11,932)	(22,115)
Total liabilities	(72,292)	22,680	(49,612)	24,586	9,363	(15,663)	(17,919)	(67,531)

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $6,842 million and liabilities of $13,871 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET[(1)]				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[(2)] $m	Cash and other financial collateral[(3)] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								COMPANY 2021
Cash collateral on securities borrowed and reverse repurchase agreements	31,247	(583)	30,664	(26)	(30,190)	448	370	31,034
Settlement assets[(4)]	3,931	(3,003)	928	–	–	928	1,462	2,390
Derivative assets	25,403	(6,412)	18,991	(10,565)	(4,294)	4,132	337	19,328
Due from subsidiaries	21,556	(6,074)	15,482	(1,567)	–	13,915	6,018	21,500
Due from related body corporate entities	988	(948)	40	(15)	–	25	1,605	1,645
Total assets	**83,125**	**(17,020)**	**66,105**	**(12,173)**	**(34,484)**	**19,448**	**9,792**	**75,897**
Cash collateral on securities lent and repurchase agreements	(4,669)	583	(4,086)	26	3,964	(96)	(456)	(4,542)
Settlement liabilities[(4)]	(4,130)	3,003	(1,127)	–	–	(1,127)	(1,885)	(3,012)
Derivative liabilities	(21,343)	6,412	(14,931)	10,565	2,565	(1,801)	(801)	(15,732)
Due to subsidiaries	(8,888)	6,074	(2,814)	1,567	–	(1,247)	(13,718)	(16,532)
Due to related body corporate entities	(10,715)	948	(9,767)	15	–	(9,752)	(5,917)	(15,684)
Total liabilities	**(49,745)**	**17,020**	**(32,725)**	**12,173**	**6,529**	**(14,023)**	**(22,777)**	**(55,502)**

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $4,027 million and liabilities of $10,620 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 38
Offsetting of financial assets and financial liabilities continued

	AMOUNT SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS[1]							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNT NOT OFFSET				
	Gross amount $m	Amount offset $m	Net amount presented $m	Other recognised financial instruments[2] $m	Cash and other financial collateral[3] $m	Net amount $m	Amount not subject to enforceable netting arrangements $m	Statement of financial position total $m
								COMPANY 2020
Cash collateral on securities borrowed and reverse repurchase agreements	36,788	(944)	35,844	(351)	(34,748)	745	190	36,034
Settlement assets[4]	4,334	(3,751)	583	–	–	583	3,473	4,056
Derivative assets	55,888	(15,919)	39,969	(23,464)	(9,994)	6,511	1,635	41,604
Due from subsidiaries	26,052	(8,073)	17,979	(994)	–	16,985	9,061	27,040
Due from related body corporate entities	716	(553)	163	(81)	–	82	4,942	5,105
Total assets	**123,778**	**(29,240)**	**94,538**	**(24,890)**	**(44,742)**	**24,906**	**19,301**	**113,839**
Cash collateral on securities lent and repurchase agreements	(2,851)	944	(1,907)	351	1,433	(123)	(415)	(2,322)
Settlement liabilities[4]	(4,414)	3,751	(663)	–	–	(663)	(3,728)	(4,391)
Derivative liabilities	(50,551)	15,919	(34,632)	23,464	7,541	(3,627)	(1,341)	(35,973)
Due to subsidiaries	(11,753)	8,073	(3,680)	994	–	(2,686)	(14,569)	(18,249)
Due to related body corporate entities	(10,680)	553	(10,127)	81	–	(10,046)	(11,886)	(22,013)
Total liabilities	**(80,249)**	**29,240**	**(51,009)**	**24,890**	**8,974**	**(17,145)**	**(31,939)**	**(82,948)**

(1) Related amounts not offset have been limited to the net amount presented in the Statement of financial position so as not to include the effect of over-collateralisation.
(2) Includes offsetting exposures the Consolidated Entity has with counterparties under master netting arrangement with a right to set off only in the event of default, or the offset criteria are otherwise not satisfied.
(3) Includes cash and non-cash collateral received or pledged in relation to the gross amount of assets and liabilities which are subject to enforceable netting arrangements.
(4) Excludes margin money assets of $5,959 million and liabilities of $12,271 million presented under Note 7 *Margin money and settlement assets* and Note 19 *Margin money and settlement liabilities* respectively on the Statement of financial position.

Note 39
Pledged assets and transfers of financial assets

Pledged assets

Assets pledged as security for liabilities include the following:

- securities and commodities included under trading assets and off balance sheet collateral securities pledged for repurchase transactions, stock lending arrangements and trading liabilities. These transactions are governed by standard industry agreements
- loan assets held by the consolidated SEs provided as collateral against debt issued
- cash and bank balances, trading assets, financial investments, property, plant and equipment and other assets and provided as collateral for bank borrowings.

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

	CONSOLIDATED		COMPANY	
	2021 $m	2020 $m	2021 $m	2020 $m
Balance sheet:				
Cash and bank balances	**1**	139	**–**	124
Trading assets[1]	**3,607**	3,048	**3,389**	2,627
Financial investments	**202**	267	**202**	267
Other assets	**43**	27	**27**	–
Loan assets[2]	**14,045**	17,200	**11,737**	13,045
Property, plant and equipment	**109**	86	**–**	6
Off balance sheet:				
Collateral securities and commodities[3],[4]	**9,367**	11,048	**11,012**	11,278
Total pledged assets	**27,374**	31,815	**26,367**	27,347

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received. Balance does not include securities amounting to $1,729 million (2020: $1,210 million) for the Consolidated Entity and $1,729 million (2020: $1,210 million) for the Company transferred in return for the loan of other securities where there is no associated liability on the Consolidated Entity's and Company's Statement of financial position.
(2) Includes $2,605 million of SEs securitised bonds that have been pledged against repurchase agreement liabilities, including $505 million (2020: $531 million) relating to a repurchase liability with a related body corporate.
(3) The total collateral received by the Consolidated Entity against reverse repurchase and cash collateral agreements amounts to $35,045 million (2020: $38,070 million) (refer to Note 35.1 *Credit risk*). Out of which the Consolidated Entity re-pledged $8,796 million (2020: $7,852 million) to external clients and $571 million (2020: $3,196 million) to related body corporates.
(4) The total collateral received by the Company against reverse repurchase and cash collateral agreements amounts to $31,131 million (2020: $36,511 million) (refer to Note 35.1 *Credit risk*). Out of which the Company re-pledged $8,707 million (2020: $7,852 million) to external clients, $571 million (2020: $3,196 million) to related body corporates and $1,734 million (2020: $230 million) to its subsidiaries against internal repurchase agreement liabilities.

Note 39
Pledged assets and transfers of financial assets continued

Pledged assets continued

Transfers of financial assets

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

Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets in the form of liquidity support, financial guarantees, certain derivatives or retention of part of the securitisation interest through interest rate or basis swaps. The Consolidated Entity does not have any material transfers of financial assets where the Consolidated Entity retained a continuing involvement in the transferred assets. Through interest rate basis swaps, the Company has continuing involvement in certain securitised mortgage assets that were transferred to SEs and this resulted in a continuing involvement asset of $229 million (2020: $421 million) with a corresponding liability of $164 million (2020: $348 million). The maximum exposure to loss of this continuing involvement is $65 million (2020: $73 million).

The Company also has interests in certain SEs (into which the Company has previously transferred securitised mortgage assets) through debt notes amounting to $82 million (2020: $99 million) which is equal to the Company's maximum exposure to loss.

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 2021 and 31 March 2020. 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 loan of other securities, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The Consolidated Entity is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to interest rate risk and credit risk on these assets.

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

Financial investment – Total return swap

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

Interests in securitisations

Financial assets (principally home loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Other financial transfers

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

Trading assets under other financial assets not derecognised represents gold and bonds transferred for margins in relation to trading activities.

Note 39
Pledged assets and transfers of financial assets continued

	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS: Fair value of transferred assets $m	Fair value of associated liabilities $m	Net fair value $m
					CONSOLIDATED 2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**3,175**	**(1,434)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**202**	**(182)**	**–**	**–**	**–**
Other financial assets not derecognised:					
Trading assets[2]	**988**	**–**	**–**	**–**	**–**
Loan assets	**96**	**(96)**	**95**	**(96)**	**(1)**
Total financial assets not derecognised	**4,461**	**(1,712)**	**95**	**(96)**	**(1)**
					CONSOLIDATED 2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,953	(773)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Other financial assets not derecognised:					
Cash and bank balances[2]	124	–	–	–	–
Trading assets[2]	748	–	–	–	–
Loan assets	267	(266)	268	(266)	2
Total financial assets not derecognised	3,359	(1,284)	268	(266)	2

(1) Includes securities amounting to $1,729 million (2020: $1,210 million) transferred under security swap arrangements.
(2) Includes gold and bonds placed as initial margin for trading activities.

Note 39
Pledged assets and transfers of financial assets continued

	Carrying amount of transferred assets $m	Carrying amount of associated liabilities $m	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS: Fair value of transferred assets $m	Fair value of associated liabilities $m	Net fair value $m
					COMPANY 2021
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	**3,175**	**(1,434)**	**–**	**–**	**–**
Due from subsidiaries[2]	**2,605**	**(2,130)**	**–**	**–**	**–**
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	**202**	**(182)**	**–**	**–**	**–**
Financial assets not derecognised due to securitisation:					
Loan assets[3]	**8,205**	**(8,205)**	**8,215**	**(8,253)**	**(38)**
Other financial assets not derecognised					
Trading assets[1]	**988**	**–**	**–**	**–**	**–**
Total financial assets not derecognised	**15,175**	**(11,951)**	**8,215**	**(8,253)**	**(38)**
					COMPANY 2020
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets[1]	1,953	(773)	–	–	–
Due from subsidiaries[2]	531	(411)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	267	(245)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan asset[3]	9,411	(9,411)	9,461	(9,270)	191
Other financial assets not derecognised					
Cash and bank balance[4]	124	–	–	–	–
Trading assets[1]	748	–	–	–	–
Total financial assets not derecognised	13,034	(10,840)	9,461	(9,270)	191

(1) Includes securities amounting to $1,729 million (2020: $1,210 million) transferred under security swap arrangements.
(2) Includes the fair value of the SEs securitised bonds pledged against repurchase agreement liabilities.
(3) Excludes $37,693 million (2020: $23,506 million) of securitised assets where the Company holds all of the loan notes issued by the SEs.
(4) Includes gold and bonds placed as initial margin for trading activities.

Note 40
Audit and other services provided by PricewaterhouseCoopers

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

	CONSOLIDATED		COMPANY	
	2021 $'000	2020[1] $'000	2021 $'000	2020[1] $'000
PwC – Australia				
Audit of the Group and controlled entities[2]	**10,668**	11,548	**8,419**	9,123
Total audit services	**10,668**	11,548	**8,419**	9,123
Other statutory assurance services[3]	**2,037**	1,390	**1,611**	951
Other assurance services[4]	**2,998**	1,939	**731**	–
Advisory services	**5**	210	**3**	–
Taxation	**243**	274	**4**	–
Total non-audit services	**5,283**	3,813	**2,349**	951
Total remuneration paid to PwC Australia	**15,951**	15,361	**10,768**	10,074
Network firms of PwC Australia				
Audit of the controlled entities[2]	**7,580**	8,562	**4,978**	3,165
Total audit services	**7,580**	8,562	**4,978**	3,165
Other statutory assurance services[3]	**356**	88	**36**	–
Other assurance services[4]	**231**	72	**91**	–
Advisory services	**–**	84	**–**	–
Taxation	**1,025**	511	**109**	–
Total non-audit services	**1,612**	755	**236**	–
Total remuneration paid to network firms of PwC Australia	**9,192**	9,317	**5,214**	3,165
Total audit services remuneration paid to PwC	**18,248**	20,110	**13,397**	12,288
Total non-audit services remuneration paid to PwC	**6,895**	4,568	**2,585**	951
Total remuneration paid to PwC	**25,143**	24,678	**15,982**	13,239

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

(1) Comparative information has been restated to conform to the presentation in the current year.
(2) Prior period includes:
- Consolidated Entity: additional fees of $2,105 thousand for PwC Australia ($525 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year
- Company: additional fees of $1,574 thousand for PwC Australia ($361 thousand for network firms of PwC Australia) that related to the year ended 31 March 2020 but were incurred during the 2021 financial year.

(3) Other statutory assurance services include audit of Australian Financial Services license requirements and other due diligence activities including comfort letters on debt issuance programmes, generally performed by the auditor of the Consolidated Entity.
(4) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include engagements required under prudential standards, accounting advice, certifications, due diligence and reviews of controls and other agreed upon procedures.

Note 41
Discontinued operations

On 10 December 2018, the Consolidated Entity disposed of its CAF Principal Finance and Transportation Finance businesses (the businesses) to a related group entity MFHPL, that is fully owned by MGL and its subsidiaries.

In accordance with the sale agreement, a gain of $164 million was presented in discontinued operations for the period ended 31 March 2020. The gain consisted of the following:

- $102 million subsequent adjustment to the sales consideration following the disposal of certain assets by MFHPL to a third party
- $62 million tax benefit transferred by MFHPL to the Consolidated Entity following the subsequent remeasurement of certain tax balances.

Note 42
Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired:

There were no significant entities and businesses where control was obtained during the current financial year.

Other entities and businesses acquired:

During the current financial year, the MGL and MBL Boards approved the transfer of Macquarie's service entities from the Non-Bank Group to the Consolidated Entity, and was executed in November 2020. The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia Pty Ltd. (MGSA), which was accounted for by the Company as an investment in a subsidiary at cost, and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The acquisition of the service entities, together with the acquisition of Bond Street Custodians Limited from the Non-Bank Group, were accounted for by the Consolidated Entity as a business combination under common control by recognising the net assets acquired at the original carrying values at the MGL consolidated group level at the date of acquisition with the excess of the consideration paid being recognised as a restructure reserve within retained earnings. Aggregate details of net assets acquired or consolidated due to the above mentioned acquisition are as follows:

	2021 $m
Carrying value of net assets acquired	
Cash and bank balances	318
Other assets[1]	520
Property, plant and equipment and right-of-use assets	590
Deferred tax assets	231
Loan assets	14
Other liabilities[2]	(1,209)
Deferred tax liabilities	(38)
Total carrying value of net assets recognised	426
Total carrying value of net assets recognised net of non-controlling interest	426
Consideration	
Cash consideration (net of transaction cost)	615
Total consideration	615
Difference between consideration and net assets recognised within equity	189
Net cash flow	
Payments for the acquisition of subsidiaries and businesses	615
Less: Cash and cash equivalents acquired	(318)
Net cash outflow	297

(1) Primarily includes employee stock option related prepayments.
(2) Primarily includes operating lease liabilities and employee related provisions.

Note 42
Acquisitions and disposals of subsidiaries and businesses continued

Significant disposal of entities and businesses

There were no individually significant entities and businesses disposed of or deconsolidated where control was lost during the current and previous financial year other than as disclosed in Note 41 *Discontinued operations*.

Other disposal of entities and businesses:

During the year ended 31 March 2021, the Consolidated Entity disposed of Vestone Capital Limited (formerly Macquarie Equipment Rentals Pty Limited). This was achieved by contributing the net assets of the business to a newly formed joint venture along with a third-party investor, in which the Consolidated Entity holds a 50% interest.

	2021 $m
Carrying value of net assets acquired	
Cash and bank balances	**36**
Other assets	**423**
Loan assets	**9**
Deferred tax and Other liabilities	**(32)**
Total carrying value of net assets	**436**
Consideration	
Cash consideration	**41**
Consideration receivable	**5**
Loan assets	**376**
Interest acquired through contribution to a joint venture	**32**
Total consideration	**454**
Direct costs relating to disposal	**(3)**
Net cash flow	
Cash consideration	**41**
Less: Cash and cash equivalents disposed off or deconsolidated	**(36)**
Net cash inflow	**5**

Note 43
Events after the reporting date

There were no material events subsequent to 31 March 2021 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 significant variable returns, and the ability to utilise power to affect the entity's returns.

The determination of control is based on current facts and circumstances and is continuously assessed. The Consolidated Entity has power over an entity when it has existing substantive rights that provide it with the current ability to direct the entity's relevant activities, 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.

Structured entities

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

Where the Consolidated Entity has power over the SE's relevant activities, 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.

Consolidation

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

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

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

The Consolidated Entity determines the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities and the extent of the Consolidated Entity's exposure to the entity's variable returns.

Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required (including the nature of such approval). The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less accumulated impairments, adjusted for changes in fair value attributable to the spot foreign exchange risk where such subsidiaries are designated in qualifying fair value hedge relationships.

Interests in associates and joint ventures

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

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

Note 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/reversals. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

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

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

Investments (including in-substance existing ownership interests) in associates and joint ventures held by the Company are carried in its financial statements at cost less accumulated impairment, adjusted for changes in fair value attributable to the spot foreign exchange risk where such investments are designated in qualifying fair value hedge relationships.

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.

Note 44
Significant accounting policies continued

(ii) Business combinations continued

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

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

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

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

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

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

Combinations between entities or businesses under common control

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

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

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

(iii) Foreign currency translation

Functional and presentation currency

The functional currency of each entity 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 34 *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 Statement of financial position presented are translated at the closing exchange rate at the date of that Statement of financial position. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate
- income and expenses for each income statement are translated at actual or average exchange rates at the dates of the transactions
- all resulting exchange differences are recognised in OCI within a separate component of reserves, being the foreign currency translation reserve (FCTR).

Note 44
Significant accounting policies continued

(iii) Foreign currency translation continued

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

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

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

(iv) Revenue and expense recognition

Net interest income

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

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

Fee and commission income

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

Brokerage and other trading-related fee income

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

Service fee from related body corporates

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

Other fee and commission income

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

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

Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent 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.

Note 44
Significant accounting policies continued

(iv) Revenue and expense recognition continued

Dividends

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

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

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

Expenses

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

(v) Segment reporting

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

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

(vi) Taxation

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

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

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

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

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

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

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

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

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

Tax consolidation

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

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

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

Note 44
Significant accounting policies continued

(vi) Taxation continued

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

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

Goods and Services tax (GST)

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

(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 Statement of financial position when:

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

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

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

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

Financial liabilities

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

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

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

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

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

Financial guarantee contracts issued

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

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

Modification of financial instruments

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

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

Classification and subsequent measurement

Financial assets

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

Business model assessment

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

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

Solely payment of principal and interest (SPPI)

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

Amortised cost

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

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

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

Fair value through other comprehensive income

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

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

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

Fair value through profit or loss

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

Note 44
Significant accounting policies continued

(vii) Financial instruments continued

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

- financial assets that are held for active trading (held for trading (HFT)). This classification includes all derivative financial assets, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows (FVTPL)
- financial assets that fail the SPPI test (FVTPL), and
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL).

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

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

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

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

Reclassification of financial instruments

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

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

Financial liabilities

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

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

All derivative financial liabilities are classified as HFT, except those that are designated as hedging instruments in qualifying hedge relationships and are classified as FVTPL. Refer to Note 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 are, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk, that are presented separately in OCI and are not subsequently reclassified to profit or loss, recognised in other income and charges as part of other operating income and charges.

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

Offsetting of financial instruments

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

(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 Statement of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

Similar transactions with related body corporates are reported as part of Due to/from related body corporate entities and subsidiaries. Refer to Note 44(xix).

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

Note 44
Significant accounting policies continued

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

- 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 36 *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 Statement of financial position as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date.

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

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 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.	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 • Commodity price risk • Foreign exchange risk[1].	• Interest rate risk • Foreign exchange risk.	• Foreign exchange risk.
Material hedged items	• Fixed interest rate financial assets and liabilities • Amount due to/from related body corporates[1] • Commodity transportation contracts • Equity investments in foreign currency denominated subsidiaries.	• Floating interest rate financial liabilities • Foreign currency denominated interest bearing financial liabilities • Amount due to/from related body corporates[1].	• Net investment in foreign operations.
Material hedging instruments	• Interest rate swaps • Cross currency swaps • Commodity forward contracts • Foreign currency denominated borrowings.	• Interest rate swaps • Cross currency swaps.	• Foreign exchange contracts • Foreign currency denominated issued debt.
Designation and documentation	At inception of the hedge relationship, documentation is required of the risk management objective and strategy for the hedge, the hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
Hedge effectiveness method	All hedge relationships are assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and following any significant change in circumstances affecting the hedge, by demonstrating that: • an economic relationship exists between the hedged item and the hedging instrument • credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and • the hedge ratio is reflective of the Consolidated Entity's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the designated quantities of either the hedged item or the hedging instrument.		
Accounting treatment for the hedging instrument	Fair value through the income statement, aligned to the presentation of the hedged item.	Fair value through the cash flow hedge reserve as part of OCI, and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Foreign exchange gains and losses are recognised in the Net Investment Hedge Reserve (NIHR), a separate component of FCTR in OCI.
Accounting treatment for the hedged item	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis.	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve as part of OCI.

(1) The Company (but not the Consolidated Entity) designates selected hedge accounting relationships that only meet the qualifying criteria for hedge accounting in the Company financial statements.

Note 44
Significant accounting policies continued

(x) Derivative instruments and hedging activities continued

	Fair value hedge	Cash flow hedge	Net investment hedge
Accounting treatment for hedge ineffectiveness	Recognised as part of net trading income in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.	Recognised as part of net trading income in the income statement to the extent to which changes in the fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.	
Accounting treatment if the hedge relationship is discontinued	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an EIR basis.	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.	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.
Other accounting policies	None	The foreign currency basis spread of the hedging instrument, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the cost of hedging reserve and released to the income statement at the time at which the hedged exposure affects the income statement.	

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 bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

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

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

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

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

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

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

Annual depreciation rates are summarised below:

Property, plant and equipment	Depreciation rates
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements[1]	10 to 20%
Equipment	33 to 50%
Infrastructure assets[2]	2 to 12%
Meters	5 to 15%
Telecommunications	24.5 to 41.4%
Other operating lease assets	2 to 25%

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

The 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.

(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 Statement of financial position.

(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 continued

Other acquired identifiable intangible assets

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

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

- licences and trading rights: generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life
- customer and servicing contracts acquired with a finite useful life: carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period for which the customer relationship is expected to exist
- customer and servicing contracts with an indefinite useful life: carried at cost less accumulated impairment loss.

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

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

Software

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

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

(xvi) Deposits

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

(xvii) Other assets and liabilities

Contract assets, contract liabilities and capitalised expenses

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

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

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

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

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

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

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

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.

Note 44
Significant accounting policies continued

(xvii) Other assets and liabilities continued

Provisions and contingent liabilities

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

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

Employee benefit provisions

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

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

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

Dividends

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

(xviii) Borrowings

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

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

Transactions between the Consolidated Entity and other related body corporate entities under common control and between the Company and its subsidiaries, principally arise from the provision of banking and other financial services, lending arrangements and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of financial guarantees, and are accounted for in accordance with Note 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 Statement 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).

(xxi) Loan Capital

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

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

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 and macroeconomic information (FLI).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 12 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage I – 12 month ECL

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

(ii) Stage II – Not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Consolidated Entity's process to determine whether there has been a SICR is provided in Note 12 *Expected credit losses*.

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

(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.

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

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

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

Presentation of ECL allowances

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

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

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

Impairment of interests in associates and joint ventures

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

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

Note 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.

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

(xxiii) Performance based remuneration

Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 31 *Employee equity participation*.

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

Equity settled awards: The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. To the extent that the Consolidated Entity or Company does not compensate the ultimate parent for MEREP awards offered to its employees, a corresponding credit is recognised in contributed equity. To the extent the Consolidated Entity or Company compensates the ultimate parent and the amount is paid in advance, a receivable due from the ultimate parent is recognised. The receivable is amortised to the income statement as share-based payment expense over the vesting period. MEREP receivable amounts are recognised and disclosed in Note 29 *Related party information*.

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

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

Profit share remuneration

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

Note 44
Significant accounting policies continued

(xxiv) Leases

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

(i) Accounting where the Consolidated Entity is the lessee

The Consolidated Entity leases corporate buildings, commodity storage facilities, technology and other equipment for which contracts are typically entered into for fixed periods of 12 months to 15 years and may include extension options. Leases are recognised as an ROU asset (as explained in Note 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 net operating lease income in the period in which the event or condition that triggers those payments occurs.

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

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

Presentation

The Consolidated Entity presents ROU assets in Property, plant and equipment and right-of-use assets (refer to Note 14) and lease liabilities in Other liabilities (refer to Note 22) in the Statement of financial position.

(ii) Accounting where the Consolidated Entity is a lessor

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

Finance lease

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

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

Operating lease

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

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

(xxvii) Cash and bank balances

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

Note 44
Significant accounting policies continued

(xxviii) Cash and cash equivalents

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

(xxix) Discontinued operations

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

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

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

(xxx) Comparatives

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. The Consolidated Entity is assessing the impact of the revised standard.

(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 2020 and have not been early adopted, are not likely to result in a material impact on the Consolidated Entity's financial statements.

Directors' declaration

Macquarie Bank Limited

In the Directors' opinion:

(a) the financial statements and notes set out on pages 61 to 208 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 2021 and their performance for the financial year ended on that date, and

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

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

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

Peter Warne
Independent Director and Chairman

Mary Reemst
Managing Director and Chief Executive Officer

Sydney
7 May 2021

Independent auditor's report

To the member of Macquarie Bank Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2021 and of their financial performance for the year then ended
- 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 2021
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company income statements for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

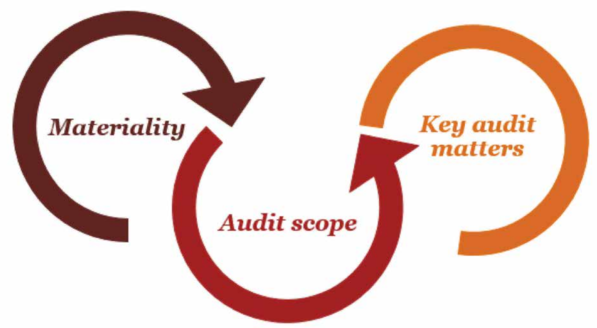
We are independent of the Company and the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including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

Our audit approach for the Consolidated Entity

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

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

The Consolidated Entity is structured into two operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram in India, Jacksonville in the United States and Manila in the Philippines, which undertake operational activities that are important to the financial reporting processes.



Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of $112 million, which represents approximately 1% of the Consolidated Entity's net assets.

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

We chose Consolidated Entity net assets as the benchmark as in our view, net assets represent an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders.

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Consolidated Entity audit scope

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

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the two operating groups and the corporate segment. These component audit teams, 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 ranging from an audit of financial information to specified procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn instructed.

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

Independent auditor's report

To the member of Macquarie Bank Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of both the Consolidated Entity and the Company, and references to the Consolidated Entity also apply to the Company.

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loan assets (Refer to Note 12)	
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, the impact of COVID 19 has been more pronounced on certain industries, and the economic recovery from the pandemic has been markedly different around the world. 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 from COVID-19 • 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: • using PwC credit modelling experts to assess 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 also involved independent reperformance of certain tests within the model monitoring performed • using PwC credit modelling experts to test the appropriateness of changes to key models • using PwC credit modelling experts to assess whether the list of critical data elements identified by the Consolidated Entity was appropriate for key models • engaging PwC economics experts to assess and challenge the appropriateness of macroeconomic scenarios developed and certain forward-looking economic data developed by the Consolidated Entity, with a particular focus on the impacts of COVID-19 in light of certain available information and consensus views • assessing the appropriateness of individual credit ratings used in ECL models to determine whether these have incorporated the impact of COVID-19 at balance date • testing the completeness and accuracy of certain critical data elements used in key ECL models • assessing certain post model adjustments identified by the Consolidated Entity • considering the impacts on the ECL of 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 adopted. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial assets and liabilities held at fair value with significant unobservable inputs (Level 3 financial instruments) (Refer to Note 37)	
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 consistent of trading assets, financial investments, loan assets and derivative financial instruments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models 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 Consolidated Entity's process for testing valuations, and • governance and review. For derivative financial instruments and trading assets, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations. For a sample of financial investments and loan assets, we assessed the appropriateness of the valuation methodologies applied, as well as the appropriateness of the inputs used. For a sample of financial investments we assessed the sensitivity of the valuations to alternative assumptions where appropriate. We assessed the reasonableness of the Consolidated Entity's disclosures in the financial report.
IT systems and controls over financial reporting	
The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include: • the framework of governance over IT systems • controls over program development and changes • controls over access to programs, data and IT operations, and • governance over generic and privileged user accounts. Given the reliance on the IT systems in the financial reporting process and the impact on relevant controls we seek to rely on as part of our audit, we considered this to be a key audit matter.	Our procedures included evaluating the design and testing the operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we identified design and operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.
Valuation of tax payable relating to tax uncertainties and tax receivable (Refer to Note 22 and Note 10)	
The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to and received from tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid and received. Given the extent of judgement involved, we consider this to be a key audit matter.	Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to and received from tax authorities. Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provision for tax and tax receivable. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved. We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.

Independent auditor's report

To the member of Macquarie Bank Limited

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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 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 35 to 57 of the Directors' Report for the year ended 31 March 2021.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2021 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
7 May 2021

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