MACQUARIE BANK INTERNATIONAL LIMITED

COMPANY NUMBER 06309906

Strategic Report, Directors' Report and Financial Statements
for the financial year ended 31 March 2020

MACQUARIE

The Company's registered office is:
Ropemaker Place
28 Ropemaker Street
London EC2Y 9HD
United Kingdom

Macquarie Bank International Limited

2020 Strategic Report, Directors' Report and Financial Statements

Contents

Strategic Report
for the financial year ended 31 March 2020

In accordance with a resolution of the directors (the "Directors") of Macquarie Bank International Limited (the "Company"), the Directors submit herewith the Strategic Report of the Company and report as follows:

Principal activities
The principal activity of the Company during the financial year ended 31 March 2020 was to act as a licensed banking entity.

The Company performed a range of activities on behalf of the Commodities and Global Markets Group ("CGM") of the Macquarie Group.

During the financial year the Company operated branches in Austria and Germany. On 3 March 2020, regulated activities in Austria ceased and the Austrian branch was closed.

Review of operations
The profit for the financial year ended 31 March 2020 was £18,948,000, as compared to a profit of £3,987,000 in the previous financial year.

Total operating income for the year ended 31 March 2020 was £31,076,000, as compared to operating income of £10,054,000 in the previous financial year.

Total operating expenses for the year ended 31 March 2020 were £4,477,000, a decrease of 11 per cent compared to operating expenses of £5,026,000 in the previous financial year.

As at 31 March 2020, the Company had net assets of £361,094,000 (2019: net assets of £342,561,000).

The German branch contributed a loss of £581,000 (2019: loss of £199,000) and the Austrian branch contributed a loss of £146,000 (2019: profit of £70,000) to the overall profit before taxation of £26,599,000 (2019: profit of £5,028,000).

Principal risks and uncertainties
The Company is responsible for its own risk acceptance decisions. From the perspective of the Company, the principal risks are market risk, credit risk and liquidity risk. The material risks of the Company are monitored by the relevant division of the Risk Management Group ("RMG") of the Macquarie Group.

During the financial year, the Company managed its risks in accordance with the Macquarie Group wide risk management framework and, additionally, transferred the majority of its financial risks to Macquarie Bank Limited London Branch ("MBL LB") through the Master Credit Agreement ("MCA") for credit risk and the Master Derivative Agreement ("MDA") for market risk, collectively the Risk Transfer Agreements ("RTA"). The Company managed the credit risk on Over-the-counter ("OTC") derivatives as per the Company's credit policy which sets out a credit risk framework including internal limits and exceptions, as determined by RMG. The principal risks and uncertainties of Macquarie Group Limited ("MGL"), which include those of the Company, are discussed in its financial statements and can be obtained from the address given in Note 30.

On 29 March 2017, the United Kingdom invoked Article 50 of the Lisbon Treaty and officially notified the EU of its decision to withdraw from the EU (known as "Brexit"). The UK government and the EU Commission subsequently agreed an Article 50 Withdrawal Agreement, pursuant to which a transition period commenced which will last until 31 December 2020. The economic, regulatory and legal environment as a result of Brexit will depend on the nature of the post-Brexit arrangements. In order to mitigate the impacts of Brexit, the Macquarie Group has established a new credit institution headquartered in Ireland which has branches in France and Germany. It is envisaged the Company will transfer the majority of its business to the Irish credit institution and wind down its branch in Germany. The Company does not have an intention to discontinue its operational existence as a result of the completion of the transition period.

The Company is not subject to any other material risks or uncertainties, over and above those stated, although the Directors' Report note that the emerging situation with respect to COVID-19 has potential, but not material business risks.

Strategic Report
for the financial year ended 31 March 2020 (continued)

Financial risk management

Risk is an integral part of the Macquarie Group's businesses. The Company is exposed to a variety of financial risks that include the effect of credit risk, liquidity risk, operational risk, and market risk. Additional risks faced by the Company include legal, compliance and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of RMG to ensure appropriate project assessment, monitoring and overall management of these risks.

As ultimately an indirect subsidiary of both Macquarie Bank Limited ("MBL") and MGL, the Company manages risk within the framework of the overall strategy and risk management structure of the Macquarie Group. RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director and the Board of MGL. The Head of RMG is a member of the Executive Committee of MBL and MGL. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks of the Company. The Regional Chief Risk Officer ("CRO") also participates in the risk acceptance and monitoring the risks of the Company. Where appropriate, limits are approved by the Executive Committee and the Board of MGL.

The risks which the Company is exposed to are managed on a globally consolidated basis for both MBL and MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions. Key risks include:

Credit risk

Credit risk on lending and trading transactions undertaken by the Company is managed as per policy set by RMG. Certain business operations within the Company mitigate their exposure to credit risk by utilising the RTA to transfer credit risk to MBL.

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances, loan balances and receivables from external parties and other Macquarie Group subsidiaries, which earn a variable rate of interest. Loan assets earn either a fixed or variable rate of interest. Interest bearing liabilities include payables to external parties and other Macquarie Group subsidiaries, which also incur a variable rate of interest. Certain business operations within the Company mitigate their exposure to interest rate risk by utilising the RTA to transfer interest rate risk to MBL.

Foreign exchange risk

The Company has foreign exchange exposures which include amounts receivable from and payable to other Macquarie Group undertakings, branches which are denominated in Euro functional currencies and external parties which are denominated in non-functional currencies. Any material non-functional currency exposures are managed by applying a group wide process of minimising exposure at a group or individual business level.

Operational risk

The Company operates within a global framework which is applied consistently across all business lines within the Macquarie Group for the identification, monitoring, management and reporting of operational risk. Operational risk management occurs largely as part of the normal day to day running of each business with the framework, policies and oversight being managed at a central level by RMG. The framework can be tailored to the risk profile of each business, but each business must comply with certain mandatory aspects.

Strategic Report
for the financial year ended 31 March 2020 (continued)

Financial risk management (continued)

Liquidity risk

The Company is funded through equity and debt financing from other entities in the Macquarie Group. The Company also enters into funded participation arrangements with external parties and other entities in the Macquarie Group. Monitoring by RMG and Macquarie Group's Treasury department ensures that the Company has sufficient available funds for operations and planned expansion.

Section 172 (1) Statement

Section 172(1) of the Companies Act 2006 requires Directors to act in the way they consider would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

(a) the likely long-term consequences of decisions;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between the company's owners.

Consideration of these factors and other relevant matters, including in particular the Company's regulatory environment as a UK Credit Institution, is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

This is the first year that certain UK companies, including the Company, are required to publish a statement setting out how their directors have complied with this requirement. Our Section 172 statement focuses on matters of strategic importance to the Company, and the level of information disclosed is consistent with the size and the complexity of the business.

From the perspective of the Directors, the matters that the Board is responsible for considering under Section 172 of the Companies Act 2006 have been considered appropriately. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the board has considered these matters is set out in the Directors' report on pages 8 to 10.

Other matters

Due to the nature of the business and the information provided elsewhere in this report, the Directors are of the opinion that the production of financial and non-financial key performance indicators (including with regard to environmental and employee matters) or the inclusion of additional information with regard to social, community and human rights issues in the Strategic report is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board

Phillip Nash
Director
27 July 2020

Directors' Report
for the financial year ended 31 March 2020

In accordance with a resolution of the Directors of the Company, the Directors submit herewith the audited financial statements of the Company and report as follows:

Directors and Secretaries
The Directors of the Company who were in office during the year and up to the date of signing the financial statements, unless disclosed otherwise, were:

G Alford	(Independent Non-Executive Director)	
K Burgess		(appointed on 26 July 2019) (resigned on 06 December 2019)
D Fass		(resigned on 23 May 2019)
P Kearney	(Independent Non-Executive Director)	(appointed on 20 December 2019)
P Nash		(appointed on 06 December 2019)
P Plewman		
T Wade	(Independent Non-Executive Director)	(resigned on 14 May 2019)
A Williams	(Independent Non-Executive Director)	(resigned on 25 January 2020)

The Secretary who held office as a Secretary of the Company throughout the financial year and until the date of this report, unless disclosed otherwise, was:

H Everitt

Results
The profit for the financial year ended 31 March 2020 was £18,948,000 (2019: £3,987,000).

Dividends paid or provided for
No dividends were paid or proposed during the financial year (2019: £nil). No final dividend has been proposed.

State of affairs
Effective 1 July 2019, the Company ceased to act as a sub-advisor and portfolio manager to the Macquarie Infrastructure Debt Investment Solutions ("MIDIS") business upon appointment of Macquarie Investment Management Europe Limited ("MIMEL") as new sub advisor and portfolio manager, another entity of the Macquarie Group. The impact on the balance sheet and current year profit and loss account was immaterial for the Company.

On 3 March 2020, regulated activities in Austria ceased and the Austrian branch was closed.

There were no other significant changes in the state of the affairs of the Company that occurred during the financial year under review not otherwise disclosed in the Directors' report.

Events after the reporting period
At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in the financial years subsequent to 31 March 2020, not otherwise disclosed in the Directors' report.

Directors' Report
for the financial year ended 31 March 2020
(continued)

Likely developments, business strategies and prospects

Coronavirus (COVID-19)

COVID-19, which is a respiratory illness caused by a new virus, was declared a world wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets.

The Company's robust risk management framework continues to be applied and RMG continues to monitor the impact of COVID-19 on the Company's risk profile. Non financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Company's risk management framework. Accounting consideration on Company's results is disclosed under Note 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) and 'EURIBOR' (the Euro Inter-bank Offered Rate). Each IBOR is calculated and published daily based on submissions by a panel of banks. Over time, changes in interbank funding markets have meant that IBOR panel bank submissions have become based less on observable transactions and more on expert judgement. Financial markets' authorities reviewed what these changes meant for financial stability, culminating in recommendations to reform major interest rate benchmarks. As a result of these recommendations, many IBOR around the world are undergoing reforms.

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

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

During 2018, MGL 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 MGL's Operating Groups, Financial Management Group (FMG), Risk Management Group (RMG), Corporate Operations Group (COG) and Legal and Governance team.

Directors' Report
for the financial year ended 31 March 2020 (continued)

Likely developments, business strategies and prospects (continued)

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

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

The Directors believe that no significant changes are expected other than those already disclosed in this report and the Strategic Report. The financial risk management objectives and policies of the Company and the exposure of the Company to credit risk, liquidity risk, interest rate risk, operational risk, market risk and foreign exchange risk and developments over Brexit are contained within the Strategic Report.

Indemnification and insurance of Directors

As permitted by the Company's Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent purchased and maintained throughout the financial year directors' liability insurance in respect of the Company and its Directors.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "*Reduced Disclosure Framework*", and applicable law). Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Streamlined energy and carbon reporting (SECR) requirement

The Company consumed less than 40MWh for the financial year ended 31 March 2020 and for this reason the Company is not required to disclose energy and carbon information in this report.

Directors' Report
for the financial year ended 31 March 2020 (continued)

Section 172 (1) Statement

The Directors acknowledge their responsibility under Section 172 (1) of the Companies Act of 2006 and have acted in a way that they considered, in good faith, to be most likely to promote the long-term success of the Company whilst having regard to all relevant matters including those in respect of the Company's stakeholders, who are principally group shareholders, employees, regulators, internal and external customers.

The Directors meet periodically with documentation circulated in advance to allow them to fully understand the performance and position of the Company, along with the matters that are to be discussed. Each decision that is made by the Directors is supported by documentation, discussion and debate at the meetings. This supports informed and robust decision making, including considerations based on the likely impact of a decision, taking into account relevant stakeholders. The following sets out the requirements of Section 172 (1), and notes how the Directors have discharged their duties:

(a) Likely consequences of any decision in the long term: The Company's ultimate parent is MGL. The Company operates to the ethical and business standards set by MGL and the Macquarie Group. Any decision taken will be aligned to the strategy of the Company and the wider Macquarie Group and be made in accordance with Macquarie's Code of Conduct (the "Code"). The Code is based on the three principles that guide the way Macquarie does business – Opportunity, Accountability and Integrity. A guide to good decision making is contained within the Code, which emphasises key questions to ask, including the need to think long term and consider whether a decision will stand the test of time. Potential consequences of decisions made by the Board will vary depending on the matter at hand, but the Board typically considers relevant stakeholders, alignment with the long-term value creation strategy of the Company and the culture of the existing business. Before a proposal is brought to the Board for approval, it will have gone through a series of internal approvals, in accordance with Macquarie's risk management framework, which is embedded across all Macquarie Group's operations. Macquarie Group's approach to risk management is based on the following stable and robust core risk management principles i) ownership of risk at the business level; ii) understanding worst case outcomes and iii) independent sign off by the Risk Management Group.

Supporting each approval request, the Directors are given documentation which includes diligence on financial impacts, as well as non-financial factors and, as part of their deliberations, the Directors consider how the decision is in the best interests of the Company having due regard to the interests of the Shareholder and relevant stakeholders.

(b) Interests of the Company's employees: The employees of the Company and/or its branches have employment contracts with the Company, its branches, or entities within the wider Macquarie Group. While branches of the Company employ staff directly, the Company itself does not have any direct employees but utilizes the services of the wider Macquarie Group workforce via a range of internal shared services agreements.

The Company involves and informs the workforce on matters that could affect them. Where a Board decision is likely to impact the workforce, these considerations are refledcted in the supporting documentation and relevant subject matter experts present to the Board in relation thereto, for example, out Human Resources team. The Company's policies align with Macquarie Group's workforce policies, including Macquarie's Workforce Diversity Policy. The Macquarie Group and the Company are committed to building a workforce that reflects all aspects of diversity and intersectionality to bring a range of perspectives, ideas and insights to everything we do. Macquarie Group's focus continues to be on developing the internal and external pipeline of women and people from under represented groups at all levels and enhancing our recruitment and talent practices to facilitate this.

(c) Business relationships with suppliers, customers and others: The Directors are cognisant of the stakeholders of the Company and the importance of strong relationships, coupled with appropriate levels of communication and engagement. The Board oversees how the Company deals with its various business relationships, including by way of regular Board reporting with respect to business performance and risk management.

Directors' Report
for the financial year ended 31 March 2020 (continued)

Section 172 (1) Statement (continued)

(c) Business relationships with suppliers, customers and others (continued): In the context of suppliers, Macquarie Group is committed to ensuring high standards of environmental, social and governance performance across its supply chain. This commitment is driven by our business principles. Macquarie Group has put in place a Supplier Governance Policy to manage the risks associated with suppliers who provide Macquarie Group with high inherent risk goods or services, and also 'Principles for Suppliers' to help uphold our core values with the aim of having supplier relationships that create long term and sustainable value for our clients, shareholders and community. Macquarie Group's Third Party Risk team supports the Company with subject matter expertise on understanding the inherent risks associated with supplier arrangements and applying appropriate governance and control.

With respect to customers, the Company has both internal (Macquarie) and external customers. Along with the publicly available regulatory disclosures on our website, we look to the Company's workforce (including the Board) to keep customers informed about the depth, breadth and scale of our capabilities in line with local rules and regulations on client suitability and financial promotions while offering our products in a highly regulated financial services environment in EMEA. Macquarie Group's publicly available EMEA Terms of Business embed our commitment to the principle of treating customers fairly into all of the Company's business. As a UK Credit Institution, the Company has investor protection and transparency obligations and requirements to meet under the legislative framework of the revised Markets in Financial Instruments Directive ("MiFID II") and the Markets in Financial Instruments Regulation ("MiFIR"). Through implementing an extensive policy and procedure framework the Company seeks to meet all applicable requirements of MiFID II and MiFIR with regard to our customers including those relating to product governance, investment advice, Board responsibility, inducements, information and reporting to clients, cross-selling, remuneration of our workforce and best execution. In the context of COVID-19, the Board recognises that acute crises bring into focus the imperative for organisations to support customers and contribute to the communities in which they operate. During this period, the Company has worked with its clients as they quickly adapt to a changed environment so that they can continue to operate.

The Board acknowledges the work of the Macquarie Group Foundation (the "Foundation"), which is the philanthropic arm of Macquarie. The Foundation encourages Macquarie's workforce to give back to the communities in which they live and work by contributing service, financial support and leadership to the community organisations they feel passionately about.

As a UK Credit Institution, the Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Our German branch is regulated by the Federal Financial Supervisory Authority ("BaFin") for conduct of business. The Board is committed to conducting business in accordance with applicable laws and regulations and in a manner that is consistent with the Code and the principles set out in "What We Stand For". The Board also recognises it is imperative that the Company fosters and maintains strong, positive relationships with our regulators and that all communications with regulators are timely, accurate and complete. As a result the Board has a strong focus on its regulatory status and compliance with its related obligations in line with Macquarie Group's Regulator Engagement Framework. Everybody at the Macquarie Group is accountable for the way they conduct themselves, and the principles of regulatory engagement set within Macquarie's Regulator Interaction and Relationship Management Policy define the expectations for all our workforce, including the Board, in engaging with our regulators. This policy is underpinned by Regulator Interaction Protocols for the Company to follow to ensure our interactions with regulators are consistent and co-ordinated, and that the Company has accurate records of all such interactions. Channels of engagement are open between the Company and its regulators with an emphasis by the Board on recognising the importance of the regulatory principles which apply to it, in particular Fundamental Rule 7 of the PRA Rulebook and Principle 11 of the FCA Handbook, both of which require the Company to deal with its regulators in an open and cooperative way, disclosing appropriately anything relating to the Company of which each regulator would reasonably expect notice.

Directors' Report
for the financial year ended 31 March 2020 (continued)

Section 172 (1) Statement (continued)

(d) Community and the environment: The Board recognises the importance of sound Environmental, Social and Governance ("ESG") practices as part of their responsibility to our clients, shareholders, communities, people and the environment in which Macquarie Group operates. Macquarie Group's ESG approach is structured around focus areas considered to be material to our business.

Clear dialogue with stakeholders is important to building strong relationships, understanding external dynamics, earning and maintaining trust, enhancing business performance and evolving our ESG approach. We regularly engage with a broad range of stakeholders including clients, shareholders, investors, analysts, governments, regulators, our workforce, suppliers and the wider community.

Macquarie Group recognises that failure to manage ESG risks could expose the organisation to commercial, reputational and regulatory impacts and affect communities, the environment and other external parties. Assessing and managing Macquarie Group wide ESG risks is a key business priority and an important component of our broader risk management framework, to which the Company is subject.

Under the Code, all staff share responsibility for identifying and managing environmental and social issues as part of normal business practice and are supported by the ESR team.

The Environment and Social Risk ("ESR") team, which sits within the Risk Management Group, coordinates a diverse range of ESG activities across business groups and regions, including developing and implementing Macquarie wide and business specific policies, conducting transaction reviews, providing advice on ESG risks and opportunities and facilitating training.

Where ESG issues are relevant to a proposal being brought to the Board, these matters are specifically addressed in the supporting paperwork and typically a member of the ESR team would be in attendance at the Board meeting considering that matter.

(e) Reputation for high standards: The reputations of the Company and its Directors are fundamental to the long-term success of the Company and significant effort is expended to ensure that performance and processes attain and wherever possible exceed expectations. The Macquarie Group and the Company are committed to maintaining high ethical standards – adhering to laws and regulations, conducting business in a responsible way and treating all stakeholders with honesty and integrity. These principles are further reflected in the Code. Macquarie's Integrity Office provides an internally independent and confidential point of contact for Macquarie's workforce and external parties to safely raise concerns about improper conduct. It is responsible for implementing the Whistleblower Policy and for managing the investigation of concerns raised under this policy, including any raised through the Macquarie Staff Hotline. The Integrity Office also promotes high ethical standards and good decision making through communications and engagement with our workforce. The Integrity Office provides regular reports to the Board.

(f) Need to act fairly as between members of the Company: The Company is a 100% indirect subsidiary of MGL. Information is shared effectively to ensure that both the direct parent and ultimate shareholder are engaged as appropriate with respect to key decisions of the Company. With respect to capital allocation decision-making for example, the Directors seek to allocate the Company's capital in a way that offers returns to shareholders in line with the Company's approach to dividends while ensuring the Company retains flexibility to continue to deploy capital towards profitable growth. The Directors have engaged with the company's shareholder (both direct and ultimate) where appropriate, on principal decisions taken by the Company during the financial year, and took into consideration the interest of relevant stakeholders in the major developments, activities or transactions which are discussed in the principal activities in the strategic report as well as the dividends section of this report.

Directors' Report
for the financial year ended 31 March 2020 (continued)

Disclosure of information to auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors or the members of the Company resolve to terminate their appointment. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and, as at the date of these financial statements, the Directors are not aware of any resolution to terminate the appointment of the auditors.

On behalf of the Board

Phillip Nash
Director
27 July 2020

Independent auditors' report to the members of Macquarie Bank International Limited

Report on the audit of the financial statements

Opinion

In our opinion, Macquarie Bank International Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic report, Directors' report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2020; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements 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

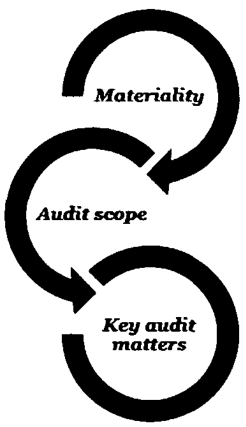
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview



- Overall materiality: £28.5 million (2019: £13.5 million), based on 1% of Total assets.

- Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial statements, including areas where the Directors 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 Company, including those arising from its respective business operations, and how the Company manages these risks. We also considered a number of other factors including the design and implementation of the Company'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 statements and the risk of management override of controls.
- A number of key processes and controls, including those relating to information systems, are centralised within certain global processing centres. We relied on various key controls tested by PwC Australia for local statutory audit purposes.
- We performed audit work for all financial statement line items with balances above our performance materiality of £14.3m (2019: £10.2m). For each in-scope line item, we performed audit procedures to bring the untested balance below performance materiality.

- We identified the following as key audit matters and communicated these to the Board Audit Committee;
  - accounting, presentation and disclosure of transactions under risk transfer agreements
  - completeness and accuracy of transfer pricing income and expense
  - the impact of the outbreak of COVID-19 on the financial statements of the company.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified the principal risks of non-compliance with laws and regulations related to rules of the Financial Conduct Authority and the Prudential Regulatory Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- review of correspondence with and reports to the regulators
- enquiries of management
- review of internal audit reports in so far as they related to the financial statements

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Accounting, presentation and disclosure of transactions under risk transfer agreements Refer to Note 2 (xxii): Risk transfer agreements The Company transfers the majority of its financial risks to Macquarie Bank Limited London Branch ('MBL') through risk transfer agreements (Master Credit Agreement ('MCA') for credit risk and Master Derivative Agreement ('MDA') for market risk). Under the MCA, MBL provides the funding to the Company to extend external loans under a 'funded risk participation' mechanism. This results in the transfer of interest income derived from external loans through interest expense paid to MBL on the funding. Since the Company is the contractual counterparty of these external loans, the Company recognises impairment on the loans with a corresponding reduction in intercompany payable to MBL since the risk is transferred out under the MCA. Under the MDA, the Company enters into back to back derivative transactions with MBL for the derivative trades facing external counterparties for market risk. The Company retains and manages the credit risk on OTC derivatives. In light of the existence of the arrangement and its overall impact on our risk assessments and audit approach, the risk transfer agreements and related accounting, presentation and disclosure is considered a key audit matter for the year ending 31 March 2020.	We inspected the most recent risk transfer agreements to determine if there were any variations to the terms of the agreements. We assessed the accounting treatments and financial implications of relevant financial statement line items based on the terms of the risk transfer agreements. We instructed PwC Australia to test certain processes and controls that are centralised in global processing centres. We reviewed their work and determined it was appropriate to place reliance on it for the purposes of our audit. These controls included controls over intercompany breaks, transfer pricing methodology, models and calculations. For a sample of loans entered into during the year, we assessed whether these fell within the scope of the risk transfer agreements. We performed substantive testing to recalculate the allocation of income/expenses between the Company and MBL in the P&L for the year ended 31 March 2020. For expected credit losses recognised in the P&L for the year ended 31 March 2020 in relation to the loans covered in the MCA, we confirmed a corresponding amount was reflected in the intercompany payable to MBL. For external derivatives, we performed substantive testing on a sample of trades matching the trade terms between external derivatives and corresponding internal derivatives to determine whether the market risks on these trades were backed out to MBL, as per the MDA. We assessed the overall presentation and disclosure of the risk transfer arrangement in the financial statements.
Completeness and accuracy of transfer pricing income and expense Refer to Note 2 (iv): Revenue and expense recognition Global business arrangements across different tax jurisdictions require Macquarie to maintain appropriate transfer pricing policies to ensure the pricing of related party transactions complies with the arm's length principle and the transfer pricing framework set out by different tax authorities. The Company is subject to Macquarie's transfer pricing policies and as part of the Company's principal activities, revenue generated from global businesses is allocated between the entities involved in the provision of services to clients. In FY20 a management review of transfer pricing identified an error in relation to the allocation of sales revenue earned and corresponding expenses from OTC derivatives in the year ended 31 March 2019. The error was caused by incomplete data being included in the transfer pricing calculation and the associated booking process to the Company.	We instructed PwC Australia to test certain processes and controls that are centralised in global processing centres. We reviewed their work and determined it was appropriate to place reliance on it for the purposes of our audit. This included controls over transfer pricing methodology, models and calculations and controls over intercompany breaks. We assessed the reasonableness of the transfer pricing methodologies applied to the Company in the context of our understanding of the business. We agreed the transfer pricing income and expense for the year to the central repository of transfer pricing calculations and tested controls in place to review profit shares between legal entities. We instructed PwC Australia to perform substantive testing of a sample of transfer pricing calculations to test whether: - the data used in the calculation was complete; - the appropriate transfer pricing model and methodology was used; - the calculation was mathematically accurate; and, - the transfer pricing amount was appropriately allocated to the correct legal entity in the correct period.

Independent auditors' report to the members of Macquarie Bank International Limited (continued)

Completeness and accuracy of transfer pricing income and expense (continued)

Whilst the error was not material to the current or prior period we reconsidered our risk assessment and associated audit approach. We determined that the completeness and accuracy of transfer pricing income and expense was a key audit matter for the year ending 31 March 2020.

In addition, we performed substantive testing on a sample basis over the accuracy of the data used in the transfer pricing model. Where our testing identified errors we assessed these in the context of our materiality and extended our sample testing where necessary.

We also confirmed that there were no material intercompany breaks for the year ended 31 March 2020.

Impact of the outbreak of COVID-19 on the financial statements

Refer to Note 2 (i): Basis of preparation

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of global infections. Measures taken to contain the virus have affected economic activity, which in turn have implications for financial reporting. Notwithstanding the unprecedented fiscal and monetary response from governments and regulators around the world, the financial impact of COVID-19 on the UK and global economy has been significant.

Management considered the impact of COVID-19 on the financial statements, including its impact on the impairment and valuation of financial assets, valuation of financial liabilities, the Company's ability to continue as a going concern and the disclosures that should be made in the financial statements.

As a result of the above assessment management have:

- incorporated appropriate valuation adjustments in valuing their derivative financial instruments;
- updated their economic outlook supporting their estimate for expected credit losses on financial assets, where applicable;
- assessed the Company's financial and operational outlook and concluded that the potential implications of COVID-19 will not affect the Company's ability to continue as a going concern.

Further details of management actions and the results of these are detailed in note 2 of the financial statements.

We evaluated:

- The timing of the development of the outbreak across the world and in the UK;
- How the financial statements and business operations of the Company might be impacted by the disruption;
- The impairment assessment performed by management on its underlying financial assets; and,
- The adjustments incorporated in the valuation of derivative financial instruments.

We have assessed the additional procedures performed by management, the assessments made to incorporate the impact of COVID-19 on the financial statements of the Company and the resulting adjustments where applicable.

We have critically assessed management's conclusion that COVID-19 does not have an impact on the going concern assumption used by the Directors in the preparation of the financial statements.

In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from COVID-19. Our procedures in respect of going concern included:

- We made enquiries of management to understand the potential impact of COVID-19 on the Company's financial performance, business operations and capital and liquidity positions.
- We reviewed the results of operations of the Company and the performance of its underlying assets in the subsequent accounting period.

How we tailored the audit scope

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£28.5 million (2019: £13.5 million).
How we determined it	1% of Total assets.
Rationale for benchmark applied	As the majority of the Company's profits are transferred to Macquarie Bank Limited (London Branch) through the risk transfer agreements, profit is not considered to be an appropriate basis for determining overall materiality. Considering the nature of the entity, the risk transfer arrangements and the users of the financial statements, we consider that using total assets as a benchmark is most appropriate. We performed audit work for all financial statement line items with balances above our performance materiality of £14.3m (2019: £10.2m). For each in-scope line item, we performed audit procedures to bring the untested balance below performance materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.4 million (2019: £0.7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability 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 to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs (UK) 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the Directors on 24 January 2008 to audit the financial statements for the year ended 31 March 2008 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 March 2008 to 31 March 2020.

Lawrence Wilkinson

Lawrence Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 July 2020

Financial statements

Profit and loss account
for the financial year ended 31 March 2020

	Note	2020[1] £'000	2019 £'000
Interest receivable and similar income		**26,694**	31,804
Interest payable and similar charges		**(19,573)**	(25,418)
Net interest income	3	**7,121**	6,386
Fee and commission income		**62,324**	32,768
Fee and commission expense		**(24,141)**	(30,595)
Net fee and commission income	3	**38,183**	2,173
Other operating income and charges	3	**(14,228)**	1,495
Total operating income		**31,076**	10,054
Administrative expenses	3	**(4,477)**	(5,026)
Total operating expenses		**(4,477)**	(5,026)
Profit on ordinary activities before taxation		**26,599**	5,028
Tax on profit on ordinary activities	5	**(7,651)**	(1,041)
Profit for the financial year	20	**18,948**	3,987
Profit attributable to ordinary equity holders of Macquarie Bank International Limited		**18,948**	3,987

The above profit and loss account should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

[1]The March 2020 financial results reflect the adoption of IFRS 16 Leases on 1 April 2019. As permitted by IFRS 16, the Company has not restated previously reported financial periods. Refer to Note 2 *Summary of significant accounting policies* for the impact on initial adoption of IFRS 16.

Profit on ordinary activities before taxation relate wholly to continuing operations.

Statement of comprehensive income
for the financial year ended 31 March 2020

	Note	2020[1] £'000	2019 £'000
Profit after tax for the financial year		**18,948**	3,987
Other comprehensive (loss)/income:			
Movements in items that may be subsequently reclassified to the profit and loss account:			
Fair value through other comprehensive income (FVOCI) reserve, net of tax[2]:			
Revaluation gains recognised in other comprehensive income	20	**101**	-
Exchange differences on translation of foreign operations, net of tax	20	**(301)**	143
Total other comprehensive income/(loss) for the financial year		**(200)**	143
Total comprehensive income		**18,748**	4,130
Total comprehensive income for the financial year attributable to ordinary equity holders of Macquarie Bank International Limited		**18,748**	4,130

The above statement of comprehensive income should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

[1]The March 2020 financial results reflect the adoption of IFRS 16 Leases on 1 April 2019. As permitted by IFRS 16, the Company has not restated previously reported financial periods. Refer to Note 2 *Summary of significant accounting policies* for the impact on initial adoption of IFRS 16.

[2]*All items are net of tax, where applicable.*

Balance sheet
as at 31 March 2020

	Note	2020[1] £'000	2019 Restated[2] £'000
Assets			
Receivables from financial institutions	6	**789,332**	490,184
Derivative assets	7	**1,470,804**	299,121
Margin money and settlement assets	8	**310,172**	97,209
Other assets	9	**10,121**	22,867
Loan assets	10	**273,598**	234,231
Deferred tax assets	5	**781**	1,765
Total assets		**2,854,808**	1,145,377
Liabilities			
Derivative liabilities	7	**1,488,481**	300,417
Margin money and settlement liabilities	12	**671,833**	146,492
Deposits	13	**4,406**	987
Payables to financial institutions	14	**297,568**	297,696
Current tax liabilities		**4,648**	406
Other liabilities	15	**11,847**	37,793
Provisions	16	**14,931**	19,025
Total liabilities		**2,493,714**	802,816
Net assets		**361,094**	342,561
Shareholders' funds			
Called up share capital	18	**330,000**	330,000
Contribution from ultimate parent entity in relation to share-based payments	19	**1,062**	1,219
Reserves	20	**(744)**	(544)
Profit and loss account	20	**30,776**	11,886
Total shareholders' funds		**361,094**	342,561

The above balance sheet should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

[1]The March 2020 financial results reflect the adoption of IFRS 16 Leases on 1 April 2019. As permitted by IFRS 16, the Company has not restated previously reported financial periods. Refer to Note 2 Summary of significant accounting policies for the impact on initial adoption of IFRS 16.

[2]During the year, the Company undertook a review of client monies and concluded that certain client-related margin money and settlement balances did not meet the definition of an asset under the conceptual framework and therefore should not be presented in the Balance Sheet as at 31 March 2020. Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for an explanation of the representation of certain comparative financial information.

The financial statements on pages 18 to 63 were authorised for issue by the Board of Directors on 27 July 2020 and were signed on its behalf by:

Phillip Nash
Director
27 July 2020

Statement of changes in equity
for the financial year ended 31 March 2020

	Note	Called up share capital £'000	Contribution from ultimate parent entity in relation to share-based payments £'000	Reserves £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 April 2018		200,000	1,152	(687)	7,899	208,364
Profit for the financial year		-	-	-	3,987	3,987
Other comprehensive income, net of tax		-	-	143	-	143
Total comprehensive income	20	-	-	143	3,987	4,130
Transactions with equity holders in their capacity as ordinary equity holders:						
Issue of share capital	18	130,000	-	-	-	130,000
Other equity movements:						
Deferred tax on share-based payments		-	67	-	-	67
Balance at 31 March 2019		**330,000**	**1,219**	**(544)**	**11,886**	**342,561**
Change on initial application of IFRS 16[1]	2	**-**	**-**	**-**	**(58)**	**(58)**
Restated balance at 1 April 2019		**330,000**	**1,219**	**(544)**	**11,828**	**342,503**
Profit for the financial year		**-**	**-**	**-**	**18,948**	**18,948**
Other comprehensive income, net of tax		**-**	**-**	**(200)**	**-**	**(200)**
Total comprehensive income	20	**-**	**-**	**(200)**	**18,948**	**18,748**
Other equity movements:						
Deferred tax on share-based payments		**-**	**(157)**	**-**	**-**	**(157)**
Balance at 31 March 2020		**330,000**	**1,062**	**(744)**	**30,776**	**361,094**

The above statement of changes in equity should be read in conjunction with the accompanying notes, which form an integral part of the financial statements.

[1]The March 2020 financial results reflect the adoption of IFRS 16 Leases on 1 April 2019. As permitted by IFRS 16, the Company has not restated previously reported financial periods. Refer to Note 2 Summary of significant accounting policies for the impact on initial adoption of IFRS 16.

Notes to the financial statements for the financial year ended 31 March 2020

Note 1. Company information

The Company is a private company limited by shares and is incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is Ropemaker Place, 28 Ropemaker Street, London EC2Y 9HD, United Kingdom.

Note 2. Summary of significant accounting policies

i) Basis of preparation

The principal accounting policies adopted in the preparation of these financial statements have been consistently applied to all the financial years presented, unless otherwise stated.

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101"). The financial statements have been prepared in accordance with the Companies Act 2006 and under the historical cost convention except for the following items:

- 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)
- obligations in terms of cash-settled share-based payment obligations which are typically measured with reference to MGL's share price in accordance with IFRS 2.

The financial statements contain information about the Company as an individual company.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted International Financial Reporting Standards ("IFRS").

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share-based Payment' (details of the number and weighted average exercise price of share-based payment arrangements concerning equity instruments of another group entity and how the fair value of goods or services received was as determined).
- The requirements of paragraphs 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 73(e) of IAS 16 'Property, Plant and Equipment'.
- The requirements of paragraphs of IAS 1, 'Presentation of financial statements':
  - o 10 (d), (statement of cash flows),
  - o 16 (statement of compliance with all IFRS),
  - o 38A (requirement for minimum of two primary statements, including cash flow statements),
  - o 38 B-D (additional comparative information), and
  - o 111 (cash flow statement information).
- The requirements of IAS 7 'Statement of Cash Flows'.
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- The requirements of paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation).
- The requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group where both parties to the transaction are wholly owned within the group.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'.
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

i) Basis of preparation (continued)

Critical accounting estimates and significant judgements

The preparation of the financial statements in compliance with FRS 101 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 Company and the financial statements such as:

- judgement in determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI test) (Note 25);
- judgement in the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss (ECL) including forecasts of economic conditions and determination of significant increase in credit risk (SICR) (Notes 2(xviii) and 11);
- judgement and estimate in fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 2(vi));
- judgement and an estimate of recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities (Notes 2(v) and 5);
- judgement in recognition of fees by determining whether multiple services provided in a single contract are distinct and whether incurred expenses can be presented net of any associated revenue (Note 2(iv)); and
- an estimate of recognition and measurement of provisions related to actual and potential claims, including contingent liabilities (Note 2(xvi), 9, 15, 16, 23).

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

Coronavirus (COVID-19) impact

Background

The onset of COVID-19 resulted in the application of further judgement within identified risk areas discussed further below. Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impacts of such a pandemic, and the short duration between the declaration of the pandemic and the preparation of these financial statements, changes to the estimates and outcomes that have been applied in the measurement of the Company's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Processes applied

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

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed above;
- updated its economic outlook – principally for the purposes of inputs into its ECL through the application of forward-looking information, but also for input into the impairment analysis of financial and non-financial asset classes and disclosures such as fair value disclosures of financial assets and liabilities;
- conducted several internal processes to ensure consistency in the application of the expected impact of COVID-19 across all asset classes;
- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19; and
- considered the impact of COVID-19 on the Company's financial statement disclosures.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

i) Basis of preparation (continued)

Coronavirus (COVID-19) impact (continued)

Consideration of the balance sheet and further disclosures

Key balance sheet items and related disclosures that have been impacted by COVID-19 were as follows:

Derivative assets and liabilities

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

Loan assets and other assets

In response to COVID-19 the Company undertook a review of wholesale credit portfolios and other financial asset exposures, as applicable, and the expected credit losses ("ECL") for each. The review considered the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. The ECL methodology, SICR thresholds, and definition of default remained consistent with prior periods. The impact of COVID-19 on the credit risk management disclosures, notably in relation to credit quality and collateral and other credit enhancements was also considered. Refer to Note 11 and Note 24.

Tangible assets and right-of-use assets

Given the impact of COVID-19, the Company's property, plant and equipment and right-of-use assets were subject to impairment testing which concluded that no material impairment was required. Refer to Note 9.

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

IFRS Revised Conceptual Framework for Financial Reporting

The revised IFRS Framework is effective for the Company's annual financial reporting period beginning on 1 April 2020. The IFRS Framework provides the IFRS with a base of consistent concepts upon which future accounting standards will be developed. The IFRS Framework will also assist financial report preparers to develop consistent accounting policies when there is no specific or similar standard that addresses an issue.

IFRS 16 *Leases*

IFRS 16 replaced IAS 17 *Leases* for the Company's financial year that commenced on 1 April 2019. Subject to certain exceptions, contracts that are leases within the scope of IFRS 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability. The classification of leases where the Company is a lessor remains unchanged under IFRS 16.

Transition:

The Company has applied IFRS 16 from 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and Interpretation 4 *Determining whether an arrangement contains a lease* . The resultant reclassifications and adjustments arising upon transition to the new standard have been recognised in the opening profit and loss account on 1 April 2019.

At transition, the Company recognised lease liabilities of £745,000 as a part of other liabilities and ROU assets of £643,000 as a part of property, plant and equipment. After adjusting related amounts previously recorded on the balance sheet, this resulted in a reduction to retained earnings of £58,000 (post tax). Judgement has been applied by the Company in determining the transition adjustment which includes the period over which the lease exists, the incremental borrowing rate of the lessee entities within the Macquarie Group, and the variability of future cash flows.

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

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

i) Basis of preparation (continued)

IFRIC 23 Interpretation 23 *Uncertainty over Income Tax Treatment*

IFRIC Interpretation 23 (Interpretation 23) clarified the application of the recognition and measurement criteria in IAS 12 Income Taxes (IAS 12) where there is uncertainty over income tax treatments and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

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

Interpretation 23 is effective for the Company's annual financial reporting period beginning on 1 April 2019. The Company's existing recognition and measurement accounting policies, together with accounting related judgements, were in alignment with those required by Interpretation 23 and hence no transition adjustment to retained earnings was required. The adoption of Interpretation 23 did not have a material impact on the Company's financial statements. The Company has not restated the comparative financial reporting period.

IAS 19 *Employee benefits*

An amendment to IAS 19 Employee Benefits (IAS 19) specifies how an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment to IAS 19, which was applied by the Company from 1 April 2019 did not have a material impact on the Company's financial statements.

ii) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

iii) Foreign currency translations

Functional and presentation currency

The functional currency of the Company is determined as the currency of the primary economic environment in which the Company operates. The Company's financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on financial instruments measured at fair value through profit or loss, are reported as part of the fair value gain or loss in the profit and loss accounts. For the detailed policy on Financial instruments refer Note 2(vi).

Branches

During the financial year the Company operated branches in Austria and Germany. On 3 March 2020, regulated activities ceased and closure of the Company's Austria branch occurred. The results and financial position of the Company's branches that have a functional currency other than Pounds Sterling are translated into Pounds Sterling as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet,
- income and expenses for each profit and loss account are translated at actual exchange rates at the dates of the transactions, and
- all resulting exchange differences are recognised in other comprehensive income ("OCI") within a separate component of reserves, being the foreign currency translation reserve ("FCTR").

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

iii) Foreign currency translations (continued)

Branches (continued)

Foreign currency gains and losses on intragroup loans are recognised in the profit and loss account except where the loan is in-substance part of the Company's net investment in the foreign operation, in which case the foreign currency gains and losses are recognised in the Company's FCTR.

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

iv) Revenue and expense recognition

Net interest income

Interest income and interest expense are recognised using the effective interest rate ("EIR") method for financial assets, and liabilities carried at amortised cost. 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 or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in the profit and loss accounts over the expected life 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 re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL. 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 subsequently classified as credit-impaired, is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income on financial assets and liabilities that are classified as fair value through profit or loss ("FVTPL") is accounted for on a contractual rate basis.

Fee and commission income

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

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

Other fee and commission income - Other fee and commission income includes management fee income earned on underlying European funds management activities, fee income for facilitation of Commodities and Global Markets Group's trading activities and other fees earned on lending activities which are recognised when the performance obligation is satisfied.

Other operating income and charges

Other operating income and charges includes net trading income, credit impairment charges and reversals on financial assets, gains on sale of loan assets, gains on sale of management rights and other income.

Net trading income comprises gains and losses relating to derivative assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

iv) Revenue and expense recognition (continued)

Expenses

Expenses are recognised in the profit and loss account as and when the provision of services is received.

Fee share from/shared with related entities

Fee shared with related entities is recognised as per the agreed fee sharing arrangement.

Fee expense

Management fees and cost recoveries are charged to the Company in respect of services provided by other Macquarie Group undertakings as per the agreed cost sharing arrangement. Such expenses are recognised on an accrual basis in accordance with the standard recovery methodology applied by the servicing entity.

v) Taxation

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

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or when a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered, or the liabilities are settled under enacted or substantively enacted tax law.

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

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

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

The Company 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 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 Company undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Company 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.

vi) Financial instruments

Recognition of financial instruments

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

A financial instrument is initially recognised at fair value and is adjusted for (in the case of instruments not carried at FVTPL) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument. Transaction costs relating to financial instruments carried at FVTPL are expensed in the profit and loss account.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

vi) Financial instruments (continued)

Derecognition of financial instruments

Financial assets

Financial assets are de-recognised from the balance sheet when:

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

In transactions where the Company 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 Company is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Company 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 balance sheet when the Company's obligation has been discharged, cancelled or has expired.

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

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

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

Solely payment of principal and interest ("SPPI")

The contractual cash flows of a financial asset are assessed to determine whether these represent solely payments of principal and interest on the principal amount outstanding. This includes an assessment of whether cash flows reflect primarily 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.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

vi) Financial instruments (continued)

Classification and subsequent measurement (continued)

Amortised cost

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

i. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;

ii. the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements; and,

iii. the financial asset has not been designated to be measured at FVTPL.

Interest income determined in accordance with the EIR is recognised in interest income. Gains and losses arising from the derecognition of financial assets that are measured on an amortised cost basis are recognised in other income as part of other operating income and charges.

Fair value through other comprehensive income (FVOCI)

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

i. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

ii. the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements; and,

iii. the financial asset has not been designated to be measured at FVTPL.

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

Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised as part of other operating income and charges in the profit and loss account.

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

- financial assets that are held for active trading (held for trading or 'HFT'). This classification includes all derivative financial assets;
- 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);
- 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; or
- financial assets that fail the SPPI test (FVTPL).

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

The interest component of financial assets that are classified as HFT, DFVTPL and FVTPL are recognised in interest income.

For financial instruments measured at FVTPL, the best evidence of fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Company 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 is deferred and is recognised in the profit and loss account over the life of the transaction or when the inputs become observable. The Company applies this day 1 profit or loss policy to all financial instruments measured at fair value.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

vi) Financial instruments (continued)

Classification and subsequent measurement (continued)

Reclassification of financial instruments

The Company 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 Company does not reclassify financial liabilities after initial recognition.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either held for trading purposes, in which case they are classified as HFT.

All derivative liabilities are classified as HFT.

The changes in fair value of financial liabilities that are classified as HFT are recognised as part of net trading income. The interest component of financial liabilities that are classified as HFT is recognised in interest expense.

Offsetting of financial instruments

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

vii) Reverse repurchase agreements

As part of its financing activities, the Company enters into reverse repurchase agreements, where the Company purchases securities under an agreement to resell on a collateralised basis. The securities subject to the reverse repurchase are not recognised on the balance sheet of the Company, as the risks and rewards of ownership remain with the initial holder. These reverse repurchase agreements which are held in the Company's liquid asset portfolio are measured at FVOCI to reflect the Company's business model to both collect contractual cash flows and with the intention to sell. Refer Note 2(vi) for the detailed Financial Instruments accounting policy.

In the comparative period, reverse repurchase agreements were held at FVTPL. Upon further analysis, the Company has identified that the reverse repurchase agreements held are managed under a business model to both collect contractual cash flows and with the intention to sell and thus are held at FVOCI. The impact in the measurement is immaterial.

viii) Derivative instruments

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

Derivatives are recognised in the balance sheet as an asset where they have a positive fair value at 31 March or as a liability where the fair value at 31 March is negative.

Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate.

ix) Margin money and settlement assets and liabilities

Margin money includes default fund contributions placed with the clearing houses, funds received from clients not placed with the clearing houses (see Note 2(xxiv) Comparatives) and funds received for other derivatives transactions. Settlement balances represents outstanding balances as at the reporting date due to the timing difference between trade date and settlement date. Balances are carried at amortised cost.

Notes to the financial statements for the financial year ended 31 March 2020 *(continued)*

Note 2. Summary of significant accounting policies (continued)

x) Loan assets

This category includes loans that are not held for trading purposes and typically includes the Company's lending activities to its customers and amounts due from related entities.

Loan assets are initially recognised at fair value adjusted for directly attributable transaction costs on settlement date. Loan assets are subsequently measured in accordance with the Company's accounting policy for financial instruments Note 2(vi).

Certain finance lease receivables are also presented as part of loan assets. For the detailed policy on financial instruments, including treatment on derecognition, refer to Note 2(vi) and Note 2(xx).

xi) Cash and cash equivalents

Cash and cash equivalents comprise of cash and bank balances and certain trading assets and liquid financial investments with an original contractual maturity of three months or less from the date of acquisition.

xii) Due to/ from related entities

Transactions between the Company and related entities principally arise from the provision of banking and other financial services, lending arrangements and acceptance of funds on deposit, interCompany services and transactions and the provision of financial guarantees. Refer to Note 2(iv) *Revenue and expense recognition* and Note 2(vi) *Financial instruments*.

Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 2(vi)), such that the net amount is reported in the balance sheet.

xiii) Tangible assets & right-of-use assets

Tangible assets & right-of-use assets ("ROU") are stated at historical cost (which includes, where applicable, directly attributable borrowing costs) less, where applicable, accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset. Tangible assets & right-of-use assets include assets leased out under operating leases. Depreciation on all assets is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following annual depreciation rates:

Furniture, fittings and leasehold improvements*	10 to 20 percent
Right-of-use asset: Property	3 to 67 percent

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

Useful lives, residual values and depreciation methods are reviewed annually and reassessed in 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 in the profit and loss account.

xiv) Deposits

Deposits include balances such as customer deposits which are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

xv) Other assets and liabilities

Contract assets and contract liabilities

Where the Company provides services to clients and the consideration is unconditional, a receivable is recognised. Contract receivables are assessed for impairment in accordance with IFRS 9.

The Company, as permitted by IFRS 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 Company 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.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

xvi) Provisions

Employee benefit provisions

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

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet 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 applicable 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 is legally released from the obligation and does not retain a constructive obligation.

Other provisions

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.

xvii) Payables to financial institutions

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

xviii) Impairment

Expected credit losses ("ECL")

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Outcomes within the next financial year 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 1 – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk ("SICR") since the initial recognition, ECL is determined based on the PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

ii) Stage 2 – Lifetime ECL not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Company applies its judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Company's process to determine whether there has been a SICR is provided in Note 11 *Expected credit losses*.

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

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

xviii) Impairment (continued)

Expected credit losses (continued)

iii) Stage 3 – Lifetime ECL credit-impaired

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

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

Presentation of loss allowances

The loss allowances for ECL are presented in the balance sheet as follows:

- Loan assets, loans to associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount;
- Lease receivables, contract receivable and other assets measured at amortised cost – as a deduction to the gross carrying amount;
- Undrawn credit commitments – as a provision.

When the Company concludes that there is no reasonable expectation of recovering cash flows from the loan asset or debt financial investment and all possible collateral has been realised, financial assets 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.

xix) Performance based remuneration

Share-based payments

The ultimate parent Company, MGL, operates share based compensation plans, being 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 22 – Employee equity participation. The Company 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. The Company recognises a prepaid asset at grant for these awards, since MGL is reimbursed in advance. This amount is recognized as an expense over the respective vesting periods. MGL recognises a corresponding increase in equity for the equity settled awards granted to employees.

Profit share remuneration

The Company 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.

xx) Leases

Determine whether an arrangement contains a lease

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

Accounting where the Company is lessee

The Company leases corporate buildings for which contracts are typically entered into for fixed periods and may include extension options. Leases are recognised as a ROU asset and a corresponding liability at the commencement date, being the date, the leased asset is available for use by the Company.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

xx) Leases (continued)

Accounting where the Company is lessee (continued)

Lease liabilities

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

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

When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the ROU asset, or, in the profit and loss account, where the carrying value of the ROU asset has been fully written down.

Right-of-use asset

ROU assets are measured at cost and comprise of the amount that corresponds to the amount recognised for the lease liability on initial recognition together with any lease payments made at or before the commencement date (less any lease incentives received), initial direct costs and restoration-related costs. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, in accordance with the rates specified in Note 2(xiii) Tangible assets & right-of-use assets. The depreciation charge relating to corporate building leases is presented as part of 'occupancy expenses' while depreciation relating to leases entered into by trading-related businesses is presented as part of net trading income in the profit and loss account. The Company 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' in the profit and loss account.

Presentation

The Company presents ROU assets in 'Tangible assets & right-of-use assets' (refer to Note 2(xiii)) and lease liabilities in 'other liabilities' (refer to Note 15) in the balance sheet.

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

Accounting where the Company is 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 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. Lease income is recognised over the term of the lease using the EIR method, which reflects a constant rate of return.

xxi) Called up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 2. Summary of significant accounting policies (continued)

xxii) Risk transfer agreements

The Company has entered into financial arrangements/instruments with external counterparties. The credit and market risk associated with most of these transactions is transferred from the Company to MBL, via the RTA, in the form of back to back trades with MBL. The effect of these agreements is to pass on the risks and rewards of the underlying transactions. These arrangements do not meet the derecognition criteria under IAS 39 Financial Instruments: Recognition and Measurement.

xxiii) Fiduciary assets

The Company engages in fiduciary activities that result in the holding or placing of assets on behalf of third parties. Where such assets are controlled, and future economic benefits are expected to be realised by the Company, such assets and the income thereon are reflected in the balance sheet and profit and loss account respectively. Where this is not the case, these assets and the income thereon are excluded from the Company's financial statements as they are not the assets of the Company. Fee income earned, by the Company relating to its responsibilities from fiduciary activities is included in the Company's profit and loss account.

xxiv) Comparatives

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

Changes to the Company's balance sheet

As part of an assessment of the impact of the International Accounting Standards Board (IASB's) revised Conceptual Framework (IFRS framework) on the Company's financial statements (Note 2(i)), a review of client monies was undertaken to verify whether such balances met the revised definition of an asset, i.e. "a present economic resource controlled by the entity as a result of past events".

The review concluded that certain client-related margin money deposited with clearing houses did not meet the revised definition of an asset. This was determined by taking into consideration whether the Company has control of these balances, and the extent of the Company's exposure to risks and rewards in relation to these balances. Further, in considering the practical application of the current definition of an asset to client monies, it was noted that changes in industry practice along with accounting developments with respect to the control concept necessitated a change in the Company's accounting policy as it relates to client monies.

As a result of the retrospective application of the revised accounting policy (refer to Note 2(xxiii) Fiduciary assets), the Company's balance sheet has been represented to remove client-related margin money deposited with clearing houses. In addition, the amendments resulted in presentational changes to the Company's profit and loss accounts (relating to interest income and interest expense from client monies previously reported as on balance sheet, being reclassified as fee and commission income) with no impact on reserves.

As at 31 March 2020, this resulted in a reduction of:

- margin money and settlement assets of £127,894,000 (31 March 2019: £212,117,000),
- derivative assets of £7,712,000 (31 March 2019: £nil),
- *margin money and settlement liabilities of £127,894,000 (31 March 2019: £212,117,000),*
- derivative liabilities of £7,712,000 (31 March 2019: £nil),
- interest income of £1,022,000, and
- interest expense of £1,022,000.

The impact on previous year profit and loss account was considered not material for the Company for restatement.

xxv) Rounding of amounts

All amounts in the Strategic Report, Directors' Report and Financial Statements have been rounded to the nearest thousand pound sterling (£'000) unless otherwise indicated.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Note 3. Profit on ordinary activities before taxation		
Net interest income		
Interest receivable and similar income from:[1]		
Other related entities	**5,126**	7,851
Unrelated parties	**21,293**	22,579
Finance lease income from unrelated parties	**275**	1,374
Interest payable and similar charges to:		
Other related entities	**(17,094)**	(21,173)
Unrelated parties	**(2,479)**	(4,245)
Net interest income	**7,121**	6,386

[1]Includes interest income calculated using the effective interest method of £23,977,000 (2019: £31,804,000) on financial assets that are measured at amortised cost and £2,717 (2019: £nil) on financial assets that are measured at FVOCI.

	2020 £'000	2019 £'000
Net fee and commission income		
Brokerage and commission income	**7,404**	2,473
Other fee and commission income	**54,920**	30,295
Other fee and commission expense	**(24,141)**	(30,595)
Net fee and commission income	**38,183**	2,173

	2020 £'000	2019 £'000
Other operating income and charges		
Net trading loss	**(15,675)**	(924)
Loss on sale of investment in a subsidiary	**-**	(710)
Gain on sale of management rights	**134**	-
Gain on transfer of loans to other Macquarie Group undertakings	**-**	3,106
Credit impairment reversals/(charges)[1]	**4**	(39)
Gain on sale of loan assets	**1,306**	-
Other income	**3**	62
Total other operating (expense)/income	**(14,228)**	1,495
Total operating income	**31,076**	10,054

[1]The change in expected credit losses relating to financial assets under IFRS 9 is recorded under Credit impairment charges.

	2020 £'000	2019 £'000
Administrative expenses		
Staff costs:		
Wages and salaries	**(1,001)**	(816)
Staff benefit costs	**(43)**	(62)
Social security costs	**(87)**	(19)
Share-based payment costs	**(55)**	(85)
Other staff costs (expense)/release	**(209)**	13
Directors' emoluments	**(111)**	(225)
Auditors' remuneration[1]		
Fees payable to the Company's auditors for the audit of the Company	**(217)**	(118)
Fees payable to the Company's auditors and its associates for other services pursuant to legislation	**(64)**	(55)
Fees payable to the Company's auditors and its associates for other non-audit services	**-**	(1)
Depreciation	**(141)**	(3)
Services from other Macquarie Group undertakings	**(669)**	(1,887)
Other professional fees	**(1,381)**	(1,311)
Other expenses	**(499)**	(457)
Total administrative expenses	**(4,477)**	(5,026)

[1]Fees payable to the Company's auditors for current year includes £61,000 relating to previous year.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 4. Employment information

The average number of persons employed by the Company during the financial year calculated on a monthly basis was 4 (2019: 6) under the CGM business.

	2020 £'000	2019 £'000
Note 5. Tax on profit on ordinary activities		
(i) Tax expense included in profit or loss		
Current tax:		
UK corporation tax	**(4,916)**	(1,121)
Adjustments to tax in respect of prior years	**(1,880)**	58
Foreign tax suffered	**(47)**	(25)
Total current tax	**(6,843)**	(1,088)
Deferred tax:		
Origination and reversal of temporary differences	**(2,100)**	12
Adjustments to tax in respect of prior years	**1,902**	36
Change in tax rate	**(610)**	(1)
Total deferred tax	**(808)**	47
Tax on profit on ordinary activities	**(7,651)**	(1,041)

(ii) Reconciliation of effective tax rate

The income tax charge for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020	2019
Profit on ordinary activities before taxation multiplied by standard rate	**26,599**	5,028
of corporation tax in the UK of 19% (2019: 19%)	**(5,054)**	(955)
Effects of:		
Adjustments to tax in respect of prior years	**23**	94
Foreign tax incurred	**(47)**	(25)
Double tax relief	**-**	-
Bank surcharge tax	**(1,414)**	(176)
Non deductible expenses	**26**	(135)
Non assessable income	**(14)**	135
Share-based payments	**(27)**	22
DTA on losses write off for rate differential	**(534)**	-
Effect of changes in tax rates	**(610)**	(1)
Total tax on profit on ordinary activities	**(7,651)**	(1,041)

The UK Corporation tax main rate for the financial year beginning 1 April 2020 will remain at 19%. This reverses the previously enacted rate change reducing the rate to 17%. The current rate for the banking surcharge is 8%.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000

Note 5. Tax on profit on ordinary activities (continued)

	2020 £'000	2019 £'000
(iii) Deferred tax comprises temporary differences attributable to:		
Other assets	**380**	857
Tax losses	**-**	494
Fixed assets	**589**	610
Total deferred tax assets	**969**	1,961
Other liabilities	**(188)**	(196)
Total deferred tax liabilities	**(188)**	(196)
Net deferred tax assets	**781**	1,765

	2020 £'000	2019 £'000
(iv) Reconciliation of the Company's movement in deferred tax assets:		
Balance at the beginning of the financial year	**1,961**	1,983
Temporary differences:		
Amounts credited to profit and loss	**(2,761)**	(5)
Adjustments to tax in respect of prior years	**1,903**	36
Change in tax rate	**132**	(7)
Balance sheet reclassification and foreign exchange	**-**	(51)
Deferred tax charged to equity	**(266)**	5
Balance at the end of the financial year	**969**	1,961

	2020 £'000	2019 £'000
(iv) Reconciliation of the Company's movement in deferred tax liabilities:		
Balance at the beginning of the financial year	**(196)**	-
Temporary differences:		
Amounts debited to reserves	**24**	(201)
Change in tax rate	**(16)**	5
Balance at the end of the financial year	**(188)**	(196)

Note 6. *Receivables from financial institutions*

	2020 £'000	2019 £'000
Cash and cash equivalents[1]	**81,700**	93,470
Reverse repurchase agreements	**307,437**	208,424
Amounts owed by other Macquarie Group undertakings	**400,195**	188,290
Total receivables from financial institutions	**789,332**	490,184

[1]Amounts held with unrelated banks are at fixed monthly rates and are either callable on demand or mature monthly.
The above amounts are expected to be recovered within 12 months of the balance sheet date by the Company.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 7. Derivative financial instruments

The following tables provide details of the Company's outstanding derivative financial instruments as at 31 March 2020.

	2020 Notional amount £'000	2020 Asset valuation £'000	2020 Liability valuation £'000	2020 Net fair value £'000	2019 Notional amount £'000	2019 Asset valuation £'000	2019 Liability valuation £'000	2019 Net fair value £'000
Interest rate contracts								
Forwards	45,478	58	(58)	-	90,297	593	(593)	-
Swaps	252,466	2,831	(2,871)	(40)	42,835	784	(792)	(8)
Options	97,961	1,302	(1,302)	-	-	-	-	-
Total interest rate contracts	395,905	4,191	(4,231)	(40)	133,132	1,377	(1,385)	(8)
Foreign exchange contracts								
Forwards	2,728,148	56,080	(58,972)	(2,892)	2,366,300	43,258	(43,660)	(402)
Swaps	437,473	13,164	(13,164)	-	317,791	4,613	(4,613)	-
Options	2,230,377	40,862	(40,862)	-	1,983,527	17,304	(17,304)	-
Total Foreign exchange contracts	5,395,998	110,106	(112,998)	(2,892)	4,667,618	65,175	(65,577)	(402)
Commodity contracts								
Forwards	1,313,273	138,530	(138,530)	-	1,110,984	32,252	(32,252)	-
Swaps	5,546,294	1,033,336	(1,033,336)	-	5,124,065	182,302	(182,302)	-
Options	869,223	201,419	(201,419)	-	586,101	19,590	(19,590)	-
Total commodity contracts	7,728,790	1,373,285	(1,373,285)	-	6,821,150	234,144	(234,144)	-
Total derivative contracts outstanding	13,520,693	1,487,582	(1,490,514)	(2,932)	11,621,900	300,696	(301,106)	(410)
Valuation adjustment (XVA)		(16,778)	2,033	(14,745)		(1,575)	689	(886)
Net derivative contracts outstanding	13,520,693	1,470,804	(1,488,481)	(17,677)	11,621,900	299,121	(300,417)	(1,296)

Note 8. Margin money and settlement assets

	2020 £'000	2019 Restated[1] £'000
Margin money owed by other Macquarie Group undertakings	154,008	11
Margin money with external parties	156,164	97,198
Total margin money and settlement assets	310,172	97,209

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

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Note 9. Other assets		
Amounts owed by other Macquarie Group undertakings[1]	**9,293**	19,849
Debtors and prepayments	**140**	2,952
VAT receivable	**158**	58
Tangible assets	**530**	2
Other	**-**	6
Total other assets	**10,121**	22,867

[1]Amounts owed by other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company derives interest on intercompany balances to group undertakings at market rates and at 31 March 2020 the rate applied ranged between LIBOR plus 1.13% and LIBOR plus 2.30% (2019: between LIBOR plus 1.18% and LIBOR plus 2.08%).

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

Note 10. Loan assets

	2020			2019		
	Gross £'000	**ECL allowance £'000**	**Net £'000**	Gross £'000	ECL allowance £'000	Net £'000
Loans and advances	**271,594**	**(805)**	**270,789**	232,722	(833)	231,889
Lease receivables	**2,821**	**(12)**	**2,809**	2,343	(1)	2,342
Total loan assets	**274,415**	**(817)**	**273,598**	235,065	(834)	234,231

Included within this balance is an amount of £174,853,000 (2019: £228,612,000) which is expected to be recovered within 12 months of the balance sheet date by the Company.

Finance lease receivables

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

	2020			2019		
	Gross investment in finance lease receivables £'000	**Unearned income £'000**	**Present value of minimum lease payment receivable £'000**	Gross investment in finance lease receivables £'000	Unearned income £'000	Present value of minimum lease payment receivable £'000
Within one year	**27**	**-**	**27**	991	(84)	907
Between one and five years	**2,948**	**(166)**	**2,782**	1,502	(66)	1,436
Total	**2,975**	**(166)**	**2,809**	2,493	(150)	2,343

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 11. Expected credit losses

Background

At the reporting date the Company has presented the ECL allowances in its balance sheet as follows:

- Financial assets measured at amortised cost: Deduction against the gross carrying amount.
- Undrawn credit commitments: Recognised as a provision and included in other liabilities.

Model inputs

The Company models 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. For this purpose, the Company split its credit portfolio among other related Macquarie group entities and wholesale exposures.

The key model inputs used in measuring the ECL include:

- *Exposure at default:* The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible scenarios including both repayments and future drawdowns of unutilised commitments up to the potential date of default. For internals, this is based on net balance in the books of accounts.
- *Probability of default:* The determination of PDs for wholesale exposures is generally performed at a facility level. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for wholesale portfolios are also adjusted for Forward looking information (FLI). For internals, this is based on internally assigned rating grades of each entity and if not rated, this is based on the lowest existing rating grade. This is assessed and potentially adjusted on a semi-annual basis.
- *Loss given default (LGD):* The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI.

Method of determining significant increase in credit risk (SICR)

The Company periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Company's material wholesale portfolios. Qualitative factors include, but are not be limited to, whether an exposure has been identified and placed on CreditWatch. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the 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 approach which considers changes in an underlying exposure's credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other similar exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

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

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 11. Expected credit losses (continued)

Wholesale exposures

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

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

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

Definition of default

The Company'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 Company to the realisation of collateral; or the borrower is 90 days or more past due.

The Company periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower which includes 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.

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

Forward looking information

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 Company has identified several key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), the unemployment rate, the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between various market indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the model build, calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

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

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 are probability weighted and then applied to the exposure's PDs and LGDs. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 11. Expected credit losses (continued)

The table below presents the gross exposure and related ECL allowance for each class of assets and off-balance sheet items subject to impairment requirements of IFRS 9.

	As at 31 March 2020		As at 31 March 2019	
	Gross exposure £'000	**ECL allowance £'000**	Gross exposure £'000	ECL allowance £'000
Receivables from financial institutions[1]	**789,244**	**9**	490,184	-
Margin money and settlement assets[2]	**310,172**	**-**	97,209	-
Other assets	**9,402**	**-**	19,850	1
Loan assets	**274,415**	**817**	235,065	834
Undrawn credit commitments and financial guarantees[3]	**73,829**	**64**	59,877	43
Total credit impaired financial assets	**1,457,062**	**890**	902,185	878

[1]Consists of short-term, fully collateralised or high quality liquid assets with minimal expected and historical losses.

[2]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

[3]Gross exposure for undrawn credit commitments and financial guarantees represents notional values of these contracts.

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

	Receivables from financial institutions £'000	Margin money and settlement assets £'000	Other assets £'000	Loan assets £'000	Undrawn credit commit ments and financial guarantees £'000	Total £'000
Balance as at 1 April 2019	-	-	1	834	43	878
Impairment charge/(reversal)	10	-	-	(33)	19	(4)
Foreign exchange movement	(1)	-	(1)	16	2	16
Balance as at 31 March 2020	**9**	**-**	**-**	**817**	**64**	**890**

The table below represents the reconciliation from the opening balance to the closing balance of the ECL allowance on loan assets to which the impairment requirements under IFRS 9 are applied.

ECL on Loan assets

		Lifetime ECL		
	Stage I 12 month ECL £'000	Stage II Not credit impaired £'000	Stage III Credit impaired £'000	Total £'000
Balance as at 1 April 2019	834	-	-	834
Transfers during the financial year:				
To 12 month ECL	(240)	240	-	-
Impairment reversal	(33)	-	-	(33)
Foreign exchange movement	16	-	-	16
Balance as at 31 March 2020	**577**	**240**	**-**	**817**

The net movement in ECL allowance for loan assets is primarily due to the change in forward looking information considering noticeable changes in macro-economic variables and re-weighting of scenarios and deterioration in the credit quality.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 Restated[1] £'000
Note 12. Margin money and settlement liabilities		
Margin money owed to other Macquarie Group undertakings	**10,827**	85,534
Margin money deposits from external parties	**661,006**	60,958
Total margin money and settlement liabilities	**671,833**	146,492

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

	2020 £'000	2019 £'000
Note 13. Deposits		
Deposits	**4,406**	987
Total deposits	**4,406**	987

Included within this balance is an amount of £3,119,000 (2019: £987,000) which is expected to be settled within 12 months of the balance sheet date by the Company.

	2020 £'000	2019 £'000
Note 14. Payables to financial institutions		
Amounts owed to other Macquarie Group undertakings	**208,995**	219,507
Amounts owed to other banks	**88,573**	78,189
Total payables to financial institutions	**297,568**	297,696

Included within this balance is an amount of £269,099,000 (2019: £254,881,000) which is expected to be settled within 12 months of the balance sheet date by the Company.

	2020 £'000	2019 £'000
Note 15. Other liabilities		
Accrued charges and sundry provisions	**441**	666
Amounts owed to other Macquarie Group undertakings[1]	**10,261**	34,371
Deferred income[2]	**297**	688
Lease liabilities	**616**	-
Other	**232**	2,068
Total other liabilities	**11,847**	37,793

[1]Amounts owed to other Macquarie Group undertakings are unsecured and have no fixed date of repayment. The Company incurs interest on intercompany balances at market rates and at 31 March 2020 the rate applied was LIBOR plus 1.25% (2019: LIBOR plus 1.46%).

[2]Deferred income represents discounts received on undrawn loan commitments. This is amortised on an effective interest rate basis over the life of each loan facility once drawn or released at the maturity of the commitment.

The majority of the above amounts except deferred income are expected to be settled within 12 months of the balance sheet date by the Company.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Note 16. Provisions		
Provision for employee entitlements	**112**	875
ECL provisions for undrawn commitments	**64**	43
Legal provision[1]	**14,755**	18,107
Total provisions	**14,931**	19,025

[1]Relates to provision for which a loss is probable and can be reliably measured.

Maturity profile of provision for employee entitlements:		
Within 1 year	**103**	564
Between 1 and 2 years	**2**	147
Between 2 and 5 years	**7**	164
Balance at the end of the financial year	**112**	875

Reconciliation of provision for employee entitlements		
Balance at the beginning of the financial year	**875**	1,352
Provisions made during the financial year	**39**	171
Provisions utilised during the financial year	**(798)**	(653)
Foreign currency translation	**(4)**	5
Balance at the end of the financial year	**112**	875

Note 17. Capital management strategy

The Company is subject to the European Union ("EU") Capital Adequacy Directive minimum capital requirements as implemented by the Prudential Regulatory Authority in the UK. As such, the Company seeks to:

- Ensure sufficient capital resources are held to support the Company's business and operational requirements;
- Maintain sufficient capital to exceed externally imposed capital requirements; and
- Safeguard the Company's ability to continue as a going concern.

The components of the Company's regulatory capital base are share capital, other reserves and the profit and loss account.

The Company operates within the framework of the Macquarie Group policy to upstream profits in the form of dividends to MGL. The dividend capacity of the Company is assessed semi-annually. The dividend is set by the Directors after considering the required level of capital to meet current and expected business activities.

There has been no change to the approach of managing capital during the year ended 31 March 2020 by the Company in comparison to the prior financial year. At all times during the year ended 31 March 2020 the Company was in compliance with both internally and externally imposed capital requirements to which it is subject to. As such, there was no consequence of non-compliance imposed upon the Company.

As part of the consolidated MBL group, the capital requirements also form part of the disclosures provided within the consolidated financial statements of MBL and MGL, which are available from the address given in Note 30.

The return on assets for the financial year ended 31 March 2020 was 0.66 per cent (2019: 0.35 per cent), calculated as profit attributable to ordinary equity holders divided by the total assets of the Company.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 18. Called up share capital

	2020 Number of shares	2019 Number of shares	2020 £'000	2019 £'000
Ordinary share capital				
Opening balance of fully paid ordinary shares	**330,000,000**	200,000,000	**330,000**	200,000
Issue of ordinary shares on 21 September 2018 at £1 per share	**-**	130,000,000	**-**	130,000
Closing balance of fully paid ordinary shares	**330,000,000**	330,000,000	**330,000**	330,000
Authorised share capital				
Ordinary shares of £1 each	**400,000,000**	400,000,000	**400,000**	400,000
Total authorised share capital	**400,000,000**	400,000,000	**400,000**	400,000

Note 19. Contribution from ultimate parent entity in relation to share-based payments

	2020	2019
Opening balance of contribution from ultimate parent entity in relation to share-based payments	**1,219**	1,152
Deferred tax on share-based payments	**(157)**	67
Closing balance of contribution from ultimate parent entity in relation to share-based payments	**1,062**	1,219

Note 20. Reserves and profit and loss account

	2020	2019
Reserves		
Foreign currency translation reserve		
Balance at the beginning of the financial year	**(544)**	(687)
Exchange differences on translation of foreign operations	**(301)**	143
Balance at the end of the financial year	**(845)**	(544)

Exchange differences arising from the translation of the Company's foreign branches, which have functional currencies other than pound sterling, are taken to the foreign currency translation reserve.

	2020	2019
FVOCI reserve		
Balance at the beginning of the financial year	**-**	-
Revaluation losses recognised in OCI, net of tax	**101**	-
Balance at the end of the financial year	**101**	-

	2020	2019
Profit and loss account		
Balance at the beginning of the financial year	**11,886**	7,247
Change on initial application of IFRS 16 (Note 2(i))	**(58)**	-
Change on initial application of IFRS 9	**-**	652
Restated balance as at 1 April	**11,828**	7,899
Profit for the financial year	**18,948**	3,987
Balance at the end of the financial year	**30,776**	11,886
Total profit and loss account	**30,776**	11,886

Note 21. Directors' remuneration

Directors' emoluments paid by the Company for the financial year ended 31 March 2020 were £111,000 (2019: £160,000).

During the financial years ended 2020 and 2019, all Directors, apart from the Independent Non-Executive Directors, were employed by and received all emoluments from other Macquarie Group undertakings. The Directors perform Directors' duties for multiple entities in the Macquarie Group, as well as their employment duties within Macquarie Group businesses. Consequently, allocating their employment compensation accurately across all these duties would not be meaningful. Accordingly, no separate remuneration has been disclosed apart from where stated above.

Notes to the financial statements
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(continued)

Note 22. Employee equity participation

Macquarie Group Employee Retained Equity Plan ("MEREP")

The Company participates in MGL's 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.

RSU awards granted during the financial year were 360 (2019: nil). There were no RSUs on issue at the end of the current or last financial year.

The weighted average fair value of the RSU awards granted during the financial year was A$126.62 (2019: nil).

Deferred Share Units ('DSUs')

A DSU represents a 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 Australian Stock Exchange ("ASX") Listing Rules, so that the holder of a DSU does not receive a benefit that holders of the Company's shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights with respect to any underlying MGL ordinary share.

DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical. DSUs have been granted with an expiry period of up to nine years.

The weighted average fair value of the DSU awards granted during the financial year was A$126.62 (2019: A$122.03).

	Number of DSU Awards	
	2020	2019
DSUs on issue at the beginning of the financial year	**6,926**	10,099
Granted during the financial year	**480**	960
Exercised during the financial year	**(1,915)**	(4,133)
Transfers to related body corporate entities	**(2,891)**	-
DSUs on issue at the end of the financial year	**2,600**	6,926
DSUs exercisable at the end of the financial year	**2,407**	2,681

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 22. Employee equity participation (continued)

Macquarie Group Employee Retained Equity Plan ("MEREP") (continued)

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

– Staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards).

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards	Below Executive Director	1/3rd in the 2nd, 3rd and 4th year following the year of grant[1]

[1] Vesting will occur during an eligible staff trading window.

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

For Retained Profit Share awards representing 2019 retention, the allocation price was the weighted average price of the shares acquired for the 2019 purchase period, which was 13 May 2019 to 24 June 2019. That price was calculated to be A$122.37 (2018 retention: A$113.76).

Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value. This amount is recognised as an expense evenly over the respective vesting periods.

While RSUs and DSUs for financial year 2020 will be granted during financial year 2021, the Company began recognising an expense for these awards (based on an initial estimate) from 1 April 2019. The expense is estimated using the price of MGL ordinary shares as at 31 March 2020 and the number of equity instruments expected to vest. In the following financial year, the Company will adjust the accumulated expense recognised for the final determination of the fair value for each RSU and DSU when granted and will use this validation for recognising the expense over the remaining vesting period.

The Company 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 profit and loss account. For the financial year ended 31 March 2020, compensation expense relating to the MEREP totalled £55,000 (2019: £85,000).

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

	2020 £'000	2019 £'000
Note 23. Contingent liabilities and commitments		
Commitments exist in respect of:		
Undrawn credit facilities[1]	**73,829**	59,877
Total commitments	**73,829**	59,877
Total contingent liabilities and commitments	**73,829**	59,877

[1]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 Company.

The Company has no contingent liabilities which are individually material.

Note 24. Financial risk management

Risk Management Group

Risk is an integral part of the Macquarie Group's businesses. The material risks faced by the Company 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 at the business level. Part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Macquarie Group. RMG approval is required for all material risk acceptance decisions. RMG independently assesses and accepts all material risks and sets prudential limits, consistent with the Board approved Risk Appetite Statement. The Head of RMG 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.

During the current reporting period the Company's credit risk management framework remained consistent with that of the prior

The risks which the Company are exposed to are managed on a globally consolidated basis for MGL as a whole, including all subsidiaries, in all locations. Macquarie's internal approach to risk ensures that risks in subsidiaries are subject to the same rigour and risk acceptance decisions (i.e. not differentiating where the risk is taken within Macquarie).

24.1 Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not repaid, or the loss incurred in replicating a trading contract with a new counterparty. Credit risk within the Company is managed on a group basis by RMG at MGL. Certain business operations within the Company mitigate their exposure to credit risk by utilising the RTA to transfer credit risk to MBL.

Credit assessment and approval

Exercise of credit authority within Macquarie is undertaken under authority delegated by the MGL and MBL Boards directly. Credit risk assessment includes a comprehensive review of the creditworthiness of the counterparty and related entities, key risk and mitigants, and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year or more frequently if required. Retail credit exposures are monitored by the business units and overseen by RMG Credit on a portfolio basis.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)

24.1 Credit risk (continued)

All credit exposures are monitored regularly against limits. Credit exposures for loan assets are reported at amortised cost or fair value. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, the Company 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).

For internal balances, credit rating of each affiliate entity has been defined based on entity classification into bank or non-bank which is broadly aligned to external credit rating agencies. This is assessed and potentially adjusted on an annual basis, whenever required.

The balances disclosed in the credit risk tables include only those financial assets and off-balance sheet items that are subject to the impairment requirements of IFRS 9.

Ratings and reviews

Refer to Note 2(xviii) Expected credit losses for details regarding the manner in which the Company has adopted and applied IFRS 9's expected credit loss impairment requirements.

Wholesale rating

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

Credit grading	Internal rating	External equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Non-Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

Due from related parties

Balances with related parties 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 MGL board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

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

Credit quality of financial assets

The following tables disclose, by credit rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Company subject to the impairment requirements of IFRS 9. The credit quality is based on the counterparty's credit rating using the Company's credit rating system and excludes the benefit of collateral and credit enhancements.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)

24.1 Credit risk (continued)

Credit quality of financial assets (continued)

				As at 31 March 2020
	Stage I[1] £'000	Stage II[1] £'000	Stage III[1] £'000	Total £'000
Investment grade				
Receivables from financial institutions	789,244	-	-	789,244
Derivative assets	931,837	-	-	931,837
Margin money & settlement assets	223,674	-	-	223,674
Other assets	9,402	-	-	9,402
Loan assets	102,656	-	-	102,656
Undrawn credit commitments and financial guarantees	54,523	-	-	54,523
Total Investment grade	**2,111,336**	**-**	**-**	**2,111,336**
Non-Investment grade				
Receivables from financial institutions	-	-	-	-
Derivative assets	554,338	-	-	554,338
Margin money & settlement assets	86,498	-	-	86,498
Other assets	-	-	-	-
Loan assets	139,788	31,971	-	171,759
Undrawn credit commitments and financial guarantees	19,306	-	-	19,306
Total Non-Investment grade	**799,930**	**31,971**	**-**	**831,901**
Default				
Receivables from financial institutions	-	-	-	-
Derivative assets	1,407	-	-	1,407
Margin money & settlement assets	-	-	-	-
Other assets	-	-	-	-
Loan assets	-	-	-	-
Undrawn credit commitments and financial guarantees	-	-	-	-
Total default	**1,407**	**-**	**-**	**1,407**
Financial assets by ECL stage				
Receivables from financial institutions	789,244	-	-	789,244
Derivative assets	1,487,582	-	-	1,487,582
Margin money & settlement assets	310,172	-	-	310,172
Other assets	9,402	-	-	9,402
Loan assets	242,444	31,971	-	274,415
Undrawn credit commitments and financial guarantees	73,829	-	-	73,829
Total financial assets by ECL stage	**2,912,673**	**31,971**	**-**	**2,944,644**

[1]For definition of Stage I, II, III refer Note 2(xviii) – Expected credit losses. The ECL for the stage II and III assets includes the benefit of collateral and other credit enhancements.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)
24.1 Credit risk (continued)
Credit quality of financial assets (continued)

	As at 31 March 2019 Restated[1]			
	Stage I[2] £'000	Stage II[2] £'000	Stage III[2] £'000	Total £'000
Investment grade				
Receivables from financial institutions	490,184	-	-	490,184
Derivative assets	208,106	-	-	208,106
Margin money & settlement assets	97,209	-	-	97,209
Other assets	22,647	-	-	22,647
Loan assets	88,419	-	-	88,419
Undrawn credit commitments and financial guarantees	-	-	-	-
Total Investment grade	**906,565**	**-**	**-**	**906,565**
Non-Investment grade				
Receivables from financial institutions	-	-	-	-
Derivative assets	91,015	-	-	91,015
Margin money & settlement assets	-	-	-	-
Other assets	2	-	-	2
Loan assets	145,812	-	-	145,812
Undrawn credit commitments and financial guarantees	59,877	-	-	59,877
Total Non-Investment grade	**296,706**	**-**	**-**	**296,706**
Default				
Receivables from financial institutions	-	-	-	-
Derivative assets	-	-	-	-
Margin money & settlement assets	-	-	-	-
Other assets	-	-	-	-
Loan assets	-	-	-	-
Undrawn credit commitments and financial guarantees	-	-	-	-
Total default	**-**	**-**	**-**	**-**
Financial assets by ECL stage				
Receivables from financial institutions	490,184	-	-	490,184
Derivative assets	299,121	-	-	299,121
Margin money & settlement assets	97,209	-	-	97,209
Other assets	22,649	-	-	22,649
Loan assets	234,231	-	-	234,231
Undrawn credit commitments and financial guarantees	59,877	-	-	59,877
Total financial assets by ECL stage	**1,203,271**	**-**	**-**	**1,203,271**

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

[2]For definition of Stage I, II, III refer Note 2(xviii) – Expected credit losses. The ECL for the stage II and III assets includes the benefit of collateral and other credit enhancements.

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. For off-balance sheet instruments, the maximum exposure to credit risk generally represents the contractual notional amounts and is disclosed in Note 11 - Expected credit losses.

Credit risk concentration

The following tables detail the concentration of credit risk by significant geographical locations and counterparty type of the Company's financial assets measured at amortised cost or FVOCI and off-balance sheet exposures subject to impairment requirements of IFRS 9. The geographical location is determined by the country of risk or country of domicile.

For the purposes of the following disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)
24.1 *Credit risk (continued)*
Credit risk concentration

2020	Receivables from financial institutions £'000	Derivative assets £'000	Margin money & settlement assets £'000	Other assets £'000	Loan assets £'000	Credit commitments and contingent liabilities £'000	Total £'000
Australia							
Financial institutions	450,333	514,693	-	4,657	-	-	969,683
Total Australia	450,333	514,693	-	4,657	-	-	969,683
Americas							
Financial institutions	31,494	4,187	20,807	-	-	-	56,488
Total Americas	31,494	4,187	20,807	-	-	-	56,488
Asia Pacific							
Financial institutions	18,042	-	-	-	-	-	18,042
Total Asia Pacific	18,042	-	-	-	-	-	18,042
Europe, Middle East & Africa							
Financial institutions	289,375	46,865	158,936	4,159	1,332	-	500,667
Other	-	921,837	130,429	586	273,083	73,829	1,399,764
Total Europe, Middle East & Africa	289,375	968,702	289,365	4,745	274,415	73,829	1,900,431
Total	789,244	1,487,582	310,172	9,402	274,415	73,829	2,944,644
Total gross credit risk	789,244	1,487,582	310,172	9,402	274,415	73,829	2,944,644

The above credit risk disclosures are stated before the application of the RTA with MBL.

2019 Restated[1]	Receivables from financial institutions £'000	Derivative assets £'000	Margin money & settlement assets £'000	Other assets £'000	Loan assets £'000	Credit commitments and contingent liabilities £'000	Total £'000
Australia							
Financial institutions	-	123,855	-	18,406	-	-	142,261
Other	-	-	-	-	82,417	-	82,417
Total Australia	-	123,855	-	18,406	82,417	-	224,678
Americas							
Financial institutions	105,666	-	-	-	-	-	105,666
Other	-	-	-	2,304	-	-	2,304
Total Americas	105,666	-	-	2,304	-	-	107,970
Europe, Middle East & Africa							
Financial institutions	384,518	16,473	11	1,660	-	-	402,662
Other	-	158,793	97,198	279	151,814	59,877	467,961
Total Europe, Middle East & Africa	384,518	175,266	97,209	1,939	151,814	59,877	870,623
Total gross credit risk	490,184	299,121	97,209	22,649	234,231	59,877	1,203,271

The above credit risk disclosures are stated before the application of the RTA with MBL.

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)

24.1 Credit risk (continued)

Collateral and credit enhancements held

Cash collateral on reverse repurchase agreements

Reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

The Company leases assets and provides equipment financing to various clients. Titles to the underlying fixed assets are held by the Company as collateral.

The Company excludes certain types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigators have value, often providing rights in insolvency, their assignable values are insufficiently certain and therefore are assigned no amount for the above disclosure purposes.

The Company has received £318,678,000 (2019: £253,588,000) in collateral in the form of debt securities from MBL to cover credit risk exposures.

The factors taken into consideration by the Company when determining an asset is impaired are set out in Note 2(xviii) Impairment.

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes and other securities for short term gains.

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

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. Certain of the Group's OTC derivatives are cleared and settled either through central clearing counterparties (OTC cleared), or bilateral contracts between two counterparties.

Over the Counter derivative contracts

For Over the Counter (OTC) derivative contracts, the Company often has master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements. In an event of default, they require balances with a counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. Macquarie also often executes a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

24.2 Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with respect to its financial liabilities. Liquidity risk within the Company is managed within limits established by RMG and the Treasury department and approved by the Board of Directors. The Company's management of its liquidity risk is in accordance with the Macquarie Group wide risk management framework.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)

24.2 Liquidity risk (continued)

The Company holds sufficient liquid assets to satisfy the Liquidity Coverage Ratio requirement as set by the Regulator. As at the balance sheet date, the Company held £629,302,000 in qualifying High Quality Liquid Assets which included collateral placed by MBL. The Liquidity Coverage Ratio has consistently exceeded the minimum regulatory requirement.

Contractual undiscounted cash flows

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

Derivative financial instruments are included in the less than 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.

2020	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Derivative financial instruments	-	1,488,481	-	-	-	1,488,481
Margin money and settlement liabilities	671,833	-	-	-	-	671,833
Deposits	3,119	-	-	1,287	-	4,406
Payables to financial institutions	16,443	166,940	85,716	28,469	-	297,568
Other liabilities*	7,604	2,839	208	458	-	11,109
Undrawn credit commitments and financial guarantees	-	73,829	-	-	-	73,829
Total undiscounted cash flows	**698,999**	**1,732,089**	**85,924**	**30,214**	**-**	**2,547,226**

* Excludes items that are not financial instruments and non-contractual accruals and provisions.

2019 Restated[1]	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Derivative financial instruments	-	300,417	-	-	-	300,417
Margin money and settlement liabilities	146,492	-	-	-	-	146,492
Deposits	987	-	-	-	-	987
Payables to financial institutions	-	104,956	149,925	42,815	-	297,696
Other liabilities*	34,371	1,962	-	-	-	36,333
Total undiscounted cash flows	181,850	407,335	149,925	42,815	-	781,925

* Excludes items that are not financial instruments and non-contractual accruals and provisions.

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

24.3 Market risk

Market risk is the risk of adverse changes in the value of the Company's trading positions as a result of changes in market conditions. The Company 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.)
- **Valuation adjustments (XVA):** Risk of valuation adjustments to derivative positions; specifically, Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA), Funding Valuation Adjustment (FVA) and Collateral Valuation Adjustment (CoVA) It is recognised that all trading activities contain calculated elements of risk taking. The Company 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.

Certain business operations within the Company mitigate their exposure to market risk by utilising a RTA to transfer market risk to MBL.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 24. Financial risk management (continued)

24.3 Market risk

All other market risks of the Company are monitored by RMG, in line with the overall framework of the Macquarie Group.

Interest rate risk

The table below indicates the Company's exposure to movements in interest rates as at 31 March.

		2020	2019
	Movement in basis points	**Sensitivity of profit before tax**	Sensitivity of profit before tax
		£'000	£'000
Australian Dollar	**+50**	**(105)**	73
Euro	**+50**	**(784)**	436
Great British Pound	**+50**	**330**	948
United States Dollar	**+50**	**2,048**	401
Australian Dollar	**-50**	**105**	(73)
Euro	**-50**	**784**	(436)
Great British Pound	**-50**	**(330)**	(948)
United States Dollar	**-50**	**(2,048)**	(401)

Foreign currency risk

The Company is exposed to foreign currency risk arising from transactions that it has entered into that are in a foreign currency.

The table below indicates the sensitivity to movements in the Pound rate against various foreign currencies at 31 March. The Company is active in various currencies, those with the most impact on the sensitivity analysis are Australian dollar, United States dollars and Euro as shown below.

	Movement of +10%		Movement of -10%	
	2020	2019	**2020**	2019
	Sensitivity of profit before tax	Sensitivity of profit before tax	**Sensitivity of profit before tax**	Sensitivity of profit before tax
	£'000	£'000	**£'000**	£'000
Australian Dollar	**35**	(54)	**(35)**	54
Euro	**866**	81	**(866)**	(81)
United States Dollar	**312**	210	**(312)**	(210)
Other currencies	**8**	44	**(8)**	(44)

Note 25. Measurement categories of financial instruments

The tables on the following page contain information relating to the measurement categories of financial instruments of the Company. The descriptions of measurement categories are included in Note 2(vi) - *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 26 - *Fair value of financial assets and financial liabilities*.

The fair value of all financial assets and liabilities carried at amortised cost approximates their carrying value at balance sheet date.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 25. Measurement categories of financial instruments (continued)

	Financial Instruments					
	Carried at fair value					
2020	HFT £'000	FVOCI £'000	FVTPL £'000	Amortised cost £'000	Non-financial instruments £'000	Total £'000
Assets						
Receivables from financial institutions	-	307,437	-	481,895	-	789,332
Derivative assets	1,470,804	-	-	-	-	1,470,804
Margin money & settlement assets	-	-	-	310,172	-	310,172
Other assets[1]	-	-	-	9,402	719	10,121
Loan assets	-	-	-	273,598	-	273,598
Deferred tax assets[1]	-	-	-	-	781	781
Total assets	**1,470,804**	**307,437**	**-**	**1,075,067**	**1,500**	**2,854,808**
Liabilities						
Derivative liabilities	1,488,481	-	-	-	-	1,488,481
Margin money & settlement liabilities	-	-	-	671,833	-	671,833
Deposits	-	-	-	4,406	-	4,406
Payables to financial institutions	-	-	-	297,568	-	297,568
Current tax liabilities[2]	-	-	-	-	4,648	4,648
Other liabilities[2,3]	-	-	-	11,109	738	11,847
Provisions[2]	-	-	-	-	14,931	14,931
Total liabilities	**1,488,481**	**-**	**-**	**984,916**	**20,317**	**2,493,714**

[1]Non-financial assets primarily represents right-of-use assets, prepayments and tax receivables.

[2]Non-financial liabilities primarily represent accrued charges, employee related provisions and tax payables.

[3]Fair value of other liabilities excludes the fair value of lease liabilities.

The following table summarises the categories of financial instruments under IFRS 9 as at 31 March 2019:

	Financial Instruments				
	Carried at fair value				
2019 Restated[1]	HFT £'000	FVTPL £'000	Amortised cost £'000	Non-financial instruments £'000	Total £'000
Assets					
Receivables from financial institutions	-	208,424	281,760	-	490,184
Derivative assets	299,121	-	-	-	299,121
Margin money & settlement assets	-	-	97,209	-	97,209
Other assets	-	-	22,807	60	22,867
Loan assets	-	-	234,231	-	234,231
Deferred tax assets	-	-	-	1,765	1,765
Total assets	**299,121**	**208,424**	**636,007**	**1,825**	**1,145,377**
Liabilities					
Derivative liabilities	300,417	-	-	-	300,417
Margin money & settlement liabilities	-	-	146,492	-	146,492
Deposits	-	-	987	-	987
Payables to financial institutions	-	-	297,696	-	297,696
Current tax liabilities	-	-	-	406	406
Other liabilities	-	-	36,439	1,354	37,793
Provisions	-	-	-	19,025	19,025
Total liabilities	**300,417**	**-**	**481,614**	**20,785**	**802,816**

[1]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 26. Fair values of financial assets and liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing 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 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); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement. IFRS 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 balance sheet at amortised cost are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term portion of all other financial assets and financial liabilities.
- the fair value of demand deposits with no fixed maturity approximates their carrying amount as they are short-term in nature or are payable on demand.
- the fair values of variable rate financial instruments and repurchase agreements approximates by their carrying amounts. The values of all loan assets, term deposits and debt liabilities carried at amortised cost, is determined with reference to changes in their carry value.
- 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.
- substantially all of the Company'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/to subsidiaries and other related body corporate entities is approximated by their carrying amount as the balances are generally at variable rate.

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

- Derivative financial instruments are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices 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.
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 26. Fair values of financial assets and liabilities (continued)

- for financial liabilities carried at fair value, in order to measure the Company's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuation
- the Company has incorporated market implied funding costs for uncollateralised derivative positions as a Funding Valuation Adjustment (FVA). FVA is determined by calculating the net expected exposures at a counterparty level and applying MBL's internal Treasury lending rates as an input into the calculation. The approach takes into account the PD of each counterparty, as well as any mandatory break clauses.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

The fair value of all financial assets and liabilities approximates their carrying value at the balance sheet date and are predominantly classified as level 2 in the fair value hierarchy, except for Cash at bank of £81,700,000 (2019: £93,470,000) and Deposits of £4,406,000 (2019: £987,000), which are classified as level 1.

The fair values calculated for financial instruments which are carried on the balance sheet at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described earlier, can require significant judgement by management and therefore may not necessarily be compared to other financial institutions.

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value:

2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Reverse repurchase agreements	-	**307,437**	-	**307,437**
Derivative assets	-	**1,462,096**	**8,708**	**1,470,804**
Total assets	-	**1,769,533**	**8,708**	**1,778,241**
Liabilities				
Derivative liabilities	-	**(1,484,494)**	**(3,987)**	**(1,488,481)**
Total liabilities	-	**(1,484,494)**	**(3,987)**	**(1,488,481)**

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Company at 31 March 2019:

2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Reverse repurchase agreements	-	208,424	-	208,424
Derivative assets	-	298,885	236	299,121
Total assets	-	507,309	236	507,545
Liabilities				
Derivative liabilities	-	(299,053)	(1,364)	(300,417)
Total liabilities	-	(299,053)	(1,364)	(300,417)

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 26. Fair values of financial assets and liabilities (continued)

Reconciliation of balances in Level 3 of the fair value hierarchy

During the financial year ended 31 March 2020, the entire opening balance of level 3 derivative financial instruments amounting to £1,364,000 were fully matured or realised. The closing balance of gross derivative financial instruments as at 31 March 2020 amounting to £8,708,000 represents derivative contracts originated during the financial year.

During the financial year ended 31 March 2019, the entire opening balance of level 3 derivative financial instruments amounting to £36,397,000 were fully matured or realised. The closing balance of gross derivative financial instruments as at 31 March 2019 amounting to £236,000 represents new issuances during the financial year.

The associated net fair value gains or losses recognised in the profit and loss account for assets and liabilities in level 3 is also nil.

Note 27. Pillar 3 Disclosure

For the purposes of the Prudential Regulatory Authority Pillar 3 disclosure requirements, the Company has made available the necessary documents on its UK website. This can be found at http://www.macquarie.com/uk/about/investors/regulatory-disclosures. This does not form part of the Company's audited financial statements.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 28. Offsetting financial assets and financial liabilities

The Company reports financial assets and financial liabilities on a net basis on the balance sheet in accordance with criteria described in Note 2(vi) - Financial instruments. The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the balance sheet. 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 Company's financial position in that circumstance is to settle as one arrangement. The Company 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 25.1 – Credit risk for information on credit risk management.

	Amounts covered by enforceable netting arrangements							
	Subject to offsetting on balance sheet			Related amounts not offset[5]				
2020	Gross amounts £'000	Amounts offset £'000	Net amount presented £'000	Other recognised financial instruments[4] £'000	Cash and other financial collateral[6] £'000	Net amount £'000	Amounts not subject to enforceable netting arrange ments £'000	Balance Sheet total £'000
Receivables from financial institutions[1]	542,136	(53,616)	488,520	(5,844)	(257,293)	225,383	300,812	789,332
Derivative assets	1,391,289	-	1,391,289	(684,246)	(63,757)	643,286	79,515	1,470,804
Margin money and settlement assets	1,251,911	(943,986)	307,925	-	(54,062)	253,863	2,247	310,172
Other assets[2]	35,057	(30,365)	4,692	(549)	-	4,143	4,710	9,402
Loan asset	82,174	-	82,174	-	(5,106)	77,068	191,424	273,598
Total assets	3,302,567	(1,027,967)	2,274,600	(690,639)	(380,218)	1,203,743	578,708	2,853,308
Payables to financial institutions	(53,616)	53,616	-	-	-	-	(297,568)	(297,568)
Derivative liabilities	(1,462,178)	-	(1,462,178)	684,246	55,425	(722,507)	(26,303)	(1,488,481)
Margin money and settlement liabilities	(1,615,562)	943,986	(671,576)	-	63,733	(607,843)	(257)	(671,833)
Deposits	(3,769)	-	(3,769)	-	3,769	-	(637)	(4,406)
Other liabilities[3]	(33,334)	30,365	(2,969)	2,969	-	-	(8,140)	(11,109)
Total liabilities	(3,168,459)	1,027,967	(2,140,492)	687,215	122,927	(1,330,350)	(332,905)	(2,473,397)

[1]Included within this balance are reverse repurchase arrangements.

[2]This balance excludes other non-financial assets of £719,000 which is included in Note 9 - Other assets.

[3]This balance excludes other non-financial liabilities of £738,000 which is included in Note 15 - Other liabilities.

[4]Financial instruments recognised in the balance sheet but not offset due to not meeting all the criteria for net presentation.

[5]Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

[6]Related amounts not offset have been limited to the net amount presented in the balance sheet so as not to include the effect of over- collateralisation.

Amounts owed from/to other Macquarie undertakings netting is governed by the standard terms and rights of set-off as per the MLA. Refer to Note 29 Related party information for further details.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 28. Offsetting financial assets and financial liabilities (continued)

	Amounts covered by enforceable netting arrangements							
	Subject to offsetting on balance sheet			Related amounts not offset[6]				
2019 Restated[7]	Gross amounts £'000	Amounts offset £'000	Net amount presented £'000	Other recognised financial instruments[4] £'000	Cash and other financial collateral[5] £'000	Net amount £'000	Amounts not subject to enforceable netting arrange ments £'000	Balance Sheet total £'000
Receivables from financial institutions[1]	583,327	(186,613)	396,714	(129,450)	(208,444)	58,820	93,470	490,184
Derivative assets	278,925	-	278,925	(176,008)	(27,219)	75,698	20,196	299,121
Margin money and settlement assets	34,722	(25,733)	8,989	(15,333)	(1,820)	(8,164)	88,220	97,209
Other assets[2]	33,497	(13,650)	19,847	(19,048)	-	799	2,801	22,648
Loan assets	862	-	862	-	(862)	-	233,369	234,231
Total assets	931,333	(225,996)	705,337	(339,839)	(238,345)	127,153	438,056	1,143,393
Payables to financial institutions	(406,120)	186,613	(219,507)	131,379	-	(88,128)	(78,189)	(297,696)
Derivative liabilities	(286,470)	-	(286,470)	176,008	20	(110,442)	(13,947)	(300,417)
Margin money and settlement liabilities	(116,406)	25,733	(90,673)	101	29,716	(60,856)	(55,819)	(146,492)
Deposits	(185)	-	(185)	-	185	-	(802)	(987)
Other liabilities[3]	(48,016)	13,650	(34,366)	32,351	-	(2,015)	(6)	(34,372)
Total liabilities	(857,197)	225,996	(631,201)	339,839	29,921	(261,441)	(148,763)	(779,964)

[1]Included within this balance are reverse repurchase arrangements.

[2]This balance excludes other non-financial assets of £538,000 which is included in Note 9 - Other assets.

[3]This balance excludes other non-financial liabilities of £1,903,000 which is included in Note 16 - Other liabilities.

[4]Financial instruments recognised in the balance sheet but not offset due to not meeting all the criteria for net presentation.

[5]Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

[6]Related amounts not offset have been limited to the net amount presented in the balance sheet so as not to include the effect of over- collateralisation.

[7]Previous year balances were represented to conform to the current year presentation. Refer to Note 2 (xxiv) - Comparatives for further details.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 2(vi) - Financial instruments and are limited to the gross carrying values of the financial instruments. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference, and for the liability will be nil.

Amounts subject to enforceable netting arrangements

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 effect on the Company's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on the balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial instrument collateral.

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Notes to the financial statements for the financial year ended 31 March 2020 (continued)

Note 29. Related party information

Up to 20 February 2020, the Company and other Macquarie Group undertakings were party to an agreement that governed the standard terms and the rights of set-off for exposures between Macquarie Group undertakings. Balances between the Company and certain other Macquarie Group undertakings that were not a party to this agreement were presented on gross basis.

With effect from 21 February 2020, exposures between Macquarie Group undertakings are governed by a new Master Loan Agreement (the MLA) which replaced the existing agreement referred to above. In terms of the MLA, exposures between Macquarie Group undertakings are typically offset, with the exception of exposures that are excluded from the MLA (these include bespoke lending arrangements, derivatives and repurchase agreements). As a result, certain exposures between Macquarie Group undertakings that were presented on net basis as at 31 March 2019 are presented on a gross basis as at 31 March 2020. Exposures between Macquarie Group undertakings which are not a party to the MLA are presented on gross basis.

As 100% of the voting rights of the Company are controlled within the group headed by MGL, incorporated in Australia, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with entities which form part of the Macquarie Group. The consolidated financial statements of MGL, within which the Company is included, can be obtained from the address given in Note 30.

The Company does not have any related party transactions or balances other than those with entities which form part of the Macquarie Group or the Directors as mentioned above.

Note 30. Ultimate parent undertaking

The immediate parent undertaking of the Company is Macquarie Holdings (UK) No.1 Limited.

The ultimate parent undertaking and controlling party of the Company is MGL. The largest group to consolidate these financial statements is MGL, a company incorporated in Australia. The smallest group to consolidate these financial statements is MBL, a company incorporated in Australia. Copies of the consolidated financial statements for MGL and MBL can be obtained from the Company Secretary, Level 6, 50 Martin Place, Sydney, New South Wales, 2000, Australia.

Note 31. Events after the reporting period

There were no other material events subsequent to 31 March 2020 and up until the authorisation of the financial statements for issue, that have not been reflected in the financial statements.

Country-by-country reporting disclosure

2020

Region	Activity	Turnover £	Profit/ (loss) before tax £	Corporation tax refund received £	Average FTE employees
Austria[1]	Funds management and investment advisory services	21,954	(146,076)	(10,694)	-
Germany	Corporate advisory services	841,416	(580,729)	-	3
UK	Licenced banking and investment management	44,439,816	27,325,181	-	-
Total		45,303,186	26,598,376	(10,694)	3

[1]On 3 March 2020, regulated activities ceased and closure of the Company's branch in Austria occurred.

Note 1. Basis of preparation

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came in to effect on 1 January 2014, and have been transposed into UK law to impose certain reporting obligations on institutions within the United Kingdom within the scope of the EU Capital Requirements Directive IV (CRDIV). The Directors are responsible for the preparation of the country by country reporting disclosure in accordance with the above regulations.

The table above presents the Company's turnover, profit/loss, corporation cash tax paid and number of employees, allocated by country on the basis of each company's tax domicile.

Employee numbers represent average full-time equivalent (FTE) permanent employees.

The Company did not receive any public subsidies.

Independent auditors' report to the directors of Macquarie Bank International Limited ("the Company")

Report on the audit of the country-by-country information

Opinion

In our opinion, Macquarie Bank International Limited's country-by-country information for the year ended 31 March 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 March 2020 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information 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 remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 1 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the Directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the Directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Responsibilities for the country-by-country information and the audit

Responsibilities of the Directors for the country-by-country information

The Directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in Note 1 of the country-by-country disclosure and accounting policies in Note 2 of the financial statements and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the Directors are responsible for assessing the Company's ability 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 to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Independent auditors' report to the directors of Macquarie Bank International Limited ("the Company")

Report on the audit of the country-by-country information (continued)

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs (UK) 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 this country-by-country information.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 July 2020