

MACQUARIE BANK INTERNATIONAL LIMITED

COMPANY NUMBER 06309906

Strategic Report, Directors' Report and Financial Statements
for the financial year ended 31 March 2021



The Company's registered office is:
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2021 Strategic Report, Directors' Report and Financial Statements

Contents

	Page
Strategic Report	2
Directors' Report	5
Independent Auditors' Report	12
Financial Statements	
Profit and loss account	19
Statement of comprehensive income	20
Balance sheet	21
Statement of changes in equity	22
Notes to the financial statements	
Note 1. Company information	23
Note 2. Basis of preparation	23
Note 3. Significant accounting policies	26
Note 4. Profit on ordinary activities before taxation	37
Note 5. Employment information	38
Note 6. Tax on profit on ordinary activities	38
Note 7. Receivables from financial institutions	39
Note 8. Derivative financial instruments	40
Note 9. Margin money and settlement assets	40
Note 10. Other assets	41
Note 11. Loan assets	41
Note 12. Expected credit losses	41
Note 13. Margin money and settlement liabilities	44
Note 14. Deposits	44
Note 15. Payables to financial institutions	44
Note 16. Other liabilities	44
Note 17. Provisions	45
Note 18. Capital management strategy	45
Note 19. Called up share capital	46
Note 20. Contribution from ultimate parent entity in relation to share-based payments	46
Note 21. Reserves and profit and loss account	46
Note 22. Directors' remuneration	47
Note 23. Employee equity participation	47
Note 24. Contingent liabilities and commitments	49
Note 25. Financial risk management	49
Note 26. Measurement categories of financial instruments	56
Note 27. Fair values of financial assets and liabilities	58
Note 28. Pillar 3 Disclosure	60
Note 29. Offsetting financial assets and financial liabilities	61
Note 30. Related party information	63
Note 31. Ultimate parent undertaking	63
Note 32. Events after the reporting period	63
Country by Country Reporting	
Country by country reporting disclosure	65
Independent Auditors' Report to the members of the Macquarie Bank International Group	66

Strategic Report for the financial year ended 31 March 2021

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 current financial year 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. The Company also operated through a branch in Germany.

During the year, the Company has transferred a significant portion of its business to Macquarie Bank Europe DAC ("MBE") or other affiliated entities, and intends to wind down its branch in Germany.

The Company intends to apply to the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") to cancel its Part 4A permission.

Review of operations

The profit for the financial year ended 31 March 2021 was £5,689,000, as compared to a profit of £18,948,000 in the previous financial year.

Total operating income for the year ended 31 March 2021 was £10,688,000, as compared to operating income of £45,304,000 in the previous financial year.

Total operating expenses for the year ended 31 March 2021 were £5,094,000, a decrease of 73 per cent from operating expenses of £18,705,000 in the previous financial year.

As at 31 March 2021, the Company had net assets of £367,273,000 (2020: net assets of £361,094,000).

The German branch contributed a loss of £355,000 (2020: loss of £581,000) to the overall profit before taxation of £5,594,000 (2020: profit of £26,599,000).

Principal risks and uncertainties

The Company is responsible for its own risk acceptance decisions. From the perspective of the Company, the principal risks are credit risk, liquidity risk, operational risk, conduct risk, group risk, strategic/business risk and regulatory & compliance risk. The material risks of the Company are monitored by the relevant division of Risk Management Group ("RMG") of the Macquarie Group.

Risk transfer agreement

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, which do not form part of this report, and can be obtained from the address given in Note 31.

Brexit

On 31 December 2020, the transition period relating to the withdrawal of the United Kingdom ("UK") from the European Union ("EU") (known as "Brexit") came to an end. Whilst certain elements of the future relationship between the UK and EU have been agreed under a Trade and Cooperation Agreement, a number of matters, including the cross-border provision of financial services from the UK into the EU (and vice versa), remain uncertain. In order to mitigate the impacts of Brexit, the Macquarie Group has established MBE, which is a credit institution headquartered in Ireland with branches in France and Germany. The Company has transferred a significant portion of its business to MBE or other affiliated Macquarie entities, and intends to wind down its branch in Germany. The Company intends to apply to the PRA and FCA to cancel its Part 4A permission.

Strategic Report for the financial year ended 31 March 2021 (continued)

Principal risks and uncertainties (continued)

Coronavirus (COVID-19)

The continued impact and uncertainty surrounding the Novel Coronavirus (COVID-19) pandemic was monitored during the year for the Company. There was no material impact on the business risks or financial performance of the Company due to COVID-19.

The Company is not subject to any other material risks or uncertainties, over and above those stated.

Financial risk management

Risk is an integral part of the Macquarie Group's business. The material risks faced by the Company are determined annually by an internal review process and are credit risk, liquidity risk and operational risk. In addition, the Company is exposed to variety of financial risks that include conduct risk, group risk, strategic/business risk and regulatory & compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is also the responsibility of the RMG to ensure appropriate assessment and management of these risks.

As an indirect subsidiary of both 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 is the risk that a counterparty will fail to complete its contractual obligations when they fall due (default risk) or changes in the creditworthiness of the obligor (migration risk). Credit risk on lending and trading transactions undertaken by the Company is managed as per the 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.

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.

Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting financial obligations when they fall due. 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.

Group Risk

The risk that the actions and activities of one part of the Macquarie Group may compromise the financial, operational and reputational position of the Company. Management of financial group risk is embedded across underlying governance documents and committees relating to financial exposures. Management of reputation risk is embedded throughout the risk management framework and considered in the assessment of all risk types. Intra-group outsourcing is governed in accordance with the internal Macquarie policies.

Strategic Report for the financial year ended 31 March 2021 (continued)

Financial risk management (continued)

Conduct Risk

The risk of behaviour, action or omission by individuals employed by, or on behalf of, the Company or taken collectively in representing the Company that may have a negative outcome for the Company's clients, counterparties, the communities and markets in which it operates, its staff, or the Company. The Company's approach to conduct risk management is integrated in its risk management framework.

Regulatory & Compliance Risk

The risk of failure to comply with laws, regulations, rules statements of regulatory policy, and codes of conduct applicable to the Company's financial services and other regulated activities. Frameworks have been established to manage the identification, escalation, management and reporting of regulatory and compliance risks across Macquarie. These frameworks include policies, guidelines and standards which have been implemented to guide compliance.

Strategic / Business Risk

Risk of the Company's business model being inadequate in the medium to long term. Business and strategic risk is managed and controlled through the annual strategy and business planning process. The Company Board has regular oversight of business risk in the Company.

Section 172 (1) Statement

During the reporting period the Directors of the Company have acted in a way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, they have regard to the matters set out in s172.(1)(a-f) of the Companies Act 2006) in their decision making.

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. Our Section 172 statement focusses 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. For an understanding of the development, performance and position of the Company, an explanation of how the Directors considered these matters is set out in the Directors' report on pages 8 to 11.

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
20th July 2021

Directors' Report

for the financial year ended 31 March 2021

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 who each held office as a Director of the Company throughout the financial year and until the date of this report, unless disclosed otherwise, were:

G Alford (Independent Non-Executive Director)
P Kearney (Independent Non-Executive Director)
P Nash
P Plewman

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 2021 was £5,689,000 (2020: £18,948,000).

Dividends paid or provided for

No dividends were paid or provided for during the current financial year (2020: £nil). No final dividend has been proposed.

State of affairs

In order to mitigate the the impact of Brexit on the Macquarie Group's ability to provide regulated services to clients in the European Economic Area, on 7 September 2020 the Company entered into various internal agreements to transfer clients and assets to MBE and MBL LB. At the date of approval of the financial statements all external client positions, except one loan, have been transferred out or matured. The outstanding loan to one client has a maturity date of 12 August 2021 for settlement.

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

Going concern

The principal activity of the Company is to act as a licensed banking entity. During the year, the Company has transferred a significant portion of its business to MBE or other affiliated entities and intends to wind down its branch in Germany. Upon settlement of the remaining business activities, the Company will not hold any external client positions in the future or engage in any significant business activity.

Consequently, the Company made an assessment of whether the going concern assumption is still appropriate. The assessment included consideration of all the available information including material uncertainties that may cast a doubt upon the Company's ability to continue as a going concern.

The formal liquidation of the Company is contingent upon (i) regulatory approval to cancel the Company's Part 4A permission; and (ii) resolution of the potential third party matter referred to in Note 17 – *Provisions* (which is not related to activities within scope of the Company's Part 4A permission).

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future i.e. at least for a period of twelve months and accordingly the financial statements have been prepared on a going concern basis.

Directors' Report**for the financial year ended 31 March 2021****(continued)****Events after the reporting period****Capital reduction:**

On 20 July 2021, following the receipt of approval from the PRA, the Board approved to reduce its issued share capital by £279,999,720 through a proportional capital return across all issued shares. The Board agreed to reduce the Company's issued share capital of 330,000,000 ordinary fully paid-up shares from £1 to £0.151516 per share. Following the capital reduction, the Company will pay dividends of £279,999,720 to its parent, Macquarie Holdings (UK) No.1 Limited.

Client positions:

The client positions relating to regulated activities undertaken by the Company are reported on the balance sheet under derivative assets, derivative liabilities, margin money and settlement assets, loan assets and margin money and settlement liabilities.

As at 31 March 2021, there were eleven clients with derivative trades and two loans outstanding.

The derivative trades with three clients were transferred out to MBE and eight client positions matured and settled by the date of accounts approval. The loan outstanding with one client was transferred to MBE and the loan outstanding with another client has a maturity date of 12 August 2021. The transfers and settlements of trades after the balance sheet date are as detailed below:

The following positions outstanding as at 31 March 2021 were transferred to MBE prior to the approval of the accounts:

- Derivatives instruments: derivative assets of £748,000 and derivative liabilities of £1,064,000 relating to three clients (with respective settlement dates of 29 July 2022, 6 October 2021 and 7 October 2021) were novated to MBE. The back to back trades under the MDA with MBL amounting to assets of £1,064,000 and liabilities of £748,000 were also novated to MBE with the transfer of client positions.
- Loan assets: One loan outstanding at 31 March 2021, had a carrying value of £5,978,000 and maturity of April 2023, and was novated to MBE in May 2021 (including the funded sub participation arrangement). The other loan of £2,553,000 has a maturity date of 12 August 2021 and has not been novated.
- The net gain/loss on above transfers is not material for the Company.

The following positions outstanding as at 31 March 2021 have matured and fully settled:

- Derivative instruments: derivative assets of £2,145,000 and derivative liabilities of £16,678,000 matured and were settled. The trades with other Macquarie Group entities including back out trades under the MDA with MBL amounting to assets of £17,075,000 and liabilities of £2,532,000 also matured with the client positions. The above also includes trades relating to two clients which reached maturity before the clients were transferred to MBE.
- Margin money and settlement assets of €3,000,000 (£2,553,000) relating to minimum default fund placed with the European Commodity Clearing exchange ("ECC") was realised in May 2021.
- Margin money and settlement liabilities of £431,000 were settled.

There are no external loans or undrawn commitments outstanding at the date of the approval of the accounts.

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 2021, not otherwise disclosed in the Directors' report.

Directors' Report**for the financial year ended 31 March 2021****(continued)****Likely developments, business strategies and prospects****Coronavirus (COVID-19)**

The Novel Coronavirus (COVID-19) has had significant impacts on global economies and financial markets, led to several changes in the economy and resulted in several support actions by financial markets, governments, and regulators. The impact of COVID-19 continues to evolve and, where applicable, has been incorporated into the determination of the Company's results of operations and measurements of its assets and liabilities at the reporting date. Due to the significant transfer of business and the intention to liquidate, the Company does not have material exposure.

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). Historically, each IBOR has been 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.

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

During 2018, Macquarie Bank International Limited's ultimate Parent 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.

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;
- 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.

Directors' Report
for the financial year ended 31 March 2021
(continued)

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.

Section 172 (1) Statement

During the year, the Directors considered the Company's stakeholders to be its direct and indirect shareholders, employees, regulators, internal and external customers. The following sets out how, in discharging their duties, the Directors have had regard to each of the matters outlined in s172 of the Companies Act 2006 including regard for the interests of the Company's stakeholders.

(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 is aligned to the strategy of the Company and the wider Macquarie Group and made in accordance with Macquarie's Code of Conduct (the "Code"). The Code is based on the three principles that guide the way Macquarie Group does business – Opportunity, Accountability and Integrity. Before a proposal is brought to the Board for approval, it will have gone through a series of internal approvals, in accordance with the Macquarie Group's risk management framework, which is embedded across the Macquarie Group's operations. The 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 RMG.

To facilitate good decision making, Directors meet quarterly (and additionally as required) with documentation circulated in advance, which includes diligence on financial impacts (where applicable), as well as non-financial factors, to allow them to fully understand the performance and position of the Company, along with the matters that are to be discussed.

Directors' Report
for the financial year ended 31 March 2021
(continued)

Section 172 (1) Statement (continued)

(a) Likely consequences of any decision in the long term (continued):

Key examples of items during the year ended 31 March 2021 where the Board has considered the likely consequences of any decision in the long-term included:

- ICAAP and ILAAP: the review of the conclusions of the ICAAP, with the Directors confirming their satisfaction with the overall adequacy of capital and resources and liquidity framework;
- the Company's entry into various internal agreements to transfer clients and assets to MBE and MBL LB;
- Wind Down Project and Capital Reduction: a review of the wind down project for the Company to ensure adequate arrangements and financial resources were in place for an orderly wind down of the Company's regulated activities;
- Recovery Plan;
- Quarterly review of finance, risk, financial crime and compliance reports; and
- Risk management, credit and liquidity enhancements.

(b) Interests of the Company's employees: As of September 2020, the Company itself did not have any direct employees (its prior employees were transferred to other entities within the Group) but utilises the services of employees employed by the Macquarie Group via a range of internal shared services agreements. In addition the Company has Senior Managers with various senior management functions to perform functions as designated by the Financial Conduct Authority ('FCA'). The Company also has Material Risk Takers as identified under the Financial Conduct Authority's and Prudential Regulation Authority's Remuneration Codes ('the "CRD4 Remuneration Code"').

(c) Business relationships with suppliers, customers and others: The Board is 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.

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 the 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.

Customers: The Company has both internal (Macquarie) and external customers. Along with the publicly available regulatory disclosures on the Macquarie website, Macquarie looks to the Company's workforce (including the Directors) to keep customers informed about the depth, breadth and scale of our capabilities in line with local rules and regulations on 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 EU's legislative framework of the revised Markets in Financial Instruments Directive ("MiFID II") and the Markets in Financial Instruments Regulation ("MiFIR") prior to the end of the transition period on 30 December 2020 and subsequently the UK MiFID II Framework, which came into effect at the end of the transition period. 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, Board responsibility, inducements, information and reporting to clients, cross-selling, remuneration of the 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 the period, the Company worked with its clients to support a smooth transfer of clients and associated assets to MBE and MBL LB or supported clients to their maturity or settlement date, in order to minimise the impact of Brexit to our clients. The Board (and the Company's Executive) were regularly updated on the progress of client migration, including the governance process and operational matters in relation to the transfer.

Directors' Report**for the financial year ended 31 March 2021****(continued)****Section 172 (1) Statement (continued)****(c) Business relationships with suppliers, customers and others (continued):**

Regulators: As a UK Credit Institution, the Company is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA. Regulated activity in our German branch ceased on 31 December 2020. 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 the 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. The Board 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. Channels of engagement are open and regular 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. These 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.

The Board is provided with regular updates on regulatory interactions. Material matters relating to business relationships with suppliers, customers and other stakeholders are reported to the Board by management, as required.

(d) Community and the environment: The Board recognises the importance of sound Environmental, Social and Governance ("ESG") practices as part of its responsibility to our clients, shareholders, communities, people and the environment in which the Macquarie Group operates. As a subsidiary of the Macquarie Group, the Company has committed to the Group's ESG approach, which is structured around focus areas considered to be material to our business. Assessing and managing Macquarie Group wide ESG risks is a key business priority and an important component of Macquarie's broader risk management framework, to which the Company is subject.

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. The Macquarie Group regularly engages with a broad range of stakeholders including clients, shareholders, investors, analysts, governments, regulators, the 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.

The Board acknowledges the work of the Macquarie Group Foundation (the "Foundation"), which is the philanthropic arm of Macquarie. The Foundation encourages Macquarie's employees 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.

In May 2021, Macquarie Group announced a net zero commitment as part of its wider efforts to tackle climate change and help drive action at a global level. This statement signals the intent to steer our portfolio over time and in line with a managed transition to global net zero by 2050. Macquarie is already regarded as a global leader in advancing practical climate solutions and this announcement is an opportunity to positively build on that, demonstrating close alignment with our purpose – empowering people to innovate and invest for a better future.

Directors' Report**for the financial year ended 31 March 2021****(continued)****Section 172 (1) Statement (continued)**

(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.

(f) Need to act fairly as between members of the Company: The Company is a separate legal entity and is therefore making this statement as such, but in practical terms, the Company is part of a wider group and in addition to promoting the success of the Company as a whole, the duties of the directors of the Company are exercised in a way that is most likely to promote the success of the Company for the Macquarie Group as a whole, while having regard to factors outlined in section 172(1) Companies Act 2006.

Streamlined energy and carbon reporting (SECR) requirement

For the year ending 31 March 2021, the Company is not required to disclose the Streamlined Energy and Carbon Reporting ("SECR") as it does not meet the numerical thresholds in is out of scope of relation to turnover and number of employees.

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
20th July 2021

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 2021 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 2021; the Profit and loss account, the Statement of comprehensive income and 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.

Other than those disclosed in Note 4, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- 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.

Key audit matters

- Completeness of data inputs and accuracy of journal postings for transfer pricing income and expense
- Impact of the outbreak of COVID-19 on the financial statements

Materiality

- Overall materiality: £4.49m (2020: £28.51m) based on 1% of total assets.
- Performance materiality: £2.24m.

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.

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.

Accounting, presentation and disclosure of transactions under risk transfer agreements, which was a key audit matter last year, is no longer included because of the decreased impact of the risk transfer agreements on the entity, and in particular on the year end balance sheet. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Completeness of data inputs and accuracy of journal postings for transfer pricing income and expense</i></p> <p>Refer to Note 3 (ii): 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.</p> <p>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. As a result of the complexity and manual nature of the process there is a risk of incomplete data being included in the transfer pricing calculation, mis-allocation between legal entities and errors in the booking of adjustments in the Company financial statements.</p> <p>As a result, we determined that the completeness of data inputs and accuracy of journal postings for transfer pricing income and expense was a key audit matter for the year ending 31 March 2021.</p>	<p>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 the intercompany matching process.</p> <p>We assessed the reasonableness of the transfer pricing methodologies applied to the Company in the context of our understanding of the business.</p> <p>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 transfer pricing arrangements between legal entities.</p> <p>We instructed PwC Australia to perform substantive testing over a sample of transfer pricing calculations to test whether:</p> <ul style="list-style-type: none"> - 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. <p>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 differences, we assessed these in the context of our materiality and extended our sample testing where necessary.</p> <p>We also confirmed that there were no material intercompany breaks in relation to transfer pricing for the year ended 31 March 2021.</p> <p>Based on the above procedures performed, and evidence obtained, we concluded that the transfer pricing income and expense recognised was reasonable.</p>

<p><i>Impact of the outbreak of COVID-19 on the financial statements</i></p> <p>Refer to Note 2: Basis of preparation</p> <p>The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working.</p> <p>Macquarie's employees have been working both remotely and in the office during the year, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. Our audit team has also been working both remotely and at office locations during the year, and when we performed the audit after year end.</p> <p>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. Further details of management actions and the results of these are detailed in note 2 of the financial statements.</p>	<p>We engaged with the Audit Committee and management at the Company in a manner consistent with our previous audits, using video and telephone calls.</p> <p>All of the information and audit evidence we need for the audit is provided in electronic format. We shared information, including the audit evidence provided to us by the Company, using share-screen functionality in video calls and our secure encrypted information sharing software.</p> <p>We understood and assessed the transition of the Company's employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls.</p> <p>We have assessed the additional procedures performed by management and the assessments made to incorporate the impact of COVID-19 on the financial statements of the Company, including impairment assessments of underlying financial assets and the adjustments incorporated in the valuation of derivative financial instruments.</p> <p>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.</p>
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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.

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. For each in-scope line item, we performed audit procedures to bring the untested balance below performance materiality.

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:

<i>Overall company materiality</i>	£4.49m (2020: £28.51m).
<i>How we determined it</i>	1% of total assets
<i>Rationale for benchmark applied</i>	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 £2.24m (2020: £14.25m). For each in-scope line item, we performed audit procedures to bring the untested balance below performance materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £2.24m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £0.22m (2020: £1.43m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We used our knowledge of the Company, its industry and the general economic environment in which it operates to identify the inherent risks in its business model and analysed how those risks might affect the Company's ability to continue operations over the going concern period;
- We discussed the possible scenarios, future plans and funding requirements of the Company with the Audit Committee and management;
- We performed an assessment of the remaining balance sheet positions in the Company as at the reporting date to evaluate whether they would continue for the going concern period; and
- We considered whether the going concern disclosure in Note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies and the impact of the legal provision on the assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant Financial Conduct Authority and Prudential Regulatory Authority rules and

UK tax legislation, 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 financial statements such as the Companies Act 2006. 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 inappropriate journal entries. Audit procedures performed by the engagement team included:

- Testing a sample of journals using risk-based criteria;
- Reviewing key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Discussions with management, and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Observing the effectiveness of key governance forums, reviewing management information presented and reviewing minutes of executive management meetings; and
- Incorporated unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 14 years, covering the years ended 31 March 2008 to 31 March 2021.



Ian Godsmark (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 July 2021

Macquarie Bank International Limited

Financial statements

Profit and loss account for the financial year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Interest receivable and similar income (effective interest rate method)		15,101	26,694
Interest payable and similar charges		(9,304)	(19,573)
Net interest income	4	5,797	7,121
Fee and commission income		28,416	62,324
Fee and commission expense		(23,525)	(24,141)
Net fee and commission income	4	4,891	38,183
Total operating income		10,688	45,304
Net trading loss	4	(1,652)	(15,675)
Other operating (expenses)/income	4	(659)	1,447
Administrative expenses	4	(2,783)	(4,477)
Total operating expenses		(5,094)	(18,705)
Profit on ordinary activities before taxation		5,594	26,599
Tax benefit/(expense) on profit on ordinary activities	6	95	(7,651)
Profit for the financial year	21	5,689	18,948

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

Macquarie Bank International Limited

Statement of comprehensive income for the financial year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Profit for the financial year		5,689	18,948
Other comprehensive (loss)/income ¹ :			
Movements in items that may be subsequently reclassified to the profit and loss account:			
Fair value through other comprehensive income (FVOCI) reserve:			
Revaluation (losses)/gains recognised in other comprehensive income	21	(104)	101
Exchange differences on translation of foreign operations	21	332	(301)
Total other comprehensive income/(loss)		228	(200)
Total comprehensive income		5,917	18,748
Total comprehensive income for the financial year attributable to the ordinary equity holders of the Company		5,917	18,748

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

¹All items are net of tax, where applicable.

Macquarie Bank International Limited

Company Number 06309906

Balance sheet as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Receivables from financial institutions	7	413,492	789,332
Derivative assets	8	20,862	1,470,804
Margin money and settlement assets	9	2,957	310,172
Other assets	10	2,103	10,121
Loan assets	11	8,359	273,598
Deferred tax assets	6	395	781
Total assets		448,168	2,854,808
Liabilities			
Derivative liabilities	8	21,021	1,488,481
Margin money and settlement liabilities	13	431	671,833
Deposits	14	-	4,406
Payables to financial institutions	15	37,577	297,568
Current tax liabilities		548	4,648
Other liabilities	16	6,946	11,847
Provisions	17	14,372	14,931
Total liabilities		80,895	2,493,714
Net assets		367,273	361,094
Shareholders' funds			
Called up share capital	19	330,000	330,000
Contribution from ultimate parent entity in relation to share-based payments	20	1,324	1,062
Reserves	21	(516)	(744)
Profit and loss account	21	36,465	30,776
Total shareholders' funds		367,273	361,094

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

The financial statements on pages 19 to 64 were authorised for issue by the Board of Directors on 20 July 2021 and were signed on its behalf by:



Phillip Nash
Director

Macquarie Bank International Limited

Statement of changes in equity for the financial year ended 31 March 2021

		Called up share capital	Contribution from ultimate parent entity in relation to share-based payments	Reserves	Profit and loss account	Total shareholders' funds
	Note	£'000	£'000	£'000	£'000	£'000
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 loss, net of tax		-	-	(200)	-	(200)
Total comprehensive income	21	-	-	(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
Profit for the financial year		-	-	-	5,689	5,689
Other comprehensive income, net of tax		-	-	228	-	228
Total comprehensive income	21	-	-	228	5,689	5,917
Other equity movements:						
Deferred tax on share-based payments		-	262	-	-	262
Balance at 31 March 2021		330,000	1,324	(516)	36,465	367,273

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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021

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.

The principal activity of the Company during the current financial year 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. The Company also operated through a branch in Germany.

The Company intends to apply to the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") to cancel its Part 4A permission.

Note 2. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

i) Going concern

The principal activity of the Company is to act as a licensed banking entity. During the year, the Company has transferred a significant portion of its business to MBE or other affiliated entities and intends to wind down its branch in Germany. Upon settlement of the remaining business activities, the Company will not hold any external client positions in the future or engage in any significant business activity.

Consequently, the Company made an assessment of whether the going concern assumption is still appropriate. The assessment included consideration of all the available information including material uncertainties that may cast a doubt upon the Company's ability to continue as a going concern.

The formal liquidation of the Company is contingent upon (i) regulatory approval to cancel the Company's Part 4A permission; and (ii) resolution of the potential third party matter referred to in Note 17 – *Provisions* (which is not related to activities within scope of the Company's Part 4A permission).

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future i.e. at least for a period of twelve months and accordingly the financial statements have been prepared on a going concern basis.

ii) Basis of measurement

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).

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 2. Basis of preparation (continued)

iii) Disclosure exemptions

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 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:
 - o Paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding)
- 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 (statement of cash flows 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 and 18A 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.

iv) 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 a financial asset constitute solely payment of principal and interest (SPPI test) (Note 26);
- judgement in the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss ("ECL") including the determination of significant increase in credit risk ("SICR"), forecasts of economic conditions and the weightings assigned thereto (Notes 3(xvi) and 12);
- estimates in fair value of assets and liabilities including determination of non-recurring fair values and accounting for day 1 profit or loss (Note 3(iv));
- judgement and an estimate of recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities (Notes 3(iii) and 6);
- 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 3(ii)); and
- an estimate of recognition and measurement of provisions related to actual and potential claims, including contingent liabilities (Note 3(xiii), 16, 17, 24).

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 2. Basis of preparation (continued)

iv) Critical accounting estimates and significant judgements (continued)

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

Management believes that the estimates used in preparing 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.

v) Coronavirus (COVID-19) impact

The Company's processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 31 March 2020 financial statements. Those processes identified that expected credit losses (Note 12) required continued judgement as a result of the impact of COVID-19.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods. The impact of COVID-19 has been discussed further in each of the related notes.

Consideration of the statements of financial position and further disclosures

Key items in the financial statement and related disclosures that have been impacted by COVID-19 were as follows:

Derivative assets and liabilities

The Company reviewed the appropriateness of the inputs to its valuations at the balance sheet date. 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 and the ECL for each. The review considered the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. 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 12 and Note 25.

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

IFRS 2019-3 Interest Rate Benchmark Reform

Amendments to IFRS 7 - *Financial Instruments: Disclosures* and IFRS 9 - *Financial Instruments* were issued in December 2019 to provide certain relief from applying specific hedge accounting requirements directly affected by IBOR reform. The relief provided by the amendment had no impact on the Company as it has not designated any accounting hedges.

The other amendments to existing accounting standards that are effective for the annual reporting period beginning on 1 April 2020 did not result in a material impact to the Company's financial statements.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies

i) Foreign currency translation

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 'Pound Sterling' (£), which is also the Company's functional currency.

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

At the end of each reporting period:

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

Transactions and balances

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net trading loss as part of other operating expenses.

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 other operating expenses.

For the detailed policy on Financial instruments refer to Note 3(iv).

Branches

The Company has a branch in Germany. The results and financial position of the Company's branch that has a functional currency of Euro are translated into Pound 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 included in the 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").

Foreign currency gains and losses on intragroup loans are recognised in other operating expenses, 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.

The exchange gains or losses recognised in FCTR are reclassified to the profit and loss account or reattributed within equity if there is a disposal of a foreign operation, then the accumulated FCTR is reclassified from OCI to other operating expenses.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

ii) 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, and debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Fees and transaction costs that are integral to the lending arrangement are recognised in interest income or interest expense 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 financial assets that are not credit impaired is determined by applying the financial asset's EIR to the financial asset's gross carrying amount. Interest income on financial assets that are subsequently classified as credit-impaired (stage III), is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income and expense on financial assets and liabilities that are classified as FVTPL are 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 CGM Group's trading activities and other fees earned on lending activities which are recognised when the performance obligation is satisfied.

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 entities 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

ii) Revenue and expense recognition (continued)

Other operating (expenses)/income

Other operating (expenses)/income includes net trading income, credit impairment charges and reversals on financial assets, gains and losses on sale of loan assets, and other income.

Net trading income/(loss)

Net trading income/(loss) comprises gains and losses relating to derivative assets and liabilities including all realised and unrealised fair value changes and foreign exchange differences.

Expenses

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

iii) 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, 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 with reference to the nature of the underlying uncertainty.

Value-Added Tax (VAT)

Where VAT is not recoverable from tax authorities, it is either capitalised to the balance sheet as part of the cost of the related asset or is recognised as a part of other operating expenses in the profit and loss account. Where VAT is recoverable from or payable to tax authorities, the amount is recorded as a separate asset or liability in the balance sheet.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

iv) 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 classified at FVTPL) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument, and fees that are an integral part of the effective interest rate. Transaction costs and fees paid or received relating to financial instruments carried at FVTPL are recorded in the profit and loss account.

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

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

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

Derecognition of financial instruments

Financial assets

Financial assets are 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

iv) Financial instruments

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

- 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).

Solely payment of principal and interest ("SPPI")

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

Amortised cost

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

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

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

Fair value through other comprehensive income (FVOCI)

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

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

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

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

iv) Financial instruments (continued)

Classification and subsequent measurement (continued)

Fair value through profit or loss (FVTPL)

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

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 in qualifying hedge relationships and are classified as FVTPL;
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows
- financial assets that fail the SPPI test (FVTPL); and
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL).

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

- changes in the fair value of financial assets that are classified as HFT and financial assets managed on a fair value basis are recognised in net trading income; and
- changes in the fair value of all other FVTPL and DFVTPL financial assets are recognised as part of other income within other operating expenses.

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

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 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 within other operating expenses. The interest component of financial liabilities that are classified as HFT is recognised in interest payable and similar charges.

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.

v) 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 agreement 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 3(iv) for the detailed Financial Instruments accounting policy.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

vi) 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 assets and liabilities and forecast transactions and are also entered into for client trading purposes.

Derivatives are recognised on the balance sheet as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date.

Fair values are obtained from quoted prices in active markets where available, or valuation techniques including discounted cash flow models and option pricing models, as appropriate. The accounting for derivatives is subject to the application of the day 1 profit or loss policy as described in Note 3(iv) *Financial instruments*.

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

vii) Margin money and settlement assets and liabilities

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

viii) Loan assets

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

Loan assets are initially recognised on settlement date at fair value (adjusted for directly attributable transaction costs for loan assets subsequently measured at amortised cost or FVOCI) and subsequently measured in accordance with Note 3(iv) *Financial Instruments*.

Certain finance lease receivables are also presented as part of asset financing within loan assets. For the detailed policy on financial instruments, including treatment on derecognition, refer to Note 3(iv) and Note 3(xviii).

ix) Cash at bank

Cash at bank balances includes demand deposits and short-term balances with Central and other banks. These balances are subsequently measured at amortised cost.

x) Tangible assets and Right-of-use (ROU) assets

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

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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

x) Tangible assets and Right-of-use (ROU) assets (continued)

Tangible assets and ROU 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	21 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 the light of commercial and technological developments. Gains and losses on disposal are determined by comparing the proceeds with the asset's carrying amount and are recognised as part of other operating income/(expenses) in the profit and loss account.

xi) Deposits

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

xii) 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.

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

Employee benefit provisions

Employee benefit provisions are recognised by the Company as and when the service has been rendered after deducting amounts already paid. Liabilities for unpaid salaries, salary-related costs and provisions for annual leave are recorded on 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

xiv) Due to/ from related entities

Transactions between the Company and related entities principally arise from the provision of lending arrangements and acceptance of funds on deposit, intercompany services and transactions and the provision of financial guarantees, and are accounted for in accordance with Note 3(ii) *Revenue and expense recognition* and Note 3(iv) *Financial Instruments*. Financial assets and financial liabilities are presented net where the offsetting requirements are met (Note 3(iv)), such that the net amount is reported in the balance sheet.

xv) 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.

xvi) 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, certain letters of credit and financial guarantee contracts issued that are not DFVTPL. 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 or macroeconomic information ("FLI").

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer to Note 12 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

i) Stage I – 12 month ECL

Since initial recognition, ECL is determined based on the probability of default (PD) over the next 12 months and the resultant losses associated with such PD, adjusted for FLI.

ii) Stage II – Lifetime ECL not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for FLI. The Company exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Company's process to determine whether there has been a SICR is provided in Note 12 *Expected credit losses*.

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

iii) Stage III – Lifetime ECL credit-impaired

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

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

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

xvi) Impairment (continued)

Expected credit losses ("ECL") (continued)

Presentation of loss allowances

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

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

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

xvii) Performance based remuneration

Share-based payments

The Company participates in its ultimate parent company, MGL's share based compensation plans, being the Macquarie Group Employee Retained Equity Plan (MEREP). Information relating to these schemes is set out in Note 23 – *Employee equity participation*. 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 and a corresponding increase in liability for the cash settled awards granted to employees.

The awards are measured at the grant date based on their fair value and using the number of equity instruments expected to vest.

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.

xviii) Leases

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 of 12 months to 33 years and may include extension options. Leases are recognised as a ROU asset (as explained in Note 3(x) *Tangible assets and right-of-use assets*) and a corresponding liability at the commencement date, being the date the leased asset is available for use by the Company.

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 are also recognised as net operating lease income in the period in which the event or condition that triggers those payments occurs.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 3. Significant accounting policies (continued)

xviii) Leases (continued)

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

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

Presentation

The Company presents ROU assets in 'other assets' (refer to Note 10) and lease liabilities in 'other liabilities' (refer to Note 16) in the balance sheet.

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. Finance lease income is presented within interest and similar income in the profit and loss account.

xix) 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 issue proceeds.

xx) 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 IFRS 9 *Financial Instruments*.

xxi) 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 as part of fee and commission income.

xxii) 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Note 4. Profit on ordinary activities before taxation		
Net interest income		
Interest receivable and similar income (effective interest rate method) from: ¹		
Related entities	1,612	5,126
Unrelated parties	13,430	21,293
Finance lease income from unrelated parties	59	275
Interest payable and similar charges to:		
Other related entities	(6,660)	(17,094)
Unrelated parties	(2,644)	(2,479)
Net interest income	5,797	7,121
¹ Includes interest income of £15,005,000 (2020: £23,496,000) on financial assets that are measured at amortised cost and £96,000 (2020: £2,798,000) on financial assets that are measured at FVOCI.		
Net fee and commission income		
Brokerage and commission income	5,231	7,404
Other fee and commission income	23,185	54,920
Other fee and commission expense	(23,525)	(24,141)
Net fee and commission income	4,891	38,183
Net trading loss	(1,652)	(15,675)
Other operating (expenses)/income		
Gain on sale of management rights	-	134
Credit impairment (charges)/reversals ¹	(758)	4
Impairment of ROU	(413)	-
Gain on sale of loan assets	507	1,306
Other income	5	3
Total other operating (expenses)/income	(659)	1,447
¹ The change in expected credit losses relating to financial assets under IFRS 9 is recorded under Credit impairment charges.		
Administrative expenses		
Staff costs:		
Wages and salaries	(237)	(1,001)
Staff benefit costs	(17)	(43)
Social security costs	(12)	(87)
Share-based payment costs	(29)	(55)
Other staff costs expense	(121)	(209)
Directors' emoluments	(149)	(111)
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the Company ¹	(446)	(217)
Fees payable to the Company's auditors and its associates for other services pursuant to legislation	(96)	(64)
Depreciation	(145)	(141)
Services from other Macquarie Group undertakings	(837)	(669)
Other professional fees	(293)	(1,381)
Other expenses	(401)	(499)
Total administrative expenses	(2,783)	(4,477)
Total operating expenses	(5,094)	(18,705)

¹Fees payable to the Company's auditors for current year includes £110,000 relating to previous year.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 5. Employment information

The average number of persons employed by the Company during the financial year calculated on a monthly basis was 1 (2020: 4) under the CGM business. As at 31 March 2021, the Company has no employees.

	2021	2020
	£'000	£'000

Note 6. Tax on profit on ordinary activities

(i) Tax expense included in profit or loss

Current tax:

UK corporation tax	(582)	(4,916)
Adjustments to tax in respect of prior years	1,259	(1,880)
Foreign tax relief/(suffered)	35	(47)
Total current tax	712	(6,843)

Deferred tax:

Origination and reversal of temporary differences	(542)	(2,100)
Adjustments to tax in respect of prior years	104	1,902
Change in tax rate	(179)	(610)
Total deferred tax	(617)	(808)

Tax on profit on ordinary activities	95	(7,651)
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(ii) Reconciliation of effective tax rate

The effective income tax charge for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	5,594	26,599
	(1,063)	(5,054)

Effects of:

Adjustments to tax in respect of prior years	1,305	23
Foreign tax incurred	35	(47)
Bank surcharge tax	-	(1,414)
Non deductible expenses	(21)	26
Non assessable income	(18)	(14)
Share-based payments	36	(27)
DTA on losses write off for rate differential	-	(534)
Effect of changes in tax rates	(179)	(610)

Total tax on profit on ordinary activities	95	(7,651)
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The UK Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of corporation tax will remain at 19%. The increase to 25% rate was not substantively enacted at 31 March 2021, therefore the Company has continued to measure deferred tax balances at 19%. The Company has estimated that the increase to 25% would increase the Company's deferred tax assets by £87,840. The current rate for the banking surcharge is still at 8%.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Note 6. Tax on profit on ordinary activities (continued)		
(iii) Deferred tax comprises temporary differences attributable to:		
Other assets	562	380
Tax losses	-	-
Tangible assets	-	589
Total deferred tax assets	562	969
Other liabilities	(167)	(188)
Total deferred tax liabilities	(167)	(188)
Net deferred tax assets	395	781
(iv) Reconciliation of the Company's movement in deferred tax assets:		
Balance at the beginning of the financial year	969	1,961
Temporary differences:		
Amounts credited to profit and loss	(551)	(2,761)
Adjustments to tax in respect of prior years	103	1,903
Change in tax rate	(186)	132
Deferred tax charged to equity	227	(266)
Balance at the end of the financial year	562	969
(iv) Reconciliation of the Company's movement in deferred tax liabilities:		
Balance at the beginning of the financial year	(188)	(196)
Temporary differences:		
Amounts debited to reserves	14	24
Adjustments to tax in respect of prior years	1	-
Change in tax rate	6	(16)
Balance at the end of the financial year	(167)	(188)

Note 7. Receivables from financial institutions

Cash at bank ¹	-	81,700
Reverse repurchase agreements ²	334,744	307,437
Amounts owed by other Macquarie Group undertakings	78,748	400,195
Total receivables from financial institutions	413,492	789,332

¹Amounts held with unrelated banks are at fixed monthly rates and are either callable on demand or mature monthly.

²Includes £77,180,000 of reverse repurchase agreements with MBL (2020: £50,138,000).

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

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 8. Derivative financial instruments

The following tables provide details of the Company's outstanding derivative financial instruments as at 31 March 2021.

	Notional amount £'000	Asset valuation £'000	Liability valuation £'000	2021 Net fair value £'000	Notional amount £'000	Asset valuation £'000	Liability valuation £'000	2020 Net fair value £'000
Interest rate contracts								
Forwards	-	-	-	-	45,478	58	(58)	-
Swaps	1,579	9	-	9	252,466	2,831	(2,871)	(40)
Options	-	-	-	-	97,961	1,302	(1,302)	-
Total interest rate contracts	1,579	9	-	9	395,905	4,191	(4,231)	(40)
Foreign exchange contracts								
Forwards	63,219	905	(905)	-	2,728,148	56,080	(58,972)	(2,892)
Swaps	-	-	-	-	437,473	13,164	(13,164)	-
Options	66,931	1,086	(1,086)	-	2,230,377	40,862	(40,862)	-
Total Foreign exchange contracts	130,150	1,991	(1,991)	-	5,395,998	110,106	(112,998)	(2,892)
Commodity contracts								
Forwards	36,586	15,233	(15,233)	-	1,313,273	138,530	(138,530)	-
Swaps	35,005	3,255	(3,255)	-	5,546,294	1,033,336	(1,033,336)	-
Options	4,327	543	(543)	-	869,223	201,419	(201,419)	-
Total commodity contracts	75,918	19,031	(19,031)	-	7,728,790	1,373,285	(1,373,285)	-
Total derivative contracts outstanding								
	207,647	21,031	(21,022)	9	13,520,693	1,487,582	(1,490,514)	(2,932)
Valuation adjustment (XVA)								
		(169)	1	(168)		(16,778)	2,033	(14,745)
Net derivative contracts outstanding								
	207,647	20,862	(21,021)	(159)	13,520,693	1,470,804	(1,488,481)	(17,677)

The novation of derivative financial instruments to MBE is client centric. Refer to Note 32 – *Events after the reporting period* for the details of trades that have been novated post balance sheet date.

	2021 £'000	2020 £'000
Note 9. Margin money and settlement assets		
Margin money owed by other Macquarie Group undertakings	-	154,008
Margin money with external parties ¹	2,957	156,164
Total margin money and settlement assets	2,957	310,172

¹The amounts include €3,000,000 (£2,553,000) minimum default fund placed with the European Commodity Clearing exchange ("ECC"). Refer to Note 32 – *Events after the reporting period* for details of post balance sheet recovery.

The remaining balance of £404,000 relates to margin placed for reverse repurchase agreements.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Note 10. Other assets		
Amounts owed by other Macquarie Group undertakings ¹	1,960	9,293
Debtors and prepayments	99	140
VAT receivable	44	158
Tangible assets and ROU assets	-	530
Total other assets	2,103	10,121

¹Amounts 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 2021 the rate applied ranged between LIBOR plus 0.69% and LIBOR plus 1.94% (2020: between LIBOR plus 1.13% and LIBOR plus 2.30%).

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

Note 11. Loan assets

	2021			2020		
	Gross	ECL allowance	Net	Gross	ECL allowance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances	8,537	(178)	8,359	271,594	(805)	270,789
Lease receivables	-	-	-	2,821	(12)	2,809
Total loan assets¹	8,537	(178)	8,359	274,415	(817)	273,598

¹Subsequent to the balance sheet date, one loan with carrying value of £5,978,000 and maturity of April 2023, and was novated to MBE in May 2021. Refer to Note 32 – *Events after the reporting period*.

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.

	2021			2020		
	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payment receivable	Gross investment in finance lease receivables	Unearned income	Present value of minimum lease payment receivable
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	-	-	-	27	-	27
Between one and five years	-	-	-	2,948	(166)	2,782
Total¹	-	-	-	2,975	(166)	2,809

¹During the year the Company has fully transferred its finance lease receivables to other Macquarie entities.

Note 12. 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.

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 12. Expected credit losses (continued)

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 (EAD)*: The EAD represents the estimated exposure in the event of a default.
- *Probability of default (PD)*: The calculation of PDs for wholesale exposures is generally performed at a facility level. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for wholesale portfolios are also adjusted for Forward looking information (FLI).
- *Loss given default (LGD)*: The LGD associated with the PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios.

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. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on CreditWatch, an internal credit monitoring mechanism supervised by the credit watch management committee to closely monitor exposures showing signs of stress. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposures' credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other 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.

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.

Where an exposures' assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage II. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as stage II. The IFRS 9 'low credit risk' exemption is not applied by the Company to material portfolios.

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.

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 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 development of internal models, and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 12. Expected credit losses (continued)

Forward looking information (continued)

The Company applied its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. These overlays consider the risk that losses predicted to occur at points of particular economic stress, which have since been passed, are yet to occur and that uncertainty exists as to whether enhanced levels of government and other-related support measures may cause the loss emergence profile to differ to that for which the models have been calibrated. These overlays also account for the risk that underlying credit risk events have occurred but observable modelled inputs are yet to reflect those events, as well as risks that are specific to regional, counterparties or industries which are difficult to account for within the modelled outcomes. Over time the credit models are recalibrated to enhance the predictive capability. At the reporting date this overlay was not material to the Company's ECL. These judgements are reviewed by FMG and RMG at each reporting date.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios are probability weighted and then applied to the exposures' PDs and LGDs. The scenarios and the assigned probabilities are updated quarterly or if a material disruption event were to occur. For the current reporting period the Company has continued to anchor the upside and downside scenarios with COVID-19 as the key driver of the macroeconomic outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the continuing uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent plausible forward-looking views as at the reporting date.

The modelled ECL for each scenario is sensitive to the speed and resilience of post-COVID-19 economic normalisation, and the longevity of monetary and fiscal intervention, as these influence both the probability of default, and the value of collateral that may be utilised.

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

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 2021		As at 31 March 2020	
	Gross exposure £'000	ECL allowance £'000	Gross exposure £'000	ECL allowance £'000
Receivables from financial institutions ¹	413,505	13	789,244	9
Margin money and settlement assets	2,957	-	310,172	-
Other assets	1,969	9	9,402	-
Loan assets	8,537	178	274,415	817
Undrawn credit commitments and financial guarantees ²	-	-	73,829	64
Total credit impaired financial assets	426,968	200	1,457,062	890

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

²Gross 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 commitments 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
Impairment charge/(reversal)	4	-	9	809	(64)	758
Transfer to other Macquarie entities ¹	-	-	-	(1,419)	-	(1,419)
Foreign exchange movement	-	-	-	(29)	-	(29)
Balance as at 31 March 2021	13	-	9	178	-	200

¹ECL provision on loans transferred to MBE.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 12. Expected credit losses (continued)

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

	Stage I 12 month ECL £'000	Lifetime ECL		Total £'000
		Stage II Not credit impaired £'000	Stage III Credit impaired £'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
Transfers during the financial year:				
To 12 month ECL	-	-	-	-
Transfer to other Macquarie entities	(1,419)	-	-	(1,419)
Impairment charge/(reversal)	1,049	(240)	-	809
Foreign exchange movement	(29)	-	-	(29)
Balance as at 31 March 2021	178	-	-	178
			2021	2020
			£'000	£'000

Note 13. Margin money and settlement liabilities

Margin money owed to other Macquarie Group undertakings	74	10,827
Margin money deposits from external parties	357	661,006
Total margin money and settlement liabilities	431	671,833

The above amounts are expected to be settled within 12 months from the balance sheet date. Refer to Note 32 – *Events after the reporting period*.

Note 14. Deposits

Deposits	-	4,406
Total deposits	-	4,406

The previous year balance was fully settled during the year.

Note 15. Payables to financial institutions

Amounts owed to other Macquarie Group undertakings	37,577	208,995
Amounts owed to other banks	-	88,573
Total payables to financial institutions	37,577	297,568

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

Note 16. Other liabilities

Accrued charges and sundry provisions	86	441
Amounts owed to other Macquarie Group undertakings ¹	6,206	10,261
Deferred income ²	143	297
Lease liabilities	436	616
Other	75	232
Total other liabilities	6,946	11,847

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

¹Amounts 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 2021 the rate applied was LIBOR plus 0.85% (2020: LIBOR plus 1.25%).

²Deferred 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

	2021 £'000	2020 £'000
Note 17. Provisions		
Provision for employee entitlements	15	112
ECL provisions for undrawn commitments	-	64
Legal provision ¹	13,900	14,755
Other provision ²	457	-
Total provisions	14,372	14,931

¹Litigation and regulatory matters may arise in the normal course of the Company's business. The Company provides for these matters where required. For a specific matter in connection with trades with and the provision of custodial services to clients in 2008 and 2009, the Company engaged a third party which it undertook to indemnify in certain circumstances. That third party has indicated that it may call on that indemnity. Additionally or alternatively, some of those clients could bring a claim against the Company. Whether or not there will be an outflow of economic resources, the timing, and the amount are all uncertain. The provision represents the Company's best estimate. The Company has recognised an indemnity asset receivable from MBL equivalent to the provision recognised in respect of the matter. Whilst the provision and indemnity asset are recognised gross within the balance sheet, the Company expects any possible outflow of economic resources in respect of the matter to be met with an equivalent inflow under the indemnity held. The movement in provision during the year relates to foreign exchange revaluation.

²Provision relates to non recoverable indirect taxes.

Maturity profile of provision for employee entitlements:

Within 1 year	15	103
Between 1 and 2 years	-	2
Between 2 and 5 years	-	7
Balance at the end of the financial year	15	112

Reconciliation of provision for employee entitlements

Balance at the beginning of the financial year	112	875
Provisions made during the financial year	-	39
Provisions utilised during the financial year	(97)	(798)
Foreign currency translation	-	(4)
Balance at the end of the financial year	15	112

Note 18. Capital management strategy

The Company is subject to UK on-shored CRR¹ minimum capital requirements as implemented by the Prudential Regulation 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.

¹The Capital Requirements (Amendment) (EU Exit) Regulations 2018 ("CRR EU Exit SI").

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 2021 by the Company in comparison to the prior financial year. At all times during the year ended 31 March 2021 the Company was in compliance with both internally and externally imposed capital requirements. As such, there was no consequence of non-compliance imposed upon the Company.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 18. Capital management strategy (continued)

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 31.

The return on assets for the financial year ended 31 March 2021 was 1.27 per cent (2020: 0.66 per cent), calculated as profit attributable to ordinary equity holders divided by the total assets of the Company.

On 20 July 2021, following the receipt of approval from the PRA, the Board approved to reduce issued share capital of 330,000,000 ordinary fully paid-up shares from £1 to £0.151516 per shares and pay dividends of £279,999,720 to its parent, Macquarie Holdings (UK) No.1 Limited.

Note 19. Called up share capital

	2021 Number of shares	2020 Number of shares	2021 £'000	2020 £'000
Ordinary share capital				
Opening balance of fully paid ordinary shares	330,000,000	330,000,000	330,000	330,000
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 20. Contribution from ultimate parent entity in relation to share-based payments

Opening balance of contribution from ultimate parent entity in relation to share-based payments	1,062	1,219
Deferred tax on share-based payments	262	(157)
Closing balance of contribution from ultimate parent entity in relation to share-based payments	1,324	1,062

Note 21. Reserves and profit and loss account

Reserves

Foreign currency translation reserve

Balance at the beginning of the financial year	(845)	(544)
Exchange differences on translation of foreign operations	332	(301)
Balance at the end of the financial year	(513)	(845)

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.

FVOCI reserve

Balance at the beginning of the financial year	101	-
Revaluation (losses)/gains recognised in OCI, net of tax	(104)	101
Balance at the end of the financial year	(3)	101

Profit and loss account

Balance at the beginning of the financial year	30,776	11,886
Change on initial application of IFRS 16	-	(58)
Restated balance as at 1 April	30,776	11,828
Profit for the financial year	5,689	18,948
Balance at the end of the financial year	36,465	30,776
Total profit and loss account	36,465	30,776

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 22. Directors' remuneration

Directors' emoluments paid by the Company for the financial year ended 31 March 2021 were £149,000 (2020: £111,000).

During the financial years ended 2021 and 2020, 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.

Note 23. 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 nil (2020: 360). 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\$nil (2020: A\$126.62).

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 shares.

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\$124.40 (2020: A\$126.62).

	Number of DSU Awards	
	2021	2020
DSUs on issue at the beginning of the financial year	2,600	6,926
Granted during the financial year	222	480
Exercised during the financial year	-	(1,915)
Transfers to related body corporate entities	(222)	(2,891)
DSUs on issue at the end of the financial year	2,600	2,600
DSUs exercisable at the end of the financial year	2,600	2,407

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 23. 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) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards).

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 2020 retention, the allocation price was the weighted average price of the shares issued for the 2020 issue period, which was 25 May 2020 to 5 June 2020. That price was calculated to be \$112.15 (2019 retention: \$122.37).

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.

DSUs have been granted in the current financial year in respect of 2020. The accounting fair value of each of these grants is estimated using the MGL's share price on the date of grant.

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, as part of employment expenses in the profit and loss account. For the financial year ended 31 March 2021, compensation expense relating to the MEREP totaled \$53,449 (2020: \$104,129).

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

	2021	2020
	£'000	£'000
Note 24. Contingent liabilities and commitments		
Commitments exist in respect of:		
Undrawn credit facilities ¹	-	73,829
Total commitments	-	73,829
Total contingent liabilities and commitments	-	73,829

¹Undrawn 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 or a category of contingent liabilities or commitments which are material.

Note 25. Financial risk management

Risk Management Group

Risk is an integral part of the Macquarie Group's businesses. The material risks faced by the Group include aggregate, asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks.

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

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

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

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).

25.1 Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequential 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.1 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 12 *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.

As at 31 March 2021 there are no amounts past due for the Company.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.1 Credit risk (continued)

Credit quality of financial assets (continued)

	As at 31 March 2021			
	Stage I ¹	Stage II ¹	Stage III ¹	Total
	£'000	£'000	£'000	£'000
Investment grade				
Receivables from financial institutions	413,505	-	-	413,505
Margin money & settlement assets	2,957	-	-	2,957
Other assets	2,056	-	-	2,056
Loan assets	-	-	-	-
Undrawn credit commitments and financial guarantees	-	-	-	-
Total Investment grade	418,518	-	-	418,518
Non-Investment grade				
Receivables from financial institutions	-	-	-	-
Margin money & settlement assets	-	-	-	-
Other assets	-	-	-	-
Loan assets	8,537	-	-	8,537
Undrawn credit commitments and financial guarantees	-	-	-	-
Total Non-Investment grade	8,537	-	-	8,537
Default				
Receivables from financial institutions	-	-	-	-
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	413,505	-	-	413,505
Margin money & settlement assets	2,957	-	-	2,957
Other assets	2,056	-	-	2,056
Loan assets	8,537	-	-	8,537
Undrawn credit commitments and financial guarantees	-	-	-	-
Total financial assets by ECL stage	427,055	-	-	427,055

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

¹For definition of Stage I, II, III refer Note 3(xvii) – *Expected credit losses*.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.1 Credit risk (continued)

Credit quality of financial assets (continued)

	As at 31 March 2020			
	Stage I ¹	Stage II ¹	Stage III ¹	Total
	£'000	£'000	£'000	£'000
Investment grade				
Receivables from financial institutions	789,244	-	-	789,244
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	1,179,499	-	-	1,179,499
Non-Investment grade				
Receivables from financial institutions	-	-	-	-
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	245,592	31,971	-	277,563
Default				
Receivables from financial institutions	-	-	-	-
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	789,244	-	-	789,244
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	1,425,091	31,971	-	1,457,062

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

¹For definition of Stage I, II, III refer Note 3(xvi) – *Expected credit losses*. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

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 is a function of the contractual notional amount and is disclosed in Note 12 – *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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.1 Credit risk (continued)

Credit risk concentration

	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
2021							
Australia							
Financial institutions	78,761	18,139	-	1,453	-	-	98,353
Other	-	-	136	3	-	-	139
Total Australia	78,761	18,139	136	1,456	-	-	98,492
Asia Pacific							
Other	-	-	-	1	-	-	1
Total Asia Pacific	-	-	-	1	-	-	1
Europe, Middle East & Africa							
Financial institutions	334,744	27	404	220	-	-	335,395
Other	-	2,865	2,417	379	8,537	-	14,198
Total Europe, Middle East & Africa	334,744	2,892	2,821	599	8,537	-	349,593
Total	413,505	21,031	2,957	2,056	8,537	-	448,086
Total gross credit risk	413,505	21,031	2,957	2,056	8,537	-	448,086

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

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

	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
2020							
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 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.

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

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.1 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 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 £75,248,000 (2020: £318,678,000) 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 3(xvi) *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.

Exchange traded derivatives

Exchange traded derivatives contracts have reduced credit risk as the Company's counterparty is a clearing house except for the cases where it is trading through another clearing house member. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities and provide daily variation margins in cash to cover changes in market values of the underlying derivatives. Further, all members are generally required to contribute to (and guarantee) the compensation or reserve fund which may be used in the event of default and shortfall of a member.

Over the Counter derivative contracts

For 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.

25.2 Liquidity risk

Governance and oversight

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

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.2 Liquidity risk (continued)

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

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with 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.

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 £330,755,000 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 of the expected cash flows as 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.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Balance Sheet Total
	£'000	£'000	£'000	£'000	£'000	£'000
2021						
Derivative financial instruments	-	21,022	-	-	-	21,022
Margin money and settlement liabilities	-	431	-	-	-	431
Deposits	-	-	-	-	-	-
Payables to financial institutions	6	28,000	9,571	-	-	37,577
Other liabilities*	3,658	3,060	-	-	-	6,718
Undrawn credit commitments and financial guarantees	-	-	-	-	-	-
Total undiscounted cash flows	3,664	52,513	9,571	-	-	65,748

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

Refer to Note 32 – *Events after the reporting period* for transfers to MBE and settlements of derivative liabilities and margin money and settlement liabilities after the balance sheet date.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Balance Sheet Total
	£'000	£'000	£'000	£'000	£'000	£'000
2020						
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.

25.3 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, CVA, DVA, and FVA.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 25. Financial risk management (continued)

25.3 Market risk

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

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

Interest rate risk

The Company has exposure to non-traded interest rate risk generated by interest bearing assets and liabilities.

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

	Movement in basis points	2021 Sensitivity of profit before tax £'000	2020 Sensitivity of profit before tax £'000
Australian Dollar	+50	3	(105)
Euro	+50	(28)	(784)
Great British Pound	+50	1,887	330
United States Dollar	+50	(15)	2,048
Australian Dollar	-50	(3)	105
Euro	-50	28	784
Great British Pound	-50	(1,887)	(330)
United States Dollar	-50	15	(2,048)

Foreign currency risk

The Company is exposed to foreign currency risk arising from transactions entered into in its normal course of business. Movement in foreign currency exchange rates will result in gains or losses in the profit and loss account due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

The table below indicates the sensitivity to movements in the Pound Sterling 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%	
	2021 Sensitivity of profit before tax £'000	2020 Sensitivity of profit before tax £'000	2021 Sensitivity of profit before tax £'000	2020 Sensitivity of profit before tax £'000
Australian Dollar	32	35	(32)	(35)
Euro	874	866	(874)	(866)
United States Dollar	(153)	312	153	(312)
Other currencies	1	8	(1)	(8)

Note 26. 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 3(iv) - *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 27 - *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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 26. Measurement categories of financial instruments (continued)

	Financial Instruments					
	Carried at fair value					
	HFT	FVOCI	FVTPL	Amortised cost	Non-financial instruments	Total
2021	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Receivables from financial institutions	-	334,744	-	78,748	-	413,492
Derivative assets	20,862	-	-	-	-	20,862
Margin money & settlement assets	-	-	-	2,957	-	2,957
Other assets ¹	-	-	-	1,998	105	2,103
Loan assets	-	-	-	8,359	-	8,359
Deferred tax assets ¹	-	-	-	-	395	395
Total assets	20,862	334,744	-	92,062	500	448,168
Liabilities						
Derivative liabilities	21,021	-	-	-	-	21,021
Margin money & settlement liabilities	-	-	-	431	-	431
Deposits	-	-	-	-	-	-
Payables to financial institutions	-	-	-	37,577	-	37,577
Current tax liabilities ²	-	-	-	-	548	548
Other liabilities ^{2,3}	-	-	-	6,718	228	6,946
Provisions ²	-	-	-	-	14,372	14,372
Total liabilities	21,021	-	-	44,726	15,148	80,895

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

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

³Fair 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 2020:

	Financial Instruments					
	Carried at fair value			Amortised cost	Non-financial instruments	Total
2020	HFT £'000	FVOCI £'000	FVTPL £'000	£'000	£'000	£'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

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

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

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

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 27. 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 fair value hierarchy level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement. 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 (as disclosed in Note 26 *Measurement categories of financial instruments*) are for disclosure purposes only. The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold 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
- 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 interest rates and credit spreads.
- The fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower.
- 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.
- 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 CVA is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 27. 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 DVA is incorporated into the valuation.
- The Company has incorporated market implied funding costs for uncollateralised derivative positions as a 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 carried as amortised cost 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 £nil (2020: £81,700,000) and Deposits of £nil (2020: £4,406,000), which are classified as level 1.

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:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2021				
Assets				
Reverse repurchase agreements	-	334,744	-	334,744
Derivative assets	-	20,862	-	20,862
Total assets	-	355,606	-	355,606
Liabilities				
Derivative liabilities	-	(21,021)	-	(21,021)
Total liabilities	-	(21,021)	-	(21,021)

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Company at 31 March 2020:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
2020				
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)

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 27. 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 2021, the entire opening balance of level 3 derivative financial instruments amounting to £8,708,000 were fully matured or settled. The closing balance of gross derivative financial instruments as at 31 March 2021 is nil.

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 settled. The closing balance of gross derivative financial instruments as at 31 March 2020 amounting to £8,708,000 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 28. 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.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 29. 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 3(iv) - *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 and therefore presented gross 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			Amounts not subject to enforceable netting arrangements	Balance Sheet total
	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		
2021								
Receivables from financial institutions ¹	427,244	(13,752)	413,492	(4,214)	-	409,278	-	413,492
Derivative assets	20,734	-	20,734	(18,521)	(356)	1,857	128	20,862
Margin money and settlement assets	3,891	(1,338)	2,553	-	-	2,553	404	2,957
Other assets ²	4,953	(2,995)	1,958	(1,958)	-	-	40	1,998
Loan asset	-	-	-	-	-	-	8,359	8,359
Total assets	456,822	(18,085)	438,737	(24,693)	(356)	413,688	8,931	447,668
Derivative liabilities	(20,931)	-	(20,931)	18,521	-	(2,410)	(90)	(21,021)
Margin money and settlement liabilities	(1,769)	1,338	(431)	-	356	(75)	-	(431)
Deposits	-	-	-	-	-	-	-	-
Payables to financial institutions	(13,752)	13,752	-	-	-	-	(37,577)	(37,577)
Other liabilities ³	(9,167)	2,995	(6,172)	6,172	-	-	(546)	(6,718)
Total liabilities	(45,619)	18,085	(27,534)	24,693	356	(2,485)	(38,213)	(65,747)

¹Included within this balance are reverse repurchase arrangements.

²This balance excludes other non-financial assets of £105,000 which is included in Note 10 - *Other assets*.

³This balance excludes other non-financial liabilities of £228,000 which is included in Note 16 - *Other liabilities*.

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

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

⁶Related 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 Master Loan Agreement ("MLA"). Refer to Note 30 *Related party information* for further details.

Macquarie Bank International Limited

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 29. Offsetting financial assets and financial liabilities (continued)

	Amounts covered by enforceable netting arrangements						Amounts not subject to enforceable netting arrangements	Balance Sheet total
	Subject to offsetting on balance sheet			Related amounts not offset ⁵				
	Gross amounts	Amounts offset	Net amount presented	Other recognised financial instruments ⁴	Cash and other financial collateral ⁶	Net amount		
2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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
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)
Payables to financial institutions	(53,616)	53,616	-	-	-	-	(297,568)	(297,568)
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)

¹Included within this balance are reverse repurchase arrangements.

²This balance excludes other non-financial assets of £719,000 which is included in Note 10 - *Other assets*.

³This balance excludes other non-financial liabilities of £738,000 which is included in Note 16 - *Other liabilities*.

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

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

⁶Related 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.

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 3(iv) *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 covered by 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 2021 (continued)

Note 30. Related party information

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 31.

The Master Loan Agreement (the "MLA") governs the funding arrangements between various subsidiaries and related body corporate entities which are under the common control of MGL and have acceded to the MLA. During the current financial year, the Tripartite Outsourcing Major Services Agreement (TOMSA) became effective governing the provision of intra-group services between the Company and its related body corporate entities other than certain excluded entities.

Relationships with an entity which is not a party to the MLA have been presented on a gross basis.

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 31. Ultimate parent undertaking

At 31 March 2021 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 32. Events after the reporting period

Capital reduction:

On 20 July 2021, following the receipt of approval from the PRA, the Board approved to reduce its issued share capital by £279,999,720 through a proportional capital return across all issued shares. The Board agreed to reduce the Company's issued share capital of 330,000,000 ordinary fully paid-up shares from £1 to £0.151516 per share. Following the capital reduction, the Company will pay dividends of £279,999,720 to its parent, Macquarie Holdings (UK) No.1 Limited.

Client positions:

The client positions relating to regulated activities undertaken by the Company are reported on the balance sheet under derivative assets, derivative liabilities, margin money and settlement assets, loan assets and margin money and settlement liabilities.

As at 31 March 2021, there were eleven clients with derivative trades and two loans outstanding.

The derivative trades with three clients were transferred out to MBE and eight client positions matured and settled by the date of accounts approval. The loan outstanding with one client was transferred to MBE and the loan outstanding with another client has a maturity date of 12 August 2021. The transfers and settlements of trades after the balance sheet date are as detailed below:

The following positions outstanding as at 31 March 2021 were transferred to MBE prior to the approval of the accounts:

- Derivatives instruments: derivative assets of £748,000 and derivative liabilities of £1,064,000 relating to three clients (with respective settlement dates of 29 July 2022, 6 October 2021 and 7 October 2021) were novated to MBE. The back to back trades under the MDA with MBL amounting to assets of £1,064,000 and liabilities of £748,000 were also novated to MBE with the transfer of client positions.
- Loan assets: One loan outstanding at 31 March 2021 had a carrying value of £5,978,000 and maturity of April 2023, and was novated to MBE in May 2021 (including the funded sub participation arrangement). The other loan of £2,553,000 has a maturity date of 12 August 2021 and has not been novated.
- The net gain/loss on above transfers is not material for the Company.

Notes to the financial statements for the financial year ended 31 March 2021 (continued)

Note 32. Events after the reporting period (continued)

The following positions outstanding as at 31 March 2021 have matured and fully settled:

- Derivative instruments: derivative assets of £2,145,000 and derivative liabilities of £16,678,000 matured and were settled. The trades with other Macquarie Group entities including back out trades under the MDA with MBL amounting to assets of £17,075,000 and liabilities of £2,532,000 also matured with the client positions. The above also includes trades relating to two clients which reached maturity before the clients were transferred to MBE.
- Margin money and settlement assets of €3,000,000 (£2,553,000) relating to minimum default fund placed with the ECC was realised in May 2021.
- Margin money and settlement liabilities of £431,000 were settled.

There were no other material events subsequent to 31 March 2021 and up until the authorisation of the financial statements for issue, that have not been reflected in the financial statements.

Macquarie Bank International Limited

Country by country reporting information

2021

Region	Activity	Turnover £	Profit/ (loss) before tax £	Corporation tax refund received £	Average FTE employees
Germany	Corporate advisory services	637,498	(354,713)	-	1
UK	Licenced banking and investment management	10,050,865	5,948,372	112,005	-
Total		10,688,363	5,593,659	112,005	1

Note 1. Basis of preparation

The Directors are responsible for preparation of the country by country reporting information in accordance with Capital Requirements (Country by Country Reporting) Regulations 2013.

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 31st March 2021 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 31st March 2021 in the Country-by-country reporting disclosure.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 3 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company/industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant Financial Conduct Authority and Prudential Regulatory Authority rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries. Audit procedures performed included:

- Reviewing key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Discussions with management, and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Observing the effectiveness of key governance forums, reviewing management information presented and reviewing minutes of executive management meetings; and
- Incorporated unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. 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.

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

21 July 2021