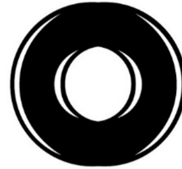


# Macquarie Bank Limited

**(ABN 46 008 583 542)**

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2021

Dated: May 21, 2021

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## CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2021 (this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*AASB*" means the Australian Accounting Standards Board;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means the Australian Competition and Consumer Commission and its successors;
- "*ADI*" means an institution that is an authorised deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*AML-CTF Act*" means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of Australia;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*Asset and Liability Committee*" means the committee established by the Executive Committee with responsibility for oversight of asset and liability management, liquidity policy compliance, liquidity scenario analysis and contingency planning;
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited and its successors;
- "*Australian Accounting Standards*" means Australian Accounting Standards that also ensures compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "*Australian Banking Act*" means the Banking Act 1959 of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of Australia;
- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the U.S. dollar;
- "*Bank*" and "*MBL*" each means Macquarie Bank Limited (ABN 46 008 583 542) (an ADI) and includes its predecessors and successors, and "*we*", "*our*", "*us*" and "*MBL Group*" each means MBL and its controlled entities;
- "*Banking Group*" or "*Bank Group*" means Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary, including the Bank, that constitutes the Banking Group as described herein;
- "*Banking Holdco*" means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;
- "*Commonwealth*" and "*Australia*" each means the Commonwealth of Australia;
- "*controlled entities*" means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party's objectives;
- "*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended;

- "*Executive Committee*" means the committee established and chaired by the managing director of MGL focusing on a variety of business issues, including key risks faced across the organization;

- "*FCA*" means the United Kingdom Financial Conduct Authority;

- "*financial statements*" means our historical financial statements;

- "*GAAP*" means generally accepted accounting principles;

- "*historical financial statements*" means our 2021 annual financial statements, our 2020 annual financial statements and our 2019 annual financial statements;

- "*IASB*" means the International Accounting Standards Board;

- "*IFRS*" means International Financial Reporting Standards;

- "*Macquarie Capital*" means the Macquarie Capital Advisers division and certain activities of Commodities and Global Markets that form part of the Non-Banking Group;

- "*MBIL*" means Macquarie Bank International Limited;

- "*MBL LB*" means the London branch of MBL;

- "*MBL's U.S. Investors' Website*" means MBL's U.S. investors' website at http://www.macquarie.com/au/en/disclosures/us-investors/macquarie-bank-limited.html;

- "*MCEL*" means Macquarie Capital (Europe) Limited;

- "*MCN*" means the Macquarie Group Capital Notes 2, the Macquarie Group Capital Notes 3 and the Macquarie Group Capital Notes 4;

- "*MGL*" means Macquarie Group Limited (ABN 94 122 169 279), the authorized NOHC for the Banking Group and the Non-Banking Group, and includes its predecessors and its successors, as more fully described herein;

- "*MGL Group*" means MGL and its controlled entities, including MBL Group;

- "*MIS*" means Macquarie Income Securities;

- "*net operating income*", an Australian Accounting Standards financial measure, includes net interest income (interest income less interest expense), trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, and other sundry income items, and is net of impairment charges and is reported in the income statement in our financial statements;

- "*NOHC*" means an authorized non-operating holding company of an ADI;

- "*NOHC Authority*" means the authority to be a non-operating holding company of an ADI granted to MGL by APRA on September 5, 2007 (as amended);

- "*Non-Banking Group*" or "*Non-Bank Group*" means Non-Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary that constitute the Non-Banking Group as described herein;

- "*Non-Banking Holdco*" means Macquarie Financial Holdings Pty Limited (ABN 63 124 071 398), the intermediate holding company established as a subsidiary of MGL and the parent of the Non-Banking Group as part of the Restructure;

- "*OFAC*" means the United States Office of Foreign Assets Control;

- "*operating expenses*", an Australian Accounting Standards financial measure, include employment expenses (including staff profit sharing expense), brokerage and commission expense, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expense, and other sundry expenses and are reported in the income statement in our financial statements;

- "*PRA*" means the United Kingdom Prudential Regulation Authority;

- "*RBA*" means the Reserve Bank of Australia;

- "*Restructure*" means the reorganization of the MBL Group that was completed on November 19, 2007 that resulted in the establishment of MGL as the ultimate holding company of MBL and the transfer by the MBL Group of certain businesses, subsidiaries and assets, primarily the Macquarie Capital operating group, to the Non-Banking Group;

- "*shared services*" means the services to be performed by MBL or its subsidiaries for the Banking and Non-Banking Groups described under "Macquarie Bank Limited — Organizational structure";

- "*2019 annual financial statements*" means our audited consolidated financial statements contained in our 2019 Annual Report;

- "*2019 Annual Report*" means our 2019 annual report, extracts of which are incorporated by reference herein and which have been posted on MBL's U.S. Investors' Website;

- "*2020 annual financial statements*" means our audited consolidated financial statements contained in our 2020 Annual Report;

- "*2020 Annual Report*" means our 2020 annual report, extracts of which are incorporated by reference herein and which have been posted on MBL's U.S. Investors' Website;

- "*2020 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 8, 2020, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2020, and which is incorporated by reference herein and has been posted on MBL's U.S. Investors' Website;

- "*2021 annual financial statements*" means our audited consolidated financial statements contained in our 2021 Annual Report;

- "*2021 Annual Report*" means our 2021 annual report, extracts of which are incorporated by reference herein and which have been posted on MBL's U.S. Investors' Website; and

- "*2021 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 7, 2021, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2021, and which is incorporated by reference herein and has been posted on MBL's U.S. Investors' Website.

Our fiscal year ends on March 31, so references to years such as "*2021*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year.

In this Report, prior financial period amounts that have been reported in financial statements for or contained in the discussion of a subsequent financial period may differ from the amounts reported in the financial statements for or contained in the discussion of the financial statements for that prior financial period as the prior financial period amounts may have been adjusted to conform with changes in presentation in the subsequent financial period.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "*forward-looking statements*" within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- macroeconomic conditions in global credit and other market conditions;
- market uncertainty, volatility and investor confidence;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- defaults by other large financial institutions or counterparties;
- changes in and increased volatility in currency exchange rates;
- losses due to falling prices in equity or other markets;
- changes to the credit ratings assigned to each of MBL and Macquarie Group Limited ("*MGL*"), our indirect parent company;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of the MBL Group;
- the impact of the ongoing severe acute respiratory syndrome coronavirus 2 ("*COVID-19*") pandemic on the global economy, the markets in which we operate and our businesses;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our failure to comply with laws governing financial crime;
- increased governmental and regulatory scrutiny and negative publicity;
- losses due to climate change;
- litigation and regulatory actions against us;
- risks associated with the replacement of benchmark indices;
- changes in the credit quality of MBL's counterparties;
- credit constraints of potential purchasers of our assets or on our clients;
- our ability to attract and retain employees;

- inadequate or failed internal or external operational systems and risk management processes;
- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- the performance and financial condition of MGL;
- the impact of cyber attacks, technology failures and other information or security breaches;
- environmental and social factors;
- the impact of catastrophic events on MBL and its operations;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians;
- lack of control over entities in the MGL Group that are not part of the MBL Group;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our brand and reputation;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- conflicts of interest;
- the impact of potential tax liabilities;
- changes in accounting standards, policies, interpretations, estimates, assumptions and judgments; and
- various other factors beyond our control.

The foregoing list of important factors is not exhaustive. Statements that include forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

When relying on forward-looking statements to make decisions with respect to the MBL Group, investors and others should carefully consider the foregoing factors and other uncertainties and events and are cautioned not to place undue reliance on forward-looking statements.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

Significant risk factors applicable to the MBL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2021 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference herein.

## AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

The Australian dollar is convertible into U.S. dollars at freely floating rates, subject to the sanctions described below. The Autonomous Sanctions Regulations 2011 promulgated under the Autonomous Sanctions Act 2011 of Australia, the Charter of the United Nations Act 1945 of Australia, and other laws and regulations in Australia restrict or prohibit payments, transactions and dealings with assets having a prescribed connection with certain countries or named individuals or entities subject to international sanctions or associated with terrorism or money laundering.

The Australian Department of Foreign Affairs and Trade ("*DFAT*") maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the Department's website at http://www.dfat.gov.au/international-relations/security/sanctions/Pages/consolidated-list.

In addition and as of January 2020, DFAT has established the Australian Sanctions Office (the "*ASO*"), which is the Australian government's sanctions regulator. As the sanctions regulator, the ASO:

- provides guidance to regulated entities, including government agencies, individuals, business and other organizations on Australian sanctions law;
- processes applications for, and issues, sanctions permits;
- works with individuals, business and other organizations to promote compliance and help prevent breaches of the law;
- works in partnership with other government agencies to monitor compliance with sanctions legislation; and
- supports corrective and enforcement action by law enforcement agencies in cases of suspected non-compliance.

Further information is available at http://www.dfat.gov.au/international-relations/security/sanctions/Pages/sanctions.

# FINANCIAL INFORMATION PRESENTATION

*Investors should read the following discussion regarding the presentation of our financial information together with the financial information presented elsewhere in this Report, our 2021 Fiscal Year Management Discussion and Analysis Report, our 2020 Fiscal Year Management Discussion and Analysis Report and our historical financial statements.*

**Our financial information**

In addition to this section, investors should refer to the discussion of our historical financial information included elsewhere in this Report and in the additional information posted on MBL's U.S. Investors' Website, including:

- the section of this Report under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition", which incorporates by reference:

- our 2021 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2021 and which has been posted on MBL's U.S. Investors' Website; and

- our 2020 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2020 and which has been posted on MBL's U.S. Investors' Website;

- our Pillar 3 Disclosure Document dated December 2020, the Pillar 3 Disclosure Document dated September 2020, the Pillar 3 Disclosure Document dated June 2020 and the Pillar 3 Disclosure Document dated March 2020, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MBL's U.S. Investors' Website; and

- our historical financial statements, which are included in the extracts from our 2021 and 2020 Annual Reports posted on MBL's U.S. Investors' Website.

For further information on our historical financial information for the 2019 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation – Our financial information" included in our 2019 Annual U.S. Disclosure Report.

Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the exchange rate of US$0.7613 per A$1.00, which was the noon buying rate in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York on March 31, 2021. The noon buying rate on May 14, 2021 was US$0.7776 per A$1.00.

**Application of new accounting standards**

Please refer to Note 1 of the 2021 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2021 fiscal year.

**Our historical financial statements**

Our 2021 annual financial statements include our audited financial statements as at, and for the fiscal years ended, March 31, 2021 and 2020. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See our 2021 Fiscal Year Management Discussion and Analysis Report for further information.

MBL Group is divided into the following operating groups for internal reporting and risk management purposes: Banking and Financial Services and Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities). Transfers between segments, and to and from segments in the Non-Banking Group, are determined on an arm's-length basis and are eliminated on consolidation.

Investors should take note that effective June 1, 2020, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The results for the 2021 fiscal year are reported to reflect this reorganization with reclassified results for prior periods.

Investors should also take note that effective July 1, 2019, certain fiduciary businesses, such as the infrastructure debt business, moved from Corporate and Asset Finance – Asset Finance in the Banking Group to Macquarie Asset Management in the Non-Banking Group following receipt of required approvals. Effective September 1, 2019, each of Corporate and Asset Finance's divisions were aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings:

- Corporate and Asset Finance – Asset Finance moved to Commodities and Global Markets, reflecting a longstanding shared focus on innovative financing solutions for corporates, some of which are already shared clients.

The results for the 2020 fiscal year and subsequent periods are reported under the new group structure with reclassified results for prior periods.

For further information on our historical financial information for the 2020 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation – Our financial information" included in our 2020 Annual U.S. Disclosure Report.

We report certain items in the Corporate segment, which includes the Head Office and central service groups costs. 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 include earnings from investments, central credit and asset related impairments, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equate to our total profit attributable to the ordinary equity holder.

**Impact of acquisitions and disposals on the 2021, 2020 and 2019 fiscal years**

During the 2021 fiscal year, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group; and certain services entities were transferred from the Non-Bank Group to the Bank Group.

During the 2020 fiscal year, certain fiduciary businesses of the MGL Group, such as the infrastructure debt business, moved from Corporate and Asset Finance – Asset Finance in the Banking Group to Macquarie Asset Management in the Non-Banking Group, and each of Corporate and Asset Finance's divisions were aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings.

During the 2019 fiscal year, MBL sold its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of its parent, MGL. Effective December 10, 2018, Corporate and Asset Finance's Principal Finance and Transportation Finance business transferred from the Bank Group to the Non-Bank Group. This transfer simplified the MBL Group's overall structure and better reflects the latest activities of the individual businesses.

In accordance with AASB 3 "Business Combinations", provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MBL Group's 2021, 2020 and 2019 annual financial statements, respectively.

For further information on how these businesses have been integrated into the MBL Group, see "Macquarie Bank Limited — Operating groups" below, and for information on their impact on our results of operations and financial condition for the 2021 and 2020 fiscal years, see our segment analysis in section 3.0 of our 2021 Fiscal Year Management Discussion and Analysis Report and in section 3.0 of our 2020 Fiscal Year Management Discussion and Analysis Report.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2021, 2020 and 2019 fiscal years, see Note 42 "Acquisitions and disposals of subsidiaries and businesses" to MBL Group's 2021 annual financial statements and Note 40 "Acquisitions and disposals of subsidiaries and businesses" to MBL Group's 2020 annual financial statements, respectively.

**Certain differences between Australian Accounting Standards and U.S. GAAP**

Investors should be aware that the financial information contained or incorporated by reference in this Report and in the additional information posted on MBL's U.S. Investors' Website have been prepared and presented in accordance with Australian Accounting Standards and the recognition and measurement principles prescribed in the current interpretations of the International Financial Reporting Standards, or Australian Accounting Standards. There are differences between Australian Accounting Standards and U.S. GAAP that may be material to the financial information contained or incorporated by reference in this Report and in the additional information posted on MBL's U.S. Investors' Website. MGL Group has not provided a quantitative reconciliation or narrative discussion of these differences in this Report. Investors should therefore consult their own professional advisors for an understanding of the differences between Australian Accounting Standards and U.S. GAAP and how those differences might affect the financial information included in this Report and, more generally, the financial results of the MBL Group going forward.

The accounting policies adopted by entities within the MBL Group are as reported in Note 1 to our 2021 annual financial statements.

**Critical accounting policies and significant judgments**

Note 1 to our 2021 annual financial statements provides a list of the critical accounting policies and significant judgments.

Other than as provided in Note 1 to our 2021 annual financial statements, critical accounting policies and significant judgments for the 2021 fiscal year have remained consistent with those in the prior fiscal year.

**Pending accounting standards changes**

For a description of standards, interpretations and amendments to Australian Accounting Standards that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2021 annual financial statements.

**Non-GAAP financial measures**

We report our financial results in accordance with Australian Accounting Standards. However, we include certain financial measures and ratios that are not prepared in accordance with Australian Accounting Standards that we believe provide useful information to investors in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by the MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MBL's U.S. Investors' Website. These measures include:

***Funded loan assets and funded statutory statement of financial position***

Funded loan assets is a non-GAAP financial measure. Funded loan assets is determined based on the funded statements of financial position of the MBL Group and not the statutory statement of financial position classification. MBL Group's statutory statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement of the MBL Group. A reconciliation between the reported loan assets and the net funded loan assets as at March 31, 2021 is presented in section 4.0 of our 2021 Fiscal Year Management Discussion and Analysis Report.

# RISK FACTORS

*We are subject to a variety of risks that arise out of our financial services and other businesses, many of which are not within our control. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in the "Risk Management Report" in the 2021 Annual Report of MGL and in Note 35 to our 2021 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.*

## Macro-economic risks

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

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

Our trading income may be adversely affected during times of subdued market conditions and client activity, and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues.

Our returns from asset sales may also decrease if economic conditions deteriorate. In addition, if financial markets decline, revenues from our products are likely to decrease. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than we would otherwise achieve during stable market conditions.

Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions; and difficulty in valuing assets may negatively affect our capital, liquidity or leverage ratios, increase funding costs and generally require us to maintain additional capital.

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

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

While our consolidated financial statements are presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies. Changes in the rate at which the Australian dollar is translated from other currencies can impact our financial statements and the economics of our business.

Although we seek to carefully manage our exposure to foreign currencies, in part through matching of assets and liabilities in local currencies and through the use of foreign exchange forward contracts to hedge our exposure, we are still exposed to exchange risk. Insofar as we are unable to hedge or have not completely hedged our exposure to currencies other than the Australian dollar, our reported profit and foreign currency translation reserve would be affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

The impact of COVID-19 has and may lead to further reduced client activity and demand for our products and services, higher credit and valuation losses in our loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on our financial position, including possible constraints on capital and liquidity, as well as higher costs of capital, and possible changes or downgrades to our credit ratings. Additionally, despite the business continuity and crisis management policies currently in place, travel restrictions or potential impacts on personnel and operations may disrupt our business and increase operational risk losses. The expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy and our personnel and operations are unclear. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and our ability to replace maturing liabilities may be limited, which could adversely affect our ability to fund and grow our business. This may adversely impact our results of operations and financial condition. Please refer to our 2021 annual financial statements for further information on the financial statement impact of COVID-19, including, but not limited to, Note 12 which discusses its impact on our expected credit losses.

***We could suffer losses due to climate change.***

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

## Legal and regulatory risks

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

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

Regulatory agencies and governments frequently review and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences or impacts across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in the markets in which we operate and may lead to further significant changes of this kind. Health, safety and environmental laws and regulations can also change rapidly and significantly. The occurrence of any adverse health, safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards could have a significant impact on operations and/or result in material expenditures.

In some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally.

In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. The nature and impact of future changes are unpredictable, beyond our control and may result in potentially conflicting requirements, resulting in additional legal and compliance expenses and changes to our business practices that adversely affect our profitability.

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MBL as an ADI. Any such event could result in changes to the organizational structure of the Banking Group and/or the MGL Group and adversely affect the MBL Group. See "Regulation and Supervision" below for more information on the regulatory developments affecting the MGL Group, including MBL.

***We are subject to the risk of loss as a result of not complying with laws governing financial crime.***

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

Any violation of AML/CTF laws could subject us to significant penalties, revocation, suspension, restriction or variation of conditions of operating licenses, adverse reputational consequences, litigation by third parties (including potentially class actions) or limitations on our ability to do business.

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

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to the financial services sector generally, and our business operations, capital, liquidity and risk management, compensation and other matters, has increased dramatically over the past several years. The financial crisis and the subsequent political and public sentiment regarding financial institutions have resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Responding to and addressing such matters, regardless of the ultimate outcome, is time-consuming, expensive, can adversely affect investor confidence and can divert the time and effort of our staff (including senior management) from our business.

Investigations, inquiries, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and regulators have become aggressive in commencing enforcement actions or with advancing or supporting legislation targeted at the financial services industry. If we are subject to adverse regulatory findings, the financial penalties could have a material adverse effect on our results of operations. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation with clients and on the morale and performance of our employees.

***Litigation and regulatory actions may adversely impact our results of operations.***

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

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

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

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

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

- *Financial risks and pricing risks* – arising from:

    - any changes in the pricing mechanisms of financial instruments linked to RFRs which could impact the valuations of these instruments; and

- the implementation of the International Swaps and Derivatives Association's protocol for the transition of derivatives contracts, and similar guidance for cash products which could cause earnings volatility depending on the nature of contract modifications and changes in hedge accounting.

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

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

**Counterparty credit risks**

***Failure of third parties to honor their commitments in connection with our trading, lending and other activities, including funds that we manage, may adversely impact our business.***

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we may hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 35.1 to our 2021 annual financial statements for details on the concentration of credit risk by significant geographical locations and counterparty types. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

***Credit constraints of purchasers of our investment assets or on our clients may impact our income.***

Historically, we have generated a portion of our income from the sale of assets to third parties, including our funds. If buyers are unable to obtain financing to purchase assets that we currently hold or purchase with the intention to sell in the future, we may be required to hold investment assets for longer than we intend or sell these assets at lower prices than we historically would have expected to achieve, which may lower our rate of return on these investments and require funding for periods longer than we have anticipated.

***We may experience impairments in our loans, investments and other assets.***

MBL Group recorded A$333 million of credit and other impairment charges for the 2021 fiscal year, including A$287 million for net credit impairment charges, and A$46 million for other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline. Credit and other impairment charges may also vary following a change to the inputs or forward looking information used in the determination of expected credit losses. Please refer to Note 12 of our 2021 annual financial statements for further information on the determination of expected credit losses.

Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it very difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces our ability to limit losses in such positions and the difficulty in valuing assets may negatively affect our capital, liquidity or leverage ratios, increase our funding costs and generally require us to maintain additional capital.

## Operational risks

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

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

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. Typically, those levels have caused employee remuneration to be our greatest expense as our performance-based remuneration has historically been cash and equity based and highly variable. Recent market events have resulted in increased regulatory and public scrutiny of corporate remuneration policies and the establishment of criteria against which industry remuneration policies may be assessed. As a regulated entity, we may be subject to limitations on remuneration practices (which may or may not affect our competitors). These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees.

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

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

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances. For a further discussion of our risk management policies and procedures, see Note 35 to our 2021 annual financial statements and the “Risk Management Report” in the 2020 Annual Report of MGL incorporated by reference herein.

As our client base, business activities and geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. We must continuously update these systems to support our operations and growth, which may entail significant costs and risks of successful integration. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume or disruption in internet services provided by third parties.

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers, including cloud-based outsourced technology platforms, or external events. Such operational risks may include theft and fraud, failure to effectively implement employment practices and inadequate workplace safety, improper business practices, mishandling of client moneys or assets, client suitability and servicing risks, product complexity and pricing, and valuation risk or improper recording, evaluating or accounting for transactions or breaches of our internal policies and regulations. There is increasing regulatory and public scrutiny concerning outsourced and offshore activities and their associated risks, including, for example, the appropriate management and control of confidential data. If we fail to manage these risks appropriately, we may incur financial losses and/or regulatory intervention and penalties, and our reputation and ability to retain and attract clients may be adversely affected.

There have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee, contractor and external service provider misconduct could occur. Human errors, malfeasance and other misconduct, including the intentional misuse of client information in connection with insider trading or for other purposes, even if promptly discovered and remediated, can result in reputational damage and material losses and liabilities for us. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

We face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, the risk to us of failures in our clients' and counterparties' systems also grows. Any such failure, termination or constraint could adversely affect our ability to effect or settle transactions, service our clients, manage our exposure to risk, meet our obligations to counterparties or expand our businesses or result in financial loss or liability to our clients and counterparties, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

***A cyber attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, and increase our costs to maintain and update our operational and security controls and infrastructure.***

Our businesses depend on the security and efficacy of our data management systems and technology, as well as those of third parties with whom we interact or on whom we rely. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our data management systems and technology, and in those managed, processed and stored by third parties on behalf of us. Inadequate data management and data quality could lead to poor decision making in the provision of credit as well as affecting our data management regulatory obligations, all of which may cause us to incur losses or lead to regulatory actions.

To access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cyber security risks. While we seek to operate in a control environment that limits the likelihood of a cyber and information security incident, and to ensure that the impact of a cyber and information security incident can be minimized by information security capability and incident response, there can be no assurances that our security controls will provide absolute security.

Cyber and information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology, and the increased sophistication and activities of attackers (including hackers, organized criminals, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage). Targeted social engineering attacks are becoming more sophisticated and are extremely difficult to prevent. The techniques used by hackers change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner.

Despite efforts to protect the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches or implement preventive measures against such security breaches.

As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. This consolidation, interconnectivity and complexity increases the risk of operational failure, on both individual and industry-wide bases, as disparate systems need to be integrated, often on an accelerated basis. Any third-party technology failure, cyber attack or other information or security breach, termination or constraint could, among other things, adversely affect our ability to effect transactions, service our clients, manage our exposure to risk or expand our businesses.

It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and perpetrators can be well resourced. Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for the MBL Group, including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures and additional compliance costs, all of which could have a material adverse impact on the MBL Group.

***We could suffer losses due to environmental and social factors.***

Our businesses are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events (such as persistent winter storms or protracted droughts), leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Any significant environmental change or external event (including increased frequency and severity of storms, floods and other catastrophic events such as earthquake, pandemic (such as COVID-19), other widespread health emergencies, civil unrest or terrorism events) has the potential to disrupt business activities, impact our operations or reputation, increase credit risk and other credit exposures, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us.

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

Any such long-term, adverse environmental or social consequences could prompt us to exit certain businesses altogether. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

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

***Failure of our insurance carriers or our failure to maintain adequate insurance cover could adversely impact our results of operations.***

We maintain insurance that we consider to be prudent for the scope and scale of our activities. If our insurance carriers fail to perform their obligations to us and/or our third party cover is insufficient for a particular matter or group of related matters, our net loss exposure could adversely impact our results of operations.

***We are subject to risks in using custodians.***

Certain products we manage depend on the services of custodians to carry out certain securities transactions. In the event of the insolvency of a custodian, we might not be able to recover equivalent assets in full as they will rank among the custodian's unsecured creditors. In addition, the cash held with a custodian in connection with these products will not be segregated from the custodian's own cash, and the creditors of these products will therefore rank as unsecured creditors in relation to the cash they have deposited.

***MBL has no control over the management, operations or business of entities in the MGL Group that are not part of the MBL Group.***

Entities in the MGL Group that are not part of the MBL Group may establish or operate businesses that are different from or compete with the businesses of the MBL Group and those other entities are not obligated to support the businesses of the MBL Group other than as required by APRA prudential standards. Other than APRA prudential standards and capital adequacy requirements described in "Regulation and Supervision", there are no

regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including the MBL Group.

## Strategic risks

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

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

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

Any time we make an acquisition, we may over-value the acquisition, we may not achieve expected synergies, we may achieve lower than expected cost savings or otherwise incur losses, we may lose customers and market share, we may face disruptions to our operations resulting from integrating the systems, processes and personnel (including in respect of risk management) of the acquired business into the MBL Group or our management's time may be diverted to facilitate the integration of the acquired business into the MBL Group. We may also underestimate the costs associated with outsourcing, exiting or restructuring existing businesses. Where our acquisitions are in foreign jurisdictions, or are in emerging or growth economies in particular, we may be exposed to heightened levels of regulatory scrutiny and political, social or economic disruption and sovereign risk in emerging and growth markets.

***Our business depends on our brand and reputation.***

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

Our business may be adversely affected by negative publicity or poor financial performance in relation to any of the entities using the Macquarie name, including any Macquarie-managed fund or funds that Macquarie has promoted or is associated with. Investors and lenders may associate such entities and funds with the name, brand and reputation of the MBL Group and the MGL Group and other Macquarie-managed funds. If funds that use the Macquarie name or are otherwise associated with Macquarie-managed infrastructure assets, such as roads, airports, utilities and water distribution facilities that people view as community assets, are perceived to be managed inappropriately, those managing entities could be subject to criticism and negative publicity, harming our reputation and the reputation of other entities that use the Macquarie name.

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

We face significant competition from local and international competitors, which compete vigorously in the markets and sectors across which we operate. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms, internet based firms, commodity trading firms and other investment and service firms as well as businesses in adjacent industries in connection with the various funds and assets we manage and services we provide. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. In addition, digital technologies and business models are changing consumer

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

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power which may enhance the competitive position of MBL Group's competitors. The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins.

***Conflicts of interest could limit our current and future business opportunities.***

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

## Tax

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

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. In addition, as a result of increased funding needs by governments employing fiscal stimulus measures, revenue authorities in many of the jurisdictions in which we operate have become more active in their tax collection activities. Any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

## Accounting standards

***Changes in accounting standards, policies, interpretations, estimates, assumptions and judgments that could have a material impact on our financial results.***

Our accounting policies are fundamental to how we record and report our financial position and results of operations. These policies require the use of estimates, assumptions and judgements that affect the reported value of our assets or liabilities and results of operations. Management is required to determine estimates and apply subjective and complex assumptions and judgements about matters that are inherently uncertain. Changes in those estimates, assumptions and judgements are accounted for prospectively as a change in accounting estimate unless it is determined that either (i) the determination thereof was in error or (ii) the accounting policy which sets out the application of those estimates, assumptions and judgements has changed, in which case the previous reported financial information is re-presented.

Accounting standard setting bodies issue new accounting standards and interpretations in response to outreach activities, evolving interpretations, application of accounting principles as well as changes in market developments. In addition, changes in interpretations by accounting standard setting bodies; regulators; and our independent external auditor may also arise from time to time. These changes may be difficult to predict in terms of the nature of such changes and the timing thereof. The application of new requirements and interpretations may

impact how we prepare and report our financial statements. In some cases, we may be required to apply a new or revised standard or change in interpretation retrospectively, resulting in a requirement to represent our previously reported financial information.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2021.

The information relating to the MBL Group in the following table is based on our 2021 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

| | As at | |
|---|---|---|
| | Mar 31, 2021 | Mar 31, 2021 |
| | US$m[1] | A$m |
| **CAPITALIZATION** | | |
| **Borrowings[2]** | | |
| Debt issued — due greater than 12 months | 13,565 | 17,818 |
| Loan capital — due greater than 12 months | 4,273 | 5,612 |
| **Total borrowings[3]** | **17,838** | **23,430** |
| **Equity** | | |
| Contributed equity | | |
| Ordinary share capital | 6,310 | 8,288 |
| Equity contribution from ultimate parent entity | 186 | 244 |
| Other equity | (7) | (9) |
| Reserves | 233 | 306 |
| Retained earnings | 3,993 | 5,245 |
| Other non-controlling interests | - | - |
| **Total equity** | **10,715** | **14,074** |
| **TOTAL CAPITALIZATION** | **28,553** | **37,504** |

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 31, 2021, which was US$0.7613 per A$1.00.

2 As at March 31, 2021, we had A$2.5 billion of secured indebtedness due in greater than 12 months compared to A$1.2 billion as at March 31, 2020.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short term debt totaled A$21.9 billion as at March 31, 2021 and securitizations totaled A$10.4 billion as at March 31, 2021 compared to A$16.1 billion and A$12.8 billion, respectively, as at March 31, 2020.

For details on our short-term debt position as at March 31, 2021, see section 5.4 of our 2021 Fiscal Year Management Discussion and Analysis Report.

# MACQUARIE BANK LIMITED

## Overview

MBL is an APRA regulated ADI headquartered in Sydney, Australia and is a wholly owned subsidiary of MGL. MBL's expertise covers asset finance, lending, banking, and risk and capital solutions across debt, equity and commodities. MBL acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to clients.

As at March 31, 2021, MBL employed 12,576[1] staff, had total assets of A$216.8 billion and total equity of A$14.1 billion. For the 2021 fiscal year, MBL net operating income was A$6,995 million and profit after tax attributable to the ordinary equity holder was A$1,676 million. As at March 31, 2021, MBL conducted its operations in 19 markets, with 51% of MBL Group's revenues from external customers derived from regions outside Australia. See "— Our business — Regional activity" below for further information.

MBL's ordinary shares were listed on the ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect wholly owned subsidiary of MGL, a new ASX-listed company, and the MBL Group transferred to the Non-Banking Group most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Commodities and Global Markets) and Treasury and Commodities (now part of Commodities and Global Markets).

MBL's registered office and principal place of business is Level 6, 50 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +61 2-8232-3333.

### *Board and management changes during the 2021 fiscal year*

The following board and management changes occurred since the beginning of the 2021 fiscal year:

- At the request of the MGL and MBL Boards, Peter Warne intends to stand for re-election as Chair at the 2021 annual general meeting for one additional year given his oversight of the ongoing process of Board renewal and as a period of global uncertainty continues to abate into 2022. Over the course of the 2022 fiscal year, the MGL and MBL Boards will nominate a new Chair and will advise shareholders in due course. Mr Warne intends to step down at the 2022 annual general meeting.

- Gary Banks retired as an Independent Voting Director of MGL and MBL, on July 30, 2020.

- Michael Hawker retired as an Independent Voting Director of MGL and MBL, on September 30, 2020.

- Gordon Cairns retired as an Independent Voting Director of MGL and MBL, on May 7, 2021.

- Mike Roche joined the MGL and MBL Boards as an Independent Voting Director, effective from January 20, 2021.

- Rebecca McGrath joined the MGL and MBL Boards as an Independent Voting Director, effective from January 20, 2021.

- Mary Reemst will retire as Managing Director and Chief Executive Officer of MBL, as an Executive Voting Director on the MBL Board, and from the MGL and MBL Executive Committees, on July 1, 2021.

[1] This figure includes staff employed in certain operationally segregated subsidiaries. Further references to staff numbers are calculated on this basis.

- From July 1, 2021, and subject to regulatory approvals, Stuart Green will become Managing Director and Chief Executive Officer of MBL and join the MBL Board as an Executive Voting Director, and the MGL and MBL Executive Committees. Mr. Green has been with the MGL Group for 20 years, serving as Group Treasurer since August 2013.

***Operating group updates during the 2021 fiscal year***

Effective June 1, 2020, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The results for the 2021 fiscal year are reported to reflect this reorganization with reclassified results for prior periods.

Effective November 2020, certain services entities were transferred from the Non-Bank Group to the Bank Group following receipt of approvals from both the MGL and MBL Boards. This transfer was achieved through execution of sale and purchase agreements whereby the MBL Group:

- acquired a 100% interest in Macquarie Group Services Australia Pty Ltd, which was accounted for by MGL as an investment in a subsidiary at cost, and its subsidiaries, from MGL; and

- acquired a 100% interest in Macquarie Global Services Private Limited from Macquarie Global Finance Services (Mauritius) Limited, an indirect subsidiary of MGL.

**Our key strengths**

We believe our profitability, the diversification of our businesses and our geographic spread has been supported by the following key strengths:

- *Strong brand and reputation*. We believe our business successes have resulted in us achieving a level of recognition for quality, integrity and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.

- *Diversified earnings*. Our diversified earnings base has been an important factor in our successful growth. MBL Group's diverse sources of income include the following:

  - *Fee and commission income*, including:

    - Brokerage and commission income from brokerage fee income, which primary includes brokerage income from the Equities and Futures businesses from Commodities and Global Markets and brokerage fee income from Banking and Financial Services; and

    - Other fee and commission income, which includes fees earned on a range of Banking and Financial Services' products and services, including the wrap platform, provision of wealth services, home loans, vehicle finance, credit cards, business loans and deposits, and includes income from structured, index and retail products from Commodities and Global Markets. In addition, since the transfer of the service entities to the MBL Group in November 2020, Other fee and commission income includes fees received from the Non-Bank Group for services provided by the central service groups.

  - *Trading income* generated predominantly through client trading activities and products issued by Commodities and Global Markets;

  - *Net interest income* primarily earned on residential mortgages, loans to Australian businesses, vehicle finance and credit cards in Banking and Financial Services, interest income on trading assets, leasing, lending and asset financing from Commodities and Global Markets partially offset by funding costs by the Bank Group to fund business activity;

  - *Net operating lease income* generated predominately from operating lease portfolios in Commodities and Global Markets;

- *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, dividends and distributions; and

- *Equity accounted income* from principal investments in assets and businesses where significant influence is present.

- *Geographic diversity*. As at March 31, 2021, we employed 12,576 staff in 19 markets. Of those staff, approximately 48% were located in offshore markets. As the MBL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.

- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.

- *Strong capital position*. MBL is regulated as an ADI by APRA and, as a result, is subject to APRA's capital adequacy requirements. MBL has met all of its capital requirements throughout the 2021 fiscal year. As at March 31, 2021, the Banking Group had a Harmonized Basel III Level 2 Common Equity Tier 1 capital ratio of 16.2%, a Tier 1 capital ratio of 18.1% and a total capital ratio of 23.0%. The Banking Group's APRA Basel III Level 2 Common Equity Tier 1 capital ratio was 12.6%, Tier 1 capital ratio was 14.3%, and total capital ratio was 18.8%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under "Regulation and Supervision" including (but not limited to) APRA's "Unquestionably Strong" benchmarks. For further information on our regulatory capital position as at March 31, 2021, see section 6.0 of our 2021 Fiscal Year Management Discussion and Analysis Report.

- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 35 to our 2021 annual financial statements and in the "Risk Management Report" in the 2021 Annual Report of MGL incorporated by reference herein.

**Organizational structure**

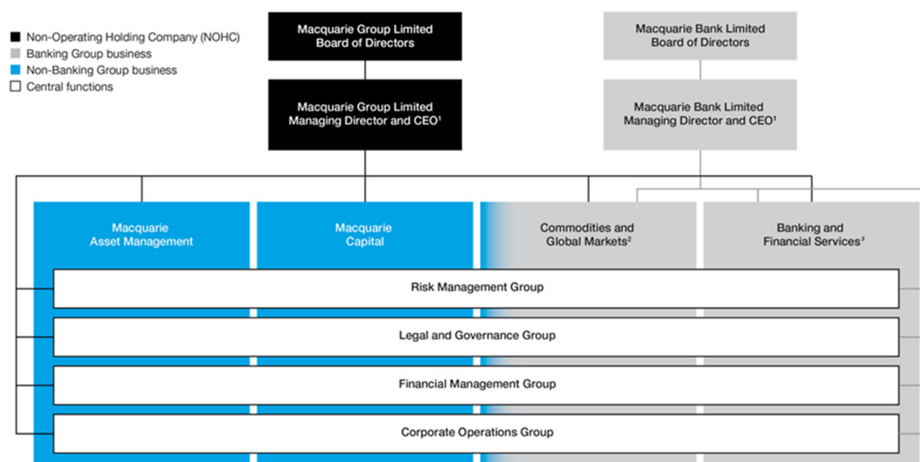
MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises two operating groups: Banking and Financial Services and Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities).

MBL Group currently provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate Affairs, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Business Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5.0 of our 2021 Fiscal Year Management Discussion and Analysis Report. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist the MGL

Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

The following diagram shows our current organizational structure of the MGL Group and reflects the composition of the Banking and Non-Banking Groups.




1. The MGL CEO has senior executive responsibility for the management of the business activities of the Banking Group. The MBL CEO has senior executive oversight of the Banking Group's position in order to protect MBL's interests and fulfil its responsibilities as an ADI. The MBL CEO assists the MGL CEO in fulfilling her responsibilities to MBL. 2. Certain assets of the Credit Markets business, certain activities of the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking group. 3. The current Group Head of BFS is also the Deputy Group CEO.

MGL and MBL will continue to monitor and review the appropriateness of the MGL structure. From time to time, the optimal allocation of MGL's businesses between the Banking Group and the Non-Banking Group and within the Banking Group and the Non-Banking Group may be adjusted and MGL and we may make changes in light of relevant factors including business growth, regulatory considerations, market developments and counterparty considerations.

**Our strategy**

Consistent with the principles of opportunity, accountability and integrity, MBL adopts a business strategy focused on the medium-term with the following key aspects:

- *Risk management approach.* Adopting a conservative approach to risk management underpinned by a sound risk culture. MBL's robust risk management framework and risk culture is embedded across all Bank Group entities.

- *Strong balance sheet.* Maintaining a strong and conservative balance sheet. This is consistent with MBL's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. MBL remains well funded, with diversified funding sources, including deposits, and continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

- *Business mix.* Conducting a mix of annuity-style and markets facing businesses that deliver solid returns in a range of market conditions. MBL has dynamically developed its annuity-style businesses, providing steady returns to the business and its shareholders, and stability to clients.

- *Diversification.* Operating a diversified set of businesses across different locations and service offerings: asset finance, lending, banking, and risk and capital solutions across debt, equity and commodities. MBL offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to MBL.

- *Proven expertise.* Utilizing proven deep expertise has allowed MBL to establish leading market positions as a global specialist in sectors including resources and commodities, energy and financial institutions.

- *Adjacencies.* Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions. These include products and geographies adjacent to MBL's established areas of expertise, which results in sustainable evolutionary growth.

- *Pursuit of growth opportunities.* Targeting continued evolution and growth through innovation. MBL starts with knowledge and skill, and encourages ingenuity and entrepreneurial spirit coupled with accountability. Ideas for new businesses are typically generated in the Operating Groups. Additionally, there are no specific businesses, markets, or regions in which MBL's strategy demands it operates. This means it retains operational flexibility and can adapt the portfolio mix to changing market conditions within the boundaries of the Risk Appetite Statement approved by the Board.

**Our history and evolution**

MBL Group, the predecessor of the MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London. We obtained an Australian banking license as MBL in 1985 and in 1996, MBL was publicly listed on the ASX.

MBL's ordinary shares were listed on ASX from July 29, 1996 until the Restructure in November 2007. Prior to the Restructure, MBL was a widely held ASX-listed public company and engaged in certain investment banking activities through Macquarie Capital. On November 19, 2007, when the Restructure was completed, MBL became an indirect subsidiary of MGL, a new ASX-listed company, and the MBL Group transferred most of the assets and businesses of Macquarie Capital, and some less financially significant assets and businesses of the former Equity Markets group (now part of Commodities and Global Markets) and Treasury and Commodities (now part of Commodities and Global Markets) to the Non-Banking Group. The activities not transferred to the Non-Banking Group upon the Restructure formed part of the Banking Group or MBL. As MGL is the successor to MBL Group's businesses, the historical financial statements of the MBL Group reflect the historical results of operations and financial condition of MGL Group's businesses.

Since listing, MGL has diversified its operations by business line and geography through a mix of organic growth and strategic acquisitions, including but not limited to the acquisition of the Bankers' Trust Australia Investment Banking business in the 1999 fiscal year and the acquisition of the cash equities business of ING Group (Asia) in the 2004 fiscal year.

In light of opportunities that emerged from the global financial crisis and ensuing market conditions, MGL made a number of strategic acquisitions which complemented existing operations and strengthened its global platform. These included, but were not limited to, the following:

- the acquisition of Constellation Energy in the 2009 fiscal year, which enhanced Commodities and Financial Markets', which now forms part of Commodities and Global Markets, position within the North American natural gas market;

- the acquisition of Delaware Investments in the 2010 fiscal year, which enhanced Macquarie Asset Management's global asset management capability;

- the acquisition of the Ford Credit and GMAC portfolios in the 2010 and 2011 fiscal years, respectively, which enhanced the former Corporate and Asset Finance's (now Banking and Financial Services') motor vehicle leasing portfolio; and

- the acquisition of the ILFC aircraft operating lease portfolio in the 2011 fiscal year, which enhanced the former Corporate and Asset Finance's (now Macquarie Asset Management's) portfolio and the Macquarie Aviation Finance business.

In addition to these strategic acquisitions, organic growth initiatives, particularly in the 2010 and 2011 fiscal years, such as the hiring of individuals and teams with extensive experience in targeted industries, added greater regional depth to key businesses. This allowed many of our businesses to expand their product offerings internationally. For further information on regional growth, see "— Our business — Regional activity" below for further information.

**Our business**

***Overview of MBL Group***

As at March 31, 2021, MBL had total assets of A$216.8 billion and total equity of A$14.1 billion. For the 2021 fiscal year, our net operating income was A$6,995 million and profit after tax attributable to the ordinary equity holder was A$1,676 million. Of MBL Group's revenues from external customers, 51% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution of each of our operating groups for the 2021 and 2020 fiscal years.

*Net operating income of MBL Group by operating group for the 2021 and 2020 fiscal years[1]*

| | Fiscal Year ended | | |
|---|---|---|---|
| | Mar 31, 2021 | Mar 31, 2020 | Movement[4] |
| | A$m | A$m | % |
| Banking and Financial Services | 2,075 | 2,034 | 2 |
| Commodities and Global Markets[2] | 4,304 | 3,690 | 17 |
| **Total net operating income from operating groups** | **6,379** | **5,724** | **11** |
| Corporate[3] | 616 | 448 | 38 |
| **Total net operating income** | **6,995** | **6,172** | **13** |

[1] For further information on our segment reporting, see section 3.0 of our 2021 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2021 annual financial statements. During the 2021 fiscal year, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The results for the 2021 fiscal year are reported to reflect this reorganization with reclassified results for prior periods.

[2] As reported for MBL Group, the Commodities and Global Markets group excludes certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities.

[3] The Corporate segment includes earnings from legacy businesses within the Bank Group, the net impact of managing liquidity for the MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments and central credit and asset related impairments.

[4] "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

*Net profit from ordinary activities of MBL Group by operating group for the 2021 and 2020 fiscal years[1]*

| | Fiscal Year ended | | |
|---|---|---|---|
| | Mar 31, 2021 | Mar 31, 2020 | Movement[4] |
| | A$m | A$m | % |
| Banking and Financial Services | 769 | 767 | <1 |
| Commodities and Global Markets[2] | 2,424 | 1,820 | 33 |
| **Total contribution to net profit from operating groups from continuing operations** | **3,193** | **2,587** | **23** |
| Corporate[3] | (1,517) | (1,290) | 18 |
| **Net profit attributable to the ordinary equity holder of MBL from continuing operations** | **1,676** | **1,297** | **29** |

[1] For further information on our segment reporting, see section 3.0 of our 2021 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2021 annual financial statements. During the 2021 fiscal year, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The results for the 2021 fiscal year are reported to reflect this reorganization with reclassified results for prior periods.

[2] As reported for MBL Group, the Commodities and Global Markets group excludes certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities.

3 The Corporate segment includes earnings from legacy businesses within the Bank Group, the net impact of managing liquidity for the MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central credit and asset related impairments, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

4 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

***Regional activity***

As at March 31, 2021, the MBL Group employed 12,576 staff globally and conducted its operations in 19 markets.

*Australia.* MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2021, the MBL Group employed 6,553 staff in Australia. In 2021 fiscal year, Australia contributed A$4,684 million (49%) of our revenues from external customers as compared to A$5,489 million (53%) in the 2020 fiscal year.

*Americas.* MBL Group has been active in the Americas for over 25 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions. As at March 31, 2021, the MBL Group employed 1,409 staff across three markets. In the 2021 fiscal year, the Americas contributed A$2,448 million (25%) of our revenues from external customers as compared to A$2,127 million (20%) in the 2020 fiscal year.

*Asia.* MBL Group has been active in Asia for more than 25 years, when we established our first office in Hong Kong in 1995. As at March 31, 2021, the MBL Group employed 3,177 staff across nine markets. MBL has expanded the regional investment and product platforms of Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities), which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the 2021 fiscal year, Asia contributed A$735 million (8%) of our revenues from external customers as compared to A$723 million (7%) in the 2020 fiscal year.

*Europe, Middle East & Africa*. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2021, the MBL Group employed 1,437 staff across six markets. In the 2021 fiscal year, Europe, Middle East & Africa contributed A$1,684 million (18%) of our revenues from external customers as compared to A$2,066 million (20%) in the 2020 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2021 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2021 annual financial statements.

**Operating groups**

***Banking and Financial Services***

Banking and Financial Services ("*BFS*") is in the Bank Group and is our retail banking and financial services business providing a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients. BFS' net operating income is primarily sourced from interest income earned from the loan portfolio and fee and commission income on a range of products.

BFS comprises the following businesses:

- Personal Banking: Provides a diverse range of retail banking products to clients with home loans, credit cards, transaction and savings accounts and vehicle finance.

- Wealth Management: Provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking.

- Business Banking: Provides a full range of deposit, lending and payment solutions, vehicle finance as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms.

BFS contributed A$769 million to MBL Group's net profit in the 2021 fiscal year and, as at March 31, 2021, had over 2,985 staff operating predominately in Australia.

***Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities)***

Commodities and Global Markets ("*CGM*") operates both in the Bank and Non-Bank Group. CGM's net operating income primarily comprises net interest and trading income, fee and commission income and operating lease income earned from products and services delivered within each of these areas.

CGM comprises the following businesses in the Bank Group:

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

- Credit Markets: Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans.

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

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

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

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

- Central: Develops various non-division specific, early stage or cross-divisional initiatives as well as housing various CGM-wide services including the COO and CFO teams, legal and other specialist activities. The division also encompasses operational risk, focusing on the reduction of operational and other non-financial risks across the business.

CGM contributed A$2,424 million to MBL Group's net profit in the 2021 fiscal year and, as at March 31, 2021, had over 1,945 staff located in 18 markets in Australia, the Americas, Europe, Middle East and Asia.

**Corporate**

The Corporate segment includes earnings from the net impact of managing the MBL Group's liquidity and funding requirements, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share based payments expense and income tax expense.

Corporate contributed a net loss of A$1,517 million in the 2021 fiscal year.

For further information on Corporate's results of operations and financial condition for the 2021 fiscal year, see section 3.4 of our 2021 Fiscal Year Management Discussion and Analysis Report.

**Legal proceedings and regulatory matters**

***Germany***

MBL was one of over 100 financial institutions involved in the German dividend trading market. MBL's historical involvement in that market included short selling-related activities and acting as a lender to third parties who undertook dividend trading.

The Cologne Prosecutor's Office is investigating MBL's historical activities. As part of their ongoing industry-wide investigation, the German authorities have designated as suspects approximately 100 current and former MGL Group staff members, including the current MGL Group CEO. Most of these individuals are no longer at the MGL Group. MGL Group will continue to respond to the German authorities' requests for information about its historical activities. MGL Group notes that it has already resolved its two other matters involving German dividend trading that took place between 2006 and 2009, where the authorities noted the MGL Group's "unreserved cooperation".

In 2018, a civil claim was brought against MBL by investors in a group of independent investment funds financed by MBL to undertake German dividend trading in 2011. The funds were trading shares around the dividend payment dates where investors were seeking to obtain the benefit of dividend withholding tax credits. The investors' credit claims were refused and there was no loss to the German revenue authority. Two of the investors had already sued the Swiss bank that introduced them to the investment. They and other investors sold their claims to a German litigation special purpose vehicle controlled by the same lawyer who acted in the litigation against the Swiss bank. That vehicle brought the claim against MBL seeking €30 million in damages. In January 2020, Munich District Court dismissed the investors' claim on jurisdictional grounds and awarded costs in MBL's favor. The investors have since appealed. MBL strongly disputes this claim noting that it did not arrange, advise or otherwise engage with the investors, who were high net-worth individuals with their own advisers. Many, if not all, had previously participated in similar transactions.

The total amount at issue is not considered to be material and MGL Group has provided for the matter.

***Other legal proceedings***

Revenue authorities undertake risk reviews and audits as part of their normal activities. We have assessed those matters which have been identified in such reviews and audits as well as other taxation claims and litigation, including seeking advice where appropriate.

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 32 to our 2021 annual financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

**Competition**

The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. See "Risk Factors — The competitive pressure, both in the financial services industry, as well as in the other industries in which we operate, could adversely impact our business". We compete, both in Australia and internationally, with asset managers, retail and commercial banks, non-bank mortgage brokers, private banking firms, investment banking firms and brokerage firms.

In Australia, we face significant competition from the four major Australian commercial banks, international banks, regional commercial banks, building societies, brokerage firms, private equity firms, mortgage repackagers and other financial intermediaries. In recent years, competition has increased as international banks have established an Australian presence, large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships.

The international trend towards consolidation and strategic alliances, has significantly increased the capital base and geographic reach of some of our competitors. This trend has also hastened the globalization of the securities and financial services markets. To take advantage of some of our recent strategic acquisitions and

organic growth opportunities, we will need to compete successfully with financial institutions that are larger and that may have a stronger local presence and longer operating history outside of Australia.

In North America, Europe and Asia, the principal markets in which we operate outside Australia, we compete with commercial banks, investment banking and brokerage firms, private equity firms, large fund managers, integrated energy companies and other broad-based financial services firms that have historically offered a broad range of products to enhance their competitive position. See "Risk Factors — The competitive pressure, both in the financial services industry, as well as in the other industries in which we operate, could adversely impact our business".

In other overseas markets where we offer limited products and services, we face the challenge of competing with firms that offer a broader range of services than we do, are better known or have a broader platform or more financial, capital, employee or other resources. In an attempt to overcome these barriers, MBL Group or MGL Group, where appropriate, has established alliances with local providers in a number of international markets in an attempt to benefit from the market strength of an existing player.

We also face intense competition in attracting and retaining qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees and to continue to compensate employees competitively amid intense public and regulatory scrutiny on the employee remuneration practices of financial institutions. See "Risk Factors — Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance" and "Regulation and Supervision — Australia" in this Report for more information on the regulation of our remuneration practices.

**Additional financial disclosures for the 2021 fiscal year**

***MBL Group's credit risk by country and counterparty type***

The table below details the concentration of cross-border credit risk by country and counterparty type of MBL Group's financial assets measured at amortized cost or fair value through other comprehensive income ("*FVOCI*") and off balance sheet exposures subject to the impairment requirements of AASB 9 "Financial Instruments". AASB 9 is an equivalent standard to International Financial Reporting Standard 9 – Financial Statements, as issued by the IASB. The table includes MBL Group's top ten credit risk exposures by country (excluding Australia), MBL Group's total credit risk exposures in all other countries other than Australia, MBL Group's credit exposure in Australia, and MBL Group's total credit exposure in all countries. The country classification is determined by the country of risk or country of domicile. For the purposes of this disclosure gross carrying amount of financial assets measured at amortized cost represents the amortized cost before expected credit loss ("*ECL*") allowance and gross carrying amount of financial assets measured at FVOCI represents amortized cost before fair value adjustments and ECL allowance. The information in the table below is unaudited.

| | As at Mar 31, 2021 | | | |
|---|---|---|---|---|
| **Country** | **Governments** | **Financial institutions** | **Other** | **Total exposure** |
| | **A$m** | **A$m** | **A$m** | **A$m** |
| **United States** | | | | |
| Cash and bank balances | — | 2,406 | — | 2,406 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 3,645 | — | 3,645 |
| Margin money and settlement assets | 23 | 1,087 | 1,367 | 2,477 |
| Financial investments | — | 159 | 18 | 177 |
| Held for sale and other assets | — | 10 | 325 | 335 |
| Loan assets | 10 | 2,345 | 1,022 | 3,377 |
| Due from related body corporate entities[1] | — | 128 | — | 128 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | 3 | 123 | 962 | 1,088 |
| **Total United States** | **36** | **9,903** | **3,694** | **13,633** |

| Country | As at Mar 31, 2021 | | | |
|---|---|---|---|---|
| | Governments | Financial institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| **United Kingdom** | | | | |
| Cash and bank balances | — | 652 | — | 652 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 3,340 | — | 3,340 |
| Margin money and settlement assets | — | 549 | 1,348 | 1,897 |
| Financial investments | — | 356 | — | 356 |
| Held for sale and other assets | 88 | 8 | 211 | 307 |
| Loan assets | 4 | 188 | 1,022 | 1,214 |
| Due from related body corporate entities[1] | — | 118 | 14 | 132 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | 1 | 52 | 119 | 172 |
| **Total United Kingdom** | **93** | **5,263** | **2,714** | **8,070** |
| **France** | | | | |
| Cash and bank balances | — | 45 | — | 45 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 3,154 | — | 3,154 |
| Margin money and settlement assets | — | 46 | 180 | 226 |
| Financial investments | — | 91 | — | 91 |
| Held for sale and other assets | — | — | — | — |
| Loan assets | — | — | 44 | 44 |
| Due from related body corporate entities[1] | — | — | — | — |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total France** | **—** | **3,336** | **224** | **3,560** |
| **Germany** | | | | |
| Cash and bank balances | — | 101 | — | 101 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 1,654 | — | 1,654 |
| Margin money and settlement assets | — | 18 | 436 | 454 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | 1 | — | 1 |
| Loan assets | — | — | 44 | 44 |
| Due from related body corporate entities[1] | — | — | — | — |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total Germany** | **—** | **1,774** | **480** | **2,254** |
| **Ireland** | | | | |
| Cash and bank balances | — | — | — | — |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 1,832 | — | 1,832 |
| Margin money and settlement assets | — | 43 | — | 43 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | — | 11 | 11 |
| Loan assets | — | 80 | 78 | 158 |
| Due from related body corporate entities[1] | — | — | — | — |
| Loans to associates and joint ventures | — | — | — | — |

| Country | As at Mar 31, 2021 | | | |
|---|---|---|---|---|
| | Governments | Financial institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total Ireland** | **—** | **1,955** | **89** | **2,044** |
| **United Arab Emirates** | | | | |
| Cash and bank balances | — | 7 | — | 7 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 2,001 | — | 2,001 |
| Margin money and settlement assets | — | 4 | 12 | 16 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | — | — | — |
| Loan assets | — | — | — | — |
| Due from related body corporate entities[1] | — | — | — | — |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total United Arab Emirates** | **—** | **2,012** | **12** | **2,024** |
| **Canada** | | | | |
| Cash and bank balances | — | 65 | — | 65 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 936 | — | 936 |
| Margin money and settlement assets | — | 40 | 73 | 113 |
| Financial investments | — | 282 | — | 282 |
| Held for sale and other assets | 5 | — | — | 5 |
| Loan assets | — | 10 | 53 | 63 |
| Due from related body corporate entities[1] | — | 186 | — | 186 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | 53 | 53 |
| **Total Canada** | **5** | **1,519** | **179** | **1,703** |
| **Japan** | | | | |
| Cash and bank balances | — | 248 | — | 248 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 1,106 | — | 1,106 |
| Margin money and settlement assets | — | 19 | — | 19 |
| Financial investments | — | 105 | — | 105 |
| Held for sale and other assets | — | — | 6 | 6 |
| Loan assets | — | — | 12 | 12 |
| Due from related body corporate entities[1] | — | 1 | — | 1 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total Japan** | **—** | **1,479** | **18** | **1,497** |
| **Singapore** | | | | |
| Cash and bank balances | — | 61 | — | 61 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | — | — | — |
| Margin money and settlement assets | — | 173 | 90 | 263 |
| Financial investments | — | 238 | — | 238 |
| Held for sale and other assets | — | — | 6 | 6 |
| Loan assets | — | — | 70 | 70 |

| Country | As at Mar 31, 2021 | | | |
|---|---|---|---|---|
| | Governments | Financial institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| Due from related body corporate entities[1] | — | 29 | — | 29 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total Singapore** | **—** | **501** | **166** | **667** |
| **Hong Kong SAR** | | | | |
| Cash and bank balances | — | 144 | — | 144 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 356 | — | 356 |
| Margin money and settlement assets | 10 | 20 | 37 | 67 |
| Financial investments | — | 13 | — | 13 |
| Held for sale and other assets | — | — | — | — |
| Loan assets | — | — | — | — |
| Due from related body corporate entities[1] | — | 18 | 1 | 19 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | — | — | — |
| **Total Hong Kong SAR** | **10** | **551** | **38** | **599** |
| **Top ten countries** | | | | |
| Cash and bank balances | — | 3,729 | — | 3,729 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 18,024 | — | 18,024 |
| Margin money and settlement assets | 33 | 1,999 | 3,543 | 5,575 |
| Financial investments | — | 1,244 | 18 | 1,262 |
| Held for sale and other assets | 93 | 19 | 559 | 671 |
| Loan assets | 14 | 2,623 | 2,345 | 4,982 |
| Due from related body corporate entities[1] | — | 480 | 15 | 495 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | 4 | 175 | 1,134 | 1,313 |
| **Total top ten countries[2]** | **144** | **28,293** | **7,614** | **36,051** |
| **Other foreign countries** | | | | |
| Cash and bank balances | — | 699 | — | 699 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 6,250 | — | 6,250 |
| Margin money and settlement assets | 12 | 457 | 572 | 1,041 |
| Financial investments | — | 667 | — | 667 |
| Held for sale and other assets | — | 2 | 171 | 173 |
| Loan assets | — | 392 | 1,001 | 1,393 |
| Due from related body corporate entities[1] | — | 141 | 6 | 147 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | — | 89 | 48 | 137 |
| **Total other foreign countries** | **12** | **8,697** | **1,798** | **10,507** |
| **Gross credit risk in foreign countries** | | | | |
| Cash and bank balances | — | 4,428 | — | 4,428 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 24,274 | — | 24,274 |
| Margin money and settlement assets | 45 | 2,456 | 4,115 | 6,616 |
| Financial investments | — | 1,911 | 18 | 1,929 |

| Country | As at Mar 31, 2021 | | | |
|---|---|---|---|---|
| | Governments | Financial institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| Held for sale and other assets | 93 | 21 | 730 | 844 |
| Loan assets | 14 | 3,015 | 3,346 | 6,375 |
| Due from related body corporate entities[1] | — | 621 | 21 | 642 |
| Loans to associates and joint ventures | — | — | — | — |
| Undrawn credit commitments and financial guarantees | 4 | 264 | 1,182 | 1,450 |
| **Total gross credit risk in foreign countries** | **156** | **36,990** | **9,412** | **46,558** |
| **Australia** | | | | |
| Cash and bank balances | — | 11,538 | — | 11,538 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 2,372 | — | 2,372 |
| Margin money and settlement assets | 12 | 608 | 788 | 1,408 |
| Financial investments | 16 | 5,114 | 583 | 5,713 |
| Held for sale and other assets | 5 | 92 | 214 | 311 |
| Loan assets | 42 | 2,708 | 90,450 | 93,200 |
| Due from related body corporate entities[1] | — | 859 | 7 | 866 |
| Loans to associates and joint ventures | — | 1 | 4 | 5 |
| Undrawn credit commitments and financial guarantees | 11 | 549 | 4,328 | 4,888 |
| **Total Australia** | **86** | **23,841** | **96,374** | **120,301** |
| **Gross credit risk** | | | | |
| Cash and bank balances | — | 15,966 | — | 15,966 |
| Cash collateral on securities borrowed and reverse repurchase agreements | — | 26,646 | — | 26,646 |
| Margin money and settlement assets | 57 | 3,064 | 4,903 | 8,024 |
| Financial investments | 16 | 7,025 | 601 | 7,642 |
| Held for sale and other assets | 98 | 113 | 944 | 1,155 |
| Loan assets | 56 | 5,723 | 93,796 | 99,575 |
| Due from related body corporate entities[1] | — | 1,480 | 28 | 1,508 |
| Loans to associates and joint ventures | — | 1 | 4 | 5 |
| Undrawn credit commitments and financial guarantees | 15 | 813 | 5,510 | 6,338 |
| **Total gross credit risk** [3] | **242** | **60,831** | **105,786** | **166,859** |

1 Due from related body corporates and subsidiaries have been presented as Financial institutions and Other based on APRA's Standard Institutional Sector Classifications of Australia classification.

2 The top ten countries represent 77% of the MBL Group's total non-Australian credit risk exposures as at March 31, 2021.

3 The total credit risk exposure aligns to the amounts disclosed in Note 35.1 to our 2021 annual financial statements.

### *Lease commitments, contingent liabilities and assets*

We do not expect our lease commitments to have a significant effect on our liquidity needs. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at March 31, 2021, the MBL Group had A$9,063 million of contingent liabilities and commitments, including A$2,444 million of contingent liabilities and A$6,619 million of commitments including undrawn credit facilities and securities underwriting. See Note 32 "Contingent liabilities and commitments" to our 2021 annual financial statements which shows MBL Group's contingent liabilities and commitments as at March 31, 2021.

***Quantitative and qualitative disclosures about market risk***

Each year we prepare a detailed analysis of market risk as it applies to the MBL Group and a quantitative analysis of MBL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 35 "Financial risk management" to our 2021 annual financial statements for a quantitative and qualitative discussion of these risks.

# REGULATION AND SUPERVISION

**Australia**

In Australia, the principal regulators that supervise and regulate our activities are APRA, the Reserve Bank of Australia ("*RBA*"), the Australian Securities and Investments Commission ("*ASIC*"), ASX Limited (as the operator of the Australian Securities Exchange ("*ASX*") market), Australian Securities Exchange Limited (as the operator of the ASX24 (formerly known as the Sydney Futures Exchange) market), the Australian Competition and Consumer Commission ("*ACCC*") and the Australian Transaction Reports and Analysis Centre ("*AUSTRAC*").

Set out below is a summary of certain key Australian legislative and regulatory provisions that are applicable to our operations.

***APRA***

APRA is the prudential regulator of the Australian financial services industry. APRA establishes and enforces prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions under APRA's supervision are met within a stable, efficient and competitive financial system. MBL is an authorised deposit-taking institution ("*ADI*"), and MGL is a non-operating holding company ("*NOHC*"), under the Australian Banking Act and, as such, each is subject to prudential regulation and supervision by APRA. MBL and MGL have corporate governance and policy frameworks designed to meet APRA's requirements for ADIs and NOHCs, respectively.

Under the Australian Banking Act, APRA has powers to issue directions to MGL and MBL and, in certain circumstances, to appoint a Banking Act statutory manager to take control of MBL's business. In addition, APRA may, in certain circumstances, require MBL to transfer all or part of its business to another entity under the Financial Sector (Transfer and Restructure) Act 1999 of Australia (the "*Australian FSTR Act*"). A transfer under the Australian FSTR Act overrides anything in any contract or agreement to which MBL is a party to, including the terms of its debt securities. APRA's powers under the Australian Banking Act and Australian FSTR Act are discretionary and may be more likely to be exercised by it in circumstances where MGL or MBL is in material breach of applicable banking laws and/or regulations or is in financial distress, including where MGL or MBL has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions imposed, under that Act), or where MBL has informed APRA that it is unlikely to meet its obligations or is otherwise in financial distress or that it is about to suspend its payments. In these circumstances, APRA is required to have regard to protecting the interests of MBL's depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of MGL and MBL. For more information regarding legislative enhancement of APRA's powers in relation to ADIs, see the "— Crisis Management and Resolution Planning" section below.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities. APRA also focuses on the supervision of non-financial risks including outsourcing, business continuity management, information security, governance, accountability, remuneration, culture and conduct.

APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. Some of this information is not available to investors. In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective "on site" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA is also responsible for the prudential regulation and supervision of Registrable Superannuation Entity ("*RSE*") licensees and life insurance companies. MGL Group has an RSE licensee (Macquarie Investment Management Limited) and a life company (Macquarie Life Limited), which are subject to APRA's prudential framework for superannuation trustees and life insurance companies respectively. Macquarie Investment Management Limited and Macquarie Life Limited are subject to additional regulations and capital adequacy requirements in respect of their operations.

*APRA's prudential supervision – Capital adequacy*

APRA's approach to the assessment of an ADI's capital adequacy is based on the risk-based capital adequacy framework set out in the Basel Committee on Banking Supervisions' ("*Basel Committee*") publications, "*International Convergence of Capital Measurement and Capital Standards a Revised Framework*" ("*Basel II*"), originally released in 2004 and revised in June 2006 and "*A global regulatory framework for more resilient banks and banking systems*" ("*Basel III*"), released in December 2010 and revised in June 2011. APRA's implementation of the Basel III capital framework began on January 1, 2013.

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("*APS 330*") are posted on MGL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in Section 2.0 of the MBL Pillar 3 Disclosure Document dated December 2020, which is posted on MGL's U.S. Investors' Website.

*Market risk*

On January 14, 2019, the Basel Committee published a set of revisions to the market risk framework ("*Minimum capital requirements for market risk*"), which replaces an earlier version of the standard as published in January 2016. The standard was revised to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework. APRA plans to commence formal consultation on the broader reforms to the market risk framework, known as the fundamental review of the trading book. The revised standard is now expected to take effect from January 1, 2024.

*IRRBB*

In September 2019, APRA issued a response to submissions in respect of interest rate risk in the banking book ("*IRRBB*"). While only IRB (Internal Ratings Based) ADIs (including MBL) are subject to a capital requirement for IRRBB and therefore will be impacted by changes to the capital calculation, all ADIs will be impacted by changes to the risk management requirements. The key proposals are to:

- standardize aspects of the internal modelling approach including placing constraints on the repricing assumptions an ADI can use for non-maturity deposits according to whether or not it is a core deposit and the calculations for optionality risk;
- remove the basis risk capital add-on; and
- extend the application of risk management requirements to all ADIs.

Due to the COVID-19 outbreak, APRA has deferred its scheduled implementation of these changes by one year to January 1, 2023.

*Measurement of capital*

APRA is considering updates to its criteria for measuring an ADI's regulatory capital and released a discussion paper on October 15, 2019 regarding proposed changes to APS 111, "Revisions to APS 111 Capital Adequacy: Measurement of Capital". These updates incorporate further technical information to assist ADIs in issuing capital instruments, as well as recent changes to international standards and guidance on capital adequacy measures. APRA is also reviewing the capital treatment of a parent ADI's equity investments in banking and insurance subsidiaries, to ensure that sufficient capital is held by the parent ADI for the protection of depositors in Australia. On May 10, 2021, APRA released a response to submissions and revised draft standard for APS 111.

The revised capital treatment of an ADI's equity investments in its subsidiaries is the most material change to APS 111. This revision will, in effect, increase the amount of capital required to support equity investments in large subsidiaries and reduce the amount required for small subsidiaries. For banking and insurance subsidiaries where the total value of the equity investment into an individual subsidiary is above 10% of an ADI's Level 1 Common Equity Tier 1 ("*CET1*") capital, the amount above this level is required to be treated as a CET1 deduction. The amount of the investment below this level will be treated as a 250% risk weight (compared to the current 400% risk weight for unlisted subsidiaries). This change is not expected to increase system capital requirements, though the impact will differ across individual ADIs.

As communicated by APRA on November 10, 2020, until the new APS 111 is finalized and implemented, APRA will require any new or additional equity investments in banking and insurance subsidiaries, where the amount of that new or additional investments takes the aggregate value of the investment above 10% of an ADI's Common Equity Tier 1 ("*CET1*") capital, to be fully funded by equity capital at the ADI parent company level. This treatment would apply to the proportion of the new or additional investment that is above 10% of an ADI's CET1 capital.

Other changes included in the APS 111 draft standard released on May 10, 2021 include:

- incorporating into the prudential standard various rulings and technical information APRA has published since APS 111 was last substantially updated in 2013;
- promoting simple and transparent capital issuance by removing the allowance for the use of special purpose vehicles (SPVs) and stapled security structures; and
- aligning APS 111 with updated guidance from Basel Committee on Banking Supervision.
- requiring a full deduction of total loss absorbing capital ("*TLAC*") exposures and pari passu instruments from Tier 2 Capital. A full deduction is consistent with APRA's existing approach to an ADI's holdings of another ADI's, or their own, regulatory capital instruments. APRA's proposal adopted the Basel Committee's framework of requiring a Tier 2 Capital deduction of TLAC instruments but did not adopt a threshold approach.

The revised draft standard also contains further minor revisions for consultation which were not included as part of the 2019 consultation. These revisions include measures to clarify that Common Equity Tier 1 (CET1) capital is not permitted to have any unusual features that could undermine its role as the highest quality loss absorbing capital. The consultation period for these further minor revisions closes on June 10, 2021. APRA expects to finalize changes to APS 111 in the second half of 2021, with the revised standard coming into force from January 1, 2022.

*"Unquestionably Strong"*

Following the Basel Committee's Basel III announcement on December 7, 2017, on February 14, 2018, APRA published two discussion papers on proposed changes to the ADI capital framework and leverage requirements for Australian ADIs (the "*Discussion Papers*"). APRA's capital framework discussion paper considered the Basel III reforms and provided insights on how it intends to implement "Unquestionably Strong" benchmarks. Australian ADIs were expected to build up capital buffers to meet APRA's "Unquestionably Strong" benchmarks as of January 1, 2020. APRA has advised as part of its response to COVID-19 that it envisaged Australian ADIs may need utilize some of their current large capital buffers to promote the continued flow of credit, noting that the banking system would still be operating comfortably above minimum requirements.

The Discussion Papers also outlined potential revisions to the leverage ratio requirements for ADIs, including APRA's intention to apply a minimum leverage ratio for ADIs, expressed as the ratio of Tier 1 Capital to total exposures. On November 27, 2018, APRA released its Response to Submissions Paper in relation to the introduction of the leverage ratio requirement for ADIs and revised draft of APS 110: Capital Adequacy. In summary, in response to the submissions, APRA proposes to set a minimum leverage ratio requirement for IRB ADIs at 3.5% and standardized ADIs at 3%; allow standardized ADIs to use AASB, rather than more complex Basel III methodology, to calculate certain parts of the ratio; and require IRB ADIs (which includes MBL) to largely follow the Basel III methodology to calculate leverage ratios. On November 21, 2019, APRA proposed further amendments to incorporate recent technical changes to the Basel Committee's leverage ratio standard.

A further response to the Submission was released by APRA on June 12, 2019. This response paper addressed key elements of the proposals relating to residential mortgages, the standardized approaches to credit risk and operational risk, and the simplified framework. Accompanying this response paper were draft versions of the following Prudential Standards:

- APS 112 Capital Adequacy: Standardised Approach to Credit Risk – among other changes, APRA proposed amending mortgage risk weights to differentiate between owner-occupied, principal-and-interest mortgages as compared to other mortgages, apply more granular risk weightings for SME exposures and recognize that collateral (motor vehicles, commercial property and plant, equipment and machinery) may mitigate losses in default;

- APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk – amending the residential mortgages extract, including to more narrowly define the scope of residential mortgages and to simplify the method for calculating capital requirements for residential mortgages; and

- APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk – revised to replace the Advanced Measurement Approach and reflect the requirements of the Standardised Measurement Approach, excluding the loss component, and released as final in December 2019.

APRA proposed the revisions to the Basel III capital framework were to come into effect from January 1, 2022 but due to COVID-19, APRA deferred the implementation of certain Basel III reforms (including APS 110, 112, 113 and 115) by one year to January 1, 2023.

On December 8, 2020, APRA released proposed revisions to the capital framework relating to APS 110, APS 112 and APS 113. The consultation aims to embed "unquestionably strong" levels of capital, improving the framework's flexibility and transparency and ADI capital strength. The consultation period ended on April 1, 2021. APRA's proposed improvements to the capital framework include:

- greater risk sensitivity within the risk weighting framework, including more differentiated risk weights for different types of mortgages and reduced risk weights for small business lending;

- providing for ADIs to hold a larger share of their required capital as buffers, enhancing the ability of the framework to respond flexibly to future stress events;

- improving the transparency of the framework by requiring all ADIs to disclose their capital ratios on a common basis, and making it easier to reconcile the Australian framework with international standards;

*Liquidity*

APRA's 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, APS 210 incorporates the Liquidity Coverage Ratio ("*LCR*") and the Net Stable Funding Ratio ("*NSFR*"). The LCR and NSFR apply specifically to MBL (the regulated ADI in the MGL Group). As an APRA authorized and regulated NOHC, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements. 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. The NSFR is a 12-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 12 months. MBL currently complies with the requirements of the LCR and NSFR.

Under APS 210, liquid assets include cash, balances held with central banks, Australian dollar Commonwealth Government and semi-government securities, any allocation under the RBA's Committed Liquidity Facility ("*CLF*"), as well as foreign currency High Quality Liquid Assets ("*HQLA*") securities. On November 6, 2020, in response to requests from specific ADIs, APRA announced a A$35 billion reduction in the aggregate amount of the CLF made available by the RBA from the amount at the start of 2020, due to material improvements in ADIs' funding and liquidity along with substantial HQLA increases due to unforeseen increases in government debt since the January 2020 CLF allocations. In 2021, APRA announced further reductions of A$46 billion (effective February 1, 2021) and A$3 billion (effective April 1, 2021) in the aggregate amount of the CLF due to sustained higher levels of outstanding government securities.

*Credit risk management*

On March 25, 2019, APRA released a discussion paper proposing changes to Prudential Standard Credit Quality (APS 220), which requires ADIs to control credit risk by adopting prudent credit risk management policies and procedures. APS 220 was last substantially updated in 2006. APRA's plan to modernize the standard was prompted by its recent supervisory focus on credit standards, and also reflects contemporary credit risk management practices. The discussion paper outlines APRA's proposals in the following areas:

- Credit risk management – broadened coverage to include credit standards and the ongoing monitoring and management of an ADI's credit portfolio in more detail; enhanced Board oversight of credit risk and the need for ADIs to maintain prudent credit risk practices over the entire credit life-cycle.

- Credit standards – incorporate outcomes from APRA's recent supervisory focus on credit standards and also addresses recommendation 1.12 from the final report (the "*Final Report*") of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "*Royal Commission*") in relation to the valuation of land taken as collateral by ADIs.

- Asset classification and provisioning – provides a more consistent classification of credit exposures, by aligning recent accounting standard changes on loan provisioning requirements, as well as other guidance on credit related matters of the Basel Committee on Banking Supervision.

In December 2019, APRA released an updated APS 220, which deferred implementation from January 1, 2020 to January 1, 2021. On April 16, 2020, APRA further deferred implementation to January 1, 2022. On December 9, 2020, APRA announced the commencement of a further consultation for revisions to APS 220. These revisions are contingent on the Australian Government's proposed consumer credit reforms passing legislation, where ADIs would no longer be subject to responsible lending obligations which had been administered by ASIC. APRA proposes to bring forward the implementation date for APS 220 to align to the reforms' commencement date, if earlier than January 1, 2022.

*Loss absorbency at the point of non-viability*

On January 13, 2011, the Basel Committee issued the minimum requirements to ensure loss absorbency at the point of non-viability. These requirements enhance the entry criteria of regulatory capital to ensure that all regulatory capital instruments issued by banks are capable of absorbing losses in the event that a bank is unable to support itself in the private market and are in addition to the criteria detailed in the text of the Basel III framework that were published in December 2010.

Under the requirements, all non-common Tier 1 and Tier 2 instruments issued by a bank on or after January 1, 2013 must have a provision which allows a relevant authority to require the debt to be written off or converted into common equity upon the earlier of such authority determining that (i) a write-off is necessary; and (ii) rescue funds from the public sector (or equivalent) are required, for the bank to continue to be viable. Instruments issued prior to January 1, 2013 that do not meet these criteria but otherwise met all of the criteria for Additional Tier 1 or Tier 2 Capital as set out in the text of the Basel III framework are considered instruments that no longer qualify and were phased out from January 1, 2013.

APRA's implementation of these minimum requirements were included in its revised prudential standards relating to capital adequacy which came into effect on January 1, 2013. All additional Tier 1 and Tier 2 instruments currently issued by MBL meet the requirements of the revised prudential standard requirements for loss absorbency at the point of non-viability or are eligible for transitional relief that is available for qualifying instruments on a progressively decreasing basis from January 1, 2013, until January 1, 2022.

*Crisis Management and Resolution Planning*

As part of strengthening its crisis preparedness and resolution capabilities, APRA is developing a new Prudential Standard for recovery and resolution planning which will implement reforms from the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (the "*Crisis Management Act*"). The Prudential Standard is expected to set out requirements for the development and execution of recovery and resolution plans. The Prudential Standard will apply to ADIs, general insurers and life insurers. APRA expects to progress the development of the prudential standard in the year ahead, with a view to releasing a draft standard for consultation in late 2021 or early 2022.

APRA is in discussions with the MGL Group on resolution planning and intragroup funding. These discussions are progressing and as part of the discussions, Macquarie Group Services Australia, the main group shared services entity for both the Banking Group and Non-Banking Group, was transferred to the Bank Group in November 2020.

*APRA's proposal for increasing the loss-absorbing capacity of ADIs for resolution purposes*

On November 8, 2018, APRA released a discussion paper announcing proposed changes to the application of the capital adequacy framework for ADIs to support orderly resolution in the event of failure. The announcement follows the Australian Government's 2014 Financial System Inquiry which recommended that APRA implement a framework for minimum loss-absorbing and recapitalization capacity in line with emerging international practice.

The key elements of the proposed approach are:

- a new requirement for ADIs to maintain additional loss absorbency for resolution purposes. The requirement would be implemented by adjusting the amount of total capital that ADIs must maintain (estimated to be an additional 4 to 5% of capital), therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments (expected to be in the form of Tier 2 Capital); and

- for ADIs that are not domestic systemically important banks ("*D-SIBs*") (such as MBL), the need for additional loss absorbency would be considered as part of resolution planning on an institution-by-institution basis.

During the consultation period of the proposed changes, concerns were raised about whether there would be sufficient capacity in debt markets to absorb the anticipated additional Tier 2 capital issuance. As a result, APRA announced on July 9, 2019 that it will require the major banks to lift Total Capital by a revised threshold of 3% of risk weighted assets by January 1, 2024 (instead of 4% to 5%). APRA's overall long-term target is an additional 4% to 5% of loss absorbing capacity ("*LAC*").

APRA has confirmed that MBL will be subject to additional LAC requirements, consistent with the approach for the major banks, with the final quantum of LAC to be determined by APRA as part of the resolution planning process.

*Associations with Related Entities*

In August 2019, APRA finalized revisions to the prudential standard APS 222 – Associations with Related Entities aimed at mitigating contagion risk within banking groups. Based on submissions from the consultation process, APRA confirmed the following updates:

- Removing the eligibility of an ADI's overseas subsidiaries to be regulated under APRA's ELE (extended licensed entity) framework.

- A broader definition of related entities that includes board directors, substantial shareholders, senior managers of the ADI (and their relatives).

- Revised limits on the extent to which ADIs can be exposed to related entities.

- Minimum requirements for ADIs to assess contagion risk.

- APRA will also require ADIs to regularly assess and report on their exposure to step-in risk which is the likelihood that they may need to "step-in" to support an entity to which they are not directly related.

APRA intended for the finalized framework to apply from January 1, 2021. However, on April 16, 2020, APRA revised the commencement date for the updated APS 222 and associated reporting forms to January 1, 2022. APRA may have transitional arrangements available to specific entities.

In November 2020, APRA confirmed it intends to grant the MGL Group a 12-month transition to January 1, 2023. MGL Group will undertake some restructuring of existing business activities and legal entities as a result of APS 222, and does not anticipate this will have a material impact on results.

*Remuneration*

APRA initially consulted on a new draft prudential standard for remuneration ("*CPS 511*") in July 2019. The revised standard moved to a more principles-based approach that is designed to be risk based and proportionate, with more comprehensive requirements for larger, more complex regulated entities (designated as "Significant Financial Institutions" or "SFIs"). On November 12, 2020, APRA published its revised remuneration standard for consultation. The MGL Group provided a submission on February 12, 2021. The new standard requires boards to strengthen incentives to manage non-financial risks, regularly assess for risk management failings and have deferral arrangements that allow boards to reduce remuneration for poor risk outcomes. The new CPS 511 is scheduled to be finalized in mid-2021 and to come into effect on January 1, 2023. APRA commenced the consultation on the new Prudential Practice Guide ("*CPG 511*") on April 30, 2021, with responses due July 23, 2021. Increased disclosure requirements will also be required, defined through a future consultation expected late 2021. APRA will focus on embedding this new remuneration standard as a priority in 2021.

*Information Security*

On November 7, 2018, APRA released the final version of Prudential Standard *CPS 234: Information Security* ("*CPS 234*"), which set out minimum standards for all APRA-regulated entities relating to information security. CPS 234 requires APRA-regulated entities to: (i) clearly define information-security related roles and responsibilities; (ii) maintain an information security capability commensurate with the size and extent of threats to their information assets; (iii) implement controls to protect information assets and undertake regular testing and assurance of the effectiveness of controls; and (iv) promptly notify APRA of material information security incidents. CPS 234 is effective from July 1, 2019, and provides transition arrangements where information assets are managed by third party service providers.

*APRA issues guidance on capital management*

On April 7, 2020, APRA sent a public letter to all ADIs and insurers setting out its expectation that ADIs and insurers will limit discretionary capital distributions in the months ahead, including prudent reductions in dividends, to ensure that they instead use buffers and maintain capacity to continue to lend and underwrite insurance.

Following this, APRA released a letter to ADIs dated July 29, 2020, providing updated guidance on capital management. For the period ahead, APRA expects ADIs should: (i) make use of capital buffers to absorb the impacts of stress, if needed, and continue to lend to support households and businesses; (ii) for 2020 capital distributions, retain at least half of their earnings and use initiatives to offset the diminution in capital from distributions; (iii) conduct regular stress testing to inform capital decision-making and assess lending capacity under a range of different scenarios; and (iv) plan on the basis of an orderly rebuild in capital levels, where needed, and APRA is committed to ensuring any such rebuild will be conducted in a gradual manner.

In December 2020, given improvements in the economic outlook and strengthening bank capital, APRA updated its guidance to no longer require banks to maintain a minimum level of earnings retention. When considering dividends, APRA expects ADIs to remain vigilant and assess financial resilience through stress testing and rigorous recovery planning to ensure dividend payout ratios are sustainable for the entity.

***RBA***

In exercising its powers, APRA works closely with the RBA. The RBA is Australia's central bank and an active participant in the financial markets. It also manages Australia's foreign reserves, issues Australian currency notes, serves as banker to the Australian government and, through the Payment Systems Board, supervises the payments system and sets the target cash rate.

***ASIC***

ASIC is Australia's corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. ASIC is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system.

ASIC regulates each of the entities we operate in Australia as the corporate regulator and is responsible for enforcing appropriate standards of corporate governance and conduct by directors and officers. A number of MGL

Group entities hold Australian financial services ("*AFS*") licenses. ASIC licenses and monitors AFS licensees and requires AFS licensees to ensure the financial services covered by their license are provided efficiently, honestly and fairly. A number of MGL Group entities also hold Australian Credit Licenses ("*ACL*"). ASIC regulates ACL holders as the consumer credit regulator, licensing and regulating those entities to ensure they meet standards set out in the National Consumer Credit Protection Act 2009 of Australia (the "*NCCP Act*").

ASIC is also responsible for the supervision of trading on Australia's domestic licensed equity, derivatives and future markets, including trading by MBL and other ASX and ASX24 market participants in the MBL Group.

***ASX24***

The ASX24 market provides exchange traded and over-the-counter services and regulates derivative trades that we execute through the ASX24 as a market participant in the ASX24. This business is conducted primarily within MBL Group.

As an authorized market participant, MBL Group is subject to the operating rules of ASX24 which contain comprehensive provisions for preventing conflicts and enforcing compliance with the operating rules. The rules cover all aspects of trading and of clearing and settling, including monitoring market conduct, disciplining of participants and suspension or termination of participation rights and market access.

***ASX***

ASX is Australia's primary securities market. MGL's ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX's listing rules, which have the statutory backing of the Australian Corporations Act. The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee our compliance with ASX's listing rules, including any funds we manage that are listed on the ASX.

MBL Group is also an authorized market participant of ASX Settlement and ASX Clear and is subject to the operating rules which contain comprehensive provisions for preventing conflicts and enforcing compliance with the operating rules. The rules cover all aspects of clearing and settling, including monitoring market conduct, disciplining of participants and suspension or termination of participation rights and market access.

***ACCC***

The ACCC is Australia's competition regulator. Its key responsibilities are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third-party access to facilities of national significance. The ACCC's consumer protection activities complement those of Australia's state and territory consumer affairs agencies that administer the unfair trading legislation of those jurisdictions.

***AUSTRAC***

AUSTRAC is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. It works collaboratively with Australian industries and businesses (including certain entities of MGL Group) in their compliance with anti-money laundering and counter-terrorism financing legislation. As Australia's financial intelligence unit, AUSTRAC contributes to investigative and law enforcement work to combat money laundering, terrorism financing, organized and financial crime, tax evasion and to prosecute criminals in Australia and overseas.

The AML-CTF Act places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to financial products, electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in MGL Group are considered to be "reporting entities" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including "know your customer" obligations, on-boarding and ongoing customer risk assessments, identification and verification obligations, enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering

and terrorism financing, enhanced record-keeping and reporting on suspicious matters, cash transactions above a set threshold and international funds transfer instructions to and from Australia.

MBL Group and MGL Group continue to monitor, manage and implement changes as a result of AML-CTF legislation.

***Other Australian regulators***

In addition to the foregoing regulators, MBL Group and MGL Group and the businesses and funds they manage are subject to supervision by various other regulators in Australia, including but not limited to the Australian Energy Regulator, the Essential Services Commission, Economic Regulation Authority and the Department of Energy and Water in connection with activities and the management of funds in the utilities and energy sectors.

***Other Australian regulatory activity***

*Banking Executive Accountability Regime and Financial Accountability Regime*

In February 2018, the Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 was passed by the Australian Parliament introducing a new banking executive accountability regime known as "*BEAR*". The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries and introduce enhanced transparency and personal accountability into the banking sector. Under BEAR, ADIs have legal obligations to conduct their business with honesty and integrity and to defer the variable remuneration (bonuses) of certain senior executives. With increased powers under BEAR, APRA is able to investigate potential breaches, penalize ADIs and accountable persons, and disqualify persons from the industry for breaching their obligations under the regime. BEAR has applied to large ADIs since July 1, 2018, while smaller and medium sized institutions (including MBL) have been required to be compliant with BEAR since July 1, 2019.

Obligations that apply to both ADIs and "accountable persons" under BEAR are to:

- act with honesty, integrity, due skill, care and diligence;
- deal with APRA in an open, cooperative and constructive way; and
- take reasonable steps in conducting business to prevent matters from arising that would adversely affect the ADI's prudential standing or prudential reputation.

On October 17, 2018, APRA released an information paper to assist ADIs to meet their obligations under the BEAR. The BEAR establishes heightened standards of accountability among ADIs and their senior executives and directors. The information paper outlines APRA's approach to implementing the accountability regime and clarifies APRA's expectation of how an ADI can effectively implement the accountability regime on matters including:

- identifying and registering accountable persons;
- creating and submitting an accountability statement for each accountable person, and an accountability map for the ADI;
- establishing a remuneration policy requiring that a portion of accountable persons' variable remuneration be deferred for a minimum of four years, and reduced commensurate with any failure to meet their obligations; and
- notifying APRA of any accountability-related changes or breaches of accountability obligations.

BEAR has presented an opportunity for greater transparency and accountability and reinforced the importance of good governance to drive a strong risk culture from the top down throughout the ADI.

On January 22, 2020, the Australian Treasury released a consultation paper outlining its proposal on the Financial Accountability Regime ("*FAR*") to replace BEAR and to extend the responsibility and accountability framework established under BEAR to all APRA-regulated entities (relevantly, for the MGL Group this will

potentially extend to MGL, MIML and MLL). FAR is intended to strengthen the transparency and accountability of these entities and improve risk culture and governance for both prudential and conduct purposes. FAR will be co-regulated by APRA and ASIC. The FAR proposal aims to address several recommendations from the Royal Commission and introduces additional prescribed responsibilities and other changes to the BEAR obligations. The Australian government will consult on implementation timeframes as part of the consultation on the exposure draft legislation, which is yet to be released. Transitional arrangements will apply to ADIs, such as the Bank, to ensure that obligations which have been met under BEAR, and which will be the same under FAR, will be taken to have been met under the new regime. The MGL Group and MBL have provided feedback in the form of a written submission to the Australian Treasury in February 2020 on how the proposed FAR model can be best implemented. The changes proposed as part of FAR are likely to impact MBL and its "accountable persons", other APRA-regulated entities within the MGL Group such as MGL, MIML and MLL, the existing obligations and accountabilities under BEAR.

*Design and distribution obligations*

On April 3, 2019, the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 was passed by Federal Parliament introducing a legislative framework for issuers and distributors to develop and maintain effective product governance processes across the lifecycle of financial products, focused on the design and distribution of products that are consistent with the likely objectives, financial situation and needs of consumers in an identified target market. On December 11, 2020, ASIC released its new Regulatory Guide 274 *Product design and distribution obligations* ("*RG 274*"), placing a greater emphasis on the effectiveness of product governance arrangements and providing greater clarity on how requirements could be met.

The MGL Group is implementing the new design and distribution obligations which commence on October 5, 2021. This has been deferred for six months from the original commencement date of April 5, 2021 due to the impact of COVID-19 on the economy.

*ASIC guidance on fees and costs disclosure*

In November 2019, ASIC released its updated Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements* ("*RG 97*") and legislative instrument relating to fees and costs disclosure in product disclosure statements (PDSs) and periodic statements. The release of the updated regulatory guide follows a period of consultation, an external expert review of the guide as well as consumer testing of proposed changes. ASIC reissued RG 97 again in July and September 2020 with minor amendments.

The requirements apply to most superannuation products and managed investment products issued to retail clients and are designed to ensure that there is a consistent and transparent approach to fees and costs disclosure. Transition arrangements for the new disclosure regime commenced on September 30, 2020 for issuers who have elected to apply the new requirements.

MBL Group is updating relevant disclosure documents to comply with the requirements.

*ASIC power to ban senior officials in the financial sector*

ASIC's Enforcement Review Taskforce consulted on expanding ASIC's existing powers to enable it to ban senior officials in the financial sector from managing a financial services or credit business. The Taskforce Report recommended that ASIC be able to ban a person from performing a specific function, or any function, in a financial services or credit business upon the triggering of an administrative banning power. Further, the Taskforce Report recommended expanding the grounds on which ASIC may ban people from performing roles in financial services and credit businesses to include, among others, situations where ASIC has reason to believe that the person is not fit and proper, not adequately trained, or not competent to provide financial services or engage in credit activities, or to control or perform functions as an officer of an entity or of another person that carries on a financial services business or engages in credit activities. The Australian government accepted both of these recommendations and, following public consultation in late 2019, the Financial Sector Reform (Hayne Royal Commission Response – Stronger Regulators (2019 Measures) Act 2020) was passed by Federal Parliament on February 17, 2020 which, among other things, has amended the Australian Corporations Act and NCCP Act to extend ASIC's banning powers to ban individuals from managing financial services or credit businesses. It is currently difficult to determine what impact any such amendments to the Australian Corporations Act and other laws will have on MBL and the MGL Group.

*Responsible lending*

On February 14, 2019, ASIC released a consultation paper to update its Regulatory Guide 209 *Credit licensing: Responsible lending conduct* ("*RG 209*"). RG 209 contains ASIC's expectations for meeting the responsible lending obligations in Chapter 3 of the NCCP Act. Changes in the regulatory environment, technology and the release of the Royal Commission's Final Report have led to the review of ASIC's guidance on responsible lending for consumer credit.

In response to the submissions received during the consultation process, ASIC published an updated RG 209 on December 9, 2019. The updated RG 209 seeks to provide greater clarity to lenders and brokers by providing:

- a stronger focus on the legislative purpose of the obligations and clarity around areas that are not subject to the obligations;
- more guidance and examples to illustrate where a licensee might undertake more, or less, detailed inquiries and verification steps based on different consumer circumstances and the type of credit that is being sought;
- more detailed guidance about the use of benchmarks, the Household Expenditure Method ("*HEM*") and how spending reductions may be considered as part of the licensee's consideration of the consumer's financial situation, requirements and objectives;
- greater clarity about certain complex situations for some consumers; and
- further guidance around technological developments including Open Banking and digital data capture services.

On September 25, 2020, the Australian government announced its intention to reform responsible lending obligations in order to reduce barriers to credit. Key elements of the reforms include removing the responsible lending obligations for most credit contracts, applying parts of APRA's ADI lending standards to non-ADIs and allowing lenders to rely on the information provided by consumers in relation to credit applications. The Australian government proposed that the reforms commence from March 1, 2021, subject to the passing of legislation. However, while the Australian government introduced legislation into Federal Parliament on December 9, 2020, it was referred to the Economics Legislation Committee for inquiry and report by March 12, 2021. The Economics Legislation Committee recommended that the bill be passed, and it is currently in the Federal Senate.

MBL is monitoring developments and will make appropriate changes to processes and policies following the passage of legislation.

*Open Banking*

On February 9, 2018, the Australian government released a review into open banking entitled *Open Banking: customers, choice, convenience, confidence*, which provides guidance on the design and implementation of Australia's open banking regime.

On August 1, 2019, legislation to establish the Consumer Data Right ("*CDR*") was passed by Australian parliament. The CDR framework gives consumers control over their consumer data, enabling them to (among other things) direct the dataholder to provide their data, in a CDR compliant format, to accredited data recipients including other banks, fintechs or companies providing comparison services. The CDR Bill primarily amends the Competition and Consumer Act 2010 and also consequentially amends the Privacy Act 1988 and the Australian Information Commissioners Act 2010.

The Consumer Data Right Rules, which set out details of how the consumer data right works, came into effect on February 6, 2020. Minor amendments were made to the rules in June, October, and December 2020. The rule-making function transferred from the ACCC to Treasury on February 28, 2021.

The Open Banking regime forms the first component of the Australian government's CDR. All Australian deposit taking institutions must comply with Open Banking. Following an updated timeline announced by the ACCC, the commencement date for major banks was July 1, 2020 to provide CDR data on credit and debit card, deposit and transaction accounts and November 1, 2020 for mortgage and personal loan data. The commencement date for non-major banks (including MBL) to share product reference data (e.g., fees and charges, terms and

conditions and eligibility criteria) for phase one products (TSA, credit cards, CMA and business deposit accounts) was October 1, 2020 (previously July 1, 2020) following a three month exemption provided by the ACCC due to the COVID-19 pandemic. It is expected that by February 1, 2022, implementation of the Open Banking regime would be completed and full data transfer for consumers would become available.

*Banking Code of Practice*

The Banking Code of Practice (the "*Code*") is the banking industry's customer charter on best banking practice standards. It sets out the banking industry's key commitments and obligations to retail and small business customers on standards of practice, disclosure and principles of conduct for their banking services. The revised Code, which was approved by ASIC, commenced on July 1, 2019. On December 17, 2019, ASIC subsequently approved an updated version of the Code. These amendments implement the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and address stakeholder feedback relating to various small business protections, accessibility of banking products and an easing of the financial burden on agricultural borrowers affected by drought and natural disaster. Temporary changes were made to the Code in response to COVID-19 to reflect the fact that, in some limited circumstances, banks may not be able to comply with usual timing requirements specified in the Code and to assist with the flow of credit to small businesses.

On January 8, 2021, ASIC approved further variations to the Code. The further variations amended the Code's definition of 'banking services', made some minor amendments to the Code's definition of 'small business', extended the application of the Code's COVID-19 Special Note for a further six months to September 1, 2021, specified situations in which banks may decline to continue dealing with a representative that a customer in financial difficulty has appointed, and aligned the Code's timeframes for responding to complaints with the updated timeframes in ASIC's Regulatory Guide 271 *Internal dispute resolution* ("*RG 271*"), which is due to commence on October 5, 2021.

*ASIC enhanced supervision and enforcement*

In 2018 and 2019, the Australian government provided additional funding to ASIC to support enforcement and supervision in the Australian financial sector.

ASIC has established the Office of Enforcement to strengthen the governance and effectiveness of ASIC's enforcement, including by accelerating court-based enforcement matters, and to lead the application of ASIC's "Why not litigate?" enforcement strategy.

In response to the COVID-19 pandemic, ASIC is deferring onsite supervisory work but will be continuing to monitor and conduct desk-based reviews.

*Dispute resolution*

On May 15, 2019, ASIC released a consultation paper to update its Regulatory Guide 165 *Internal Dispute Resolution* ("*RG 165*"). The proposed standards, which include new mandatory data reporting and reduced timeframes for responding to retail and small business complaints, aims to improve the way complaints are dealt with across the financial system and bring about greater transparency in financial firms' complaint handling procedures. ASIC intends to issue a legislative instrument that will have the effect of making the core IDR requirements set out in RG 165 enforceable. As part of the consultation process, ASIC held stakeholder meetings in September 2019 to further discuss issues raised in the consultation paper as well as those raised in submissions. RG 165 was reissued on July 30, 2020.

On July 30, 2020, ASIC released updated requirements, and associated legislative instrument, on complaints handling (RG 271). RG 271 will replace RG 165 on October 5, 2021. RG 165 applies to complaints received by financial firms before October 5, 2021. ASIC will withdraw RG 165 on October 5, 2022.

MBL is making changes to policies and processes to support compliance with RG271 from October 2021.

*Breach reporting*

In December 2020, the Australian Federal Parliament passed legislation endorsing several reforms recommended by the Financial Services Royal Commission, including reforms to the current regime for reporting significant breaches of financial services laws to ASIC. Key changes to the regime include introducing a comparable breach reporting regime for Australian credit licensees under the NCCP Act, expanding the

significance test to require reports in a broader range of circumstances, extending the timeframe for reporting breaches, and mandating licensees to report serious compliance concerns about other licensees (targeted at misconduct by mortgage brokers or individual financial advisers). The government is consulting with stakeholders prior to finalizing the draft regulations specifying the civil penalty provisions excluded from "deemed significance". Public consultation on the exposure draft regulations and explanatory material closed on April 9, 2021.

On April 22, 2021, ASIC released a consultation paper to update its Regulatory Guide 78 *Breach reporting by AFS licensees and credit licensees* ("RG 78") and to seek feedback on a new Information Sheet on the new notify, investigate, and remediate obligations set to apply to AFS licensees who are financial advisers and credit licensees who are mortgage brokers. RG 78 sets out ASIC's interpretation of key concepts of the breach reporting obligation, its general approach to administering the obligation, and how licensees can demonstrate compliance with the breach reporting obligation. ASIC's consultation closes on June 3, 2021.

**International**

Our businesses and the funds we manage outside of Australia are subject to various regulatory regimes.

***United States***

The financial supervisory and regulatory framework of the United States continues to evolve, as financial regulators remain active in issuing new and revised regulations, exemptive orders and interpretive guidance. This regulatory activity could have a material impact on the business, financial condition, and results of operations of financial institutions operating in the United States, including the activities of MGL and its U.S. subsidiaries. See "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in law, regulations and regulatory policy" elsewhere in this Report.

*Banking regulations*

In the United States, MBL operates solely through representative offices. These representative offices are generally limited to (i) soliciting business on behalf of MBL, which must then be approved and booked offshore, and (ii) performing administrative tasks as directed by MBL. Our representative offices are licensed, and subject to periodic examination, by the banking regulatory authorities of the individual states in which they are located, including New York, Illinois and Texas. Our representative offices are also subject to periodic examination by the relevant regional Federal Reserve Bank, each of which is in turn subject to oversight by the Board of Governors of the Federal Reserve System (the "*FRB*").

*Derivatives regulations*

The enactment of the Dodd-Frank Act has resulted in, and will continue to result in, significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. In particular, the Dodd-Frank Act amended the commodities and securities laws to create a regulatory regime for swaps and other derivatives, subject to the jurisdiction and regulations of the applicable U.S. regulatory agency, such as the FRB, the Commodity Futures Trading Commission ("*CFTC*") and the Securities and Exchange Commission ("*SEC*").

The markets for exchange-traded and over-the-counter ("*OTC*") derivatives are subject to complex and evolving regulatory requirements that often differ across jurisdictions. Some of the key areas covered by these regulations include, but are not limited to, business conduct standards, prohibitions on market manipulation and disruptive trading, treatment of separate accounts by futures commission merchants, mandatory clearing and trade execution, transaction reporting, recordkeeping, margin requirements for uncleared derivatives, and position limits. Several jurisdictions relevant to MBL, including the United States, have proposed significant new or revised regulatory requirements which, if adopted, may have effects across the transaction lifecycle and apply to MBL and its subsidiaries.

MBL and its U.S. subsidiary, Macquarie Energy LLC ("*MELLC*"), are provisionally registered as swap dealers with the CFTC. Macquarie Futures USA LLC ("*MFUSA*") is registered as a futures commission merchant with the CFTC. As CFTC registrants, MELLC, MBL and MFUSA are subject to comprehensive regulatory oversight by the CFTC. In addition, MBL is expected to register as a security-based swap dealer with the SEC

once registration becomes required on November 1, 2021. MELLC is expected to de-register as a swap dealer as of May 28, 2021, after which MELLC will no longer be subject to the swap dealer requirements of the CFTC.

Pursuant to the CFTC's Comparability Determinations for Australia, MBL's compliance with provisions and requirements under the applicable Australian regulatory regimes is sufficient to meet some CFTC swap dealer requirements to which MBL would otherwise be subject. As part of its swap dealer obligations, MBL is subject to the FRB's capital and margin regulations. MELLC, however, is subject to the CFTC's capital and margin regulations as a swap dealer. The CFTC's capital rules for swap dealers became effective on November 16, 2020 and have a compliance date of October 6, 2021. MBL became subject to the FRB's variation margin requirements for uncleared swaps and security-based swaps in 2017, and MELLC concurrently became subject to the CFTC's variation margin requirements for uncleared swaps. MBL will further be subject to the FRB's initial margin requirements and MELLC subject to the CFTC's initial margin requirements. While MBL is subject to additional margin requirements in other jurisdictions, MELLC is only subject to CFTC margin requirements.

MBL and MELLC's businesses have been or will be affected by a variety of regulations under the U.S. Commodity Exchange Act, as amended, and CFTC regulations including, but not limited to, stricter capital and margin requirements, mandatory trade execution and clearing requirements for certain classes of derivatives, reporting obligations (including amended swap reporting requirements that take effect in May 2022), business conduct requirements, registration and heightened supervision of MBL and MELLC as swap dealers, and more stringent and extensive position limits and aggregation requirements on derivatives on certain physical commodities.

The SEC has jurisdiction over transactions in security-based swaps, which generally include swaps on a single security or a narrow-based index of securities or on a single loan and credit default swaps on a single issuer or issuers of securities in a narrow-based security index. The SEC has adopted regulations requiring, among other things, registration of security-based swap dealers and compliance with regulations on business conduct, recordkeeping and reporting and other matters. Compliance with regulations governing security-based swaps will begin to be required in the fourth quarter of calendar year 2021, and registration as a security-based swap dealer will be required for certain market participants starting on November 1, 2021. MBL is expected to register as a security-based swap dealer with the SEC by such date. Therefore, the registration and compliance obligations will likely result in increased costs with respect to MBL's security-based swaps business.

*Anti-money laundering regulations*

The MBL representative offices, MFUSA, and MGL Group's securities broker-dealers and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to AML laws and regulations in the United States. Applicable regulations include those issued by the Treasury Department's Financial Crimes Enforcement Network ("*FinCEN*") to implement various AML requirements of the Bank Secrecy Act (the "*Bank Secrecy Act*"), as amended.

The Bank Secrecy Act requires certain types of financial institutions (including U.S. representative offices of foreign banks and U.S. futures commission merchants, securities broker-dealers and mutual funds) to establish and maintain written AML compliance programs. The AML compliance program must be approved in writing by the board of directors, board of trustees or senior management, depending on the institution, and must include the following components (i) a system of internal controls to assure ongoing compliance with the applicable AML laws and regulations; (ii) independent testing for compliance, to be conducted by the institution's personnel or by a qualified outside party; (iii) designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance; (iv) training of personnel; and (v) the establishment of a risk-based customer due diligence procedure, including procedures designed to identify and verify the identities of the beneficial owners of legal entity customers (the "*Beneficial Ownership Rule*"). In order to comply with the Beneficial Ownership Rule, financial institutions are required to establish and maintain written procedures reasonably designed to identify and verify for each legal entity customer: (i) the identity of any individual who owns 25% or more of the legal entity customer, and (ii) one individual who controls the legal entity customer. These requirements only apply to new accounts opened on or after May 11, 2018 by a legal entity customer.

U.S. representative offices of foreign banks and U.S. futures commission merchants, securities broker-dealers and mutual funds are also required to establish and maintain a customer identification program and, as necessary, to file suspicious activity reports ("*SARs*") with appropriate federal regulatory agencies and FinCEN.

The MBL representative offices, MFUSA, and MGL Group's securities broker-dealers and other subsidiaries in the United States have adopted written AML compliance programs that are reasonably designed to comply with the Bank Secrecy Act.

In 2015, FinCEN published a notice of proposed rulemaking that would require investment advisers registered, or required to be registered, with the SEC to establish an AML compliance program and file SARs with FinCEN, and subject those advisers to additional Bank Secrecy Act requirements, such as the requirement to file currency transaction reports. If adopted as proposed, the rule would apply to MGL's subsidiaries that are registered, or required to be registered, with the SEC as investment advisers. The rulemaking has not been adopted as of the date of this Report.

In January 2021, the Anti-Money Laundering Act of 2020 ("*AMLA*"), which amends the Bank Secrecy Act, was enacted. The AMLA is intended to comprehensively reform and modernize U.S. anti-money laundering laws. Among other things, the AMLA codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards by the Treasury Department for evaluating technology and internal processes for Bank Secrecy Act compliance; and expands enforcement and investigation-related authority, including significant expansions in the available sanctions for certain Bank Secrecy Act violations and in Bank Secrecy Act whistleblower incentives and protections. Many of the statutory provisions in the AMLA will require additional rulemakings, reports and other measures, and the impact of the AMLA on MGL and its subsidiaries will depend on, among other things, rulemakings and implementation guidance that have not been adopted as of the date of this Report.

*Economic sanctions*

The MBL representative offices and MGL Group's other operations that are within or that involve the United States must also comply with the economic sanctions programs administered by the Treasury Department's Office of Foreign Assets Control ("*OFAC*"), which enforces economic sanctions against targeted foreign countries, individuals and entities. The MBL representative offices and MGL Group's U.S. futures commission merchant, securities broker-dealers and other subsidiaries in the United States have adopted and implemented procedures that are reasonably designed to ensure their compliance with the economic sanctions programs administered by OFAC.

*Securities, commodities and other regulations*

In the United States, MGL Group's two securities broker-dealer subsidiaries are regulated by the SEC, by the Financial Industry Regulatory Authority ("*FINRA*"), various other self-regulatory organizations of which they are members and state securities regulators with respect to securities and corporate finance-related activities. We also conduct securities and corporate finance-related activities through several investment advisers and investment companies registered with the SEC under, respectively, the U.S. Investment Advisers Act of 1940, as amended, and the U.S. Investment Company Act of 1940, as amended. We will be subject to ever greater oversight and regulation by the SEC and FINRA as our business grows in the United States. For example, on April 30, 2021, MAM completed the acquisition of Waddell & Reed Financial, Inc., a NYSE-listed U.S.-based asset and wealth manager.

In addition, we are regulated by the CFTC and the National Futures Association with respect to the trading of futures, swaps, and commodity options for customers and related clearing activities. The CFTC continues to issue final and proposed regulations, statements of guidance and no-action letters that may affect certain members of the MGL Group, including MBL.

The Federal Energy Regulatory Commission also regulates the wholesale natural gas and electricity markets in which we operate. As we continue to expand our U.S. energy trading business, our compliance with energy trading regulations will become increasingly important.

Other regulators that affect the funds and companies that we manage include, but are not limited to, the Federal Communications Commission with respect to certain media-related investments and various other applicable federal, state and local agencies. In addition, our entry into the physical commodities trading business has subjected us to further U.S. regulations, including, but not limited to, federal, state and local environmental laws.

***Canada***

*Derivative Regulations*

Canada has harmonized derivatives reporting rules across its provinces and territories. MBL, as well as its subsidiary Macquarie Energy Canada Ltd ("*MEC*"), are currently operating as deemed derivative dealers in Canada for purposes of transaction reporting. Derivative dealer registration requirements and business conduct rules have not yet been finalized in Canada, but it is anticipated that MBL and MEC may be required to register as derivative dealers. Registration and compliance obligations in Canada will likely result in increased costs with respect to MBL's and its subsidiaries' Canadian derivatives business.

***United Kingdom***

*U.K. Regulators*

The Financial Conduct Authority ("*FCA*") and the Prudential Regulation Authority ("*PRA*") are responsible for the regulation of financial business in the United Kingdom, including banking, investment business, consumer credit and insurance. Deposit-taking institutions, insurers and significant investment firms are dual-regulated, with the PRA responsible for the authorization, prudential regulation and day-to-day supervision of such firms, and the FCA responsible for regulating conduct of business requirements.

Other U.K. regulators that impact our business include the Gas and Electricity Markets Authority, which regulates the U.K. gas and electricity industry. The Information Commissioner's Office is responsible for regulating compliance with legislation in the United Kingdom governing data protection, electronic communications, freedom of information and environmental information.

*MGL Group U.K. Regulated Entities*

MBL operates a branch, MBL LB, and a subsidiary, Macquarie Bank International Ltd ("*MBIL*"), in the United Kingdom. APRA remains the lead prudential regulator for MBL LB, with regulatory oversight by the FCA and PRA. MBIL, a U.K. incorporated subsidiary is authorized and regulated by the FCA and PRA as a bank.

As regulated entities, MBIL and MBL LB are required to comply with U.K. legislation and the regulatory requirements set forth by the FCA and PRA in their handbooks of rules and guidance (collectively, the "*Rules*"), as applicable. The Rules include, among others, requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers, the application of which varies depending on whether it is a subsidiary or a branch of MBL. MGL also has five subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*"), Macquarie Investment Management Europe Limited ("*MIMEL*"), Macquarie Corporate and Asset Finance 1 Limited ("*MCAF1L*") and Green Investment Group Management Limited ("*GIGML*") authorized and regulated by the FCA. MIRAEL and GIGML are each authorized as an alternative investment fund manager ("*AIFM*") pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773), which implements the Alternative Investment Fund Managers Directive (2011/61/EU) in the United Kingdom, and is able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom. MCEL is authorized and regulated by the FCA as a full-scope investment firm. MIMEL is authorized and regulated by the FCA, pursuant to the Prudential sourcebook for Banks, Building Societies and Investment Firms, as a limited-scope investment firm. MCAF1L is authorized and regulated by the FCA as a consumer credit firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation (575/2013/EU) ("*CRR*") and Capital Requirements Directive (2013/36/EU) ("*CRD IV*"), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014; and Directive 2014/65/EU ("*MiFID II*") and the Markets in Financial Instruments Regulation (600/2014/EU) ("*MiFIR*"), which relate to the carrying on of investment business and took effect on January 3, 2018). In light of the United Kingdom's exist from the European Union, the Rules have been amended to incorporated a large proportion of European Union Regulations by way of "onshoring", as described in the section on Brexit below. Under the Rules, regulated banks and certain investment firms are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MGL and MBL which considers the consolidated requirements of the MGL Group (including but not limited to MBL LB and other subsidiaries). In addition, MBIL and MCEL

maintain their own standalone liquidity contingency plans. See section 5.1 of our 2021 Fiscal Year Management Discussion and Analysis Report.

*Brexit*

On March 29, 2017, the United Kingdom invoked Article 50 of the Treaty on European Union and officially notified the European Union of its decision to withdraw from the European Union (known as "*Brexit*"). This commenced a formal process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the United Kingdom and the European Union. On October 17, 2019, following negotiations between the United Kingdom and European Union, a revised withdrawal agreement was agreed, which was subsequently ratified by the U.K. government and the European Commission. Under the terms of the ratified withdrawal agreement (the "*Article 50 Withdrawal Agreement*"), a transition period commenced on January, 31, 2020, which lasted until December 31, 2020. During this period, most European Union rules and regulations continued to apply to and in the United Kingdom and negotiations in relation to a free trade agreement were ongoing. On December 24, 2020, an agreement in principle was reached in relation to the European Union-United Kingdom Trade and Cooperation Agreement (the "*Trade and Cooperation Agreement*") to govern future relations between the European Union and the United Kingdom following the end of the transition period on December 31, 2020. The Trade and Cooperation Agreement was signed on December 30, 2020. The Trade and Cooperation Agreement has provisional application until the European Union and United Kingdom complete their ratification procedures. The consent of the European Parliament is required before the Council of the European Union can ratify the Trade and Cooperation Agreement. At the request of the European Union, the provisional application has been extended from February 28, 2021 to April 30, 2021 to allow time for legal-linguistic revision. The Trade and Cooperation Agreement does not, however, create a detailed framework to govern the cross-border provision of regulated financial services from the United Kingdom into the European Union and from the European Union into the United Kingdom.

The Trade and Cooperation Agreement covers trade in goods and services, establishes a framework for cooperation as to a citizen's security and a governance mechanism. Within the Trade and Cooperation Agreement, the United Kingdom and the European Union have made a Joint Declaration on financial services regulatory cooperation ("*Joint Declaration*"). In March 2021, the parties agreed a Memorandum of Understanding establishing the framework for this cooperation ("*Memorandum of Understanding*"). Despite the Memorandum of Understanding, there is a significant risk that the United Kingdom and the European Union will not reach agreement on the future relationship between them in financial services, or may reach a significantly narrower agreement than that envisaged by market participants. There are a number of other areas of uncertainty in connection with the future of the United Kingdom and its relationship with the European Union and it is not currently possible to determine the impact that the United Kingdom's departure from the European Union and/or any related matters may have on general economic conditions in the United Kingdom, or the impact of these matters on the business of or on the regulatory position of MGL Group companies or its counterparties relating to European Union regulation or more generally.

To minimize the risks for firms and businesses, the U.K. government implemented secondary legislation under powers provided in the Withdrawal Agreement (the European Withdrawal Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the "*EUWA*")), to ensure that the United Kingdom has a functioning statute book from December 31, 2020. The United Kingdom's financial services regulators have also been granted temporary transitional powers to delay or modify certain regulatory obligations firms face as a result of a statutory instrument made under Section 8 of the EUWA. These modifications are temporary and there can be no assurance that such arrangements will continue to be available in the future.

The pan-European Union authorities, such as the European Commission, have not put in place temporary legislative regimes similar to those in place in the United Kingdom to enable continued passporting access, for a time-limited period, for U.K. firms after their loss of passporting rights since the end of the transition period on December 31, 2020. Some (but not all) national legislators and regulators have passed or proposed legislation when preparing for the prospect of a "hard" Brexit, which has enabled a degree of continuity of access to clients in their jurisdiction. There is, however, little long-term clarity on what the final position will be in many jurisdictions. Many U.K. firms and businesses have prepared on the basis that access rights into the European Union will be and have been curtailed as of the application of the Trade and Cooperation Agreement described above.

The MGL Group does not believe that the United Kingdom's withdrawal from the European Union is a material event for the MGL Group. However, the precise impact on MGL Group's business is difficult to

determine, due to the ongoing political uncertainty with regard to the structure of the future financial services relationship between the United Kingdom and the European Union.

The MGL Group has planned for Brexit by establishing a credit institution in Ireland, Macquarie Bank Europe Designated Activity Company ("*MBE DAC*"), which has commenced operations and is authorized by the European Central Bank and regulated by the Central Bank of Ireland. MBE DAC has branches in Germany and France and passporting rights throughout the European Economic Area ("*EEA*"). Additionally the MGL Group has been granted a Luxembourg alternative investment fund manager license for Macquarie Asset Management Europe S.à r.l. ("*MAMES*") and a Luxembourg insurance intermediary broker license for Macquarie Insurance Facility Luxembourg S.à r.l. ("*MIF Lux*"). These businesses are now operating in the EEA. As of January 1, 2021, Macquarie Capital is also operating in France via Macquarie Capital France Société Anonyme ("*MCF*"), which was licensed by the national competent authority (Autorité de Contrôle Prudentiel et de Résolution) in November 2020 as a MiFID investment firm. MCF has branches in Germany, Spain and the Netherlands and passporting rights throughout the EEA. MGL Group and MBL will continue to monitor developments in relation to Brexit and assess the impact it will continue to have on the MGL Group and MBL.

*U.K. Senior Managers and Certification Regime*

The Senior Managers Regime, introduced in response to perceived shortcomings in the behavior and culture of PRA supervised firms, has been applicable to MBIL and MBL LB since March 2016. It clarifies the lines of responsibility at the top of firms, enhances the regulator's ability to hold senior individuals ("*Senior Managers*") accountable and requires regular evaluation of their fitness and propriety. The separate Certification Regime (together with the Senior Managers Regime, the "*Existing SMCR*") requires firms to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers. Conduct rules apply to employees of all SMCR firms except those in ancillary service functions such as mail room and catering.

The FCA published a consultation in July 2017 on extending the Existing SMCR to all FCA regulated firms ("*Extended SMCR*") followed by a related consultation on individual accountability in December 2017. Near final rules were published in July 2018 and the Extended SMCR came into effect on December 9, 2019. The FCA published a policy statement setting out the final rules on July 26, 2019. The FCA has noted that the rules may still be amended by subsequent changes to the FCA Handbook, for example those relating to Brexit.

Under Extended SMCR criteria there are three categories of firms:

1. Enhanced firms;
2. Core firms; and
3. Limited scope firms.

Enhanced firms are those FCA regulated firms which fulfill one of the following criteria:

- a significant IFPRU firm as defined in the FCA's Prudential Sourcebook for Investment Firms;
- a CASS large firm as defined in the Client Assets Sourcebook of the FCA Handbook;
- a firm which has assets under management of £50 billion or more (calculated as a three-year rolling average);
- a firm which has revenue from intermediary regulated business activity of £35 million or more per year (calculated as a three-year rolling average);
- a firm which has revenue from regulated consumer credit lending of £100 million or more per year (calculated as a three-year rolling average); or
- mortgage lenders and administrators (that are not banks) with 10,000 or more regulated mortgages outstanding at the latest reporting date.

The Extended SMCR now applies to all MGL Group entities that are regulated solely by the FCA (MCEL, MCAF1L, MIRAEL, MIMEL and GIGML). MCEL is being treated as an enhanced category firm, and the remaining entities under Extended SMCR are being treated as core category firms.

***European Union***

*European Union Regulators*

In the European Union, the Single Supervisory Mechanism (the "*SSM*") designates the European Central Bank (the "*ECB*") the competent authority for banking supervision across the euro area.

*France*

The Autorité de Contrôle Prudentiel et de Resolution (the "*ACPR*") is responsible for the supervision of the banking and insurance sectors in France and authorizes any regulated entity such as credit institutions, investment firms, insurance companies, financing companies and payment institutions. The ACPR is responsible for prudential supervision but is also competent when it comes to clients' protection and financial crime, more specifically AML-CFT matters. The Autorité des Marchés Financiers (the "*AMF*") is the French financial markets regulator and is responsible for regulating the market, its participants and investment products distributed via these markets and is also responsible for ensuring that investors are properly informed.

As a MiFID investment firm, MCF is regulated by both the ACPR and the AMF. It is required to comply with French legislation and regulatory requirements set out by the ACPR and AMF in the form of codes, regulations and guidance issued from time to time (collectively, the "*French Rules*"), as applicable. The French Rules include, among others, requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, financial crime, conduct of business and the treatment of customers.

*Ireland*

The Central Bank of Ireland (the "*CBI*") is responsible for the regulation of financial services business in Ireland, including banking, investment business, consumer credit and insurance. Those credit institutions that are less significant institutions ("*LSIs*") within the SSM framework are supervised directly by the CBI with indirect supervision from the ECB.

The Irish Data Protection Commission is responsible for regulating compliance with legislation in Ireland governing data protection and electronic communications.

Along with two Non-Banking Group regulated subsidiaries, the MGL Group has an authorized subsidiary, MBE DAC, which is authorized and regulated as a credit institution by the CBI. MBE DAC is designated as an LSI within the SSM framework.

These regulated entities are required to comply with Irish legislation and the regulatory requirements set forth by the CBI in the form of codes, regulations and guidance issued from time to time (collectively, the "*Irish Rules*"), as applicable. The Irish Rules include, among others, requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers.

In many cases, the Irish Rules reflect the requirements set out in EU regulations (which are directly applicable in Ireland) and implement applicable EU directives (such as CRR II and CRD V, which relate to regulatory capital requirements for banks and investment firms and came into force on June 27, 2019; CRD V largely took effect from December 29, 2020 and CRR II will largely take effect from June 28, 2021; and MiFID II and MiFIR, which relate to the carrying on of investment business and which came into force on July 2, 2014 and took effect on January 3, 2018). Under the Irish Rules, regulated banks and certain investment firms are required to have an adequate regulatory capital plan in place, among other requirements.

*Luxembourg*

The Commission de Surveillance du Secteur Financier (the "*CSSF*") is Luxembourg's financial sector regulator, responsible for regulating investment business including investment fund managers, credit institutions and investment firms. The Commissariat aux Assurances (the "*CAA*") is the Luxembourg insurance regulator responsible for regulating insurance business.

MGL Group has the following Luxembourg regulated entities:

- Macquarie Investment Management Europe S.A. ("*MIME S.A.*"), which is authorized and regulated by the CSSF as an investment firm;

- MAMES, which is authorized and regulated by the CSSF an alternative investment fund manager;

- GLL Management Company S.à r.l. ("*GLL*"), which is authorized and regulated by the CSSF as an alternative investment fund manager; and

- MIF Lux, which is authorized and regulated by the CAA as an investment broker.

As regulated entities, MIME S.A., MAMES and GLL are required to comply with Luxembourg legislation and regulation as set out by the CSSF in the form of codes, regulations and guidance issued from time to time (collectively, the "*Luxembourg Rules*"), as applicable. The Luxembourg Rules include, among others, requirements as to capital adequacy, systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers.

MIF Lux as a regulated entity is obliged to comply with Luxembourg legislation and regulation as set out by the CAA in the form of codes, regulations and guidance issued from time to time relating to the insurance sector.

*CRD IV and CRR*

The original components of the Basel III reform package were implemented in the EEA through CRD IV and CRR, which were published in the Official Journal of the European Union on June 27, 2013. The CRR established a single set of harmonized prudential rules which apply directly to all credit institutions in the EEA, with CRD IV containing other provisions required to be transposed into national law. CRR directly applies to in scope firms operating in the EEA, whereas CRD IV was subject to local implementation in each individual EEA country. CRR and CRD IV currently apply to MBE DAC, Macquarie Bank International Ltd ("*MBIL*"), MCEL and (with respect to certain matters), MIMEL and MBL, London Branch ("*MBL LB*"). As for MBIL, MCEL, MIMEL, MIME S.A. and MBL LB, CRR and CRD IV continued to apply in the United Kingdom until December 31, 2020 (that is the end of the transitional period under the Article 50 Withdrawal Agreement). Since that date, entities operating in the United Kingdom have been subject to the modified or "on-shored" versions of CRR and CRD IV that the United Kingdom has put in place as a result of Brexit.

*CRD V and CRR II*

In November 2016, the European Commission (the "*EC*") published a package of proposed amendments to CRD IV / CRR ("*CRD V*" and "*CRR II*", respectively). Following the EC's proposals, CRD V and CRR II entered into force on June 27, 2019 as Directive 2019/878/EU and Regulation 2019/876/EU respectively. CRD V largely applied from December 29, 2020 and CRR II will largely apply from June 28, 2021.

The amendments seek to implement some of the remaining aspects of Basel III and reforms which reflect EC findings on the impact of CRD IV on bank financing of the EU economy. The key changes under CRD V and CRR II include new market risk rules, standardized approach to counterparty risk, details on the leverage ratio and net stable funding requirements and the tightening of the large exposures limits.

CRD V and CRR II will affect MGL Group entities that are currently in scope of CRD IV and CRR, as noted above. The United Kingdom was required to transpose CRD V into national law, given that the application date (December, 29, 2020) fell before the Brexit transition period ended – this directive, with some exceptions, now forms part of retained or onshored European Union law in the United Kingdom. In the context of Brexit, the U.K. government announced that the Financial Services Bill 2019-2021, introduced on October 20, 2020, would, among other things, provide the U.K. regulators with powers to amend and introduce other rules pertaining to CRR, CRR II and the Basel III international standards, which the U.K. government has committed to implement by 2023.

*IFD and IFR*

On November, 27 2019, the European Union adopted Regulation (EU) 2019/2033 ("*IFR*") and Directive (EU) 2019/2034 ("*IFD*"). IFR and IFD establish a prudential regime designed specifically for investment firms authorized in the European Union. By contrast, many of the existing rules, for example those contained in CRD IV, were developed largely with deposit-taking institutions in mind. The new regime is due to apply from June 26, 2021.

Under the new regime, investment firms fall into one of three categories: (i) systemic investment firms (also referred to as "*Class 1 investment firms*"); (ii) investment firms which exceed certain size and risk thresholds, but are not systemically important (referred to as "*Class 2 investment firms*"); and (iii) the smallest and non-interconnected firms, that are subject to reduced requirements ("*Class 3 investment firms*"). The impact of IFR and IFD on investment firms is wide-ranging and includes: (a) new capital requirements, to be calculated using the "K-factor" methodology designed to reflect the risks presented by investment firms; (b) new rules on prudential consolidation, liquidity and concentration risk that will apply to investment firms and their groups; (c) a new approach to the Internal Capital Adequacy Assessment Process; (d) new requirements on internal governance and remuneration policies; and (e) extensive reporting and disclosure requirements. The extent to which these changes impact investment firms will depend on their categorization. It is currently expected that MCF and MIME S.A. will be affected by the IFD and IFR regime.

As IFD and IFR will be effective after the expiry of the transitional period under the Article 50 Withdrawal Agreement, IFR and IFD do not automatically apply in the United Kingdom. However, in its policy statement "Prudential standards in the Financial Services Bill: June update" published in June 2020, HM Treasury confirmed that it intends to introduce a UK Investment Firm Prudential Regime ("*IFPR*") that will be based on the IFR and IFD. To that end, the Financial Services Bill 2019-2021 empowers the U.K. regulators to implement the IFPR. The IFPR in the United Kingdom is intended to come into force on January 1, 2022 following a package of FCA consultation papers. This is, however, subject to appropriate progress and amendments to the Financial Services Bill 2019-2021 which was introduced to Parliament by the U.K. government on October 20, 2020. It is currently expected that MIRAEL, MCEL, MIMEL and GIGML will be affected by IFPR.

*BRRD and BRRD 2*

The EU Bank Recovery and Resolution Directive (2014/59/EU) (the "*BRRD*") may have certain impacts on EU entities or branches of the MGL Group. This may include the power of the resolution authority to write down or convert certain minimum requirements for own funds and eligible liabilities ("*MREL*") eligible liabilities into equity. The European Commission proposed certain amendments to the BRRD (known as the "*BRRD 2*"), which entered into force on June 27, 2019 and largely applied from December 28, 2020 and that contain, among others, the following provisions:

- the introduction of a new moratorium power for resolution authorities and requirements on the contractual stays in resolution; and
- amendments to the Article 55 regime in respect of the contractual recognition of bail-in powers.

The effects of BRRD 2 are wide-ranging and, in particular, it will impact how in-scope institutions, such as MBIL, MBE DAC and (to a certain extent) MBL LB, absorb losses in certain stressed scenarios. BRRD 2 also seeks to harmonize the bank insolvency creditor hierarchy relating to the priority ranking of holders of certain classes of subordinated debt (which are eligible to be used to contribute to an institution's MREL requirement).

The United Kingdom implemented the majority of the BRRD II provisions which became applicable on December 28, 2020 but not those which became applicable on or after January 1, 2021 and it has also 'sunsetted' a number of provisions (i.e. implementing certain reforms under BRRD II from December 28, 2020 to December 31, 2020, only). In the United Kingdom, BRRD II may affect the exercise of the special resolution regime powers under the United Kingdom's Banking Act 2009 (the "*Banking Act*") and the Bank Recovery and Resolution (No. 2) Order 2014 ("*BRRD Order*"). In any event, there remains a risk that the U.K. regulators and/or authorities can make an instrument or order under the Banking Act in respect of the entities referred to above and/or that related parties could be adversely affected by any such instrument or order if made.

***Other regulators***

Outside Australia, the United States and the United Kingdom, MBL has branches in the Dubai International Finance Centre, Hong Kong and Singapore that are regulated by the Dubai Financial Services Authority, the Hong

Kong Monetary Authority and the Monetary Authority of Singapore, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, and in Switzerland, regulated by the Swiss Financial Markets Supervisory Authority, which gives MBL limited authorization to conduct marketing of its products and services to institutions (and, in Switzerland, high net worth individuals), subject to local license limitations. Bank regulation varies from country to country, but generally is designed to protect depositors and the banking system as a whole, not holders of a bank's securities. Bank regulations may cover areas such as capital adequacy, minimum levels of liquidity, and the conduct and marketing of banking services.

Outside Australia, the United States, the United Kingdom and the European Union, some of the other key financial regulators of our businesses include but are not limited to:

- the Securities and Futures Commission of Hong Kong, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited;
- the Investment Industry Regulation Organization of Canada, the TMX and the various provincial and territorial securities regulatory authorities in Canada;
- the Monetary Authority of Singapore and the Singapore Exchange Regulation Pte Ltd; and
- the Financial Sector Conduct Authority of South Africa.

Financial regulation varies from country to country and may include the regulation of securities offerings, mergers and acquisitions activity, commodities and futures activities, anti-trust issues, investment advice, trading and brokerage, sales practices, and the offering of investment products and services.

In addition to the foregoing, certain businesses and assets owned or managed by the MBL Group in international jurisdictions are subject to additional laws, regulations and oversight that are specific to the industries applicable to those businesses and assets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

*In addition to the information included in this Report, investors should refer to our 2021 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2021 fiscal year compared to the 2020 fiscal year, along with other balance sheet, capital and liquidity disclosures as at and for the fiscal year ended March 31, 2021, and our 2020 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2020 fiscal year compared to the 2019 fiscal year, each of which is posted on MBL's U.S. Investors' Website.*

**Recent developments post-March 31, 2021**

*Macquarie responds to APRA announcement*

As announced on April 1, 2021, APRA has determined that MBL breached a number of prudential and reporting standards. The matters principally relate to the calculation and reporting of key prudential ratios, specifically certain intra-group funding arrangements as well as liquidity reporting between 2018 and 2020.

The MGL Group notes APRA's comment that the breaches are historical and do not impact on the current overall soundness of the MGL Group's capital or liquidity positions.

APRA is requiring MBL to hold an additional Level 1 operational capital overlay of A $500 million (effective April 1, 2021), which is expected to reduce MBL's level 1 CET1 ratio from 12.04% (as at March 31, 2021) to 11.31%. This does not impact the broader Level 2 capital position. APRA is also requiring a 15% add on to the net cash outflow component of MBL's LCR calculation and a 1% adjustment to the total available stable funding of its NSFR calculation.

APRA has indicated a period of intensified supervision with MGL Group in relation to these matters. While the specific historical matters leading to APRA's actions have been addressed, MGL Group has a number of programs in place to strengthen its operating platform and risk governance.

APRA will also be discussing with MGL Group the resubmission and restatement of selected historical regulatory returns and reported capital and liquidity ratios.

**Fiscal year ended March 31, 2021 compared to fiscal year ended March 31, 2020**

See sections 1.0 – 7.0 of our 2021 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2021 and 2020 fiscal years, which has been incorporated by reference herein.

**Fiscal year ended March 31, 2020 compared to fiscal year ended March 31, 2019**

See sections 1.0 – 7.0 of our 2020 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2020 and 2019 fiscal years, which has been incorporated by reference herein.

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