



# Macquarie Bank Management Discussion and Analysis

Year ended 31 March 2021

Macquarie Bank Limited ACN 008 583 542



### Notice to readers

The purpose of this report is to provide information supplementary to the Macquarie Bank Limited Disclosure Report (U.S. Version) for the year ended 31 March 2021 and the Financial Report within the Macquarie Bank Limited Annual Report (the Financial Report) for the year ended 31 March 2021, including further detail in relation to key elements of Macquarie Bank Limited and its subsidiaries' (Macquarie Bank, the Consolidated Entity) financial performance and financial position. The report also outlines the funding and capital profile of the Consolidated Entity.

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

### Date of this report

This report has been prepared for the year ended 31 March 2021 and is current as at 7 May 2021.

### Cover image

A Macquarie-managed fund has been invested in Aligned Energy since 2018, supporting the developer, owner, and operator of data centres expand its presence across the United States.





# Explanatory notes

## Comparative information and conventions

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

References to the prior year are to the 12 months ended 31 March 2020.

References to the first half are to the six months ended 30 September 2020.

References to the second half are to the six months ended 31 March 2021.

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

## Independent Auditor's Report

This document should be read in conjunction with the Financial Report for the year ended 31 March 2021, which was subject to independent audit by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's report to the members of Macquarie Bank Limited dated 7 May 2021 was unqualified.

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

## Disclaimer

The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (MBL, the Company) and is general background information about Macquarie Bank Limited and its subsidiaries' (Macquarie Bank) activities current as at the date of this document. This information is given in summary form and does not purport to be complete. The material in this document may include information derived from publicly available sources that have not been independently verified. Information in this document should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. No representation or warranty is made as to the accuracy, completeness or reliability of the information. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

This document may contain forward looking statements – that is, statements related to future, not past, events or other matters – including, without limitation, statements regarding our intent, belief or current expectations with respect to Macquarie Bank's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, provisions for impairments and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. Macquarie Bank does not undertake any obligation to publicly release the result of any revisions to these forward looking statements or to otherwise update any forward looking statements, whether as a result of new information, future events or otherwise, after the date of this document. Actual results may vary in a materially positive or negative manner. Forward looking statements and hypothetical examples are subject to uncertainty and contingencies outside Macquarie Bank's control. Past performance is not a reliable indication of future performance.

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# 01

## Result Overview

## 1.1 Executive Summary

FY2021 net profit

**\$A1,676m**

↑ 29% on prior year<sup>(1)</sup>

FY2021 net operating income

**\$A6,995m**

↑ 13% on prior year<sup>(1)</sup>

FY2021 operating expenses

**\$A4,697m**

↑ 10% on prior year<sup>(1)</sup>

### FY2021 net profit contribution<sup>(2)</sup> by Operating Group

Summary of the Operating Groups' performance for the year ended 31 March 2021.

#### Banking and Financial Services (BFS)

**\$A769m**

- In line with prior year

- Higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes.
- Decreased credit impairment charges driven by improvement in current and expected macroeconomic conditions compared to the prior year as a result of COVID-19.

Offset by:

- higher employment expenses including increased headcount to support volume growth and clients impacted by COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

#### Commodities and Global Markets (CGM)

**\$A2,424m**

↑ 33% on prior year

- Strong results across the commodities risk management platform including increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements.
- Increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility in North American Gas and Power and Precious Metals in addition to gains associated with the timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions.
- Improved client and trading activity in foreign exchange, interest rate and credit products.
- Increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Partially offset by:

- reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity following a strong prior year.

### Operating Group and Corporate update

In the first half, certain activities of CGM's Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The Cash Equities current year result and comparatives have been reclassified into the Corporate segment to reflect the reorganisation from CGM in the Bank Group.

In November 2020, the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity was executed following approval from both the MGL and MBL Boards. The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from the Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on an arms-length basis.

Refer to Note 42 *Acquisitions and disposals of subsidiaries and businesses* in the Financial Report for additional information.

### Prior Period Discontinued Operations

On 10 December 2018, the Consolidated Entity disposed of its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses (the businesses) to a related group entity, Macquarie Financial Holdings Pty Limited (MFHPL) and its subsidiaries.

Under terms of the agreement the Consolidated Entity recognises there is an adjustment to the sales consideration in certain situations following a subsequent sale of the transferred businesses by MFHPL and its subsidiaries. A gain of \$A164 million was recognised in the year ended 31 March 2020 as a consequence of this provision.

(1) Compared to continuing operations from the prior year.

(2) Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax.

## Profit attributable to the ordinary equity holder

**\$A1,676m**

↑ 15% on prior year

|                                                                                    | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|------------------------------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                                                    | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Financial performance summary</b>                                               |                |                |               |                |                |               |
| Net interest income                                                                | 1,084          | 1,005          | 8             | 2,089          | 2,040          | 2             |
| Fee and commission income                                                          | 810            | 516            | 57            | 1,326          | 1,185          | 12            |
| Net trading income                                                                 | 1,941          | 1,374          | 41            | 3,315          | 2,615          | 27            |
| Net operating lease income                                                         | 189            | 206            | (8)           | 395            | 371            | 6             |
| Share of net profits from associates and joint ventures                            | 29             | 12             | 142           | 41             | 27             | 52            |
| Net credit impairment charges                                                      | (46)           | (241)          | (81)          | (287)          | (451)          | (36)          |
| Other impairment charges                                                           | (25)           | (21)           | 19            | (46)           | (21)           | 119           |
| Other operating income and charges                                                 | 70             | 92             | (24)          | 162            | 406            | (60)          |
| <b>Net operating income</b>                                                        | <b>4,052</b>   | <b>2,943</b>   | <b>38</b>     | <b>6,995</b>   | <b>6,172</b>   | <b>13</b>     |
| Employment expenses                                                                | (1,460)        | (643)          | 127           | (2,103)        | (1,347)        | 56            |
| Brokerage, commission and trading-related fee expenses                             | (229)          | (296)          | (23)          | (525)          | (596)          | (12)          |
| Occupancy expenses                                                                 | (93)           | (57)           | 63            | (150)          | (104)          | 44            |
| Non-salary technology expenses                                                     | (239)          | (88)           | 172           | (327)          | (170)          | 92            |
| Other operating expenses                                                           | (573)          | (1,019)        | (44)          | (1,592)        | (2,060)        | (23)          |
| <b>Total operating expenses</b>                                                    | <b>(2,594)</b> | <b>(2,103)</b> | <b>23</b>     | <b>(4,697)</b> | <b>(4,277)</b> | <b>10</b>     |
| Operating profit from continuing operations before income tax                      | 1,458          | 840            | 74            | 2,298          | 1,895          | 21            |
| Income tax expense from continuing operations                                      | (442)          | (180)          | 146           | (622)          | (586)          | 6             |
| Profit from continuing operations after income tax                                 | 1,016          | 660            | 54            | 1,676          | 1,309          | 28            |
| Profit from discontinued operations after income tax                               | -              | -              | -             | -              | 164            | (100)         |
| <b>Profit from continuing and discontinued operations after income tax</b>         | <b>1,016</b>   | <b>660</b>     | <b>54</b>     | <b>1,676</b>   | <b>1,473</b>   | <b>14</b>     |
| <b>Profit attributable to equity holders of Macquarie Bank Limited</b>             | <b>1,016</b>   | <b>660</b>     | <b>54</b>     | <b>1,676</b>   | <b>1,473</b>   | <b>14</b>     |
| Distribution paid or provided for on Macquarie Income Securities                   | -              | -              | -             | -              | (12)           | (100)         |
| <b>Profit attributable to the ordinary equity holder of Macquarie Bank Limited</b> | <b>1,016</b>   | <b>660</b>     | <b>54</b>     | <b>1,676</b>   | <b>1,461</b>   | <b>15</b>     |
| <b>From continuing operations</b>                                                  | <b>1,016</b>   | <b>660</b>     | <b>54</b>     | <b>1,676</b>   | <b>1,297</b>   | <b>29</b>     |
| <b>From discontinued operations</b>                                                | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>-</b>       | <b>164</b>     | <b>(100)</b>  |
| <b>Key metrics</b>                                                                 |                |                |               |                |                |               |
| Expense to income ratio (%)                                                        | 64.0           | 71.5           |               | 67.1           | 69.3           |               |
| Effective tax rate from continuing operations (%)                                  | 30.3           | 21.4           |               | 27.1           | 30.9           |               |

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# 1.1 Executive Summary

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## Net operating income

Net operating income of \$A6,995 million for the year ended 31 March 2021 increased 13% from \$A6,172 million in the prior year mainly driven by higher Net interest and trading income and Fee and commission income, as well as lower Credit and other impairment charges. This was partially offset by lower Other operating income and charges.

### Net interest and trading income

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| 5,404        | 4,655     |

**↑ 16%**  
on prior year

- Increased opportunities in inventory management and trading driven by market dislocations and increased volatility, in addition to timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions in CGM.
- Growth in average deposits and loan portfolio volumes in BFS.
- Impact of Cash Equities transfer to Macquarie Capital in the Non-Bank Group in the current year.

Partially offset by:

- margin compression on deposits and lower vehicle finance portfolio volumes in BFS.

### Fee and commission income

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| 1,326        | 1,185     |

**↑ 12%**  
on prior year

- Higher income due to fees received from the Non-Bank Group for services provided by the Central Service Groups which were transferred to MBL during the year.

Partially offset by:

- reduction in Cash Equities due to the transfer to Macquarie Capital in the Non-Bank Group in the current year
- reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.

### Net operating lease income

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| 395          | 371       |

**↑ 6%**  
on prior year

- Higher secondary income from the asset financing portfolio in CGM.

### Share of net profits from associates and joint ventures

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| 41           | 27        |

**↑ 52%**  
on prior year

- Increase reflecting performance of underlying investments.

### Credit and other impairment charges

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| (333)        | (472)     |

**↓ 29%**  
on prior year

- Lower credit and other impairment charges recognised across the Consolidated Entity compared to the prior year reflecting improvement in the current and expected macroeconomic conditions.

### Other operating income and charges

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| 162          | 406       |

**↓ 60%**  
on prior year

- Recognition of a gain in Corporate in the prior year on the sale of Macquarie Specialised Investment Solutions (MSIS) fiduciary businesses to Macquarie Asset Management Holdings Pty Limited (MAMHPL), a related party of MBL, owned 100% by MGL.



## Operating expenses

Total operating expenses of \$A4,697 million for the year ended 31 March 2021 increased 10% from \$A4,277 million in the prior year mainly driven by higher Employment expenses. This was partially offset by lower Other operating expenses.

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### Employment expenses

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| <b>2,103</b> | 1,347     |

**↑ 56%**  
on prior year

- Higher employment expenses mainly due to the transfer of staff from MGL's service entities during the current year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity.
- Increase in performance-related profit share expense as a result of increased headcount due to the transfer of the services entities, as well as the performance of the Bank Group.
- Higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19.

### Brokerage, commission and trading-related fee expenses

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| <b>525</b>   | 596       |

**↓ 12%**  
on prior year

- Lower Wealth management expenses in BFS.
- Lower equities activity in EMEA and Asia in CGM.

### Non-salary technology expenses

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| <b>327</b>   | 170       |

**↑ 92%**  
on prior year

- Higher technology expenses mainly due to the transfer of costs of Central Service Groups during the current year to the Consolidated Entity.

### Other operating expenses and Occupancy

| FULL YEAR TO |           |
|--------------|-----------|
| 31 Mar 21    | 31 Mar 20 |
| \$Am         | \$Am      |
| <b>1,742</b> | 2,164     |

**↓ 20%**  
on prior year

- Reduced Other operating expenses mainly driven by the transfer of MGL's service entities to the Bank Group in November 2020:
  - prior to the transfer, the Bank Group recognised its allocation of charges from the service entities in Other expenses which were charged on an arms-length basis
  - since the transfer, the costs of the service entities have been incurred directly by the Bank Group and recognised in the underlying expense categories, including Employment expenses and Non-salary technology expenses.

## Income tax expense

Income tax expense from continuing operations for the year ended 31 March 2021 of \$A622 million increased 6% from \$A586 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 27.1%, down from 30.9% in the prior year.

The lower effective tax rate compared to the prior year was mainly driven by the geographic composition and nature of earnings.

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# 02

## Financial Performance Analysis

## 2.1 Net Interest and Trading Income

|                                        | HALF YEAR TO |        |          | FULL YEAR TO |        |          |
|----------------------------------------|--------------|--------|----------|--------------|--------|----------|
|                                        | Mar 21       | Sep 20 | Movement | Mar 21       | Mar 20 | Movement |
|                                        | \$Am         | \$Am   | %        | \$Am         | \$Am   | %        |
| Net interest income                    | <b>1,084</b> | 1,005  | 8        | <b>2,089</b> | 2,040  | 2        |
| Net trading income                     | <b>1,941</b> | 1,374  | 41       | <b>3,315</b> | 2,615  | 27       |
| <b>Net interest and trading income</b> | <b>3,025</b> | 2,379  | 27       | <b>5,404</b> | 4,655  | 16       |

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

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

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

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

|                                             | HALF YEAR TO |        |          | FULL YEAR TO |        |          |
|---------------------------------------------|--------------|--------|----------|--------------|--------|----------|
|                                             | Mar 21       | Sep 20 | Movement | Mar 21       | Mar 20 | Movement |
|                                             | \$Am         | \$Am   | %        | \$Am         | \$Am   | %        |
| BFS                                         | <b>902</b>   | 844    | 7        | <b>1,746</b> | 1,728  | 1        |
| CGM                                         |              |        |          |              |        |          |
| Commodities                                 | <b>1,462</b> | 933    | 57       | <b>2,395</b> | 1,761  | 36       |
| Foreign exchange, interest rates and credit | <b>387</b>   | 352    | 10       | <b>739</b>   | 660    | 12       |
| Equities                                    | <b>116</b>   | 198    | (41)     | <b>314</b>   | 351    | (11)     |
| Specialised and Asset Finance               | <b>65</b>    | 63     | 3        | <b>128</b>   | 161    | (20)     |
| Corporate                                   | <b>93</b>    | (11)   | *        | <b>82</b>    | (6)    | *        |
| <b>Net interest and trading income</b>      | <b>3,025</b> | 2,379  | 27       | <b>5,404</b> | 4,655  | 16       |



Net interest and trading income of \$A5,404 million for the year ended 31 March 2021 increased 16% from \$A4,655 million in the prior year.

## BFS

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

Net interest and trading income of \$A1,746 million for the year ended 31 March 2021 increased 1% from \$A1,728 million in the prior year due to a 24% increase in the average loan portfolio and 23% increase in the average BFS deposit volumes, offset by margin compression on deposits and a reduction in vehicle finance volumes.

As at 31 March 2021 the deposit and loan and lease portfolios included:

- BFS deposits of \$A80.7 billion, up 26% from \$A63.9 billion as at 31 March 2020;
- Home loan volumes of \$A67.0 billion, up 29% from \$A52.1 billion as at 31 March 2020;
- Vehicle finance volumes of \$A11.5 billion, down 16% from \$A13.7 billion as at 31 March 2020; and
- Business banking loan volumes of \$A10.2 billion, up 13% from \$A9.0 billion as at 31 March 2020.

## CGM

Net interest and trading income of \$A3,576 million for the year ended 31 March 2021 increased 22% from \$A2,933 million in the prior year.

### Commodities

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

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

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

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

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

Net interest and trading income from commodities of \$A2,395 million for the year ended 31 March 2021 increased 36% from \$A1,761 million in the prior year.

Increased contributions from Risk management products were recorded from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture sectors due to increased client hedging activity as a result of increased volatility and commodity price movements.

Reduced contributions from Lending and financing activities were driven by movements in foreign exchange rates and reduced volumes in specific sectors.

The current year Inventory management and trading result benefited from increased contributions from North American Gas and Power and Precious Metals driven by market dislocations and increased volatility. The current year result also recognised a gain associated with the timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions.

### Foreign exchange, interest rates and credit

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A739 million for the year ended 31 March 2021 increased 12% from \$A660 million in the prior year driven by an increase in client activity in structured foreign exchange and credit products.

## 2.1 Net Interest and Trading Income

Continued

### Equities

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

Equities net interest and trading income of \$A314 million for the year ended 31 March 2021 decreased 11% from \$A351 million in the prior year due to a decrease in contribution from EMEA and Asia which was offset by corresponding decreases in brokerage, commission and trading-related fee expenses.

### Specialised and Asset Finance (SAF)

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

Net interest and trading income of \$A128 million for year ended 31 March 2021 decreased 20% from \$A161 million in the prior year. The decrease was largely as a result of a stronger prior year which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A5.6 billion as at 31 March 2021, a reduction of 7% from \$A6.0 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and the equipment finance portfolio as well as the impact of foreign exchange movements.

### Corporate

Net interest and trading income in the Corporate segment includes the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital, funding costs associated with non-core and centrally held investments and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting under AASB 9 is unable to be achieved. In addition, the Corporate segment includes the Cash Equities business, which was transferred from Commodities and Global Markets to Macquarie Capital in the Non-Bank Group.

Net interest and trading income of \$A82 million for the year ended 31 March 2021 compared to an expense of \$A6 million in the prior year due to the increased transfer pricing recovery from Operating Groups, the impact of accounting volatility from changes in the fair value of economic hedges and the reduction in Cash Equities as part of the transfer to Macquarie Capital in the Non-Bank Group in the first half. This was partially offset by lower earnings on capital driven by lower AUD and USD interest rates.

## 2.2 Fee and Commission Income

|                                                | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| Brokerage and other trading-related fee income | 133            | 227            | (41)          | 360            | 501            | (28)          |
| Other fee and commission income                | 677            | 289            | 134           | 966            | 684            | 41            |
| <b>Total fee and commission income</b>         | <b>810</b>     | <b>516</b>     | <b>57</b>     | <b>1,326</b>   | <b>1,185</b>   | <b>12</b>     |

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

Total fee and commission income of \$A1,326 million for the year ended 31 March 2021 increased 12% from \$A1,185 million in the prior year. The increase was primarily driven by higher income due to fees received from the Non-Bank Group for services provided by the Central Service Groups which were transferred to MBL during the year. This was partially offset by reduction in Cash Equities due to the transfer to Macquarie Capital in the Non-Bank Group in the first half and reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.

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## 2.3 Net Operating Lease Income

|                                                        | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|--------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                        | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| Rental income                                          | 363            | 483            | (25)          | 846            | 1,197          | (29)          |
| Depreciation and other operating lease-related charges | (174)          | (277)          | (37)          | (451)          | (826)          | (45)          |
| <b>Net operating lease income</b>                      | <b>189</b>     | <b>206</b>     | <b>(8)</b>    | <b>395</b>     | <b>371</b>     | <b>6</b>      |

Net operating lease income of \$A395 million for the year ended 31 March 2021 increased 6% from \$A371 million in the prior year. The movement was primarily driven by higher secondary income from the asset financing portfolio in CGM.

## 2.4 Share of Net Profits from Associates and Joint Ventures

|                                                                | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|----------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                                | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Share of net profits from associates and joint ventures</b> | <b>29</b>      | <b>12</b>      | <b>142</b>    | <b>41</b>      | <b>27</b>      | <b>52</b>     |

Share of net profits from associates and joint ventures of \$A41 million for the year ended 31 March 2021 increased 52% from \$A27 million in the prior year. The movement was primarily driven by the performance of the underlying investments.



## 2.5 Credit and Other Impairment Charges

|                                                                                                | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               | Result<br>Overview                |
|------------------------------------------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|-----------------------------------|
|                                                                                                | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |                                   |
| <b>Net credit impairment charges</b>                                                           |                |                |               |                |                |               | Financial Performance<br>Analysis |
| Loan assets                                                                                    | (3)            | (193)          | (98)          | (196)          | (325)          | (40)          |                                   |
| Margin money and settlement assets                                                             | (5)            | (24)           | (79)          | (29)           | (66)           | (56)          |                                   |
| Financial investments, other assets,<br>undrawn credit commitments and financial<br>guarantees | (38)           | (26)           | 46            | (64)           | (72)           | (11)          |                                   |
| Gross credit impairment charges                                                                | (46)           | (243)          | (81)          | (289)          | (463)          | (38)          |                                   |
| Recovery of loans previously written off                                                       | -              | 2              | (100)         | 2              | 12             | (83)          |                                   |
| <b>Total net credit impairment charges</b>                                                     | <b>(46)</b>    | <b>(241)</b>   | <b>(81)</b>   | <b>(287)</b>   | <b>(451)</b>   | <b>(36)</b>   |                                   |
| <b>Other impairment charges</b>                                                                |                |                |               |                |                |               | Segment<br>Analysis               |
| Interests in associates and joint ventures                                                     | (14)           | (10)           | 40            | (24)           | (7)            | 243           |                                   |
| Intangible and other non-financial assets                                                      | (11)           | (11)           | -             | (22)           | (14)           | 57            |                                   |
| <b>Total other impairment charges</b>                                                          | <b>(25)</b>    | <b>(21)</b>    | <b>19</b>     | <b>(46)</b>    | <b>(21)</b>    | <b>119</b>    |                                   |
| <b>Total credit and other impairment charges</b>                                               | <b>(71)</b>    | <b>(262)</b>   | <b>(73)</b>   | <b>(333)</b>   | <b>(472)</b>   | <b>(29)</b>   | Balance<br>Sheet                  |
|                                                                                                | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |                                   |
|                                                                                                | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |                                   |
| BFS                                                                                            | (37)           | (78)           | (53)          | (115)          | (149)          | (23)          | Funding<br>and Liquidity          |
| CGM                                                                                            | (67)           | (173)          | (61)          | (240)          | (238)          | 1             |                                   |
| Corporate                                                                                      | 33             | (11)           | *             | 22             | (85)           | *             |                                   |
| <b>Total credit and other impairment charges</b>                                               | <b>(71)</b>    | <b>(262)</b>   | <b>(73)</b>   | <b>(333)</b>   | <b>(472)</b>   | <b>(29)</b>   |                                   |

Total credit and other impairment charges of \$A333 million for the year ended 31 March 2021 decreased 29% from \$A472 million in the prior year. This includes \$A287 million of total credit impairment charges, down from \$A451 million in the prior year reflecting improvement in the current and expected macroeconomic conditions. The second half included the reversal of a central overlay provision in Corporate for expected credit losses reflecting management's current view of the improvement in the outlook of the Bank Group's portfolio.

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## 2.5 Credit and Other Impairment Charges

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### **BFS**

Credit and other impairment charges of \$A115 million for the year ended 31 March 2021 decreased 23% from \$A149 million in prior year largely due to improvement in the current and expected macroeconomic conditions compared to the prior year and the exit of clients from payment pause.

### **CGM**

Credit and other impairment charges of \$A240 million for the year ended 31 March 2021 was broadly in line with the prior year driven by a reduction in specific provisions offset by an overlay for industry specific risks and impairments on a small number of underperforming assets.

### **Corporate**

Credit and other impairment reversal of \$A22 million for the year ended 31 March 2021 compared to a charge of \$A85 million in the prior year reflecting an improving macroeconomic outlook leading to the partial release of credit provisions in the second half.

For further information on the Consolidated Entity's determination of its expected credit losses, please refer to Note 12 *Expected credit losses* in the Financial Report.

## 2.6 Other Operating Income and Charges

|                                                        | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|--------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                        | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Investment income</b>                               |                |                |               |                |                |               |
| Net gain on equity and debt investments                | 48             | 52             | (8)           | 100            | 9              | *             |
| Net gain on interests in associates and joint ventures | 1              | -              | *             | 1              | 18             | (94)          |
| Net gain on non-financial assets                       | 7              | 9              | (22)          | 16             | 3              | *             |
| Net gain on disposal of businesses and subsidiaries    | 8              | -              | *             | 8              | 241            | (97)          |
| <b>Total investment income</b>                         | <b>64</b>      | 61             | 5             | <b>125</b>     | 271            | (54)          |
| <b>Other income and charges</b>                        | <b>6</b>       | 31             | (81)          | <b>37</b>      | 135            | (73)          |
| <b>Total other operating income and charges</b>        | <b>70</b>      | 92             | (24)          | <b>162</b>     | 406            | (60)          |

Total other operating income and charges of \$A162 million for the year ended 31 March 2021 decreased 60% from \$A406 million in the prior year.

### Investment income

Investment income totalled \$A125 million for the year ended 31 March 2021, a decrease of 54% from \$A271 million in the prior year primarily driven by recognition of a gain in Corporate in the prior year on the sale of the MSIS fiduciary businesses to MAMHPL, a related party of MBL, owned 100% by MGL, partially offset by gains on listed equity investments in the commodities sector in CGM.

### Other income and charges

Other income of \$A37 million for the year ended 31 March 2021 decreased 73% from \$A135 million in the prior year driven by certain consolidation adjustments in Corporate in the prior year as well as the impact of fair value adjustments on debt securities in CGM.

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## 2.7 Operating Expenses

|                                                                                                     | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                                                                     | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| Employment expenses                                                                                 |                |                |               |                |                |               |
| Salary and related costs including commissions, superannuation and performance-related profit share | (1,324)        | (551)          | 140           | (1,875)        | (1,154)        | 62            |
| Share-based payments                                                                                | (133)          | (73)           | 82            | (206)          | (192)          | 7             |
| Provision for long service leave and annual leave                                                   | (3)            | (19)           | (84)          | (22)           | (1)            | *             |
| <b>Total employment expenses</b>                                                                    | <b>(1,460)</b> | <b>(643)</b>   | <b>127</b>    | <b>(2,103)</b> | <b>(1,347)</b> | <b>56</b>     |
| Brokerage, commission and trading-related fee expenses                                              | (229)          | (296)          | (23)          | (525)          | (596)          | (12)          |
| Occupancy expenses                                                                                  | (93)           | (57)           | 63            | (150)          | (104)          | 44            |
| Non-salary technology expenses                                                                      | (239)          | (88)           | 172           | (327)          | (170)          | 92            |
| Other operating expenses                                                                            |                |                |               |                |                |               |
| Service cost recoveries by related entities                                                         | (283)          | (825)          | (66)          | (1,108)        | (1,643)        | (33)          |
| Professional fees                                                                                   | (111)          | (67)           | 66            | (178)          | (145)          | 23            |
| Travel and entertainment expenses                                                                   | (4)            | (2)            | 100           | (6)            | (41)           | (85)          |
| Advertising and communication expenses                                                              | (22)           | (16)           | 38            | (38)           | (30)           | 27            |
| Amortisation of intangibles assets                                                                  | (11)           | (11)           | -             | (22)           | (20)           | 10            |
| Audit fees                                                                                          | (13)           | (15)           | (13)          | (28)           | (22)           | 27            |
| Other expenses                                                                                      | (129)          | (83)           | 55            | (212)          | (159)          | 33            |
| <b>Total other operating expenses</b>                                                               | <b>(573)</b>   | <b>(1,019)</b> | <b>(44)</b>   | <b>(1,592)</b> | <b>(2,060)</b> | <b>(23)</b>   |
| <b>Total operating expenses</b>                                                                     | <b>(2,594)</b> | <b>(2,103)</b> | <b>23</b>     | <b>(4,697)</b> | <b>(4,277)</b> | <b>10</b>     |

Total operating expenses of \$A4,697 million for the year ended 31 March 2021 increased 10% from \$A4,277 million in the prior year mainly driven by the transfer of the Central Service Groups during the current year to the Consolidated Entity.

Key drivers of the movement included:

- total employment expenses of \$A2,103 million for the year ended 31 March 2021 increased 56% from \$A1,347 million in the prior year driven by higher salary and related costs mainly due to the transfer of staff from MGL's service entities during the current year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity, increase in performance-related profit share expense as a result of increased headcount due to the transfer of the services entities, as well as the performance of the Bank Group and higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19
- brokerage, commission and trading-related fee expenses of \$A525 million for the year ended 31 March 2021 decreased 12% from \$A596 million in the prior year primarily due to lower Wealth management expenses in BFS, as well as reduced equities activity in EMEA and Asia in CGM
- non-salary technology expenses of \$A327 million for the year ended 31 March 2021 increased 92% from \$A170 million in the prior year primarily driven by the transfer of costs of Central Service Groups during the current year to the Consolidated Entity
- total other operating expenses of \$A1,592 million for the year ended 31 March 2021 decreased 23% from \$A2,060 million in the prior year mainly due to the transfer of MGL's service entities to the Bank Group in November 2020. Prior to the transfer, the Bank Group recognised its allocation of charges from the service entities in Other expenses which were charged on an arms-length basis. Since the transfer, the costs of the service entities have been incurred directly by the Bank Group and recognised in the underlying expense categories, including Employment expenses and Non-salary technology expenses.

## 2.8 Headcount

|                                                   | AS AT         |              |              | MOVEMENT    |             |
|---------------------------------------------------|---------------|--------------|--------------|-------------|-------------|
|                                                   | Mar 21        | Sep 20       | Mar 20       | Sep 20<br>% | Mar 20<br>% |
| <b>Headcount by Operating Group<sup>(1)</sup></b> |               |              |              |             |             |
| BFS                                               | 2,986         | 2,876        | 2,646        | 4           | 13          |
| CGM <sup>(2)</sup>                                | 1,946         | 1,591        | 1,586        | 22          | 23          |
| Total headcount - Operating Groups                | 4,932         | 4,467        | 4,232        | 10          | 17          |
| Total headcount - Corporate                       | 7,644         | 9            | 47           | *           | *           |
| <b>Total headcount</b>                            | <b>12,576</b> | <b>4,476</b> | <b>4,279</b> | <b>181</b>  | <b>194</b>  |
| <b>Headcount by region</b>                        |               |              |              |             |             |
| Australia <sup>(3)</sup>                          | 6,553         | 3,185        | 2,951        | 106         | 122         |
| International:                                    |               |              |              |             |             |
| Americas                                          | 1,409         | 447          | 448          | 215         | 215         |
| Asia                                              | 3,177         | 190          | 227          | *           | *           |
| Europe, Middle East and Africa                    | 1,437         | 654          | 653          | 120         | 120         |
| Total headcount - International                   | 6,023         | 1,291        | 1,328        | *           | *           |
| <b>Total headcount</b>                            | <b>12,576</b> | <b>4,476</b> | <b>4,279</b> | <b>181</b>  | <b>194</b>  |
| International headcount ratio (%)                 | 48            | 29           | 31           |             |             |

Total headcount increased significantly to 12,576 as at 31 March 2021 from 4,279 as at 31 March 2020, mainly due to the transfer of staff from MGL's service entities during the current year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity, as well as an increase in BFS to support volume growth and clients impacted by COVID-19.

(1) Headcount numbers in this document includes certain staff employed in operationally segregated subsidiaries (OSS).  
(2) Headcount as at 31 March 2020 has been restated to reflect the transfer of Cash Equities from CGM to Macquarie Capital.  
(3) Includes New Zealand.

## 2.9 Income Tax Expense

|                                                               | FULL YEAR TO   |                |
|---------------------------------------------------------------|----------------|----------------|
|                                                               | Mar 21<br>\$Am | Mar 20<br>\$Am |
| Operating profit from continuing operations before income tax | 2,298          | 1,895          |
| Prima facie tax @ 30%                                         | 689            | 569            |
| Income tax permanent differences                              | (67)           | 17             |
| Income tax expense                                            | 622            | 586            |
| <b>Effective tax rate</b>                                     | <b>27.1%</b>   | 30.9%          |

Income tax expense from continuing operations of \$A622 million for the year ended 31 March 2021 increased 6% from \$A586 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 27.1%, down from 30.9% in the prior year.

The lower effective tax rate compared to the prior year was mainly driven by the geographic composition and nature of earnings.

# 03

## Segment Analysis



## 3.1 Basis of Preparation

### Operating Segments

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

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

During the year, certain activities of CGM's Cash Equities business which operated within the Bank Group were transferred to Macquarie Capital in the Non-Bank Group. Comparatives have been reclassified to reflect this reorganisation.

The financial information disclosed relates to the Consolidated Entity's continuing operations.

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

- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance<sup>(1)</sup> products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy and strategy investments, assets and businesses that are not allocated to any of the Operating Groups. Consequent to a group internal restructuring, any balances pertaining to an operating

segment that are not individually material are also reported as part of the Corporate segment.

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

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

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

#### Internal funding arrangements

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

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

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

#### Transactions between Operating Segments

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

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

(1) Includes general plant and equipment.

## Accounting for derivatives that hedge interest rate risk

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

## Central Service Groups

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

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

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

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

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

Please refer to Note 42 *Acquisition and disposals of subsidiaries and businesses* for additional information.

## Performance-related profit share and share-based payments expense

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

## Income tax

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

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

## Presentation of segment income statements

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

## 3.1 Basis of Preparation

Continued

|                                                                                                             | BFS<br>\$Am | CGM<br>\$Am  | Corporate<br>\$Am | Total<br>\$Am  |
|-------------------------------------------------------------------------------------------------------------|-------------|--------------|-------------------|----------------|
| <b>Full year ended 31 March 2021</b>                                                                        |             |              |                   |                |
| Net interest and trading income                                                                             | 1,746       | 3,576        | 82                | <b>5,404</b>   |
| Fee and commission income                                                                                   | 416         | 447          | 463               | <b>1,326</b>   |
| Net operating lease income                                                                                  | -           | 384          | 11                | <b>395</b>     |
| Share of net (losses)/profits from associates and joint ventures                                            | (3)         | 44           | -                 | <b>41</b>      |
| Other operating income and charges                                                                          |             |              |                   |                |
| Credit and other impairment (charges)/reversals                                                             | (115)       | (240)        | 22                | <b>(333)</b>   |
| Other operating income and charges                                                                          | 30          | 96           | 36                | <b>162</b>     |
| Internal management revenue/(charge)                                                                        | 1           | (3)          | 2                 | <b>-</b>       |
| Net operating income                                                                                        | 2,075       | 4,304        | 616               | <b>6,995</b>   |
| Total operating expenses                                                                                    | (1,306)     | (1,880)      | (1,511)           | <b>(4,697)</b> |
| Operating profit/(loss) before income tax                                                                   | 769         | 2,424        | (895)             | <b>2,298</b>   |
| Income tax expense                                                                                          | -           | -            | (622)             | <b>(622)</b>   |
| Distributions paid or provided for on Macquarie Income Securities (MIS)                                     | -           | -            | -                 | <b>-</b>       |
| <b>Net profit/(loss) contribution attributable to the ordinary equity holder from continuing operations</b> | <b>769</b>  | <b>2,424</b> | <b>(1,517)</b>    | <b>1,676</b>   |
| <b>Full year ended 31 March 2020</b>                                                                        |             |              |                   |                |
| Net interest and trading income/(expense)                                                                   | 1,728       | 2,933        | (6)               | <b>4,655</b>   |
| Fee and commission income                                                                                   | 441         | 511          | 233               | <b>1,185</b>   |
| Net operating lease income                                                                                  | -           | 360          | 11                | <b>371</b>     |
| Share of net profits/(losses) from associates and joint ventures                                            | 3           | 25           | (1)               | <b>27</b>      |
| Other operating income and charges                                                                          |             |              |                   |                |
| Credit and other impairment charges                                                                         | (149)       | (238)        | (85)              | <b>(472)</b>   |
| Other operating income and charges                                                                          | 9           | 75           | 322               | <b>406</b>     |
| Internal management revenue/(charge)                                                                        | 2           | 24           | (26)              | <b>-</b>       |
| Net operating income                                                                                        | 2,034       | 3,690        | 448               | <b>6,172</b>   |
| Total operating expenses                                                                                    | (1,267)     | (1,870)      | (1,140)           | <b>(4,277)</b> |
| Operating profit/(loss) before income tax                                                                   | 767         | 1,820        | (692)             | <b>1,895</b>   |
| Income tax expense                                                                                          | -           | -            | (586)             | <b>(586)</b>   |
| Distributions paid or provided for on Macquarie Income Securities (MIS)                                     | -           | -            | (12)              | <b>(12)</b>    |
| <b>Net profit/(loss) contribution attributable to the ordinary equity holder from continuing operations</b> | <b>767</b>  | <b>1,820</b> | <b>(1,290)</b>    | <b>1,297</b>   |

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Result  
Overview

Financial Performance  
Analysis

**Segment  
Analysis**

Balance  
Sheet

Funding  
and Liquidity

Capital

Glossary

## 3.2 BFS

|                                                                         | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|-------------------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                                         | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Net interest and trading income</b>                                  | <b>902</b>     | 844            | 7             | <b>1,746</b>   | 1,728          | 1             |
| <b>Fee and commission income</b>                                        |                |                |               |                |                |               |
| Wealth management fee income                                            | <b>137</b>     | 134            | 2             | <b>271</b>     | 280            | (3)           |
| Banking and leasing fee income                                          | <b>78</b>      | 67             | 16            | <b>145</b>     | 161            | (10)          |
| Total fee and commission income                                         | <b>215</b>     | 201            | 7             | <b>416</b>     | 441            | (6)           |
| <b>Share of net (losses)/profits from associates and joint ventures</b> | <b>(2)</b>     | (1)            | 100           | <b>(3)</b>     | 3              | *             |
| <b>Other operating income and charges</b>                               |                |                |               |                |                |               |
| Credit and other impairment charges                                     | <b>(37)</b>    | (78)           | (53)          | <b>(115)</b>   | (149)          | (23)          |
| Other income                                                            | <b>14</b>      | 16             | (13)          | <b>30</b>      | 9              | 233           |
| Total other operating income and charges                                | <b>(23)</b>    | (62)           | (63)          | <b>(85)</b>    | (140)          | (39)          |
| <b>Internal management revenue</b>                                      | <b>-</b>       | 1              | (100)         | <b>1</b>       | 2              | (50)          |
| <b>Net operating income</b>                                             | <b>1,092</b>   | 983            | 11            | <b>2,075</b>   | 2,034          | 2             |
| <b>Operating expenses</b>                                               |                |                |               |                |                |               |
| Employment expenses                                                     | <b>(193)</b>   | (196)          | (2)           | <b>(389)</b>   | (354)          | 10            |
| Brokerage, commission and trading-related fee expenses                  | <b>(61)</b>    | (81)           | (25)          | <b>(142)</b>   | (172)          | (17)          |
| Technology expenses <sup>(1)</sup>                                      | <b>(191)</b>   | (202)          | (5)           | <b>(393)</b>   | (374)          | 5             |
| Other operating expenses                                                | <b>(193)</b>   | (189)          | 2             | <b>(382)</b>   | (367)          | 4             |
| <b>Total operating expenses</b>                                         | <b>(638)</b>   | (668)          | (4)           | <b>(1,306)</b> | (1,267)        | 3             |
| <b>Net profit contribution</b>                                          | <b>454</b>     | 315            | 44            | <b>769</b>     | 767            | <1            |
| <b>Non-GAAP metrics</b>                                                 |                |                |               |                |                |               |
| Funds on platform <sup>(2)</sup> (\$Ab)                                 | <b>101.4</b>   | 89.3           | 14            | <b>101.4</b>   | 79.1           | 28            |
| Loan and lease portfolio <sup>(3)</sup> (\$Ab)                          | <b>89.1</b>    | 79.1           | 13            | <b>89.1</b>    | 75.3           | 18            |
| BFS deposits <sup>(4)</sup> (\$Ab)                                      | <b>80.7</b>    | 74.4           | 8             | <b>80.7</b>    | 63.9           | 26            |
| Headcount                                                               | <b>2,986</b>   | 2,876          | 4             | <b>2,986</b>   | 2,646          | 13            |

Net profit contribution of \$A769 million for the year ended 31 March 2021, broadly in line with the prior year due to:

- higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes
- decreased credit impairment charges driven by improvement in current and expected macroeconomic conditions compared to the prior year as a result of COVID-19.

Offset by:

- higher employment expenses including increased headcount to support volume growth and clients impacted by COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements.

(1) Technology expenses include technology staff expenses, depreciation of technology assets, amortisation of capitalised software and maintenance costs.

(2) Funds on platform includes Macquarie Wrap and Vision.

(3) The Loan and lease portfolio comprises home loans, loans to businesses, vehicle finance and credit cards.

(4) BFS deposits exclude corporate/wholesale deposits.

## Net interest and trading income

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

Net interest and trading income of \$A1,746 million for the year ended 31 March 2021 increased 1% from \$A1,728 million in the prior year due to a 24% increase in the average loan portfolio and 23% increase in the average BFS deposit volumes, offset by margin compression on deposits and a reduction in vehicle finance volumes.

As at 31 March 2021 the deposit and loan and lease portfolios included:

- BFS deposits of \$A80.7 billion, up 26% from \$A63.9 billion as at 31 March 2020;
- Home loan volumes of \$A67.0 billion, up 29% from \$A52.1 billion as at 31 March 2020;
- Vehicle finance volumes of \$A11.5 billion, down 16% from \$A13.7 billion as at 31 March 2020; and
- Business banking loan volumes of \$A10.2 billion, up 13% from \$A9.0 billion as at 31 March 2020.

## Wealth management fee income

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

Funds on platform closed at \$A101.4 billion at 31 March 2021, an increase of 28% from \$A79.1 billion at 31 March 2020 due to market movements and strong client inflows.

Wealth management fee income of \$A271 million for the year ended 31 March 2021 decreased 3% from \$A280 million in the prior year due to competitive platform margin compression.

## Banking and leasing fee income

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

Banking and leasing fee income of \$A145 million for the year ended 31 March 2021 decreased 10% from \$A161 million in the prior year driven by the impact of supporting clients through COVID-19.

## Credit and other impairment charges

Credit and other impairment charges of \$A115 million for the year ended 31 March 2021 decreased 23% from \$A149 million in prior year largely due to improvement in the current and expected macroeconomic conditions compared to the prior year and the exit of clients from payment pause.

## Other income

Other income of \$A30 million for the year ended 31 March 2021 increased from \$A9 million in the prior year mainly driven by the revaluation of an equity investment.

## Operating expenses

Total operating expenses of \$A1,306 million for the year ended 31 March 2021 increased 3% from \$A1,267 million in the prior year.

Employment expenses of \$A389 million for the year ended 31 March 2021 increased 10% from \$A354 million in the prior year largely due to higher headcount to support volume growth and clients impacted by COVID-19.

Brokerage, commission and trading-related fee expenses of \$A142 million for the year ended 31 March 2021 decreased 17% from \$A172 million in the prior year largely due to lower Wealth management expenses and the sale of an investment in Macquarie Pacific Funding in the prior year.

Technology expenses of \$A393 million for the year ended 31 March 2021 increased 5% from \$A374 million in the prior year to support business growth and to meet regulatory requirements.

Other operating expenses of \$A382 million for the year ended 31 March 2021 increased 4% from \$A367 million in the prior year and included increased risk, regulatory and other business-related costs.

## 3.3 CGM

|                                                                | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|----------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                                | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Net interest and trading income</b>                         |                |                |               |                |                |               |
| Commodities                                                    | 1,462          | 933            | 57            | 2,395          | 1,761          | 36            |
| Foreign exchange, interest rates and credit                    | 387            | 352            | 10            | 739            | 660            | 12            |
| Equities                                                       | 116            | 198            | (41)          | 314            | 351            | (11)          |
| Specialised and Asset Finance                                  | 65             | 63             | 3             | 128            | 161            | (20)          |
| Net interest and trading income                                | 2,030          | 1,546          | 31            | 3,576          | 2,933          | 22            |
| <b>Fee and commission income</b>                               |                |                |               |                |                |               |
| Brokerage and other trading-related fee income                 | 93             | 108            | (14)          | 201            | 244            | (18)          |
| Other fee and commission income                                | 129            | 117            | 10            | 246            | 267            | (8)           |
| Total fee and commission income                                | 222            | 225            | (1)           | 447            | 511            | (13)          |
| <b>Net operating lease income</b>                              | 186            | 198            | (6)           | 384            | 360            | 7             |
| <b>Share of net profits from associates and joint ventures</b> | 31             | 13             | 138           | 44             | 25             | 76            |
| <b>Other operating income and charges</b>                      |                |                |               |                |                |               |
| Net income on equity, debt and other investments               | 6              | 37             | (84)          | 43             | 23             | 87            |
| Credit and other impairment charges                            | (67)           | (173)          | (61)          | (240)          | (238)          | 1             |
| Other income                                                   | 33             | 20             | 65            | 53             | 52             | 2             |
| Total other operating income and charges                       | (28)           | (116)          | (76)          | (144)          | (163)          | (12)          |
| <b>Internal management (charges)/revenue</b>                   | (4)            | 1              | *             | (3)            | 24             | *             |
| <b>Net operating income</b>                                    | 2,437          | 1,867          | 31            | 4,304          | 3,690          | 17            |
| <b>Operating expenses</b>                                      |                |                |               |                |                |               |
| Employment expenses                                            | (239)          | (217)          | 10            | (456)          | (433)          | 5             |
| Brokerage, commission and trading-related fee expenses         | (166)          | (203)          | (18)          | (369)          | (393)          | (6)           |
| Other operating expenses                                       | (532)          | (523)          | 2             | (1,055)        | (1,044)        | 1             |
| <b>Total operating expenses</b>                                | (937)          | (943)          | (1)           | (1,880)        | (1,870)        | 1             |
| <b>Net profit contribution</b>                                 | 1,500          | 924            | 62            | 2,424          | 1,820          | 33            |
| <b>Non-GAAP metrics</b>                                        |                |                |               |                |                |               |
| Headcount                                                      | 1,946          | 1,591          | 22            | 1,946          | 1,586          | 23            |

Net profit contribution of \$A2,424 million for the year ended 31 March 2021, up 33% on the prior year due to:

- strong results across the commodities risk management platform including increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements
- increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility in North American Gas and Power and Precious Metals in addition to gains associated with the timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions
- improved client and trading activity in foreign exchange, interest rate and credit products
- increased net operating lease income driven by higher secondary income from the asset financing portfolio.

Partially offset by:

- reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity following a strong prior year.



## Net interest and trading income

Net interest and trading income of \$3,576 million for the year ended 31 March 2021 increased 22% from \$A2,933 million in the prior year.

## Commodities net interest and trading income

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

Income from risk management products is generated from the provision of hedging and risk management services to clients. Risk management products income is mainly driven by client volumes, which are influenced by the level of price volatility in the markets in which those clients operate.

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

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

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

Net interest and trading income from commodities of \$A2,395 million for the year ended 31 March 2021 increased 36% from \$A1,761 million in the prior year.

Increased contributions from Risk management products were recorded by Resources, North American Gas and Power, EMEA Gas and Power and Agriculture sectors due to increased client hedging activity as a result of volatility and commodity price movements.

Reduced contributions from Lending and financing activities were driven by movements in foreign exchange rates and reduced volumes in specific sectors.

The current year Inventory management and trading result benefited from increased contributions from North American Gas and Power and Precious Metals driven by market dislocations and increased volatility. The current year result also recognised a gain associated with the timing of income recognition on Gas and Oil storage contracts and transport agreements as well as Power transmission positions.

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

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A739 million for the year ended 31 March 2021 increased 12% from \$A660 million in the prior year driven by an increase in client activity in structured foreign exchange and credit products.

## Equities net interest and trading income

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

Equities net interest and trading income of \$A314 million for the year ended 31 March 2021 decreased 11% from \$A351 million in the prior year due to a decrease in contribution from EMEA and Asia which was offset by corresponding decreases in brokerage, commission and trading-related fee expenses.

## 3.3 CGM

Continued

### Specialised and Asset Finance net interest and trading income

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

Net interest and trading income of \$A128 million for year ended 31 March 2021 decreased 20% from \$A161 million in the prior year. The decrease was largely as a result of a stronger prior year which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A5.6 billion as at 31 March 2021, a reduction of 7% from \$A6.0 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and the equipment finance portfolio as well as the impact of foreign exchange.

### Fee and commission income

Fee and commission income of \$A447 million for the year ended 31 March 2021 decreased 13% from \$A511 million in the prior year.

The decrease primarily relates to reduced demand for commodity risk premia products and reduced client brokerage activity following a strong prior year.

### Net operating lease income

Net operating lease income of \$A384 million for the year ended 31 March 2021 increased 7% from \$A360 million in the prior year. The movement was primarily driven by higher secondary income from the asset financing portfolio.

### Net income on equity, debt and other investments

Net income on equity, debt and other investments of \$A43 million for the year ended 31 March 2021 increased 87% from \$A23 million in the prior year. The current year primarily reflected gains on listed equity investments in the commodities sector.

### Credit and other impairment charges

Credit and other impairment charges of \$A240 million for the year ended 31 March 2021 was broadly in line with the prior year driven by a reduction in specific credit provisions, offset by an overlay for industry specific credit risks and impairments on a small number of underperforming assets.

### Operating expenses

Total operating expenses of \$A1,880 million for the year ended 31 March 2021 was broadly in line with the prior year.

Employment expenses of \$A456 million for the year ended 31 March 2021 increased 5% from \$A433 million in the prior year due to the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity, which included back and middle office staff in CGM.

Brokerage, commission and trading-related fee expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related fee expenses of \$A369 million for the year ended 31 March 2021 decreased 6% from \$A393 million in the prior year, driven by reduced equities activity in EMEA and Asia.

Other operating expenses of \$A1,055 million for the year ended 31 March 2021 was broadly in line with the prior year, driven by expenditure on technology infrastructure, as well as increasing compliance and regulatory requirements, offset by a reduction in travel and entertainment expenses.

## 3.4 Corporate

|                                                             | HALF YEAR TO   |                |               | FULL YEAR TO   |                |               |
|-------------------------------------------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                                                             | Mar 21<br>\$Am | Sep 20<br>\$Am | Movement<br>% | Mar 21<br>\$Am | Mar 20<br>\$Am | Movement<br>% |
| <b>Net interest and trading income/(expense)</b>            | <b>93</b>      | (11)           | *             | <b>82</b>      | (6)            | *             |
| <b>Fee and commission income</b>                            | <b>373</b>     | 90             | *             | <b>463</b>     | 233            | 99            |
| <b>Net operating lease income</b>                           | <b>3</b>       | 8              | (63)          | <b>11</b>      | 11             | -             |
| <b>Share of net losses of associates and joint ventures</b> | <b>-</b>       | -              | -             | <b>-</b>       | (1)            | (100)         |
| <b>Other operating income and charges</b>                   |                |                |               |                |                |               |
| Net income on equity and debt investments                   | 15             | 2              | *             | 17             | 248            | (93)          |
| Credit and other impairment reversals/(charges)             | 33             | (11)           | *             | 22             | (85)           | *             |
| Other income and charges                                    | 2              | 17             | (88)          | 19             | 74             | (74)          |
| Total other operating income and charges                    | 50             | 8              | *             | 58             | 237            | (76)          |
| <b>Internal management revenue/(charge)</b>                 | <b>4</b>       | (2)            | *             | <b>2</b>       | (26)           | *             |
| <b>Net operating income</b>                                 | <b>523</b>     | 93             | *             | <b>616</b>     | 448            | 38            |
| <b>Operating expenses</b>                                   |                |                |               |                |                |               |
| Employment expenses                                         | (1,028)        | (230)          | *             | (1,258)        | (560)          | 125           |
| Brokerage, commission and trading-related fee expenses      | (2)            | (12)           | (83)          | (14)           | (31)           | (55)          |
| Other operating expenses                                    | 11             | (250)          | *             | (239)          | (549)          | (56)          |
| <b>Other operating expenses</b>                             | <b>(1,019)</b> | (492)          | 107           | <b>(1,511)</b> | (1,140)        | 33            |
| Income tax expense                                          | (442)          | (180)          | 146           | (622)          | (586)          | 6             |
| Macquarie Income Securities                                 | -              | -              | -             | -              | (12)           | (100)         |
| <b>Net loss contribution</b>                                | <b>(938)</b>   | (579)          | 62            | <b>(1,517)</b> | (1,290)        | 18            |
| <b>Non-GAAP metrics</b>                                     |                |                |               |                |                |               |
| Headcount                                                   | 7,644          | 9              | *             | 7,644          | 47             | *             |

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

In November 2020, the transfer of MGL's service entities from the Non-Bank Group to the Consolidated Entity was executed following approval from both the MGL and MBL Boards. The service entities largely employ staff in Central Service Groups, together with some back and middle office staff from the Operating Groups. The transfer resulted in an increase of approximately 7,500 permanent headcount for the Consolidated Entity. Where staff provide services to the Non-Bank Group, the Consolidated Entity earns fees for these services, which are charged on an arms-length basis.

## 3.4 Corporate

Continued

### Net interest and trading income/(expense)

Net interest and trading income/(expense) in the Corporate segment includes the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital, funding costs associated with non-core and centrally held investments and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting under AASB 9 is unable to be achieved. In addition, the Corporate segment includes the Cash Equities business, which was transferred from Commodities and Global Markets to Macquarie Capital in the Non-Bank Group.

Net interest and trading income of \$A82 million for the year ended 31 March 2021 compared to an expense of \$A6 million in the prior year due to the increased transfer pricing recovery from Operating Groups, the impact of accounting volatility from changes in the fair value of economic hedges and the reduction in Cash Equities as part of the transfer to Macquarie Capital in the Non-Bank Group in the first half. This was partially offset by lower earnings on capital driven by lower AUD and USD interest rates.

### Fee and commission income

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

Fee and commission income of \$A463 million for the year ended 31 March 2021 increased 99% from \$A233 million which reflects the recovery of costs of the Central Service Groups from the Non-Bank Group.

The prior year included the full year impact of Cash Equities that was transferred to Macquarie Capital in the Non-Bank Group in the first half.

### Net income on equity and debt investments

Net income on equity and debt investments was \$A17 million for the year ended 31 March 2021. The prior year's gain of \$A248 million was driven by the gain on sale of MSIS fiduciary businesses to MAMHPL, a related party of MBL, owned 100% by MGL.

### Credit and other impairment reversals/(charges)

Credit and other impairment reversal of \$A22 million for the year ended 31 March 2021 compared to a charge of \$A85 million in the prior year reflecting an improving macroeconomic outlook leading to the partial release of credit provisions in the second half.

### Other income and charges

Other income and charges of \$A19 million for the year ended 31 March 2021 decreased 74% from \$A74 million in the prior year. The prior year included certain consolidation adjustments.

### Employment expenses

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

Employment expenses of \$A1,258 million for the year ended 31 March 2021 increased 125% from \$A560 million in the prior year due to the transfer of staff from MGL's services entities during the current year resulting in an increase in permanent headcount of approximately 7,500 for the Consolidated Entity.

### Other operating expenses

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

The net recovery from the Operating Groups of \$A239 million for the year ended 31 March 2021 decreased 56% from \$A549 million in the prior year.

The reduction from the prior year reflects the transfer of the Central Services Groups into the Bank Group from the Non-Bank Group. Prior to the transfer, the Bank Group recognised its allocation of charges from the service entities in Other expenses which were charged on an arms-length basis.

Since the transfer, the employment costs of the service entities have been incurred directly by the Bank Group and recognised in the Employment expense category.

### Macquarie Income Securities (MIS)

MIS were redeemed on 16 April 2020.

# 04

## Balance Sheet

## 4.1 Statement of Financial Position

|                                                                                                        | AS AT          |                | MOVEMENT    |
|--------------------------------------------------------------------------------------------------------|----------------|----------------|-------------|
|                                                                                                        | Mar 21<br>\$Am | Mar 20<br>\$Am | Mar 20<br>% |
| <b>Assets</b>                                                                                          |                |                |             |
| Cash and bank balances                                                                                 | 15,966         | 7,847          | 103         |
| Cash collateral on securities borrowed and reverse repurchase agreements                               | 34,555         | 37,708         | (8)         |
| Trading assets                                                                                         | 21,212         | 16,251         | 31          |
| Margin money and settlement assets                                                                     | 8,302          | 12,183         | (32)        |
| Derivative assets                                                                                      | 20,552         | 44,845         | (54)        |
| Financial investments                                                                                  | 7,999          | 7,484          | 7           |
| Held for sale and other assets                                                                         | 3,066          | 3,267          | (6)         |
| Loan assets                                                                                            | 98,992         | 87,719         | 13          |
| Due from related body corporate entities                                                               | 2,154          | 5,278          | (59)        |
| Interests in associates and joint ventures                                                             | 281            | 251            | 12          |
| Property, plant and equipment and right-of-use assets                                                  | 2,797          | 2,598          | 8           |
| Intangible assets                                                                                      | 146            | 185            | (21)        |
| Deferred tax assets                                                                                    | 826            | 520            | 59          |
| <b>Total assets</b>                                                                                    | <b>216,848</b> | <b>226,136</b> | <b>(4)</b>  |
| <b>Liabilities</b>                                                                                     |                |                |             |
| Cash collateral on securities lent and repurchase agreements                                           | 4,542          | 2,322          | 96          |
| Trading liabilities                                                                                    | 6,134          | 5,363          | 14          |
| Margin money and settlement liabilities                                                                | 16,251         | 19,052         | (15)        |
| Derivative liabilities                                                                                 | 17,475         | 37,823         | (54)        |
| Deposits                                                                                               | 84,140         | 67,253         | 25          |
| Other liabilities                                                                                      | 4,350          | 2,946          | 48          |
| Borrowings                                                                                             | 2,473          | 3,047          | (19)        |
| Due to related body corporate entities                                                                 | 15,901         | 22,115         | (28)        |
| Debt issued                                                                                            | 44,668         | 46,922         | (5)         |
| Deferred tax liabilities                                                                               | 36             | 69             | (48)        |
| <b>Total liabilities excluding loan capital</b>                                                        | <b>195,970</b> | <b>206,912</b> | <b>(5)</b>  |
| <b>Loan capital</b>                                                                                    | <b>6,804</b>   | <b>4,997</b>   | <b>36</b>   |
| <b>Total liabilities</b>                                                                               | <b>202,774</b> | <b>211,909</b> | <b>(4)</b>  |
| <b>Net assets</b>                                                                                      | <b>14,074</b>  | <b>14,227</b>  | <b>(1)</b>  |
| <b>Equity</b>                                                                                          |                |                |             |
| Contributed equity                                                                                     | 8,523          | 8,899          | (4)         |
| Reserves                                                                                               | 306            | 991            | (69)        |
| Retained earnings                                                                                      | 5,245          | 4,336          | 21          |
| <b>Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited</b> | <b>14,074</b>  | <b>14,226</b>  | <b>(1)</b>  |
| Non-controlling interests                                                                              | -              | 1              | (100)       |
| <b>Total equity</b>                                                                                    | <b>14,074</b>  | <b>14,227</b>  | <b>(1)</b>  |

## Statement of financial position

The Consolidated Entity's statement of financial position was impacted during the year ended 31 March 2021 by changes resulting from business activities, Group Treasury management initiatives, developments with respect to COVID-19 and macroeconomic factors including the appreciation of the Australian dollar against major currencies.

### Assets

Total assets of \$A216.8 billion as at 31 March 2021 decreased 4% from \$A226.1 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total assets, the principal drivers for the decrease in the Consolidated Entity's total assets were as follows:

- derivative assets of \$A20.6 billion as at 31 March 2021 decreased 54% from \$A44.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- margin money and settlement assets of \$A8.3 billion as at 31 March 2021 decreased 32% from \$A12.2 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margin placed with financial institutions by CGM
- cash collateral on securities borrowed and reverse repurchase agreements of \$A34.6 billion as at 31 March 2021 decreased 8% from \$A37.7 billion as at 31 March 2020 primarily due to a decrease in reverse repurchase agreements in CGM partially offset by an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements
- due from related body corporate entities of \$A2.2 billion as at 31 March 2021 decreased 59% from \$A5.3 billion as at 31 March 2020 primarily due to a decrease in broker settlements, derivatives and margin deposit balances with the Non-Bank Group as a result of lower trade volumes.

These decreases were partially offset by:

- loan assets of \$A99.0 billion as at 31 March 2021 increased 13% from \$A87.7 billion as at 31 March 2020 primarily due to growth in the home loan portfolio partially offset by a decrease in the vehicle finance portfolio in BFS and a decrease in the corporate and commercial lending portfolio in CGM
- cash and bank balances of \$A16.0 billion as at 31 March 2021 increased significantly from \$A7.8 billion as at 31 March 2020 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- trading assets of \$A21.2 billion as at 31 March 2021 increased 31% from \$A16.3 billion as at 31 March 2020 primarily due to an increase in precious metals and oil inventories in CGM.

### Liabilities

Total liabilities of \$A202.8 billion as at 31 March 2021 decreased 4% from \$A211.9 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against

major currencies which contributed to the decrease in total liabilities, the principal drivers for the decrease in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of \$A17.5 billion as at 31 March 2021 decreased 54% from \$A37.8 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- due to related body corporate entities of \$A15.9 billion as at 31 March 2021 decreased 28% from \$A22.1 billion as at 31 March 2020 due to a decrease in broker settlement and derivative balances with the Non-Bank Group as a result of lower trade volumes and a decrease in repurchase agreements with MFHPL
- margin money and settlement liabilities of \$A16.3 billion as at 31 March 2021 decreased 15% from \$A19.1 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in call margin placed by financial institutions with CGM
- debt issued of \$A44.7 billion as at 31 March 2021 decreased 5% from \$A46.9 billion as at 31 March 2020 primarily due to the repayment of bondholder notes issued by securitisation vehicles in BFS partially offset by the issuance of short-term debt in Group Treasury.

These decreases were partially offset by:

- deposits of \$A84.1 billion as at 31 March 2021 increased 25% from \$A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of \$A4.5 billion as at 31 March 2021 increased significantly from \$A2.3 billion as at 31 March 2020 primarily due to the draw down of the Term Funding Facility from the RBA by Group Treasury and increased stock lending transactions in CGM
- loan capital of \$A6.8 billion as at 31 March 2021 increased 36% from \$A5.0 billion as at 31 March 2020 primarily due to net issuance of capital instruments and subordinated debt during the year.

### Equity

Total equity of \$A14.1 billion as at 31 March 2021 decreased 1% from \$A14.2 billion as at 31 March 2020. The decrease in the Consolidated Entity's equity was attributable to the decrease in the foreign currency translation and net investment hedge reserve of \$A0.8 billion following the appreciation of the Australian dollar against major currencies and redemption of the Macquarie Income Securities of \$A0.4 billion. This was partially offset by an increase in retained earnings during the year of \$A0.9 billion.



## 4.2 Loan Assets

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

|                                                                                                                        | AS AT          |                | MOVEMENT    |
|------------------------------------------------------------------------------------------------------------------------|----------------|----------------|-------------|
|                                                                                                                        | Mar 21<br>\$Ab | Mar 20<br>\$Ab | Mar 20<br>% |
| <b>Loan assets per the statement of financial position</b>                                                             | <b>99.0</b>    | 87.7           | 13          |
| Operating lease assets                                                                                                 | 1.8            | 2.2            | (18)        |
| Other reclassifications <sup>(1)</sup>                                                                                 | 0.6            | 0.3            | 100         |
| Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers <sup>(2)</sup> | (10.4)         | (12.8)         | (19)        |
| <b>Total loan assets including operating lease assets per the funded balance sheet<sup>(3)</sup></b>                   | <b>91.0</b>    | 77.4           | 18          |

Loan assets<sup>(3)</sup> including operating lease assets by Operating Group per the funded balance sheet are shown in further detail below:

|                                            | Notes | AS AT          |                | MOVEMENT    |
|--------------------------------------------|-------|----------------|----------------|-------------|
|                                            |       | Mar 21<br>\$Ab | Mar 20<br>\$Ab | Mar 20<br>% |
| BFS                                        |       |                |                |             |
| Home loans                                 | 1     | 59.1           | 43.2           | 37          |
| Business banking                           | 2     | 10.5           | 9.4            | 12          |
| Vehicle finance                            | 3     | 9.6            | 10.6           | (9)         |
| <b>Total BFS</b>                           |       | <b>79.2</b>    | 63.2           | 25          |
| CGM                                        |       |                |                |             |
| Loans and finance lease assets             |       | 5.6            | 6.0            | (7)         |
| Operating lease assets                     |       | 1.8            | 2.2            | (18)        |
| Specialised and Asset Finance              | 4     | 7.4            | 8.2            | (10)        |
| Resources and commodities                  | 5     | 2.1            | 3.0            | (30)        |
| Foreign exchange, interest rate and credit | 6     | 2.3            | 3.0            | (23)        |
| <b>Total CGM</b>                           |       | <b>11.8</b>    | 14.2           | (17)        |
| <b>Total</b>                               |       | <b>91.0</b>    | 77.4           | 18          |

(1) Reclassification between loan assets and other funded balance sheet categories.

(2) Excludes notes held by Macquarie in consolidated Special Purpose Entities (SPEs).

(3) Total loan assets including operating lease assets per the funded balance sheet includes self-securitised assets.

## Explanatory notes concerning asset security of funded loan asset portfolio

### 1. Home loans

Secured by Australian residential property.

### 2. Business banking

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

### 3. Vehicle finance

Secured by Australian motor vehicles.

### 4. Specialised and Asset Finance

Predominantly secured by underlying financed assets.

### 5. Resources and commodities

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

### 6. Foreign exchange, interest rate and credit

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

## 4.3 Equity Investments

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

- Financial investments excluding trading equities and;
- Interests in associates and joint ventures

### Equity investments reconciliation

|                                                                     | AS AT          |                | MOVEMENT    |
|---------------------------------------------------------------------|----------------|----------------|-------------|
|                                                                     | Mar 21<br>\$Ab | Mar 20<br>\$Ab | Mar 20<br>% |
| <b>Equity investments</b>                                           |                |                |             |
| <b>Statement of financial position</b>                              |                |                |             |
| Equity investments at fair value                                    | 0.2            | 0.2            | -           |
| Interests in associates and joint ventures                          | 0.3            | 0.2            | 50          |
| <b>Total equity investments per statement of financial position</b> | <b>0.5</b>     | 0.4            | 25          |
| <b>Total adjusted equity investments</b>                            | <b>0.5</b>     | 0.4            | 25          |

# 05

## Funding and Liquidity

## 5.1 Liquidity Risk Governance and Management Framework

### Governance and oversight

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

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



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

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

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

### Liquidity policy and risk appetite

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

Macquarie Bank establishes a liquidity risk appetite, which is approved by the MBL Board, and represents an articulation of the nature and level of liquidity risk that is acceptable in the context of achieving Macquarie Bank's strategic objectives.

Macquarie Bank's liquidity risk appetite is intended to ensure that Macquarie Bank is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets and with only a limited reduction in Macquarie Bank's franchise businesses.

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

## Liquidity risk tolerance and principles

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

### Risk tolerances

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

### Liquidity management principles

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

## Liquidity contingency plan

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

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

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

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

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

## Funding strategy

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

## 5.2 Management of Liquidity Risk

### Scenario analysis

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

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

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

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

### Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches. Certain other Operating Segments also hold cash and liquid assets as part of their operations. The Bank Group had \$A37.0 billion cash and liquid assets as at 31 March 2021 (31 March 2020: \$A33.6 billion).

### Funds transfer pricing

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



## Credit ratings<sup>(1)</sup> as at 31 March 2021

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

### Regulatory liquidity metrics

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

#### Liquidity coverage ratio

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

Macquarie Bank's three month average LCR to 31 March 2021 was 174% (average based on daily observations). As announced on 1 April 2021, APRA has imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation. The pro forma three month average LCR to 31 March 2021 including this add-on is 151%. For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie Bank's regulatory disclosures.

#### Net stable funding ratio

The NSFR is a twelve month structural funding metric, requiring that available stable funding be sufficient to cover required stable funding, where stable funding has an actual or assumed maturity of greater than twelve months. Macquarie Bank's NSFR as at 31 March 2021 was 115%. As announced on 1 April 2021, APRA has imposed a 1% decrease to the Available Stable Funding component of the NSFR calculation. The pro forma NSFR at 31 March 2021 including this adjustment is 114%. For a detailed breakdown of Macquarie Bank's NSFR, please refer to Macquarie Bank's regulatory disclosures.

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

## 5.3 Funded Balance Sheet

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

The table below reconciles the reported assets of the Bank Group to the net funded assets as at 31 March 2021.

|                                                              | Notes | AS AT          |                |
|--------------------------------------------------------------|-------|----------------|----------------|
|                                                              |       | Mar 21<br>\$Ab | Mar 20<br>\$Ab |
| Total assets per Macquarie's Statement of financial position |       | <b>216.8</b>   | 226.1          |
| Accounting deductions:                                       |       |                |                |
| Derivative revaluation accounting gross-ups                  | 1     | <b>(17.2)</b>  | (37.4)         |
| Segregated funds                                             | 2     | <b>(7.4)</b>   | (7.0)          |
| Outstanding trade settlement balances                        | 3     | <b>(1.9)</b>   | (3.4)          |
| Working capital assets                                       | 4     | <b>(5.2)</b>   | (3.4)          |
| Intercompany gross-ups                                       | 5     | <b>(15.9)</b>  | (22.1)         |
| Self-funded assets:                                          |       |                |                |
| Self-funded trading assets                                   | 6     | <b>(15.4)</b>  | (16.5)         |
| Securitised assets and other non-recourse funding            | 7     | <b>(10.4)</b>  | (12.8)         |
| <b>Net funded assets</b>                                     |       | <b>143.4</b>   | 123.5          |

### Explanatory notes concerning net funded assets

#### 1. Derivative revaluation accounting gross-ups

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

#### 2. Segregated funds

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

#### 3. Outstanding trade settlement balances

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

#### 4. Working capital assets

As with the outstanding trade settlement balances above, the Bank Group through its day-to-day operations

generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

#### 5. Intercompany gross-ups

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

#### 6. Self-funded trading assets

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

#### 7. Securitised assets and other non-recourse funding

These include assets funded by third party debt with no recourse to the Bank Group beyond the borrowing entity and lending assets (mortgages and leasing) sold down into external securitisation entities.

## 5.4 Funding Profile

### Funded balance sheet

|                                                                       | Notes | AS AT          |                | Result<br>Overview                   |
|-----------------------------------------------------------------------|-------|----------------|----------------|--------------------------------------|
|                                                                       |       | Mar 21<br>\$Ab | Mar 20<br>\$Ab |                                      |
| <b>Funding sources</b>                                                |       |                |                |                                      |
| Wholesale issued paper:                                               | 1     |                |                | Financial<br>Performance<br>Analysis |
| Certificates of deposit                                               |       | 0.4            | 0.6            |                                      |
| Commercial paper                                                      |       | 12.9           | 5.0            |                                      |
| Net trade creditors                                                   | 2     | 1.3            | 1.1            | Segment<br>Analysis                  |
| Structured notes                                                      | 3     | 0.5            | 1.9            |                                      |
| Secured funding                                                       | 4     | 3.4            | 3.2            |                                      |
| Bonds                                                                 | 5     | 19.0           | 24.4           |                                      |
| Other loans                                                           | 6     | 1.0            | 0.9            |                                      |
| Customer deposits                                                     | 7     | 84.0           | 67.1           |                                      |
| Subordinated debt                                                     | 8     | 5.1            | 3.5            |                                      |
| Equity and hybrids                                                    | 9     | 15.8           | 15.8           |                                      |
| <b>Total</b>                                                          |       | <b>143.4</b>   | 123.5          |                                      |
| <b>Funded assets</b>                                                  |       |                |                |                                      |
| Cash and liquid assets                                                | 10    | 37.0           | 33.6           | Balance<br>Sheet                     |
| Self-securitisation                                                   | 11    | 33.1           | 23.5           |                                      |
| Net trading assets                                                    | 12    | 24.4           | 22.0           | <b>Funding<br/>and Liquidity</b>     |
| Loan assets including operating lease assets less than one year       | 13    | 11.8           | 12.2           |                                      |
| Loan assets including operating lease assets greater than one year    | 13    | 46.1           | 41.7           |                                      |
| Debt investments                                                      | 14    | 2.1            | 1.7            |                                      |
| Non-Bank Group deposit with MBL                                       |       | (12.4)         | (12.2)         |                                      |
| Co-investment in Macquarie-managed funds and other equity investments | 15    | 0.5            | 0.4            |                                      |
| Property, plant and equipment and intangibles                         |       | 0.8            | 0.6            | Capital                              |
| <b>Total</b>                                                          |       | <b>143.4</b>   | 123.5          |                                      |

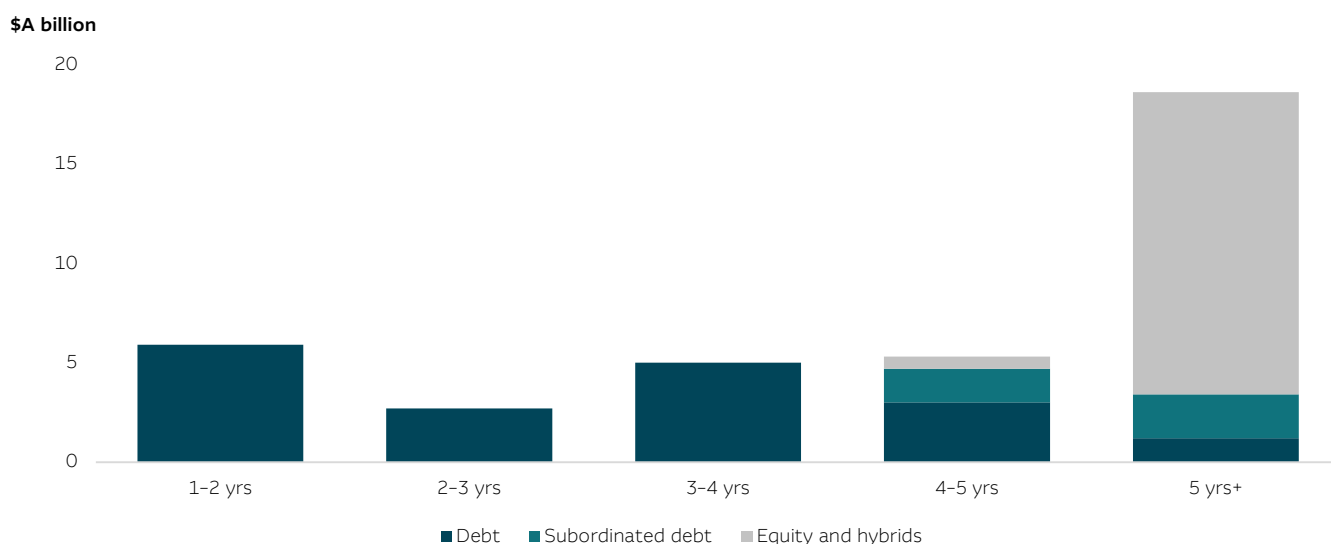
See section 5.5 for Notes 1–15.

## 5.4 Funding Profile

Continued

### Term funding profile

Detail of drawn funding maturing beyond one year



|                                                | AS AT MAR 21   |                |                |                |               |               |
|------------------------------------------------|----------------|----------------|----------------|----------------|---------------|---------------|
|                                                | 1-2yrs<br>\$Ab | 2-3yrs<br>\$Ab | 3-4yrs<br>\$Ab | 4-5yrs<br>\$Ab | 5yrs+<br>\$Ab | Total<br>\$Ab |
| Structured notes <sup>(1)</sup>                | -              | 0.1            | -              | -              | 0.4           | 0.5           |
| Secured funding <sup>(2)</sup>                 | 0.6            | 1.9            | -              | -              | -             | 2.5           |
| Bonds                                          | 5.2            | 0.7            | 4.9            | 3.0            | 0.8           | 14.6          |
| Other loans                                    | 0.1            | -              | 0.1            | -              | -             | 0.2           |
| <b>Total debt</b>                              | <b>5.9</b>     | <b>2.7</b>     | <b>5.0</b>     | <b>3.0</b>     | <b>1.2</b>    | <b>17.8</b>   |
| Subordinated debt <sup>(3)</sup>               | -              | -              | -              | 1.7            | 2.2           | 3.9           |
| Equity and hybrids <sup>(3)</sup>              | -              | -              | -              | 0.6            | 15.2          | 15.8          |
| <b>Total funding sources drawn</b>             | <b>5.9</b>     | <b>2.7</b>     | <b>5.0</b>     | <b>5.3</b>     | <b>18.6</b>   | <b>37.5</b>   |
| Undrawn <sup>(4)</sup>                         | -              | -              | -              | -              | -             | -             |
| <b>Total funding sources drawn and undrawn</b> | <b>5.9</b>     | <b>2.7</b>     | <b>5.0</b>     | <b>5.3</b>     | <b>18.6</b>   | <b>37.5</b>   |

Macquarie Bank has diversity of funding by both source and maturity. The weighted average term to maturity of term funding maturing beyond one year<sup>(5)</sup> was 4.1 years as at 31 March 2021.

As at 31 March 2021, customer deposits represented \$A84.0 billion, or 59% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A13.3 billion, or 9% of total funding, and other debt funding maturing within 12 months and net trade creditors represented \$A8.6 billion, or 6% of total funding.

- (1) Structured notes are profiled using a behavioural maturity profile.  
(2) Includes drawn RBA Term Funding Facility (TFF) Initial Allowance of \$A1.7 billion.  
(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.  
(4) Does not include undrawn accessible TFF Allowances.  
(5) Including drawn TFF, excluding equity which is a permanent source of funding, and securitisations.

## Term funding initiatives

The Bank Group has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. Since 1 April 2020, the Bank Group has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2020 and 31 March 2021:

|                 |                                                 | Bank Group<br>\$Ab |
|-----------------|-------------------------------------------------|--------------------|
| Issued paper    | - Senior and subordinated                       | 6.2                |
| Secured funding | - Term securitisation and other secured finance | 2.6                |
|                 | - RBA Term Funding Facility <sup>(1)</sup>      | 1.7                |
| Hybrids         | - Hybrid instruments                            | 0.7                |
| <b>Total</b>    |                                                 | <b>11.2</b>        |

The Bank Group has continued to develop its major funding markets and products during the year ended 31 March 2021.

From 1 April 2020 to 31 March 2021, the Bank Group raised \$A11.2 billion<sup>(2)</sup> of term funding including:

- \$A6.2 billion of term wholesale issued paper comprising of \$A1.4 billion of senior unsecured debt, \$A3.2 billion of subordinated unsecured debt and \$A1.6 billion of private placements and structured notes
- \$A1.6 billion refinance of secured trade finance facilities
- \$A1.7 billion draw down of the RBA Term Funding Facility<sup>(1)</sup>
- \$A0.7 billion of BCN2 issuance; and
- \$A1.0 billion of PUMA RMBS securitisation issuance.

(1) Initial Allowance drawn as at 31 March 2021. MBL has \$A1.3 billion of undrawn TFF Supplementary Allowance and had access to \$A4.6 billion of TFF Additional Allowance as at 31 March 2021.

(2) Issuances cover a range of tenors, currencies and product types and are Australian dollar equivalent based on FX rates at the time of issuance and include undrawn facilities (does not include undrawn accessible TFF Allowances).

## 5.4 Funding Profile

Continued

The key tools used for raising debt funding for MBL, which primarily funds the Bank Group, are as follows<sup>(1)</sup>:

- \$US25 billion Regulation S Debt Instrument Program, including Euro Commercial Paper, Euro Certificate of Deposit, Euro Medium-Term Notes, senior fixed/floating rate notes, and Transferable Deposits. The Debt Instrument Program had \$US9.2 billion debt securities outstanding as at 31 March 2021
- \$US20 billion US Rule 144A/Regulation S Medium-Term Note Program under which \$US9.0 billion of debt securities were outstanding as at 31 March 2021
- \$US15 billion Commercial Paper Program under which \$US9.5 billion of debt securities were outstanding as at 31 March 2021
- \$US5 billion Structured Note Program under which \$US0.4 billion of structured notes were outstanding as at 31 March 2021
- \$A5 billion Covered Bond Programme under which no debt securities were outstanding as at 31 March 2021
- \$US1 billion Secured Trade Finance Facility<sup>(2)</sup> of which \$US1 billion was drawn as at 31 March 2021
- \$A0.8 billion<sup>(3)</sup> of Subordinated unsecured debt outstanding as at 31 March 2021; and
- Access to the RBA Term Funding Facility of which \$A1.7 billion was drawn as at 31 March 2021.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 31 March 2021, Macquarie Bank had \$A0.4 billion of these securities outstanding.

As at 31 March 2021, Macquarie Bank had internally securitised \$A33.1 billion of its own Australian assets (predominantly mortgages).

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

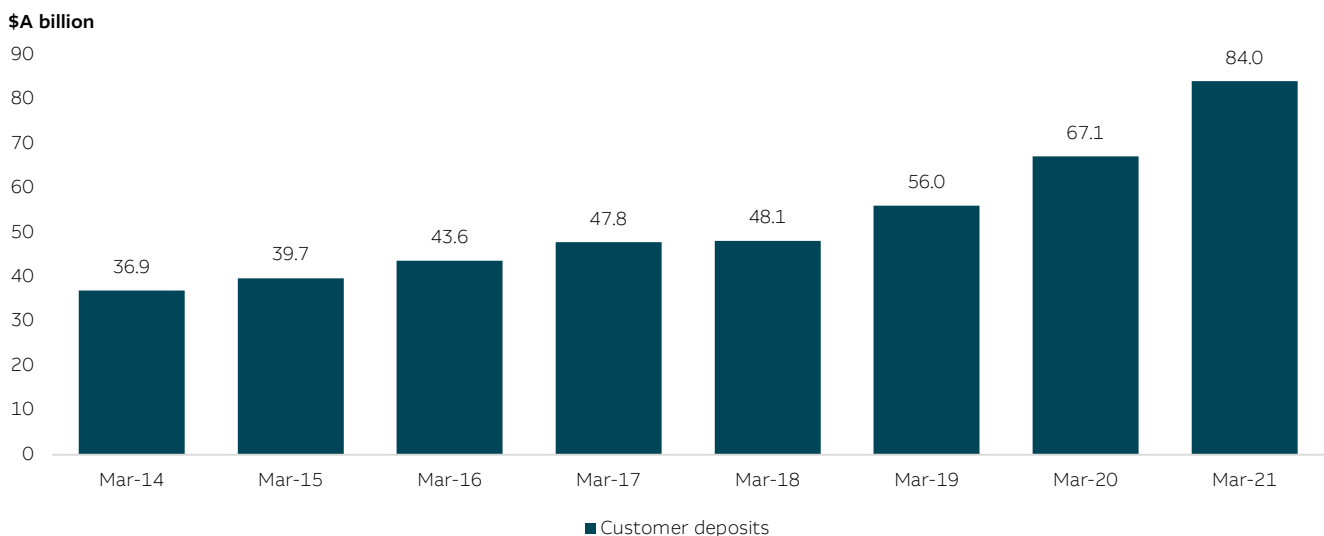
### Deposit strategy

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

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

The chart below illustrates the customer deposit growth since 31 March 2014.

### Deposit trend



(1) Funding outstanding excludes capitalised costs.

(2) \$US1.0 billion Secured Trade Finance Facility can be at either the MBL or MGL level but is currently drawn out of MBL.

(3) Values are Australian dollar equivalents as at 31 March 2021.

## 5.5 Explanatory Notes Concerning Funding Sources and Funded Assets

### 1. Wholesale issued paper

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

### 2. Net trade creditors

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

### 3. Structured notes

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

### 4. Secured funding

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

### 5. Bonds

Unsecured long-term wholesale funding.

### 6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

### 7. Customer deposits

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

### 8. Subordinated debt

Long-term subordinated debt.

### 9. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments as at 31 March 2021 include MACS and BCN2.

### 10. Cash and liquid assets

Cash and liquid assets are held as cash balances (including central bank reserves and overnight lending to financial institutions), qualifying High Quality Liquid Assets (HQLA) or as assets eligible as collateral in the RBA's facilities such as the Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA).

### 11. Self-securitisation

This represents Australian assets which have been internally securitised by Macquarie Bank. A portion of these assets can be utilised as collateral in the RBA's CLF and TFF.

### 12. Net trading assets

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

### 13. Loan assets including operating lease assets

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

See section 4.2 for further information.

### 14. Debt investments

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

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

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

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# Capital

## 6.1 Overview

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for Macquarie Group, including the Non-Bank Group. MGL and APRA have agreed a capital adequacy framework for Macquarie Group, based on APRA's capital standards for ADIs and Macquarie Group's Board-approved Economic Capital Adequacy Model (ECAM).

Macquarie Group's capital adequacy framework requires it to maintain minimum regulatory capital requirements calculated as the sum of:

- The Bank Group's minimum Tier 1 capital requirement, based on a percentage of risk-weighted assets plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
- The Non-Bank Group's capital requirement, calculated using Macquarie Group's ECAM.

Transactions internal to Macquarie Group are eliminated.

Eligible regulatory capital of Macquarie Group consists of ordinary share capital, retained earnings and certain reserves plus eligible hybrid instruments. Eligible hybrid instruments as at 31 March 2021 include the Macquarie Bank Capital Notes 2 (BCN2), Macquarie Additional Capital Securities (MACS), Macquarie Group Capital Notes 3 (MCN3), Macquarie Group Capital Notes 4 (MCN4) and Macquarie Group Capital Notes 5 (MCN5).

MCN5 were issued by MGL on 17 March 2021 and MCN2 were redeemed on 17 March 2021.

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

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

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

### Pillar 3

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

(1) Harmonised Basel III relates to the Basel III guidelines defined by the Basel Committee on Banking Supervision, documented in the following: 'Basel III: a global regulatory framework for more resilient banks and banking systems', published December 2010 (revised June 2011) by the Bank for International Settlements (BIS) and further updated by BCBS 279 'The standardised approach for measuring counterparty credit risk exposures'.

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

## 6.2 Bank Group Capital

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

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

### Common Equity Tier 1 capital

The Bank Group's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

### Tier 1 capital

Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids). Additional Tier 1 capital as at 31 March 2021 consists of MACS and BCN2. MBL periodically pays dividends to MGL and is recapitalised by MGL as required to support projected business growth.

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

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

## 6.2 Bank Group Capital

Continued

### Bank Group Basel III Tier 1 Capital

|                                                                                          | AS AT MAR 21            |                   | AS AT SEP 20            |                   | MOVEMENT                |                   |
|------------------------------------------------------------------------------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|
|                                                                                          | Harmonised<br>Basel III | APRA<br>Basel III | Harmonised<br>Basel III | APRA<br>Basel III | Harmonised<br>Basel III | APRA<br>Basel III |
|                                                                                          | \$Am                    | \$Am              | \$Am                    | \$Am              | %                       | %                 |
| <b>Common Equity Tier 1 capital</b>                                                      |                         |                   |                         |                   |                         |                   |
| Paid-up ordinary share capital                                                           | 8,521                   | 8,521             | 8,501                   | 8,501             | <1                      | <1                |
| Retained earnings                                                                        | 5,253                   | 5,253             | 4,923                   | 4,923             | 7                       | 7                 |
| Reserves                                                                                 | 305                     | 305               | 423                     | 423               | (28)                    | (28)              |
| <b>Gross Common Equity Tier 1 capital</b>                                                | <b>14,079</b>           | <b>14,079</b>     | 13,847                  | 13,847            | 2                       | 2                 |
| <b>Regulatory adjustments to Common Equity Tier 1 capital:</b>                           |                         |                   |                         |                   |                         |                   |
| Goodwill                                                                                 | 39                      | 39                | 41                      | 41                | (5)                     | (5)               |
| Deferred tax assets                                                                      | 32                      | 793               | 32                      | 527               | -                       | 50                |
| Net other fair value adjustments                                                         | (110)                   | (110)             | (172)                   | (172)             | (36)                    | (36)              |
| Intangible component of investments in subsidiaries and other entities                   | 35                      | 35                | 36                      | 36                | (3)                     | (3)               |
| Loan and lease origination fees and commissions paid to mortgage originators and brokers | -                       | 497               | -                       | 458               | -                       | 9                 |
| Shortfall in provisions for credit losses                                                | 17                      | 63                | 40                      | 80                | (58)                    | (21)              |
| Equity exposures                                                                         | -                       | 695               | -                       | 613               | -                       | 13                |
| Capitalised software                                                                     | 55                      | 55                | 62                      | 62                | (11)                    | (11)              |
| Other Common Equity Tier 1 capital deductions                                            | 122                     | 172               | 145                     | 191               | (16)                    | (10)              |
| Total Common Equity Tier 1 capital deductions                                            | 190                     | 2,239             | 184                     | 1,836             | 3                       | 22                |
| <b>Net Common Equity Tier 1 capital</b>                                                  | <b>13,889</b>           | <b>11,840</b>     | 13,663                  | 12,011            | 2                       | (1)               |
| <b>Additional Tier 1 Capital</b>                                                         |                         |                   |                         |                   |                         |                   |
| Additional Tier 1 capital instruments                                                    | 1,628                   | 1,628             | 1,688                   | 1,688             | (4)                     | (4)               |
| <b>Gross Additional Tier 1 capital</b>                                                   | <b>1,628</b>            | <b>1,628</b>      | 1,688                   | 1,688             | (4)                     | (4)               |
| Deduction from Additional Tier 1 capital                                                 | -                       | -                 | -                       | -                 | -                       | -                 |
| <b>Net Additional Tier 1 capital</b>                                                     | <b>1,628</b>            | <b>1,628</b>      | 1,688                   | 1,688             | (4)                     | (4)               |
| <b>Total Net Tier 1 capital</b>                                                          | <b>15,517</b>           | <b>13,468</b>     | 15,351                  | 13,699            | 1                       | (2)               |

## Bank Group Basel III Risk-Weighted Assets (RWA)

|                                                                                 | AS AT MAR 21            |                    | AS AT SEP 20            |                   | MOVEMENT                |                   |
|---------------------------------------------------------------------------------|-------------------------|--------------------|-------------------------|-------------------|-------------------------|-------------------|
|                                                                                 | Harmonised<br>Basel III | APRA<br>Basel III  | Harmonised<br>Basel III | APRA<br>Basel III | Harmonised<br>Basel III | APRA<br>Basel III |
|                                                                                 | \$Am                    | \$Am               | \$Am                    | \$Am              | %                       | %                 |
| <b>Credit risk</b>                                                              |                         |                    |                         |                   |                         |                   |
| Subject to IRB approach:                                                        |                         |                    |                         |                   |                         |                   |
| Corporate                                                                       | 25,444                  | 25,444             | 23,603                  | 23,603            | 8                       | 8                 |
| SME Corporate                                                                   | 4,629                   | 4,629              | 4,383                   | 4,383             | 6                       | 6                 |
| Sovereign                                                                       | 1,199                   | 1,199              | 491                     | 491               | 144                     | 144               |
| Bank                                                                            | 1,423                   | 1,423              | 1,349                   | 1,349             | 5                       | 5                 |
| Residential mortgage                                                            | 8,907                   | 21,461             | 7,977                   | 19,030            | 12                      | 13                |
| Other retail                                                                    | 3,501                   | 3,501              | 3,725                   | 3,725             | (6)                     | (6)               |
| Retail SME                                                                      | 2,940                   | 2,952              | 3,134                   | 3,143             | (6)                     | (6)               |
| <b>Total RWA subject to IRB approach</b>                                        | <b>48,043</b>           | <b>60,609</b>      | 44,662                  | 55,724            | 8                       | 9                 |
| <b>Specialised lending exposures subject to slotting criteria<sup>(1)</sup></b> | <b>6,847</b>            | <b>6,847</b>       | 6,114                   | 6,114             | 12                      | 12                |
| Subject to Standardised approach:                                               |                         |                    |                         |                   |                         |                   |
| Corporate                                                                       | 92                      | 92                 | 225                     | 225               | (59)                    | (59)              |
| Residential mortgage                                                            | 690                     | 690                | 705                     | 705               | (2)                     | (2)               |
| Other Retail                                                                    | 1,513                   | 1,513              | 1,463                   | 1,463             | 3                       | 3                 |
| <b>Total RWA subject to Standardised approach</b>                               | <b>2,295</b>            | <b>2,295</b>       | 2,393                   | 2,393             | (4)                     | (4)               |
| <b>Credit risk RWA for securitisation exposures</b>                             | <b>759</b>              | <b>759</b>         | 705                     | 705               | 8                       | 8                 |
| <b>Credit Valuation Adjustment RWA</b>                                          | <b>3,931</b>            | <b>3,931</b>       | 6,033                   | 6,033             | (35)                    | (35)              |
| <b>Exposures to Central Counterparties RWA</b>                                  | <b>736</b>              | <b>736</b>         | 752                     | 752               | (2)                     | (2)               |
| <b>RWA for Other Assets</b>                                                     | <b>4,811</b>            | <b>2,412</b>       | 3,940                   | 2,245             | 22                      | 7                 |
| <b>Total Credit risk RWA</b>                                                    | <b>67,422</b>           | <b>77,589</b>      | 64,599                  | 73,966            | 4                       | 5                 |
| <b>Equity risk exposures RWA</b>                                                | <b>2,229</b>            | -                  | 1,888                   | -                 | 18                      | -                 |
| <b>Market risk RWA</b>                                                          | <b>5,660</b>            | <b>5,660</b>       | 4,280                   | 4,280             | 32                      | 32                |
| <b>Operational risk RWA</b>                                                     | <b>10,337</b>           | <b>10,337</b>      | 10,521                  | 10,521            | (2)                     | (2)               |
| <b>Interest rate risk in banking book RWA</b>                                   | -                       | 414 <sup>(2)</sup> | -                       | -                 | -                       | *                 |
| <b>Total Bank Group RWA</b>                                                     | <b>85,648</b>           | <b>94,000</b>      | 81,288                  | 88,767            | 5                       | 6                 |
| <b>Capital ratios</b>                                                           |                         |                    |                         |                   |                         |                   |
| Bank Group Level 2 Common Equity Tier 1 capital ratio (%)                       | 16.2                    | 12.6               | 16.8                    | 13.5              |                         |                   |
| Bank Group Level 2 Tier 1 capital ratio (%)                                     | 18.1                    | 14.3               | 18.9                    | 15.4              |                         |                   |

(1) Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

(2) The IRRBB RWA were revised from \$373m to \$414m subsequent to Macquarie's FY2021 results announcement on 7 May 2021

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# Glossary

## 7.1 Glossary

| Defined term                 | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1H20                         | The six months ended 30 September 2019.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 2H20                         | The six months ended 31 March 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 1H21                         | The six months ended 30 September 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 2H21                         | The six months ended 31 March 2021.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>A</b>                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| AASB                         | Australian Accounting Standards Board.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| ABS                          | Asset Backed Securities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| ADI                          | Authorised deposit-taking institution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Additional Tier 1 Capital    | A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> <li>• provide a permanent and unrestricted commitment of funds;</li> <li>• are freely available to absorb losses;</li> <li>• rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and</li> <li>• provide for fully discretionary capital distributions.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                      |
| Additional Tier 1 Deductions | An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| ALCO                         | The Asset and Liability Committee.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| AMA                          | Advanced Measurement Approach (for determining operational risk).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| ANZ                          | Australia and New Zealand.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| APRA                         | Australian Prudential Regulation Authority.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Associates                   | Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for sale (HFS) associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.                                                                                                                                                                                                                                                                                                             |
| <b>B</b>                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Bank Group                   | MBL and its subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Bank Group Capital           | Level 2 regulatory group capital.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Banking Group                | The Banking Group comprised of BFS, certain activities of CGM and certain activities of the Equities business in Macquarie Capital.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Basel III IRB Formula        | A formula to calculate RWA, as defined in Prudential Standard APS 113 <i>Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| BCBS                         | Basel Committee on Banking Supervision.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| BCN2                         | On 2 June 2020, MBL issued 6.4 million Macquarie Bank Capital Notes 2 (BCN2) at a face value of \$A100 each. BCN2 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances.<br>BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). |
| BBSW                         | Bank Bill Swap Rate.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| BFS                          | Banking and Financial Services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |



| Defined term                                           | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BFS deposits                                           | BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.                                                                                                                                                                                                                                                                                                                                                                                                                     |
| BIS                                                    | Bank for International Settlements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| C                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| CCB                                                    | Capital Conservation Buffer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Central Service Groups                                 | The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| CGM                                                    | Commodities and Global Markets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| CLF                                                    | Reserve Bank of Australia Committed Liquidity Facility.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| CMA                                                    | Cash Management Account.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Common Equity Tier 1 Capital                           | A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> <li>• provide a permanent and unrestricted commitment of funds;</li> <li>• are freely available to absorb losses;</li> <li>• do not impose any unavoidable servicing charge against earnings; and</li> <li>• rank behind the claims of depositors and other creditors in the event of winding up.</li> </ul> Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.                                                                                                 |
| Common Equity Tier 1 Capital Ratio                     | Common Equity Tier 1 Capital net of Common Equity Tier 1 Deductions expressed as a percentage of RWA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Common Equity Tier 1 Deductions                        | An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Consolidated Entity                                    | Macquarie Bank Limited and its subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| D                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Directors' Profit Share (DPS)                          | The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset. |
| E                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Earnings on capital and certain corporate income items | Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.                                                                                                                                                                                                                                                                                                                     |
| Earnings per share                                     | A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133: <i>Earnings Per Share</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| ECAM                                                   | Economic Capital Adequacy Model.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| ECL                                                    | Expected Credit Losses as defined and measured in terms of AASB 9: <i>Financial Instruments</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Effective tax rate                                     | The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.                                                                                                                                                                                                                                                                                                              |
| Expense/Income ratio                                   | Total operating expenses expressed as a percentage of Net operating income.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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| Defined term                            | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>F</b>                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Financial Report                        | Macquarie Bank Limited Annual Financial Report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| FIRB                                    | Foundation Internal Ratings Based Approach (for determining credit risk).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| FVOCI                                   | Fair value through other comprehensive income.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| FVTPL                                   | Fair value through profit or loss.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| FY2020                                  | The year ended 31 March 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| FY2021                                  | The year ended 31 March 2021.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>H</b>                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Headcount                               | Headcount represents Macquarie's active permanent and variable workforce, and includes Macquarie employees (permanent and casual) and its contingent workers (contractors, agency workers and secondees). Macquarie's non-executive directors are not included.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| HQLA                                    | High-quality liquid assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>L</b>                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| LGD                                     | Loss given default is defined as the economic loss which arises upon default of the obligor.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>M</b>                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Macquarie Bank, the Consolidated Entity | Macquarie Bank Limited and its subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Macquarie Group                         | MGL and its subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Macquarie Income Securities (MIS)       | Macquarie Income Securities (MIS) were perpetual, subordinated instruments that had no conversion rights to ordinary shares and discretionary distributions paid quarterly. They are treated as equity in the Statement of financial position. MIS were repaid on 15 April 2020.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| MACS                                    | On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's Common Equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).                                                                                                                                 |
| MAM                                     | Macquarie Asset Management.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| MAMHPL                                  | Macquarie Asset Management Holdings Pty Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| MBL                                     | Macquarie Bank Limited ABN 46 008 583 542.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| MCN2                                    | On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of \$A100 each. MCN2 were subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions. MCN2 were redeemed on 17 March 2021.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| MCN3                                    | On 7 June 2018, MGL issued 10 million Macquarie Group Capital Notes 3 (MCN3) at a face value of \$A100 each. MCN3 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 15 December 2027; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). |

| Defined term                           | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| MCN4                                   | On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of \$A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances.<br>MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).  |
| MCN5                                   | On 17 March 2021, MGL issued 7.25 million Macquarie Group Capital Notes 5 (MCN5) at a face value of \$A100 each. MCN5 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 18 September 2027, 18 March 2028 or 18 September 2028 (subject to certain conditions being satisfied) or earlier in specified circumstances.<br>MCN5 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 September 2030; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). |
| MEREP                                  | Macquarie Group Employee Retained Equity Plan.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| MFHPL                                  | Macquarie Financial Holdings Pty Limited.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| MGL, the Company                       | Macquarie Group Limited ABN 94 122 169 279.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| N                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Net loan losses                        | The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Net tangible assets per ordinary share | (Total equity less Macquarie Income Securities less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Net Trading Income                     | Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Non-Bank Group                         | MGL, MFHPL and its subsidiaries, and MAMHPL and its subsidiaries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Non-Banking Group                      | The Non-Banking Group comprises Macquarie Capital (excluding certain activities of the Equities business), MAM and some business activities of CGM that use certain offshore regulated entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Non-GAAP metrics                       | Non-GAAP metrics include financial measures, ratios and other information that are neither required nor defined under Australian Accounting Standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| O                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Operating Groups                       | The Operating Groups consist of BFS and CGM.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| R                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| RBA                                    | Reserve Bank of Australia.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Return on equity                       | The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of FVOCI, share of associate and cash flow hedging reserves.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Risk-weighted assets (RWA)             | A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| RMBS                                   | Residential Mortgage-Backed Securities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| S                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Specialised and Asset Finance (SAF)    | SAF is a global provider of specialist finance and asset management solutions across: Technology, Media and Telecoms; Energy, Renewables and Sustainability; Fund Finance; Resources; Structured Lending; and Shipping and Export Credit Agencies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| SPEs                                   | Special purpose entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

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| Defined term              | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| Subordinated debt         | Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital. |
| SYD distribution          | In-specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.                                                                                                                                                                                                                                                                                                                                                          |
| T                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| TFF                       | Reserve Bank of Australia Term Funding Facility.                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Tier 1 Capital            | Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.                                                                                                                                                                                                                                                                                                                                                                        |
| Tier 1 Capital Deductions | Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.                                                                                                                                                                                                                                                                                                                                       |
| Tier 1 Capital Ratio      | Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.                                                                                                                                                                                                                                                                                                                                                                                        |
| True Index products       | True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.                                                                                                                                                                                                                                                     |
| U                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| UK                        | The United Kingdom.                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| US                        | The United States of America.                                                                                                                                                                                                                                                                                                                                                                                                                                            |

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