MACQUARIE BANK

Management Discussion and Analysis

Macquarie Bank

Half year ended 30 September 2022

Macquarie Bank Limited
ACN 008 583 542

Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Bank Limited Disclosure Report (U.S. Version) for the half year ended 30 September 2022 and the Financial Report within the Macquarie Bank Limited Interim Financial Report (the Financial Report) for the half year ended 30 September 2022, including further detail in relation to key elements of Macquarie Bank Limited and its subsidiaries' (Macquarie Bank, the Consolidated Entity) financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

Certain financial information in this report is prepared on a different basis to that contained in the Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, a reconciliation to the statutory information is provided.

Date of this report

This report has been prepared for the half year ended 30 September 2022 and is current as at 28 October 2022.

Cover image

We remain committed to supporting and educating our customers through changing economic conditions. We regularly share relevant and practical content to help our customers make informed financial decisions and understand how to adapt their household finances amid a tougher financial environment.

Explanatory notes

Comparative information and conventions
Where necessary, comparative figures have been restated to conform to changes in current year financial presentation and group structures.

References to the prior corresponding period (pcp) are to the six months ended 30 September 2021.

References to the prior period are to the six months ended 31 March 2022.

References to the current period and current half year are to the six months ended 30 September 2022.

In the financial tables throughout this document '*' indicates that the absolute percentage change in the balance was greater than 300% or indicates the result was a gain in one period but a loss in another, or vice versa.

Independent Auditor's Review Report

This document should be read in conjunction with the Financial Report for the half year ended 30 September 2022, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Bank Limited dated 28 October 2022 was unqualified.

Any additional financial information in this document which is not included in the Financial Report was not subject to independent review by PricewaterhouseCoopers.

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Result Overview

1.1 Executive Summary

1H23 net profit

$A1,275m

↑ 3% on pcp

1H23 net operating income

$A5,050m

↑ 14% on pcp

1H23 operating expenses

$A3,295m

↑ 18% on pcp

1H23 net profit contribution[1] by Operating Group

Summary of the Operating Groups' performance for the half year ended 30 September 2022.

Banking and Financial Services (BFS)

$A580m

↑ 20% on pcp due to

- higher net interest and trading income mainly driven by growth in the loan portfolio and total BFS deposits, and improved margins from the rising interest rate environment
- decreased credit impairment charges driven by provision releases in car loans due to run-off in the portfolio, partially offset by growth in the remaining loan portfolio and some deterioration in the macroeconomic outlook compared to the prior corresponding period.

Partially offset by:

- higher expenses driven by increased technology investment and headcount to support business growth and regulatory requirements.

Commodities and Global Markets (CGM)

$A1,894m

↑ 7% on pcp due to

- increased risk management revenue reflecting strong results across the platform, particularly from Gas and Power, Resources, and Global Oil due to increased client hedging activity as a result of elevated levels of volatility and price movements in commodity markets
- increased foreign exchange, interest rate, and credit products income driven by increased client hedging and financing activity
- increased lending and financing income due to increased volumes in the energy sectors.

Partially offset by:

- lower net income on equity, debt and other investments due to a gain on the partial sale of the UK Meters portfolio of assets in the prior corresponding period
- higher operating expenses driven by higher employment, technology platform and infrastructure expenses
- inventory management and trading income driven by trading gains from supply and demand imbalances recorded primarily in North American Gas and Power, which were more than offset by the unfavourable impact of timing of income recognition on Gas and Power storage and transport contracts.

[1] Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

Profit attributable to the ordinary equity holder

$A1,275m

↑ 3% on pcp

	HALF YEAR TO			*MOVEMENT*	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
Financial Performance Summary					
Net interest income	**1,265**	1,238	1,215	*2*	*4*
Net trading income	**2,532**	2,512	1,702	*1*	*49*
Fee and commission income	**1,118**	1,058	896	*6*	*25*
Net credit impairment (charges)/reversals	**(68)**	78	(94)	*	*(28)*
Net other impairment reversals/(charges)	**1**	(22)	11	*	*(91)*
Net other operating income	**202**	278	682	*(27)*	*(70)*
Net operating income	**5,050**	5,142	4,412	*(2)*	*14*
Employment expenses	**(2,164)**	(1,900)	(1,796)	*14*	*20*
Brokerage, commission and fee expenses	**(261)**	(254)	(251)	*3*	*4*
Non-salary technology expenses	**(440)**	(396)	(320)	*11*	*38*
Other operating expenses	**(430)**	(554)	(416)	*(22)*	*3*
Total operating expenses	**(3,295)**	(3,104)	(2,783)	*6*	*18*
Operating profit before income tax	**1,755**	2,038	1,629	*(14)*	*8*
Income tax expense	**(480)**	(564)	(386)	*(15)*	*24*
Profit after income tax	**1,275**	1,474	1,243	*(14)*	*3*
Profit attributable to ordinary equity holder of Macquarie Bank Limited	**1,275**	1,474	1,243	*(14)*	*3*
Key Metrics					
Expense to income ratio (%)	**65.2**	60.4	63.1		
Effective tax rate (%)	**27.4**	27.7	23.7		

1.1 Executive Summary

Continued

Net operating income

Net operating income of $A5,050 million for the half year ended 30 September 2022 increased 14% from $A4,412 million in the prior corresponding period mainly driven by higher Net interest and trading income and Fee and commission income, partially offset by lower Net other operating income.

Net interest and trading income

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
3,797	3,750	2,917

↑30% on pcp

- Higher risk management revenue reflecting strong results across the platform, particularly in Gas and Power, Resources and Global Oil in CGM.
- Higher foreign exchange, interest rates and credit income from increased client hedging and financing activity in CGM.
- Growth in the loan portfolio and total BFS deposits, and improved margins from the rising interest rate environment in BFS.

Partially offset by:

- inventory management and trading gains from supply and demand imbalances recorded in North American Gas and Power, which were more than offset by the unfavourable impact of timing of income recognition primarily on Gas and Power storage and transport contracts in CGM.

Fee and commission income

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
1,118	1,058	896

↑25% on pcp

- Increased fees received from the Non-Bank for services provided by the Central Services Group reflecting a higher underlying Central Services Group cost base.
- Higher income due to timing of fees on specific deals and increased brokerage activity in CGM.
- Increased income mainly driven by higher lending and transaction volumes in BFS.

Credit and other impairment charges

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
(67)	56	(83)

↓19% on pcp

- Reduced specific provisions in CGM.
- Credit impairment releases in car loans due to book run off in BFS.

Partially offset by:

- growth in the BFS home loan and business lending portfolios
- some deterioration in the macroeconomic outlook.

Net other operating income

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
202	278	682

↓70% on pcp

- Gain on the partial sale of the UK Meters portfolio of assets in the prior corresponding period in CGM.

Operating expenses

Total operating expenses of $A3,295 million for the half year ended 30 September 2022 increased 18% from $A2,783 million in the prior corresponding period mainly driven by higher Employment expenses and higher Non-salary technology expenses.

Employment expenses

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
2,164	1,900	1,796

↑**20%** on pcp

- Higher expenses from higher average headcount and wage inflation.
- Higher profit share expense and share-based payments mainly as a result of the performance of the Consolidated Entity.

Brokerage, commission and fee expenses

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
261	254	251

↑**4%** on pcp

- Higher expenses mainly driven by increased trading and brokerage activities in CGM.

Non-salary technology expenses

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
440	396	320

↑**38%** on pcp

- Increased investment in technology initiatives, with focus on data and digitalisation to support business activity.

Other operating expenses

HALF YEAR TO		
30 Sep 22	31 Mar 22	30 Sep 21
$Am	$Am	$Am
430	554	416

↑**3%** on pcp

- Higher travel and entertainment expenses across the Consolidated Entity following the easing of COVID-19 restrictions.

Partially offset by:

- lower transaction-related charges.

Income tax expense

Income tax expense of $A480 million for the half year ended 30 September 2022 increased 24% from $A386 million in the prior corresponding period. The effective tax rate for the half year ended 30 September 2022 was 27.4%, up from 23.7% in the prior corresponding period and down from 27.7% in the prior period.

The higher effective tax rate compared to the prior corresponding period was mainly driven by the geographic composition and nature of earnings.

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Financial Performance Analysis

2.1 Net Interest and Trading Income

	HALF YEAR TO			Movement	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
Net interest income	**1,265**	1,238	1,215	*2*	*4*
Net trading income	**2,532**	2,512	1,702	*1*	*49*
Net interest and trading income	**3,797**	3,750	2,917	*1*	*30*

Net interest income and net trading income are recorded in accordance with Australian Accounting Standards, with net interest income brought to account using the effective interest method and net trading income predominantly comprising of gains and losses relating to trading activities.

For CGM, which predominantly earns income from trading-related activities, the relative contribution of net interest income and net trading income from those activities can vary from period to period depending on the underlying trading strategies undertaken by the Consolidated Entity and its clients.

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

The presentation of net interest income and net trading income separately can distort the analysis of the underlying activities and drivers. For example, within Asset Finance (a business within CGM), interest rate swaps are entered into to hedge the interest rate risk associated with loan assets. The interest income and associated funding costs are recognised in net interest income, however the related swap is recognised in net trading income. Accordingly, net interest income and net trading income are presented and discussed below in aggregate for each Operating Group, which management believes presents a more consistent overview of business performance and allows for a better analysis of the underlying activities and drivers.

	HALF YEAR TO			Movement	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
BFS	**1,214**	998	974	*22*	*25*
CGM					
Commodities	**1,766**	1,985	1,213	*(11)*	*46*
Foreign exchange, interest rates and credit	**612**	549	417	*11*	*47*
Equities	**172**	205	180	*(16)*	*(4)*
Asset Finance	**51**	26	58	*96*	*(12)*
Corporate	**(18)**	(13)	75	*38*	*
Net interest and trading income	**3,797**	3,750	2,917	*1*	*30*

Net interest and trading income of $A3,797 million for the half year ended 30 September 2022 increased 30% from $A2,917 million in the prior corresponding period.

BFS

Net interest and trading income in BFS relates to interest income earned from the loan portfolio that primarily comprises home loans, loans to businesses, car loans and credit cards. BFS also generates income from deposits, which are used as a source of funding for the Bank Group.

Net interest and trading income of $A1,214 million for the half year ended 30 September 2022 increased 25% from $A974 million in the prior corresponding period primarily due to 20% growth in the average loan portfolio, which was supported by 24% growth in average BFS deposit volumes[1]. It also reflects improved margins from the rising interest rate environment, partially offset by ongoing lending competition and changes in portfolio mix.

As at 30 September 2022 the loan and deposit portfolios included:

- home loan volumes of $A101.0 billion[2], up 13% from $A89.5 billion as at 31 March 2022
- business banking loan volumes of $A12.3 billion, up 7% from $A11.5 billion as at 31 March 2022
- car loan volumes of $A7.3 billion, down 17% from $A8.8 billion as at 31 March 2022, and
- BFS deposits of $A116.7 billion, up 19% from $A98.0 billion as at 31 March 2022.

CGM

Net interest and trading income of $A2,601 million for the half year ended 30 September 2022 increased 39% from $A1,868 million in the prior corresponding period.

Commodities

Net interest and trading income from commodity related activities is generated from the provision of hedging and risk management services and loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture.

Income from risk management is driven by managing clients' exposure to commodity price volatility which is supported by our strong internal risk management framework.

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

For inventory management and trading, CGM enters into financial and physical contracts including exchange traded derivatives, OTC derivatives, storage contracts and transportation agreements as part of its commodities platform. These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

Storage and transportation contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Net interest and trading income from commodities of $A1,766 million for the half year ended 30 September 2022 increased 46% from $A1,213 million in the prior corresponding period.

Increased contributions were recorded by Gas and Power, Resources, and Global Oil due to increased client hedging activity as a result of elevated levels of volatility and price movements in commodity markets.

Lending and financing income was up on the prior corresponding period due to increased volumes in energy sectors.

The current period included trading gains from supply and demand imbalances recorded primarily in North American Gas and Power which were more than offset by the unfavourable impact of timing of income recognition, primarily on Gas and Power storage and transport contracts.

Foreign exchange, interest rates and credit

Net interest and trading income from foreign exchange, interest rates and credit related activities are generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A612 million for the half year ended 30 September 2022 increased 47% from $A417 million in the prior corresponding period with continued strong client activity in structured foreign exchange and interest rate products in addition to increased financing activity.

[1] Calculations based on average volumes net of offsets.

[2] Home loan volumes are gross of offsets.

2.1 Net Interest and Trading Income

Continued

Equities

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of $A172 million for the half year ended 30 September 2022 decreased 4% from $A180 million in the prior corresponding period due to reduced contributions from trading related activities.

Asset Finance

Net interest and trading income in Asset Finance predominantly relates to net income from the loan and finance lease portfolios (including shipping finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Asset Finance net interest and trading income of $A51 million for the half year ended 30 September 2022 decreased 12% from $A58 million in the prior corresponding period.

Corporate

Net interest and trading (expense)/income in the Corporate segment includes the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital, funding costs associated with investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting is unable to be achieved.

Net interest and trading expense of $A18 million for the half year ended 30 September 2022 was significantly down from an income of $A75 million in the prior corresponding period.

The decrease from the prior corresponding period included a higher expense associated with managing the Banking Group's liquidity and funding and the impact of an increased centrally held funding surplus and accounting volatility from the changes in the fair values of economic hedges, partially offset by the impact of earnings on capital reflecting higher central bank rates and higher average volumes.

2.2 Fee and Commission Income

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Brokerage and other trading-related fee income	**141**	143	132	*(1)*	*7*
Other fee and commission income	**977**	915	764	*7*	*28*
Total fee and commission income	**1,118**	1,058	896	*6*	*25*

Fee and commission income comprises Brokerage and other trading-related fee income and Other fee and commission income. Brokerage and other trading-related fee income primarily includes brokerage income from the Equity Derivatives and Trading and Futures businesses in CGM and brokerage income from the provision of wealth services in BFS. Other fee and commission income includes fees earned on a range of BFS' products and services including BFS Wrap and Vision platforms, home loans, car loans, credit cards, business loans and deposits, while Other fee and commission income from CGM includes income from structured, index and retail products. In addition, since the transfer of the service entities to the Consolidated Entity in November 2020, Other fee and commission income includes fees received from the Non-Bank Group for services provided by the Central Service Groups.

Total fee and commission income of $A1,118 million for the half year ended 30 September 2022 increased 25% from $A896 million in the prior corresponding period. The increase was primarily driven by higher income due to fees received from the Non-Bank for services provided by the Central Service Groups reflecting a higher underlying Central Service Groups cost base.

2.3 Credit and Other Impairment Charges

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Credit impairment (charges)/reversals					
Loan assets	**(37)**	118	(41)	*	*(10)*
Margin money and settlement assets	**(6)**	(17)	(11)	*(65)*	*(45)*
Financial investments, other assets, off balance sheet exposures	**(26)**	(25)	(42)	*4*	*(38)*
Gross credit impairment (charges)/reversals	**(69)**	76	(94)	*	*(27)*
Recovery of amounts previously written off	**1**	2	–	*(50)*	*
Net credit impairment (charges)/reversals	**(68)**	78	(94)	*	*(28)*
Other impairment (charges)/reversals					
Intangible and other non-financial assets	**1**	(22)	11	*	*(91)*
Net other impairment reversals/(charges)	**1**	(22)	11	*	*(91)*
Total credit and other impairment (charges)/reversals	**(67)**	56	(83)	*	*(19)*

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
BFS	**(9)**	53	(31)	*	*(71)*
CGM	**(34)**	(6)	(60)	*	*(43)*
Corporate	**(24)**	9	8	*	*
Total credit and other impairment (charges)/reversals	**(67)**	56	(83)	*	*(19)*

Total credit and other impairment charges of $A67 million for the half year ended 30 September 2022 decreased 19% from $A83 million in the prior corresponding period.

Net credit impairment charges of $A68 million were down from $A94 million in the prior corresponding period, and included reduced specific provisions in CGM as well as the releases of provisions in car loans driven by book run-off in BFS, partially offset by increases in Home loans and Business lending in BFS and some deterioration in the macroeconomic outlook.

BFS

Credit and other impairment charges of $A9 million for the half year ended 30 September 2022, decreased 71% from $A31 million in the prior corresponding period, largely due to the release of provisions in car loans driven by book run-off, partially offset by growth in the remaining loan portfolio and some deterioration in the macroeconomic outlook compared to the prior corresponding period.

CGM

Credit and other impairment charges of $A34 million for the half year ended 30 September 2022 decreased 43% from $A60 million in the prior corresponding period due to reduced specific provisions, partially offset by increase modelled provisions reflecting some deterioration in the macroeconomic outlook.

Corporate

Credit and other impairment charges of $A24 million for the half year ended 30 September 2022 were significantly up from a reversal of $A8 million in the prior corresponding period. The current period included the impact of some deterioration in the macroeconomic outlook compared to the prior corresponding period.

For further information on the Consolidated Entity's determination of its expected credit losses, please refer to Note 10 *Expected credit losses* in the Financial Report.

2.4 Net Other Operating Income

	HALF YEAR TO			*Movement*	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
Investment (loss)/income					
Net (loss)/gain on financial investments and other assets	**(32)**	37	24	*	*
Net gain on disposal of businesses and subsidiaries	**-**	5	455	*(100)*	*(100)*
Total investment (loss)/income	**(32)**	42	479	*	*
Net operating lease income	**175**	185	154	*(5)*	*14*
Share of net profits from associates and joint ventures	**14**	24	15	*(42)*	*(7)*
Other income and charges	**45**	27	34	*67*	*32*
Total net other operating income	**202**	278	682	*(27)*	*(70)*

Total net other operating income of $A202 million for the half year ended 30 September 2022 decreased 70% from $A682 million in the prior corresponding period.

Investment income

Investment loss totalled $A32 million for the half year ended 30 September 2022, significantly down from a gain of $A479 million in the prior corresponding period. The current period loss was primarily driven by mark-to-market and revaluation losses on equity holdings in CGM and BFS. The prior corresponding period included the gain on the partial sale of the UK Meters portfolio of assets in CGM.

Net operating lease income

Net operating lease income of $A175 million for the half year ended 30 September 2022 increased 14% from $A154 million in the prior corresponding period. The increase was primarily driven by contributions from the resources sector in CGM.

2.5 Operating Expenses

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	**(1,935)**	(1,713)	(1,602)	*13*	*21*
Share-based payments	**(208)**	(168)	(156)	*24*	*33*
Provision for long service leave and annual leave	**(21)**	(19)	(38)	*11*	*(45)*
Total employment expenses	**(2,164)**	(1,900)	(1,796)	*14*	*20*
Brokerage, commission and fee expenses	**(261)**	(254)	(251)	*3*	*4*
Non-salary technology expenses	**(440)**	(396)	(320)	*11*	*38*
Other operating expenses					
Occupancy expenses	**(106)**	(102)	(99)	*4*	*7*
Professional fees	**(107)**	(133)	(90)	*(20)*	*19*
Travel and entertainment expenses	**(37)**	(10)	(6)	*270*	*
Indirect and other taxes	**(35)**	(55)	(60)	*(36)*	*(42)*
Audit Fees	**(15)**	(15)	(14)	—	*7*
Amortisation of intangible assets	**(6)**	(11)	(12)	*(45)*	*(50)*
Advertising and promotional expenses	**(27)**	(25)	(20)	*8*	*35*
Other expenses	**(97)**	(203)	(115)	*(52)*	*(16)*
Total other operating expenses	**(430)**	(554)	(416)	*(22)*	*3*
Total operating expenses	**(3,295)**	(3,104)	(2,783)	*6*	*18*

Total operating expenses of $A3,295 million for the half year ended 30 September 2022 increased 18% from $A2,783 million in the prior corresponding period mainly driven by higher employment expenses due to higher average headcount, higher profit share expense and share-based payments and wage inflation, as well as increased non-salary technology expenses.

Key drivers of the movement included:

- total employment expenses of $A2,164 million for the half year ended 30 September 2022 increased 20% from $A1,796 million in the prior corresponding period driven by higher average headcount, profit share expense and share-based payments as a result of the performance of the Consolidated Entity and wage inflation. The higher average headcount was mainly in the Central Service Groups driven by investment in technology, compliance, data, infrastructure and cybersecurity to support Macquarie Group's Operating Groups. In addition, headcount has increased across operating groups, predominantly in BFS in order to support business growth and regulatory requirements
- brokerage, commission and fee expenses of $A261 million for the half year ended 30 September 2022 increased 4% from $A251 million in the prior corresponding period primarily driven by increased trading and brokerage activities in CGM
- non-salary technology expenses of $A440 million for the half year ended 30 September 2022 increased 38% from $A320 million in the prior corresponding period primarily driven by increased investment in technology initiatives, with focus on data and digitisation to support business activity
- total other operating expenses of $A430 million for the half year ended 30 September 2022 increased 3% from $A416 million in the prior corresponding period mainly driven by higher travel and entertainment expenses across the Consolidated Entity following the easing of COVID-19 restrictions, partially offset by lower transaction-related charges.

2.6 Headcount

	AS AT			*MOVEMENT*	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
Headcount by Operating Group[1]					
BFS	**3,511**	3,358	3,151	*5*	*11*
CGM	**2,110**	2,018	1,964	*5*	*7*
Total headcount – Operating Groups	**5,621**	5,376	5,115	*5*	*10*
Total headcount – Corporate	**9,025**	8,143	7,533	*11*	*20*
Total headcount	**14,646**	13,519	12,648	*8*	*16*
Headcount by region					
Australia[2]	**8,107**	7,387	6,797	*10*	*19*
International:					
Americas	**1,663**	1,541	1,427	*8*	*17*
Asia	**3,220**	3,035	2,980	*6*	*8*
Europe, Middle East and Africa	**1,656**	1,556	1,444	*6*	*15*
Total headcount – International	**6,539**	6,132	5,851	*7*	*12*
Total headcount	**14,646**	13,519	12,648	*8*	*16*
International headcount ratio (%)	**45**	45	46		

Total headcount increased 16% to 14,646 as at 30 September 2022 from 12,648 as at 30 September 2021, mainly due to the increased headcount in the Central Service Groups driven by investment in technology, compliance, data, infrastructure and cybersecurity to support Macquarie Group's Operating Groups as well as increased headcount in BFS to support business growth and regulatory requirements.

[1] Headcount numbers in this document includes staff employed in certain operationally segregated subsidiaries (OSS).
[2] Includes New Zealand.

2.7 Income Tax Expense

	HALF YEAR TO		
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am
Operating profit before income tax	**1,755**	2,038	1,629
Prima facie tax @ 30%	**526**	611	489
Income tax permanent differences	**(46)**	(47)	(103)
Income tax expense	**480**	564	386
Effective tax rate	**27.4 %**	27.7 %	23.7 %

Income tax expense of $A480 million for the half year ended 30 September 2022 increased 24% from $A386 million in the prior corresponding period. The effective tax rate for the half year ended 30 September 2022 was 27.4%, up from 23.7% in the prior corresponding period and down from 27.7% in the prior period.

The higher effective tax rate compared to the prior corresponding period was mainly driven by the geographic composition and nature of earnings.

03

Segment Analysis

3.1 Basis of Preparation

Operating Segments

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

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

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

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

- BFS which provides a diverse range of personal banking, wealth management, and business banking products and services to retail clients, advisers, brokers and business clients
- CGM which is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury, and holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups. Any balances pertaining to an operating segment that are not individually material are also reported as part of the Corporate segment.

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

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Segments

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

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

Accounting for derivatives that economically hedge interest rate risk

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

Central Service Groups

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

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

In November 2020, MGL's service entities were transferred from the Non-Bank Group to the Consolidated Entity following approval from both the MGL and MBL Boards.

The transfer was achieved through execution of sale and purchase agreements whereby the Consolidated Entity acquired a 100% interest in Macquarie Group Services Australia (MGSA) and its subsidiaries from MGL and a 100% interest in Macquarie Global Services Private Limited (MGSPL) from Macquarie Global Finance Services (Mauritius) Limited (an indirect subsidiary of MGL).

The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from MGL's Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on arms-length basis.

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Presentation of segment income statements

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

3.1 Basis of Preparation

Continued

	BFS $Am	CGM $Am	Corporate $Am	**Total $Am**
Half year ended 30 September 2022				
Net interest and trading income/(expense)	1,214	2,601	(18)	**3,797**
Fee and commission income	233	287	598	**1,118**
Other operating income and charges				
Net credit and other impairment charges	(9)	(34)	(24)	**(67)**
Net other operating income and charges	(16)	197	21	**202**
Internal management revenue/(charges)	1	(1)	–	**-**
Net operating income	1,423	3,050	577	**5,050**
Total operating expenses	(843)	(1,156)	(1,296)	**(3,295)**
Operating profit/(loss) before income tax	580	1,894	(719)	**1,755**
Income tax expense	–	–	(480)	**(480)**
Net profit/(loss) contribution	**580**	**1,894**	**(1,199)**	**1,275**
Half year ended 31 March 2022				
Net interest and trading income/(expense)	998	2,765	(13)	**3,750**
Fee and commission income	237	270	551	**1,058**
Other operating income and charges				
Net credit and other impairment reversals/(charges)	53	(6)	9	**56**
Net other operating income and charges	9	280	(11)	**278**
Internal management revenue/(charges)	1	(8)	7	**-**
Net operating income	1,298	3,301	543	**5,142**
Total operating expenses	(779)	(1,141)	(1,184)	**(3,104)**
Operating profit/(loss) before income tax	519	2,160	(641)	**2,038**
Income tax expense	–	–	(564)	**(564)**
Net profit/(loss) contribution	**519**	**2,160**	**(1,205)**	**1,474**
Half year ended 30 September 2021				
Net interest and trading income	974	1,868	75	**2,917**
Fee and commission income	220	216	460	**896**
Other operating income and charges				
Net credit and other impairment (charges)/reversals	(31)	(60)	8	**(83)**
Net other operating income	–	662	20	**682**
Internal management revenue/(charges)	–	34	(34)	**-**
Net operating income	1,163	2,720	529	**4,412**
Total operating expenses	(681)	(948)	(1,154)	**(2,783)**
Operating profit/(loss) before income tax	482	1,772	(625)	**1,629**
Income tax expense	–	–	(386)	**(386)**
Net profit/(loss) contribution	**482**	**1,772**	**(1,011)**	**1,243**

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3.2 BFS

	HALF YEAR TO			Movement	
	Sep 22	Mar 22	Sep 21	*Mar 22*	*Sep 21*
	$Am	$Am	$Am	*%*	*%*
Net interest and trading income	**1,214**	998	974	*22*	*25*
Fee and commission income					
Wealth management fee income	**151**	157	147	*(4)*	*3*
Banking and lending fee income	**82**	80	73	*3*	*12*
Total fee and commission income	**233**	237	220	*(2)*	*6*
Other operating income and charges					
Net credit and other impairment (charges)/reversals	**(9)**	53	(31)	*	*(71)*
Other (expenses)/income	**(16)**	9	—	*	*
Total other operating income and charges	**(25)**	62	(31)	*	*(19)*
Internal management revenue	**1**	1	—	—	*
Net operating income	**1,423**	1,298	1,163	*10*	*22*
Operating expenses					
Employment expenses	**(262)**	(227)	(219)	*15*	*20*
Brokerage, commission and fee expenses	**(59)**	(53)	(53)	*11*	*11*
Technology expenses[1]	**(275)**	(250)	(214)	*10*	*29*
Other operating expenses	**(247)**	(249)	(195)	*(1)*	*27*
Total operating expenses	**(843)**	(779)	(681)	*8*	*24*
Net profit contribution	**580**	519	482	*12*	*20*
Non-GAAP metrics					
Funds on platform ($Ab)[2]	**111.4**	118.6	116.4	*(6)*	*(4)*
Loan portfolio ($Ab)[3]	**121.0**	110.2	98.7	*10*	*23*
BFS deposits ($Ab)[4]	**116.7**	98.0	88.2	*19*	*32*
Headcount	**3,511**	3,358	3,151	5	11

Net profit contribution of $A580 million for the half year ended 30 September 2022, up 20% from the prior corresponding period due to:

- higher net interest and trading income mainly driven by growth in the loan portfolio and total BFS deposits, and improved margins from the rising interest rate environment
- decreased credit impairment charges driven by provision releases in car loans due to run-off in the portfolio, partially offset by growth in the remaining loan portfolio and some deterioration in the macroeconomic outlook compared to the prior corresponding period.

Partially offset by:

- higher expenses driven by increased technology investment and headcount to support business growth and regulatory requirements.

[1] Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.
[2] Funds on platform includes Macquarie Wrap and Vision.
[3] The loan portfolio comprises home loans, loans to businesses, car loans and credit cards.
[4] BFS deposits include home loan offset accounts and exclude corporate/wholesale deposits.

Net interest and trading income

Net interest and trading income in BFS relates to interest income earned from the loan portfolio that primarily comprises home loans, loans to businesses, car loans and credit cards. BFS also generates income from deposits, which are used as a source of funding for the Bank Group.

Net interest and trading income of $A1,214 million for the half year ended 30 September 2022 increased 25% from $A974 million in the prior corresponding period primarily due to 20% growth in the average loan portfolio, which was supported by 24% growth in average BFS deposit volumes[1]. It also reflects improved margins from the rising interest rate environment, partially offset by ongoing lending competition and changes in portfolio mix.

As at 30 September 2022, the loan and deposit portfolios included:

- home loan volumes of $A101.0 billion[2], up 13% from $A89.5 billion as at 31 March 2022
- business banking loan volumes of $A12.3 billion, up 7% from $A11.5 billion as at 31 March 2022
- car loan volumes of $A7.3 billion, down 17% from $A8.8 billion as at 31 March 2022, and
- BFS deposits of $A116.7 billion, up 19% from $A98.0 billion as at 31 March 2022.

Wealth management fee income

Wealth management fee income relates to fees earned on a range of BFS' products and services including platforms and the provision of wealth services.

Funds on platform closed at $A111.4 billion at 30 September 2022, a decrease of 6% from $A118.6 billion at 31 March 2022, primarily due to adverse market movements, partially offset by client net flows.

Wealth management fee income of $A151 million for the half year ended 30 September 2022 increased 3% from $A147 million in the prior corresponding period, due to higher administration fees including from higher average funds on platform, partially offset by lower brokerage income due to lower trading activity.

Banking and lending fee income

Banking and lending fee income relates to fees earned on a range of BFS' products including home loans, car loans, credit cards, business loans and deposits.

Banking and lending fee income of $A82 million for the half year ended 30 September 2022 increased 12% from $A73 million in the prior corresponding period, mainly driven by higher lending and transaction volumes.

Net credit and other impairment charges

Credit and other impairment charges of $A9 million for the half year ended 30 September 2022 decreased 71% from $A31 million in the prior corresponding period, largely due to the release of provisions in car loans driven by book run-off, partially offset by growth in the remaining loan portfolio and some deterioration in the macroeconomic outlook compared to the prior corresponding period.

Other (expenses)/income

Other expenses of $A16 million for the half year ended 30 September 2022 was mainly driven by the revaluation of an equity investment.

Operating expenses

Total operating expenses of $A843 million for the half year ended 30 September 2022 increased 24% from $A681 million in the prior corresponding period.

Employment expenses of $A262 million for the half year ended 30 September 2022 increased 20% from $A219 million in the prior corresponding period, largely due to higher average headcount to support business growth and regulatory requirements and wage inflation.

Brokerage, commission and fee expenses of $A59 million for the half year ended 30 September 2022 increased 11% from $A53 million in the prior corresponding period, largely due to increased transaction volumes.

Technology expenses of $A275 million for the half year ended 30 September 2022 increased 29% from $A214 million in the prior corresponding period, driven by investment in digitisation and other technology initiatives and to support business growth.

Other operating expenses of $A247 million for the half year ended 30 September 2022 increased 27% from $A195 million in the prior corresponding period to support business growth and regulatory requirements.

[1] Calculations based on average volumes net of offsets.
[2] Home loan volumes are gross of offsets.

3.3 CGM

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Net interest and trading. income					
Commodities	**1,766**	1,985	1,213	*(11)*	*46*
Foreign exchange, interest rates and credit	**612**	549	417	*11*	*47*
Equities	**172**	205	180	*(16)*	*(4)*
Asset Finance	**51**	26	58	*96*	*(12)*
Net interest and trading income	**2,601**	2,765	1,868	*(6)*	*39*
Fee and commission income					
Brokerage and other trading-related fee income	**121**	122	108	*(1)*	*12*
Other fee and commission income	**166**	148	108	*12*	*54*
Total fee and commission income	**287**	270	216	*6*	*33*
Other operating income and charges					
Net (loss)/income on equity, debt and other investments	**(25)**	33	467	*	*
Net credit and other impairment charges	**(34)**	(6)	(60)	*	*(43)*
Net operating lease income	**173**	184	152	*(6)*	*14*
Other income	**49**	63	43	*(22)*	*14*
Total other operating income and charges	**163**	274	602	*(41)*	*(73)*
Internal management (charges)/revenue	**(1)**	(8)	34	*(88)*	*
Net operating income	**3,050**	3,301	2,720	*(8)*	*12*
Operating expenses					
Employment expenses	**(311)**	(283)	(261)	*10*	*19*
Brokerage, commission and fee expenses	**(201)**	(185)	(186)	*9*	*8*
Other operating expenses	**(644)**	(673)	(501)	*(4)*	*29*
Total operating expenses	**(1,156)**	(1,141)	(948)	*1*	*22*
Net profit contribution	**1,894**	2,160	1,772	*(12)*	*7*
Non-GAAP metrics					
Headcount	**2,110**	2,018	1,964	*5*	*7*

Net profit contribution of $A1,894 million for the half year ended 30 September 2022, up 7% from the prior corresponding period due to:

- increased risk management revenue reflecting strong results across the platform, particularly from Gas and Power, Resources, and Global Oil due to increased client hedging activity as a result of elevated levels of volatility and price movements in commodity markets
- increased foreign exchange, interest rate, and credit products income driven by increased client hedging and financing activity
- increased lending and financing income due to increased volumes in the energy sectors.

Partially offset by:

- lower net income on equity, debt and other investments due to a gain on the partial sale of the UK Meters portfolio of assets in the prior corresponding period
- higher operating expenses driven by higher employment, technology platform and infrastructure expenses
- inventory management and trading income driven by trading gains from supply and demand imbalances recorded primarily in North American Gas and Power, which were more than offset by the unfavourable impact of timing of income recognition on Gas and Power storage and transport contracts.

Net interest and trading income

Net interest and trading income of $A2,601 million for the half year ended 30 September 2022 increased 39% from $A1,868 million in the prior corresponding period.

Commodities net interest and trading income

Net interest and trading income from commodity related activities is generated from the provision of hedging and risk management services and loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture.

Income from risk management is driven by managing clients' exposure to commodity price volatility which is supported by our strong internal risk management framework.

Lending and financing activities include interest income from the provision of loans and working capital finance to clients across a range of commodity sectors including metals, energy and agriculture. Commodities lending and financing activities are primarily secured against underlying assets and typically have associated hedging to protect against downside risk.

For inventory management and trading, CGM enters into financial and physical contracts including exchange traded derivatives, OTC derivatives, storage contracts and transportation agreements as part of its commodities platform. These arrangements enable CGM to facilitate client transactions and provide CGM with trading opportunities where there is an imbalance between the supply and demand for commodities. Revenue is dependent on a number of factors including the volume of transactions, the level of risk assumed and the volatility of price movements across commodity markets and products.

Storage and transportation contracts, which are managed on a fair value basis for financial and risk management purposes, are required to be accounted for on an accruals basis for statutory reporting purposes, which may result in some variability in the timing of reported income.

Net interest and trading income from commodities of $A1,766 million for the half year ended 30 September 2022 increased 46% from $A1,213 million in the prior corresponding period.

Increased contributions were recorded by Gas and Power, Resources, and Global Oil due to increased client hedging activity as a result of elevated levels of volatility and price movements in commodity markets.

Lending and financing income was up on the prior corresponding period due to increased volumes in energy sectors.

The current period included trading gains from supply and demand imbalances recorded primarily in North American Gas and Power which were more than offset by the unfavourable impact of timing of income recognition, primarily on Gas and Power storage and transport contracts.

Foreign exchange, interest rates and credit net interest and trading income

Net interest and trading income from foreign exchange, interest rates and credit related activities are generated from the provision of trading and hedging services to a range of corporate and institutional clients globally, in addition to making secondary markets in corporate debt securities, syndicated bank loans and middle market loans and providing specialty lending.

Net interest and trading income from foreign exchange, interest rates and credit related activities of $A612 million for the half year ended 30 September 2022 increased 47% from $A417 million in the prior corresponding period with continued strong client activity in structured foreign exchange and interest rate products in addition to increased financing activity.

Equities net interest and trading income

Equities net interest and trading income is generated from the issue of derivative products in key locations, the provision of equity finance solutions to institutional clients and the conduct of risk management and trading activities.

Equities net interest and trading income of $A172 million for the half year ended 30 September 2022 decreased 4% from $A180 million in the prior corresponding period due to reduced contributions from trading related activities.

Asset Finance net interest and trading income

Net interest and trading income in Asset Finance predominantly relates to net income from the loan and finance lease portfolios (including shipping finance, equipment and technology financing) and the funding costs associated with the operating lease portfolios (including energy, telecommunication and mining assets).

Asset Finance net interest and trading income of $A51 million for the half year ended 30 September 2022 decreased 12% from $A58 million in the prior corresponding period.

Fee and commission income

Fee and commission income of $A287 million for the half year ended 30 September 2022 increased 33% from $A216 million in the prior corresponding period.

The increase primarily due to increased brokerage activity and the timing of fees on specific deals.

Net (loss)/income on equity, debt and other investments

Net loss on equity, debt and other investments of $A25 million for the half year ended 30 September 2022 significantly down from an income of $A467 million in the prior corresponding period. The current period loss was primarily driven by mark-to-market losses on listed equity holdings. The prior corresponding period included the gain on the partial sale of the UK Meters portfolio of assets.

Net credit and other impairment charges

Credit and other impairment charges of $A34 million for the half year ended 30 September 2022 decreased 43% from $A60 million in the prior corresponding period due to reduced specific provisions, partially offset by increase modelled provisions reflecting some deterioration in the macroeconomic outlook.

Net operating lease income

Net operating lease income of $A173 million for the half year ended 30 September 2022 increased 14% from $A152 million in the prior corresponding period. The increase was primarily driven by contributions from the resources sector.

Operating expenses

Total operating expenses of $A1,156 million for the half year ended 30 September 2022 increased 22% from $A948 million in the prior corresponding period.

Employment expenses of $A311 million for the half year ended 30 September 2022 increased 19% from $A261 million in the prior corresponding period due to an increase in average headcount and wage inflation.

Brokerage, commission and fee expenses include fees paid in relation to trading-related activities. Brokerage, commission and fee expenses of $A201 million for the half year ended 30 September 2022 increased 8% from $A186 million in the prior corresponding period, driven by increased trading and brokerage activities.

Other operating expenses of $A644 million for the half year ended 30 September 2022 increased 29% from $A501 million in the prior corresponding period, mainly reflecting expenditure on technology platform and infrastructure and increased compliance related changes from Central Service Groups.

3.4 Corporate

	HALF YEAR TO			Movement	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Net interest and trading (expense)/income	**(18)**	(13)	75	*38*	*
Fee and commission income	**598**	551	460	*9*	*30*
Other operating income and charges					
Net (loss)/income on equity and debt investments	**(2)**	(11)	15	*(82)*	*
Net credit and other impairment (charges)/reversals	**(24)**	9	8	*	*
Other income and charges	**23**	–	5	*	*
Total other operating income and charges	**(3)**	(2)	28	*50*	*
Internal management revenue/(charges)	**–**	7	(34)	*(100)*	*(100)*
Net operating income	**577**	543	529	*6*	*9*
Operating expenses					
Employment expenses	**(1,591)**	(1,390)	(1,316)	*14*	*21*
Brokerage, commission and fee expenses	**(1)**	(17)	(12)	*(94)*	*(92)*
Other operating expenses	**296**	223	174	*33*	*70*
Total operating expenses	**(1,296)**	(1,184)	(1,154)	*9*	*12*
Income tax expense	**(480)**	(564)	(386)	*(15)*	*24*
Net loss contribution	**(1,199)**	(1,205)	(1,011)	*(<1)*	*19*
Non-GAAP metrics					
Headcount	**9,025**	8,143	7,533	*11*	*20*

The Corporate segment comprises head office and Central Service Groups including Group Treasury, and certain investments that are not aligned to an Operating Group. The Corporate segment also includes costs that are not allocated to the Operating Groups, including performance-related profit share and share-based payments expense, income tax expense and the net result of managing Macquarie's liquidity and funding requirements.

3.4 Corporate

Continued

Net interest and trading (expense)/ income

Net interest and trading (expense)/income in the Corporate segment includes the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital, funding costs associated with investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting is unable to be achieved.

Net interest and trading expense of $A18 million for the half year ended 30 September 2022 was significantly down from an income of $A75 million in the prior corresponding period.

The decrease from the prior corresponding period included a higher expense associated with managing the Banking Group's liquidity and funding and the impact of an increased centrally held funding surplus and accounting volatility from the changes in the fair values of economic hedges, partially offset by the impact of earnings on capital reflecting higher central bank rates and higher average volumes.

Fee and commission income

Fee and commission income in the Corporate segment primarily comprises internal transactions between Corporate and other segments within the Bank Group, and transactions between the Bank and Non-Bank Groups.

Fee and commission income of $A598 million for the half year ended 30 September 2022 increased 30% from $A460 million in the prior corresponding period reflecting the recovery from the Non-Bank of a higher Central Service Groups' cost base driven by a higher average headcount.

Net credit and other impairment (charges)/reversals

Credit and other impairment charges of $A24 million for the half year ended 30 September 2022 were significantly up from a reversal of $A8 million in the prior corresponding period. The current period included the impact of some deterioration in the macroeconomic outlook compared to the prior corresponding period.

Employment expenses

Employment expenses relate to the Consolidated Entity's Central Service Groups including COG, FMG, RMG, LGG, and Central Executive, as well as expenses associated with the Consolidated Entity's profit share and retention plans.

Employment expenses of $A1,591 million for the half year ended 30 September 2022 increased 21% from $A1,316 million in the prior corresponding period. The current period included an increase in the employment expenses in the Central Service Groups driven by investment in technology, compliance, data, infrastructure and cybersecurity to support Macquarie Group's Operating Groups and a higher profit share expense and share based payments expense mainly as a result of the performance of the Consolidated Entity.

Other operating expenses

Other operating expenses in the Corporate segment includes non-employment related operating costs of Central Service Groups, offset by the recovery of Central Service Groups' costs (including employment-related costs) from the Operating Groups.

The net recovery from the Operating Groups of $A296 million for the half year ended 30 September 2022 increased 70% from $A174 million in the prior corresponding period reflecting the recovery of a higher Central Service Groups' cost base driven by a higher average headcount.

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04

Balance Sheet

4.1 Statement of Financial Position

	AS AT			MOVEMENT	
	Sep 22 $Am	Mar 22 $Am	Sep 21 $Am	*Mar 22 %*	*Sep 21 %*
Assets					
Cash and bank balances	**49,803**	48,972	28,769	*2*	*73*
Cash collateralised lending and reverse repurchase agreements	**65,628**	42,548	32,805	*54*	*100*
Trading assets	**12,392**	11,719	20,964	*6*	*(41)*
Margin money and settlement assets	**25,009**	19,410	16,092	*29*	*55*
Derivative assets	**111,509**	84,616	77,124	*32*	*45*
Financial investments	**18,297**	6,511	8,853	*181*	*107*
Held for sale and other assets	**6,089**	4,990	5,315	*22*	*15*
Loan assets	**134,059**	123,004	109,501	*9*	*22*
Due from related body corporate entities	**5,759**	3,425	3,017	*68*	*91*
Property, plant and equipment and right-of-use assets	**3,580**	3,536	2,899	*1*	*23*
Deferred tax assets	**936**	897	788	*4*	*19*
Total assets	**433,061**	349,628	306,127	*24*	*41*
Liabilities					
Cash collateralised borrowing and repurchase agreements	**22,410**	16,947	13,809	*32*	*62*
Trading liabilities	**6,378**	5,206	5,431	*23*	*17*
Margin money and settlement liabilities	**36,033**	21,577	20,610	*67*	*75*
Derivative liabilities	**111,260**	84,191	77,801	*32*	*43*
Deposits	**122,136**	101,614	91,683	*20*	*33*
Held for sale and other liabilities	**6,249**	5,744	4,106	*9*	*52*
Borrowings	**6,305**	5,713	2,214	*10*	*185*
Due to related body corporate entities	**15,178**	11,637	9,634	*30*	*58*
Issued debt securities	**78,289**	72,107	57,406	*9*	*36*
Deferred tax liabilities	**23**	28	49	*(18)*	*(53)*
Total liabilities excluding loan capital	**404,261**	324,764	282,743	*24*	*43*
Loan capital	**8,094**	6,896	7,345	*17*	*10*
Total liabilities	**412,355**	331,660	290,088	*24*	*42*
Net assets	**20,706**	17,968	16,039	*15*	*29*
Equity					
Contributed equity	**10,141**	9,562	9,041	*6*	*12*
Reserves	**1,315**	432	513	*204*	*156*
Retained earnings	**9,250**	7,974	6,485	*16*	*43*
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited	**20,706**	17,968	16,039	*15*	*29*
Total equity	**20,706**	17,968	16,039	*15*	*29*

Statement of financial position

The Consolidated Entity's Statement of financial position was impacted during the half year ended 30 September 2022 by changes resulting from a combination of business activities, Group Treasury management initiatives, macroeconomic factors and the elevated levels of volatility, demand and price movements in commodity markets.

Assets

Total assets of $A433.1 billion as at 30 September 2022 increased 24% from $A349.6 billion as at 31 March 2022.

The principal drivers for the increase were as follows:

- derivative assets of $A111.5 billion as at 30 September 2022 increased 32% from $A84.6 billion as at 31 March 2022, driven by elevated levels of volatility and price movements in commodity markets, rising interest rate environment, client trade volumes, foreign exchange and mark-to-market movements. After taking into account related financial instruments, cash and other collateral, the residual derivative asset is $A18.6 billion (31 March 2021: $A14.4 billion). Majority of the residual derivative exposure is short term in nature and managed within Macquarie's market and credit risk frameworks, with a substantial portion of the exposure with investment grade counterparties
- cash collateralised lending and reverse repurchase agreements of $A65.6 billion as at 30 September 2022 increased 54% from $A42.5 billion as at 31 March 2022, driven by an increase in reverse repurchase agreements in CGM to meet collateral requirements on stock equity borrowings, increase of liquid assets portfolio in Group Treasury and impact of the appreciation of the United States Dollar to Australian Dollar
- financial investments of $A18.3 billion as at 30 September 2022 increased significantly from $A6.5 billion as at 31 March 2022 driven by acquisition of liquid investments
- loan assets of $A134.1 billion as at 30 September 2022 increased 9% from $A123.0 billion as at 31 March 2022 primarily due to growth in the BFS home loan and business banking portfolios, partially offset by net repayments in the BFS car loan portfolio
- margin money and settlement assets of $A25.0 billion as at 30 September 2022 increased 29% from $A19.4 billion as at 31 March 2022, driven by higher trade volumes in CGM.

Liabilities

Total liabilities of $A412.4 billion as at 30 September 2022 increased 24% from $A331.7 billion as at 31 March 2022.

The principal drivers for the increase were as follows:

- derivative liabilities of $A111.3 billion as at 30 September 2022 increased 32% from $A84.2 billion as at 31 March 2022, commensurate with the movement in derivative assets
- deposits of $A122.1 billion as at 30 September 2022 increased 20% from $A101.6 billion as at 31 March 2022, driven by the increase in retail and business banking deposits in BFS
- margin money and settlement liabilities of $A36.0 billion as at 30 September 2022 increased 67% from $A21.6 billion as at 31 March 2022, primarily due to higher trade volumes resulting in an increase in margin placed by financial institutions and broker settlement balances with CGM
- issued debt securities of $A78.3 billion as at 30 September 2022 increased 9% from $A72.1 billion as at 31 March 2022, driven by significant foreign exchange impact on account of the appreciation of the United States Dollar to Australian Dollar, net issuance of long-term debt by Group Treasury and additional net issuance of bondholder notes by securitisation vehicles in BFS, offset by net maturity of short-term debt
- loan capital of $A8.1 billion as at 30 September 2022 increased 17% from $A6.9 billion as at 31 March 2022 due to net issuance of capital instruments during the period.

Equity

Total equity of $20.7 billion as at 30 September 2022 increased 15% from $A18.0 billion as at 31 March 2022.

The increase in the Consolidated Entity's equity is on account of $A1.3 billion earnings generated during the current period, $A0.6 billion of new issuance and $A0.8 billion increase in foreign currency translation.

4.2 Loan Assets

Reconciliation between the statement of financial position and the funded balance sheet:

	AS AT			MOVEMENT	
	Sep 22 $Ab	Mar 22 $Ab	Sep 21 $Ab	*Mar 22 %*	*Sep 21 %*
Loan assets per the statement of financial position	**134.1**	123.0	109.5	*9*	*22*
Operating lease assets	**2.5**	2.6	1.9	*(4)*	*32*
Other reclassifications[1]	**0.2**	—	0.7	*	*(71)*
Total loan assets including operating lease assets per the funded balance sheet[2]	**136.8**	125.6	112.1	*9*	*22*

Loan assets[2] including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

		AS AT			MOVEMENT	
	Notes	**Sep 22 $Ab**	Mar 22 $Ab	Sep 21 $Ab	*Mar 22 %*	*Sep 21 %*
BFS						
Home loans	1	**101.8**	89.9	76.8	*13*	*33*
Business banking	2	**12.2**	11.4	10.9	*7*	*12*
Car loans	3	**7.1**	8.7	10.7	*(18)*	*(34)*
Other	4	**0.4**	0.4	0.4	—	—
Total BFS		**121.5**	110.4	98.8	*10*	*23*
CGM						
Loans and finance lease assets		**2.9**	3.1	3.6	*(6)*	*(19)*
Operating lease assets		**1.9**	1.9	1.9	—	—
Asset Finance	5	**4.8**	5.0	5.5	*(4)*	*(13)*
Loan assets		**2.9**	2.7	2.3	*7*	*26*
Operating lease assets		**0.6**	0.7	—	*(14)*	*
Resources and commodities	6	**3.5**	3.4	2.3	*3*	*52*
Foreign exchange, interest rate and credit	7	**6.7**	6.5	5.5	*3*	*22*
Other	8	**0.3**	0.3	—	—	*
Total CGM		**15.3**	15.2	13.3	*1*	*15*
Total		**136.8**	125.6	112.1	*9*	*22*

[1] Reclassification between loan assets and other funded balance sheet categories.
[2] Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

Explanatory notes concerning asset security of funded loan asset portfolio

1. Home loans

Secured by residential property.

2. Business banking

Loan portfolio secured largely by working capital, business cash flows and real property.

3. Car loans

Secured by motor vehicles.

4. BFS Other

Includes credit cards.

5. Asset finance

Predominantly secured by underlying financed assets.

6. Resources and commodities

Diversified loan portfolio primarily to the resources sector that are secured by the underlying assets with associated price hedging to mitigate risk.

7. Foreign exchange, interest rate and credit

Diversified lending predominantly consisting of loans which are secured by other loan collateral, assets including rights and receivables and warehoused security from mortgages and auto loans.

8. CGM Other

Equity collateralised loans.

4.3 Equity Investments

Equity investments are reported in the following categories in the Statement of financial position:

- Interests in associates, joint ventures and other assets classified as held for sale; and
- Financial investments excluding trading equities.

Equity investments reconciliation

	AS AT		MOVEMENT
	Sep 22	Mar 22	*Mar 22*
	$Ab	$Ab	*%*
Equity investments			
Statement of financial position			
Equity investments at fair value	**0.2**	0.3	*(33)*
Interests in associates and joint ventures	**0.5**	0.3	*67*
Total equity investments per statement of financial position	**0.7**	0.6	*17*
Total adjusted equity investments	**0.7**	0.6	*17*

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05

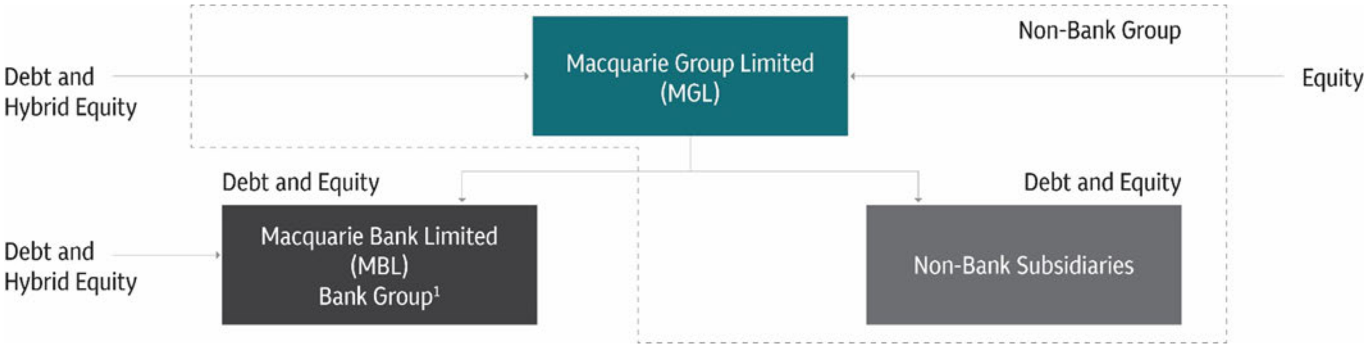
Funding and Liquidity

5.1 Liquidity Risk Governance and Management Framework

Governance and oversight

Macquarie Group's two primary external funding vehicles are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding predominantly to the Non-Bank Group and limited funding to some MBL subsidiaries. MBL provides funding to the Bank Group.

The high level funding structure of the Group is shown below:



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

Liquidity management is performed centrally by Group Treasury, with oversight from the MBL Asset and Liability Committee (ALCO), the MBL Board and the Risk Management Group (RMG). Macquarie Bank's liquidity policy is approved by the MBL Board after endorsement by the ALCO and liquidity reporting is provided to the Board on a regular basis. The MBL ALCO includes the MBL Chief Executive Officer, MGL Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Group General Counsel, Co-Heads of Group Treasury and relevant Operating Group Heads.

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

Liquidity policy and risk appetite

The MBL liquidity policy is designed so that the Bank Group maintains sufficient liquidity to meet its obligations as they fall due. In some cases, certain entities within the Bank Group may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are consistent with those applied in the broader MBL liquidity policy.

Macquarie Bank establishes a liquidity risk appetite, which is approved by the MBL Board, and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie Bank's strategic objectives. Macquarie Bank's liquidity risk appetite is intended to ensure that Macquarie Bank is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in Macquarie Bank's franchise businesses.

MBL is an authorised deposit-taking institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

[1] MBL is the primary external funding vehicle for the Bank Group. Macquarie International Finance Limited (MIFL) also operates as an external funding vehicle for certain subsidiaries within the Bank Group.

Liquidity risk tolerance and principles

Macquarie Bank's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing liquidity risk.

Risk tolerances

- Term assets must be funded by term liabilities and short-term assets must exceed short-term wholesale liabilities
- Cash and liquid assets must be sufficient to cover the expected outflow under a twelve month stress scenario and meet minimum regulatory requirements
- Cash and liquid assets held to cover stress scenarios and regulatory minimums must be high quality unencumbered liquid assets and cash
- Diversity and stability of funding sources is a key priority
- Balance sheet currency mismatches are managed within set tolerances
- Funding and liquidity exposures between entities within Macquarie Bank are subject to constraints where required.

Liquidity management principles

- Macquarie Bank has a centralised approach to liquidity management
- Liquidity risk is managed through stress scenario analysis and setting limits on the composition and maturity of assets and liabilities
- A global liquidity framework is maintained that outlines Macquarie Bank's approach to managing funding and liquidity requirements in offshore subsidiaries and branches
- The liquidity position is managed to ensure all obligations can be met as required on an intraday basis
- A liquidity contingency plan is maintained that provides an action plan in the event of a liquidity 'crisis'
- A funding strategy is prepared annually and monitored on a regular basis
- Internal pricing allocates liquidity costs, benefits and risks to areas responsible for generating them
- Strong relationships are maintained to assist with managing confidence and liquidity
- The MBL Board, MGL Board and Senior Management receive regular reporting on Macquarie Bank's liquidity position, including compliance with liquidity policy and regulatory requirements.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officers responsible for enacting the plan, a committee of senior executives responsible for managing a crisis, the information required to effectively manage a crisis, a communications strategy, a high level checklist of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The plan also incorporates a retail run operational plan (RROP) that outlines the bank's processes and operational plans for managing a significant increase in customer withdrawals during a potential deposit 'run' on Macquarie Bank.

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

The liquidity contingency plan is subject to regular review by both Group Treasury and RMG. It is submitted annually to the MBL ALCO and Board for approval.

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

Funding strategy

Macquarie Bank prepares a funding strategy on an annual basis and monitors progress against the strategy throughout the year. The funding strategy aims to maintain Macquarie Bank's diversity of funding sources, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth. The funding strategy is reviewed by the MBL ALCO and approved by the MBL Board.

5.2 Management of Liquidity Risk

Scenario analysis

Scenario analysis is central to Macquarie Bank's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models additional liquidity scenarios covering both market-wide and Macquarie Bank name-specific crises. Scenario analysis performs a range of functions within the liquidity risk management framework, including being a basis for:

- monitoring compliance with internal liquidity risk appetite statements by ensuring all liquidity obligations can be met in the corresponding scenarios
- determining a minimum level of cash and liquid assets
- determining an appropriate minimum tenor of funding for Macquarie Bank's assets; and
- determining the overall capacity for future asset growth.

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

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

Liquid asset holdings

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

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA), other external Reserve Bank of Australia (RBA) repo eligible securities or Australian assets internally securitised by Macquarie Bank and held as contingent collateral in the RBA's facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio.

The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches. Certain other Operating Segments also hold cash and liquid assets as part of their operations. The Bank Group had $A85.0 billion cash and liquid assets as at 30 September 2022 (31 March 2022: $A78.6 billion).

Funds transfer pricing

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

Credit ratings[1] as at 30 September 2022

	MACQUARIE BANK LIMITED	
	Short-term rating	Long-term rating
Moody's Investors Service	P-1	A2/Positive
Standard and Poor's	A-1	A+/Stable
Fitch Ratings	F-1	A/Stable

Regulatory liquidity metrics

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie Group. Separate quantitative requirements are imposed internally by the MBL ALCO and Board.

Liquidity coverage ratio

The LCR requires unencumbered liquid assets be held to cover expected net cash outflows under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days. Under APS 210, liquid assets include cash, balances held with central banks, Australian dollar Commonwealth Government and semi-government securities, any CLF allocation as well as foreign currency HQLA securities.

APRA wrote to all LCR ADIs on 10 September 2021 advising that no ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022 and that ADIs should reduce their usage of the CLF to zero by the end of 2022, subject to financial market conditions. MBL's CLF will reduce to zero by the end of 2022 in accordance with APRA's requirement.

Macquarie Bank's three month average LCR to 30 September 2022 excluding any CLF allocation was 172% (average based on daily observations)[2]. For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures.

Net stable funding ratio

The NSFR is a twelve month structural funding metric, requiring that available stable funding be sufficient to cover required stable funding, where stable funding has an actual or assumed maturity of greater than twelve months. Macquarie Bank's NSFR as at 30 September 2022 excluding any CLF allocation was 116%[3]. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie's regulatory disclosures.

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[1] A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency and any rating should be evaluated independently of any other information.

[2] LCR average for September 2022 quarter excludes CLF allocation which reduced from $A4.9 billion to $A2.4 billion on 1 September 2022 in line with APRA's phase down timeline (183% including CLF allocation). APRA imposed a 15% add-on to the net cash outflow component of Macquarie Bank's LCR calculation, effective from 1 April 2021. This add-on increased to 25% from 1 May 2022 onward.

[3] NSFR as at 30 September 2022 excludes CLF allocation (116% including CLF allocation). APRA imposed a 1% decrease to the available stable funding component of Macquarie Bank's NSFR calculation, effective from 1 April 2021.

5.3 Funded Balance Sheet

The Bank Group's statement of financial position is prepared based on Australian Accounting Standards. The funded balance sheet is a simple representation of Macquarie Bank's funding requirements once accounting related gross-ups and self-funded assets have been netted down from the statement of financial position. The funded balance sheet is not a liquidity risk management tool, as it does not consider the granular liquidity profiling of all on and off-balance sheet components considered in both Macquarie Bank's internal liquidity framework and the regulatory liquidity metrics.

The table below reconciles the reported assets of the Bank Group to the net funded assets as at 30 September 2022.

		AS AT	
	Notes	**Sep 22 $Ab**	Mar 22 $Ab
Total assets per the Bank Group's statement of financial position		**433.1**	349.6
Accounting deductions:			
Derivative revaluation accounting gross-ups	1	**(111.3)**	(84.2)
Segregated funds	2	**(11.8)**	(6.8)
Outstanding trade settlement balances	3	**(2.3)**	(0.9)
Working capital assets	4	**(9.8)**	(8.5)
Intercompany gross-ups	5	**(15.2)**	(11.6)
Self-funded assets:			
Self-funded trading assets	6	**(36.2)**	(21.5)
Net funded assets		**246.5**	216.1

Explanatory notes concerning net funded assets

1. Derivative revaluation accounting gross-ups

The Bank Group's derivative activities are mostly client driven with client positions hedged by offsetting positions with a variety of counterparties. The derivatives are largely matched and this adjustment reflects that the matched positions do not require funding. The associated margins paid and received are included as part of self-funded trading assets.

2. Segregated funds

These represent the assets and liabilities that are recognised where the Bank Group holds segregated client monies. The client monies will be matched by assets held to the same amount. Any excess client funds placed with the Bank Group are netted down against cash and liquid assets.

3. Outstanding trade settlement balances

At any particular time the Bank Group will have outstanding trades to be settled as part of its brokering business and trading activities. These amounts (payables) can be offset in terms of funding by amounts that the Bank Group is owed on other trades (receivables).

4. Working capital assets

As with the outstanding trade settlement balances above, the Bank Group through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

5. Intercompany gross-ups

These represent balances related to the net payable position between the Bank Group and Non-Bank Group arising out of intragroup transactions, loans and deposits. This includes the Non-Bank Group balances with the Bank Group shown in the Bank Group funded balance sheet.

6. Self-funded trading assets

The Bank Group enters into stock borrowing and lending as well as repurchase agreements and reverse repurchase agreements in the normal course of trading activity that it conducts with its clients and counterparties, as well as for liquidity management purposes. Also as part of its trading activities, the Bank Group pays and receives margin collateral on its outstanding derivative positions. These trading and liquidity management related asset and liability positions are viewed as being self-funded to the extent that they offset one another and, therefore, are netted as part of this adjustment.

5.4 Funding Profile

Funded balance sheet

	Notes	AS AT Sep 22 $Ab	Mar 22 $Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		**1.2**	0.7
Commercial paper		**37.9**	35.1
Net trade creditors	2	**–**	1.4
Structured notes	3	**0.4**	0.4
Secured funding	4	**28.2**	26.6
Bonds	5	**23.2**	21.5
Other loans	6	**1.5**	1.2
Syndicated loan facilities	7	**3.3**	2.8
Customer deposits	8	**122.0**	101.5
Subordinated debt	9	**5.7**	4.6
Equity and hybrids	10	**23.1**	20.3
Total		**246.5**	216.1
Funded assets			
Cash and liquid assets	11	**85.0**	78.6
Net trading assets	12	**32.2**	24.3
Net trade debtors/(creditors)	2	**(1.3)**	–
Other loan assets including operating lease assets less than one year	13	**11.6**	12.2
Home loans	14	**99.5**	83.0
Other loan assets including operating lease assets greater than one year	13	**23.4**	23.5
Debt investments	15	**3.6**	1.4
Non-Bank Group balances with the Bank Group		**(9.1)**	(8.3)
Co-investment in Macquarie-managed funds and other equity investments	16	**0.7**	0.6
Property, plant and equipment and intangibles		**0.9**	0.8
Total		**246.5**	216.1

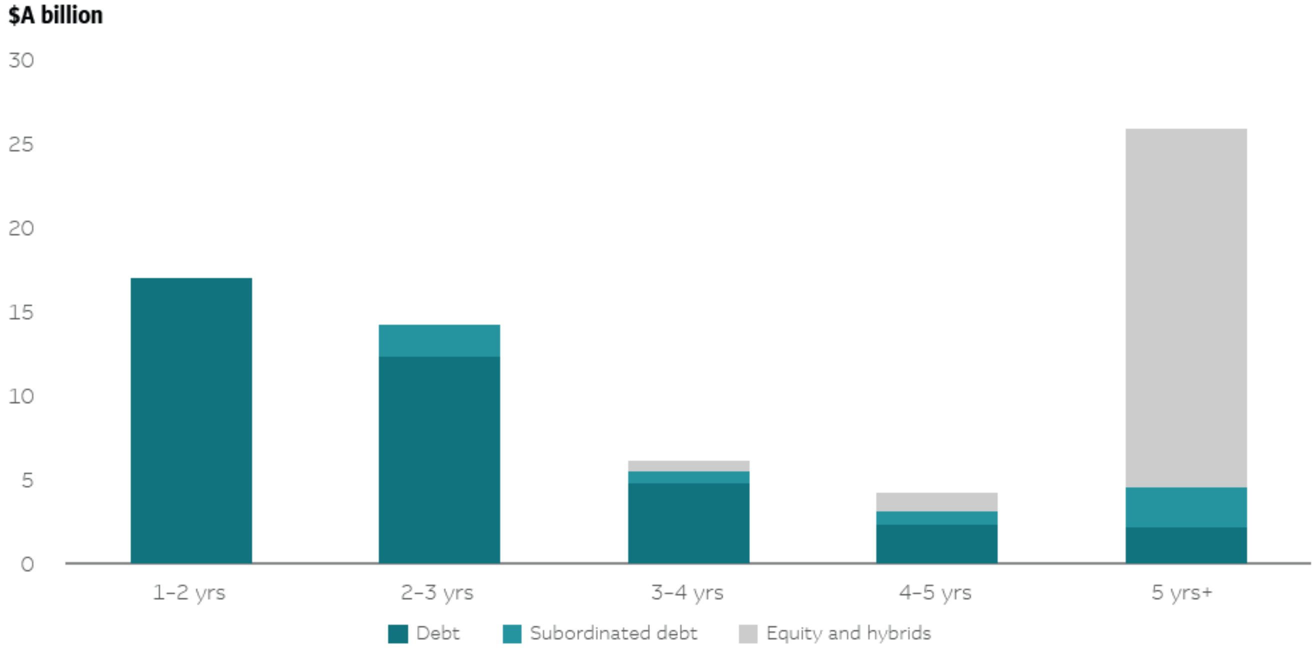
See Section 5.5 for Notes 1-16.

5.4 Funding Profile

Continued

Term funding profile

Detail of drawn funding maturing beyond one year



	AS AT SEP 22					
	1–2 yrs $Ab	2–3 yrs $Ab	3–4 yrs $Ab	4–5 yrs $Ab	5 yrs+ $Ab	**Total $Ab**
Structured notes[1]	0.1	–	–	0.1	0.2	**0.4**
Secured funding[1,2]	13.9	2.0	1.2	2.0	1.3	**20.4**
Bonds	2.9	7.1	3.7	0.3	0.8	**14.8**
Other loans	0.1	–	–	–	–	**0.1**
Syndicated loan facilities	–	3.3	–	–	–	**3.3**
Total debt	**17.0**	**12.4**	**4.9**	**2.4**	**2.3**	**39.0**
Subordinated debt[3]	–	1.9	0.7	0.8	2.3	**5.7**
Equity and hybrids[3]	–	–	0.6	1.1	21.4	**23.1**
Total funding sources drawn	**17.0**	**14.3**	**6.2**	**4.3**	**26.0**	**67.8**
Undrawn	0.5	–	–	–	–	**0.5**
Total funding sources drawn and undrawn	**17.5**	**14.3**	**6.2**	**4.3**	**26.0**	**68.3**

Macquarie Bank has diversity of funding across a range of tenors, currencies and products. The weighted average term to maturity of term funding maturing beyond one year (excluding equity and securitisations) was 3.6 years excluding TFF and 3.2 years inclusive of TFF as at 30 September 2022.

As at 30 September 2022, customer deposits represented $A122.0 billion, or 49% of the Bank Group's total funding. Short-term (maturing in less than 12 months) wholesale issued paper represented $A39.1 billion, or 16% of total funding, and other debt funding maturing within 12 months represented $A17.6 billion, or 7% of total funding.

[1] Structured notes and securitisations are profiled using a behavioural maturity profile.
[2] Includes RBA TFF of $A9.5 billion.
[3] Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

Term funding initiatives

The Bank Group has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2022, the Bank Group has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2022 and 30 September 2022:

		Bank Group $Ab
Issued paper	– Senior and subordinated	3.0
Secured funding	– Term securitisation, covered bond and other secured finance	5.5
Total		**8.5**

The Bank Group has continued to develop its major funding markets and products during the half year ended 30 September 2022.

From 1 April 2022 to 30 September 2022, the Bank Group raised $A8.5 billion[1] of term funding including:

- $A3.0 billion of term wholesale issued paper comprising of $A2.1 billion of senior unsecured debt, $A0.9 billion of subordinated unsecured debt
- $A2.9 billion of SMART ABS securitisation issuance
- $A1.7 billion refinance of secured trade finance facilities; and
- $A0.9 billion of covered bond issuance.

[1] Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance. Includes refinancing of loan facilities.

5.4 Funding Profile

Continued

The key tools used for raising debt funding, which primarily fund MBL and the Bank Group, are as follows[1]:

- $US25 billion Regulation S Debt Instrument Programme, including Euro Commercial Paper, Euro Certificate of Deposit and Euro Medium-Term Notes. The Debt Instrument Programme had $US9.3 billion debt securities outstanding as at 30 September 2022
- $US25 billion Commercial Paper Program under which $US21.4 billion of debt securities were outstanding as at 30 September 2022
- $US20 billion US Rule 144A/Regulation S Medium-Term Note Program, including senior and subordinated notes, under which $US9.8 billion of debt securities were outstanding as at 30 September 2022
- $A14.2 billion of external securitisation outstanding, comprising of $A11.2 billion PUMA RMBS and $A3.0 billion SMART ABS as at 30 September 2022
- $US10 billion European Commercial Paper Programme, including Euro Commercial Paper and Euro Certificates of Deposit, under which $US1.2 billion of debt securities were outstanding as at 30 September 2022
- $A10 billion Covered Bond Programme under which $A0.9 billion of debt securities were outstanding as at 30 September 2022
- $US5 billion Structured Note Programme under which $US0.3 billion of structured notes were outstanding as at 30 September 2022
- $A3.3 billion[2] of Syndicated Loan Facility which was fully drawn as at 30 September 2022
- $US1.2 billion Secured Trade Finance Facility[3] of which $US0.9 billion was drawn as at 30 September 2022
- $A2.4 billion of other subordinated unsecured debt outstanding as at 30 September 2022; and
- $A11.3 billion[4] of RBA Term Funding Facility outstanding as at 30 September 2022.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 30 September 2022, Macquarie Bank had $A1.2 billion of these securities outstanding.

Macquarie Bank, as an ADI, has access to liquidity from the RBA daily market operations.

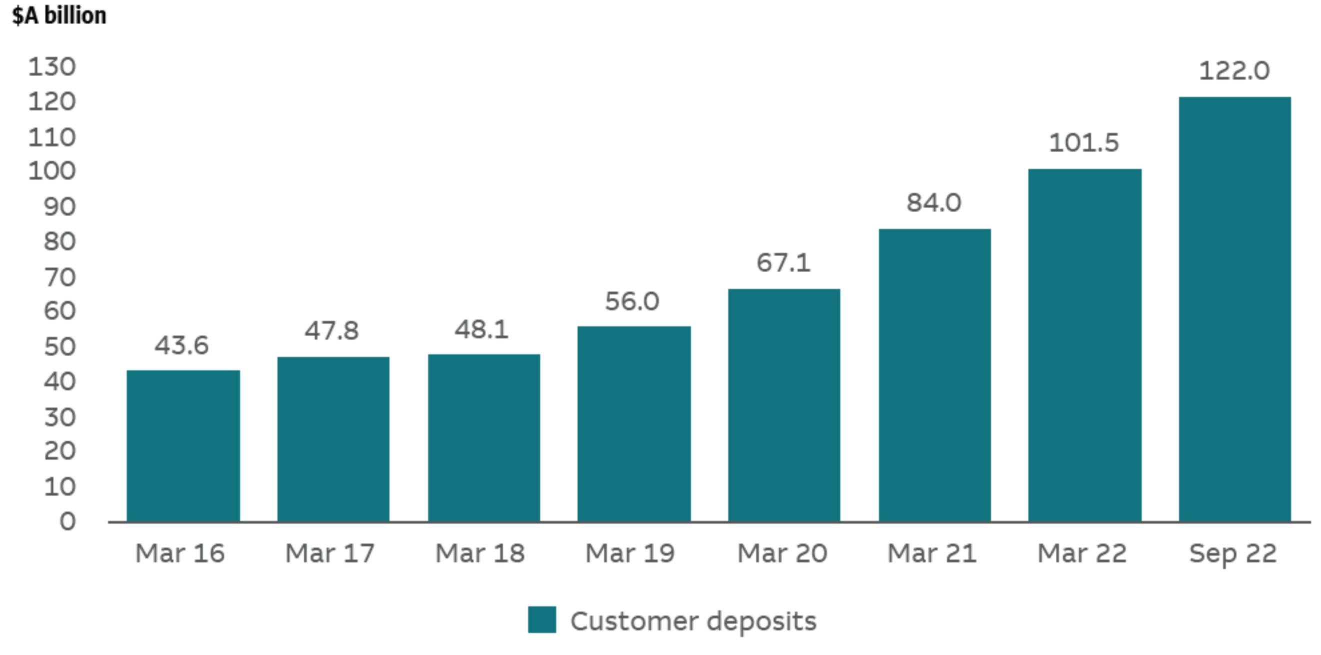
Deposit strategy

MBL continues to pursue a deposit strategy that is consistent with the core liquidity management strategy of achieving diversity and stability of funding sources. The strategy is focused on growing the BFS deposit base, which represents a stable and reliable source of funding and reduces Macquarie's reliance on wholesale funding markets.

In particular, MBL is focused on the quality and diversification of the deposit base, targeting transactional and relationship-based deposits. MBL is covered by the Financial Claims Scheme (FCS), an Australian Government scheme that provides protection to depositors up to a limit of $A250,000 per account holder per ADI.

The chart below illustrates the customer deposit growth since 31 March 2016.

Deposit trend



[1] Funding outstanding excludes capitalised costs.
[2] Issued out of Macquarie International Finance Limited (MIFL). Values are Australian dollar equivalents as at 30 September 2022.
[3] $US1.2 billion Secured Trade Finance Facility can be drawn by either MBL, MIFL or MGL and is currently drawn out of MBL and MIFL.
[4] Total of $A11.26 billion of RBA TFF outstanding as at 30 September 2022, comprising of $A1.72 billion of Initial Allowance, and $A9.53 billion of Additional and Supplementary Allowances.

5.5 Explanatory Notes Concerning Funding Sources and Funded Assets

1. Wholesale issued paper

Unsecured short-term wholesale funding comprised of both Certificates of Deposit and Commercial Paper.

2. Net trade creditors/debtors

Short-term working capital balances (debtors and creditors) are created through the Bank Group's day-to-day operations. A net funding use (or source) will result due to timing differences in cash flows.

3. Structured notes

Includes debt instruments on which the return is linked to a number of variables including interest rates, currencies, equities and credit. They are generally issued as part of structured transactions with clients and are hedged with positions in underlying assets or derivative instruments.

4. Secured funding

Certain funding arrangements secured against an asset (or pool of assets).

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

Unsecured funding from BFS, corporate and wholesale depositors. The Australian Government Financial Claims Scheme covers eligible deposits in Macquarie Bank.

9. Subordinated debt

Long-term subordinated debt.

10. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments as at 30 September 2022 include MACS and BCN 2 and 3.

11. Cash and liquid assets

Cash and liquid assets are held as cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA), other external RBA repo eligible securities or Australian assets internally securitised by Macquarie Bank and held as contingent collateral in RBA facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA).

12. Net trading assets

The net trading asset balance consists of financial markets, commodities and equity trading assets including the net derivative position, any trading-related receivables or payables and margin or collateral balances.

13. Other loan assets including operating lease assets

This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases. Excludes home loans.

See section 4.2 for further information.

14. Home loans

Secured by residential property.

15. Debt investments

These can include various categories of debt securities including asset backed securities, bonds, commercial mortgage backed securities and residential mortgage backed securities.

16. Co-investment in Macquarie-managed funds and other equity investments

These include equity investments at fair value, interests in associates and joint ventures and other equity investments.

06

Capital

6.1 Bank Group Capital

Capital disclosures in this section include Harmonised Basel III[1] and APRA Basel III[2]. The former is relevant for comparison with banks regulated by regulators other than APRA, whereas the latter reflects Macquarie's regulatory requirements under APRA Basel III rules.

The Bank Group is accredited by APRA under the Basel Foundation Internal Ratings Based approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book (IRRBB).

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

Common Equity Tier 1 Capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves. MBL periodically pays dividends to MGL. As required, MGL may inject capital into MBL to support projected business growth.

Tier 1 Capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 30 September 2022 consists of MACS, BCN2 and BCN3.

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every fifth anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's Common Equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

BCN2 were issued by MBL in June 2020 and are quoted on the Australian Securities Exchange. The BCN2 pay discretionary, quarterly floating rate cash distributions equal to three month BBSW plus 4.70% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

BCN3 were issued by MBL in August 2021 and are quoted on the Australian Securities Exchange. The BCN3 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 2.90% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 September 2028, 7 March 2029, or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 8 September 2031; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

Pillar 3

The APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure (Pillar 3) details the market disclosure requirements for Australian domiciled banks. APS 330 requires qualitative and quantitative disclosure of risk management practices and capital adequacy.

[1] 'Harmonised' Basel III estimates are calculated in accordance with the BCBS Basel III framework, noting that MBL is not regulated by the BCBS and so impacts shown are indicative only.

[2] APRA Basel III relates to the ADI Prudential Standards released by APRA for the period effective from 1 January 2013.

Bank Group Basel III Tier 1 Capital

	AS AT SEP 22		AS AT MAR 22		MOVEMENT	
	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III $Am	APRA Basel III $Am	Harmonised Basel III %	APRA Basel III %
Common Equity Tier 1 capital						
Paid-up ordinary share capital	10,140	10,140	9,562	9,562	6	6
Retained earnings	9,198	9,198	7,962	7,962	16	16
Reserves	1,315	1,315	434	434	203	203
Gross Common Equity Tier 1 capital	20,653	20,653	17,958	17,958	15	15
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	41	41	36	36	14	14
Deferred tax assets	45	912	34	853	32	7
Net other fair value adjustments	257	257	47	47	*	*
Intangible component of investments in subsidiaries and other entities	38	38	37	37	3	3
Loan and lease origination fees and commissions paid to mortgage originators and brokers	–	630	–	582	–	8
Shortfall in provisions for credit losses	162	231	294	302	(45)	(24)
Equity exposures	–	975	–	952	–	2
Capitalised software	17	17	22	22	(23)	(23)
Other Common Equity Tier 1 capital deductions	75	144	93	152	(19)	(5)
Total Common Equity Tier 1 capital deductions	635	3,245	563	2,983	13	9
Net Common Equity Tier 1 capital	20,018	17,408	17,395	14,975	15	16
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	2,468	2,468	2,297	2,297	7	7
Gross Additional Tier 1 capital	2,468	2,468	2,297	2,297	7	7
Deduction from Additional Tier 1 capital	–	–	–	–	–	–
Net Additional Tier 1 capital	2,468	2,468	2,297	2,297	7	7
Total Net Tier 1 capital	22,486	19,876	19,692	17,272	14	15

6.1 Bank Group Capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 22		AS AT MAR 22		MOVEMENT	
	Harmonised Basel III	**APRA Basel III**	Harmonised Basel III	APRA Basel III	*Harmonised Basel III*	*APRA Basel III*
	$Am	**$Am**	$Am	$Am	*%*	*%*
Credit risk						
Subject to IRB approach:						
Corporate	**42,018**	**42,018**	39,861	39,861	*5*	*5*
SME Corporate	**4,474**	**4,474**	4,529	4,529	*(1)*	*(1)*
Sovereign	**3,572**	**3,572**	3,542	3,542	*1*	*1*
Bank	**2,060**	**2,060**	1,659	1,659	*24*	*24*
Residential mortgage	**13,036**	**28,477**	10,891	26,802	*20*	*6*
Other retail	**2,344**	**2,344**	2,856	2,856	*(18)*	*(18)*
Retail SME	**1,977**	**1,980**	2,472	2,474	*(20)*	*(20)*
Total RWA subject to IRB approach	**69,481**	**84,925**	65,810	81,723	*6*	*4*
Specialised lending exposures subject to slotting criteria[1]	**9,658**	**9,658**	8,983	8,983	*8*	*8*
Subject to Standardised approach:						
Corporate	**41**	**41**	52	52	*(21)*	*(21)*
Residential mortgage	**532**	**532**	581	581	*(8)*	*(8)*
Other Retail	**1,052**	**1,052**	1,026	1,026	*3*	*3*
Total RWA subject to Standardised approach	**1,625**	**1,625**	1,659	1,659	*(2)*	*(2)*
Credit risk RWA for securitisation exposures	**602**	**602**	718	718	*(16)*	*(16)*
Credit Valuation Adjustment RWA	**13,213**	**13,213**	12,294	12,294	*7*	*7*
Exposures to Central Counterparties RWA	**576**	**576**	525	525	*10*	*10*
RWA for Other Assets	**5,785**	**2,918**	5,273	2,585	*10*	*13*
Total Credit risk RWA	**100,940**	**113,517**	95,262	108,487	*6*	*5*
Equity risk exposures RWA	**3,354**	**-**	3,269	-	*3*	*-*
Market risk RWA	**10,773**	**10,773**	10,230	10,230	*5*	*5*
Operational risk RWA	**10,495**	**10,495**	10,335	10,335	*2*	*2*
Interest rate risk in banking book RWA	**-**	**1,579**	-	1,588	*-*	*(1)*
Total Bank Group RWA	**125,562**	**136,364**	119,096	130,640	*5*	*4*
Capital ratios						
Bank Group Level 2 Common Equity Tier 1 capital ratio (%)	**15.9**	**12.8**	14.6	11.5		
Bank Group Level 2 Tier 1 capital ratio (%)	**17.9**	**14.6**	16.5	13.2		

[1] Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings

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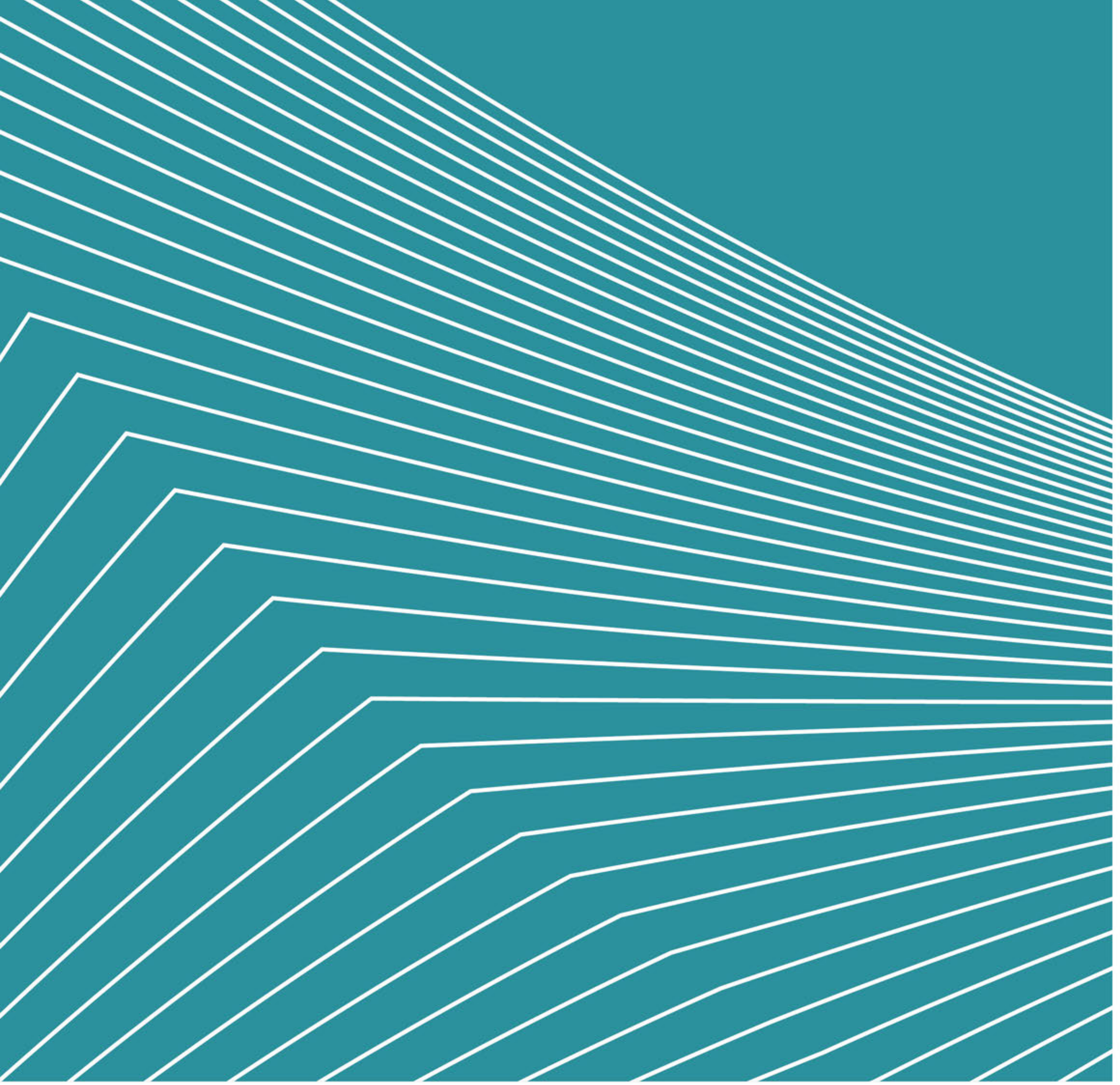
07

Glossary



7.1 Glossary

Defined term	Definition
1H22	The six months ended 30 September 2021.
2H22	The six months ended 31 March 2022.
1H23	The six months ended 30 September 2022.
A	
AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised Deposit-taking institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and • provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Asset Finance	Asset Finance is a global provider of specialist finance and asset management solutions across: Technology, Media and Telecoms; Energy, Renewables and Sustainability; Fund Finance; Resources; Structured Lending; and Shipping and Export Credit Agencies.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
B	
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprises BFS and most business activities of CGM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.
BCBS	Basel Committee on Banking Supervision.
BCN2	On 2 June 2020, MBL issued 6.4 million Macquarie Bank Capital Notes 2 (BCN2) at a face value of $A100 each. BCN2 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BCN3	On 27 August 2021, MBL issued 6.5 million Macquarie Bank Capital Notes 3 (BCN3) at a face value of $A100 each. BCN3 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 7 September 2028, 7 March 2029 or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 8 September 2031; exchanged earlier upon an acquisition event (with the acquirer gaining control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BBSW	Australian Financial Markets Association's bank-bill rate published daily on AAP Reuters website. The Australian equivalent of LIBOR, SIBOR, etc.
BFS	Banking and Financial Services.

Defined term	Definition
BFS deposits	BFS deposits are deposits by counterparties including individuals, self-managed super funds, and small-medium businesses. Deposit products include Cash Management Account, Term Deposits, Regulated Trust Accounts, and Transaction Accounts.
C	
CCB	Capital Conservation Buffer.
Central Service Groups	The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Reserve Bank of Australia Committed Liquidity Facility.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • do not impose any unavoidable servicing charge against earnings; and • rank behind the claims of depositors and other creditors in the event of winding up. Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Consolidated Entity	Macquarie Bank Limited and its subsidiaries.
D	
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
E	
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 Earnings Per Share.
ECAM	Economic Capital Adequacy Model.
ECL	Expected Credit Losses as defined and measured in terms of AASB 9: Financial Instruments.
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests (if applicable). The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Expense/Income ratio	Total operating expenses expressed as a percentage of Net operating income.
F	
Financial Report	Macquarie Bank Limited Interim Financial Report.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FVOCI	Fair value through other comprehensive income.
FVTPL	Fair value through profit or loss.
FY22	The year ended 31 March 2022.
FY23	The year ended 31 March 2023.

7.1 Glossary

Continued

Defined term	Definition
H	
Headcount	Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.
HQLA	High-quality liquid assets.
L	
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
M	
Macquarie Bank, the Consolidated Entity	Macquarie Bank Limited and its subsidiaries.
Macquarie Group	MGL and its subsidiaries.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's Common Equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAMHPL	Macquarie Asset Management Holdings Pty Ltd.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MCN3	On 7 June 2018, MGL issued 10 million Macquarie Group Capital Notes 3 (MCN3) at a face value of $A100 each. MCN3 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 15 December 2027; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN4	On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of $A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN5	On 17 March 2021, MGL issued 7.25 million Macquarie Group Capital Notes 5 (MCN5) at a face value of $A100 each. MCN5 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 18 September 2027, 18 March 2028 or 18 September 2028 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN5 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 September 2030; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN6	On 15 July 2022, MGL issued 7.5 million Macquarie Group Capital Notes 6 (MCN6) at a face value of $A100 each. MCN6 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 12 September 2029, 12 March 2030 or 12 September 2030 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN6 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 12 September 2032; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MBL, the Company	Macquarie Bank Limited ABN 46 008 583 542.

Defined term	Definition
N	
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net Trading Income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries, and MAMHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group comprises Macquarie Capital, Macquarie Asset Management and some business activities of CGM.
Non-GAAP metrics	Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.
O	
Operating Groups	The Operating Groups consist of BFS and CGM.
OTC	Over-the-counter
R	
RBA	Reserve Bank of Australia.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
S	
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
T	
TFF	Reserve Bank of Australia Term Funding Facility.
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
U	
UK	The United Kingdom.
US	The United States of America.

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