# Macquarie Group Limited

**(ABN 94 122 169 279)**

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2022

Dated: May 20, 2022

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## CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2022 (this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*AASB*" means the Australian Accounting Standards Board;
- "*ABN*" means Australian Business Number;
- "*ACCC*" means the Australian Competition and Consumer Commission and its successors;
- "*ADI*" means an institution that is an authorised deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- "*alternative asset funds*" means specific asset class investor funds, which are listed or unlisted in different regions and span such sectors as: (i) infrastructure and related sectors (toll roads, airports, communications infrastructure, energy utilities and other asset classes); (ii) sector-specific real estate assets (retail, office, industrial and commercial); and (iii) private equity and development capital;
- "*AML-CTF Act*" means the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 of Australia;
- "*APRA*" means the Australian Prudential Regulation Authority and its successors;
- "*ASIC*" means the Australian Securities and Investments Commission and its successors;
- "*Asset and Liability Committee*" means the committee established by the Executive Committee with responsibility for oversight of asset and liability management, liquidity policy compliance, liquidity scenario analysis and contingency planning;
- "*Assets under Management*" is a non-GAAP financial measure we use that calculates the value of the proportional ownership interest in assets of funds managed by entities in the MBL Group or the Non-Banking Group, as applicable, plus other assets managed on behalf of third parties, see "Financial Information Presentation — Non-GAAP financial measures";
- "*ASX*" means the Australian Securities Exchange operated by ASX Limited and its successors;
- "*Australian Accounting Standards*" means Australian Accounting Standards that also ensures compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- "*Australian Banking Act*" means the Banking Act 1959 of Australia;
- "*Australian Corporations Act*" means the Corporations Act 2001 of Australia;
- "*A$*" or "*$*" means the Australian dollar and "*US$*" means the U.S. dollar;
- "*Bank*" and "*MBL*" each means Macquarie Bank Limited (ABN 46 008 583 542) (an ADI) and includes its predecessors and successors, and "*MBL Group*" means MBL and its controlled entities;
- "*Banking Group*" or "*Bank Group*" means Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary, including the Bank, that constitutes the Banking Group as described herein;
- "*Banking Holdco*" means Macquarie B.H. Pty Ltd (ABN 86 124 071 432), the intermediate holding company established as a subsidiary of MGL and as the immediate parent of MBL as part of the Restructure;

- “*Commonwealth*” and “*Australia*” each means the Commonwealth of Australia;

- “*controlled entities*” means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party’s objectives;

- “*Equity under Management*” is a non-GAAP financial measure we use that aggregates the market capitalization of listed funds managed by entities in the Non-Banking Group, committed capital from investors in unlisted funds, the face value of hybrid instruments and invested capital in managed assets, see “Financial Information Presentation — Non-GAAP financial measures”;

- “*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended;

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

- “*FCA*” means the United Kingdom Financial Conduct Authority;

- “*financial statements*” means our historical financial statements;

- “*GAAP*” means generally accepted accounting principles;

- “*historical financial statements*” means our 2022 annual financial statements, our 2021 annual financial statements and our 2020 annual financial statements;

- “*IASB*” means the International Accounting Standards Board;

- “*IFRS*” means International Financial Reporting Standards;

- “*international income*” is a non-GAAP financial measure we use that means net operating income (excluding earnings on capital and other corporate items) derived from our operations outside Australia, or in Australia for non-Australian clients and counterparties, see “Financial Information Presentation — Non-GAAP financial measures — International income”;

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

- “*managed assets*” means third party equity invested in assets managed by Macquarie Infrastructure and Real Assets where management fees may be payable to us and assets held directly by us acquired with a view that they may be sold into new or existing funds managed by Macquarie Infrastructure and Real Assets;

- “*MBIL*” means Macquarie Bank International Limited;

- “*MBL LB*” means the London branch of MBL;

- “*MCEL*” means Macquarie Capital (Europe) Limited;

- “*MCN*” means the Macquarie Group Capital Notes 3, the Macquarie Group Capital Notes 4 and the Macquarie Group Capital Notes 5;

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

- “*MGL Group*”, “*we*”, “*our*” and “*us*” means MGL and its controlled entities, including MBL Group;

- "*MGL's U.S. Investors' Website*" means MGL's U.S. investors' website at http://www.macquarie.com/au/en/disclosures/us-investors/macquarie-group-limited.html;
- "*MIS*" means Macquarie Income Securities;
- "*net operating income*", an Australian Accounting Standards financial measure, includes net interest income (interest income less interest expense), trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, and other sundry income items, and is net of impairment charges and is reported in the income statement in our financial statements;
- "*NOHC*" means an authorized non-operating holding company of an ADI;
- "*NOHC Authority*" means the authority to be a non-operating holding company of an ADI granted to MGL by APRA on September 5, 2007 (as amended);
- "*Non-Banking Group*" or "*Non-Bank Group*" means Non-Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary that constitute the Non-Banking Group as described herein;
- "*Non-Banking Holdco*" means Macquarie Financial Holdings Pty Limited (ABN 63 124 071 398), the intermediate holding company established as a subsidiary of MGL and the parent of the Non-Banking Group as part of the Restructure;
- "*OFAC*" means the United States Office of Foreign Assets Control;
- "*operating expenses*", an Australian Accounting Standards financial measure, include employment expenses (including staff profit sharing expense), brokerage and commission expense, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expense, and other sundry expenses and are reported in the income statement in our financial statements;
- "*PRA*" means the United Kingdom Prudential Regulation Authority;
- "*RBA*" means the Reserve Bank of Australia;
- "*Restructure*" means the reorganization of the MBL Group that was completed on November 19, 2007 that resulted in the establishment of MGL as the ultimate holding company of MBL and the transfer by the MBL Group of certain businesses, subsidiaries and assets, primarily the Macquarie Capital operating group, to the Non-Banking Group;
- "*shared services*" means the services to be performed by MBL or its subsidiaries for the Banking and Non-Banking Groups described under "Macquarie Group Limited — Organizational structure";
- "*2020 annual financial statements*" means our audited consolidated financial statements contained in our 2020 Annual Report;
- "*2020 Annual Report*" means our 2020 annual report, extracts of which are incorporated by reference herein and which have been posted on MGL's U.S. Investors' Website;
- "*2021 annual financial statements*" means our audited consolidated financial statements contained in our 2021 Annual Report;
- "*2021 Annual Report*" means our 2021 annual report, extracts of which are incorporated by reference herein and which have been posted on MGL's U.S. Investors' Website;

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

- "*2022 annual financial statements*" means our audited consolidated financial statements contained in our 2022 Annual Report;

- "*2022 Annual Report*" means our 2022 annual report, extracts of which are incorporated by reference herein and which have been posted on MGL's U.S. Investors' Website; and

- "*2022 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 6, 2022, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2022 compared to the fiscal year ended March 31, 2021, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2022, and which is incorporated by reference herein and has been posted on MGL's U.S. Investors' Website.

Our fiscal year ends on March 31, so references to years such as "*2022*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year.

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to attract and retain employees;
- inadequate or failed internal or external operational systems and risk management processes;
- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- our ability to maintain appropriately staffed workforces and a healthy and safe work environment;
- the impact of cyber-attacks, technology failures and other information or security breaches;
- environmental and social factors;
- the impact of catastrophic events on MGL and its operations;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our brand and reputation;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- conflicts of interest;
- the impact of potential tax liabilities;
- changes in accounting standards, policies, interpretations, estimates, assumptions and judgments; and
- various other factors beyond our control.

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

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

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

Significant risk factors applicable to the MGL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2022 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference herein.

## AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

In addition and as of January 2020, DFAT has established the Australian Sanctions Office (the "*ASO*"), which is the Australian government's sanctions regulator. The ASO sits within DFAT's Legal Division in the International Security, Humanitarian and Consular Group. As the sanctions regulator, the ASO:

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

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

# FINANCIAL INFORMATION PRESENTATION

*Investors should read the following discussion regarding the presentation of our financial information together with the financial information presented elsewhere in this Report, our 2022 Fiscal Year Management Discussion and Analysis Report, our 2021 Fiscal Year Management Discussion and Analysis Report and our historical financial statements.*

**Our financial information**

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

- the section of this Report under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition", which incorporates by reference:
  - our 2022 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2022 compared to the fiscal year ended March 31, 2021, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2022 and which has been posted on MGL's U.S. Investors' Website; and
  - our 2021 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2021 and which has been posted on MGL's U.S. Investors' Website;
- MBL's Pillar 3 Restatement for the period from March 2018 to June 2021, the Pillar 3 Disclosure Document dated December 2021, the Pillar 3 Disclosure Document dated September 2021, the Pillar 3 Disclosure Document dated June 2021 and the Pillar 3 Disclosure Document dated March 2021, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MGL's U.S. Investors' Website; and
- our historical financial statements, which are included in the extracts from our 2022 and 2021 Annual Reports posted on MGL's U.S. Investors' Website.

Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the exchange rate of US$0.7499 per A$1.00, which was the noon buying rate in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York on March 31, 2022. The noon buying rate on May 13, 2022 was US$0.6918 per A$1.00.

**Application of new accounting standards**

Please refer to Note 1 of the 2022 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2022 fiscal year.

**Our historical financial statements**

Our 2022 annual financial statements include our audited financial statements as at, and for the fiscal years ended, March 31, 2022 and 2021. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See our 2022 Fiscal Year Management Discussion and Analysis Report for further information.

MGL Group is divided into the following operating groups for internal reporting and risk management purposes: Macquarie Asset Management; Banking and Financial Services; Commodities and Global Markets; and Macquarie Capital. Transfers between segments are determined on an arm's-length basis and are eliminated on consolidation.

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

For further information on our historical financial information for the 2021 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation – Our financial information" included in our 2021 Annual U.S. Disclosure Report.

We report certain items in the Corporate segment, which includes the Head Office and central service groups costs. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for the MGL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense. The items reported in the Corporate segment do not form part of the total profit contribution provided by our operating groups. The total contribution to profit by operating groups plus the contribution to profit included in the Corporate segment equate to our total profit attributable to the ordinary equity holder.

**Impact of acquisitions and disposals on the 2022, 2021 and 2020 fiscal years**

During the 2022 fiscal year, we completed the acquisition of Waddell & Reed Financial, Inc., a publicly traded U.S. asset manager providing wealth and asset management services.

During the 2021 fiscal year, certain activities of Commodities and Global Markets' Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group; and certain services entities were transferred from the Non-Bank Group to the Bank Group. These transfers were internal to the MGL Group and, accordingly, did not have any impact on the consolidated operating results of MGL.

During the 2020 fiscal year, certain fiduciary businesses of the MGL Group, such as the infrastructure debt business, moved from Corporate and Asset Finance – Asset Finance in the Banking Group to Macquarie Asset Management in the Non-Banking Group, and each of Corporate and Asset Finance's divisions were aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings. These transfers were internal to the MGL Group and, accordingly, did not have any impact on the consolidated operating results of MGL.

In accordance with AASB 3 "Business Combinations", provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MGL Group's 2022, 2021 and 2020 annual financial statements, respectively.

For further information on how these businesses have been integrated into the MGL Group, see "Macquarie Group Limited — Operating groups" below, and for information on their impact on our results of operations and financial condition for the 2022 and 2021 fiscal years, see our segment analysis in section 3 of our 2022 Fiscal Year Management Discussion and Analysis Report and in section 3 of our 2021 Fiscal Year Management Discussion and Analysis Report.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2022, 2021 and 2020 fiscal years, see Note 42 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2022 annual financial statements and Note 42 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2021 annual financial statements, respectively.

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

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

between Australian Accounting Standards and U.S. GAAP and how those differences might affect the financial information included in this Report and, more generally, the financial results of the MGL Group going forward.

**Critical accounting policies and significant judgments**

Note 1 to our 2022 annual financial statements provides a list of the critical accounting policies and significant judgments.

Other than as provided in Note 1 to our 2022 annual financial statements, critical accounting policies and significant judgments for the 2022 fiscal year have remained consistent with those in the prior fiscal year.

**Pending accounting standards changes**

For a description of standards, interpretations and amendments to Australian Accounting Standards that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2022 annual financial statements.

**Non-GAAP financial measures**

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

***Assets under Management***

Assets under Management provides a consistent measure of the scale of MGL Group's asset management activities, primarily by Macquarie Asset Management, in the Non-Banking Group. Assets under Management is calculated as the proportional ownership interest in the underlying assets of funds and other assets managed by entities in the Non-Banking Group on behalf of third parties that are not funds managed by any MGL Group entity. This calculation is adjusted to exclude cross-holdings between funds managed by entities in the Non-Banking Group and is further adjusted to reflect the proportional ownership interest in the relevant fund manager.

Substantially all of MGL's Assets under Management are reported in the Non-Banking Group by Macquarie Asset Management.

***Equity under Management***

Equity under Management is a non-GAAP financial measure used by the Private Markets division, which is part of Macquarie Asset Management in the Non-Banking Group. Base management fees for that business, especially infrastructure and certain other alternative asset funds, are generally calculated with reference to Equity under Management. Equity under Management is considered an appropriate measure of the size of our funds as the calculation of the Private Markets base management fee income is based on a percentage of Equity under Management.

Equity under Management is the aggregate of listed funds (market capitalization at the measurement date plus underwritten or committed future capital raisings), unlisted funds (committed capital from investors at the measurement date less called capital subsequently returned to investors), hybrid instruments (face value of tickets and of exchangeable bonds), and managed assets (invested capital at measurement date).

Where a fund is managed through a joint venture with another party, the Equity under Management amount is then weighted based on our proportionate economic interest in the joint venture management entity.

***International income***

International income is a non-GAAP financial measure that we believe provides investors and analysts with a basis for determining the scale of our operations outside of Australia. Operating income is classified as “international” with reference to the geographic location from which the operating income is reported from a Management perspective. This may not be the same geographic location where the operating income is recognized for reporting purposes. For example, operating income generated by work performed for clients based outside Australia but recognized in Australia for reporting purposes could be classified as “international” income. Income from funds management activities is allocated by reference to the location of the funds’ assets. Income earned in the Corporate segment is excluded from the analysis of international income.

***International income as a percentage of net operating income (excluding earnings on capital and other corporate items)***

International income as a percentage of net operating income (excluding earnings on capital and other corporate items) is a non-GAAP financial measure. To calculate this percentage, international income is divided by net operating income (excluding earnings on capital and other corporate items).

***Earnings on capital and other corporate items***

Earnings on capital and other corporate items is a non-GAAP financial measure. Net operating income, an Australian Accounting Standards financial measure, includes the income generated by our operating groups, income from the investment of our capital, and other items of operating income not attributed to our operating groups. Earnings on capital and other corporate items is net operating income less the operating income generated by our operating groups.

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

Funded loan assets is a non-GAAP financial measure. Funded loan assets is determined based on the funded statements of financial position of the MGL Group and not the statutory statement of financial position classification. MGL Group’s statutory statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement of the MGL Group. A reconciliation between the reported loan assets and the net funded loan assets as at March 31, 2022 is presented in section 5.3 of our 2022 Fiscal Year Management Discussion and Analysis Report.

# RISK FACTORS

*We are subject to a variety of risks that arise out of our financial services and other businesses, many of which are not within our control. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in "Risk Management" in section 2 of our 2022 Annual Report and in Note 36 to our 2022 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.*

## Macro-economic risks

***Our business and results of operation have been and may, in the future, be adversely affected by financial markets, global credit and other economic conditions generally.***

The MGL Group's businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, the level and volatility of interest rates, constrained access to funding, fluctuations or other significant changes in both equity and capital market activity, supply chain disruptions and labor shortages have adversely affected and may again affect transaction flow in a range of industry sectors.

Additionally, global markets may be adversely affected by the current or anticipated impact of climate change, extreme weather events or natural disasters, the emergence or continuation of widespread health emergencies or pandemics, cyberattacks or campaigns, military conduct, including escalating military tension between Russian and Ukraine, terrorism or other geopolitical events. The dynamic and rapidly evolving sanctions environment, including the volume and nature of sanctions during the Russia-Ukraine conflict, Western sanction programs against China and Chinese reaction and sanctions in relation to human rights issues, continues to drive heightened sanctions compliance risk and complexity in applying control frameworks across the market. Moreover, actions by Russia, and any further measures taken by the U.S. or its allies, could have negative impacts on regional and financial markets and economic conditions. The actions of market participants in response to the Russia-Ukraine conflict have also resulted in substantial volatility in the global commodity markets. Growing concerns about energy availability have pushed prices higher across a range of commodities. Given that global energy security poses a threat to financial stability, a disorderly transition from Russian oil and gas supplies may magnify risks to the financial system.

Actions taken by central banks, including changes to official interest rate targets, balance sheet management and government-sponsored lending facilities are beyond the MGL Group's control and difficult to predict. Sudden changes in monetary policy, for example in response to high inflation, could lead to financial market volatility and are likely to affect market interest rates and the value of financial instruments and other assets and liabilities, and can impact our customers.

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

Our funds management fee income, including base and performance fees, may be adversely affected by volatility in equity values and returns from our managed funds. The value and performance of our loan portfolio may also be adversely affected by deteriorating economic conditions.

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

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

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

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

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

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

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

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

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

We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are complex and these complex structured products often do not have readily available markets to access in times of liquidity stress. Additionally, a number of these markets, and in particular the energy markets, have experienced increased levels of volatility as a result of uncertainty related to ongoing recent developments, including the COVID-19 pandemic and the Russia-Ukraine conflict. We may incur losses as a result of volatility in market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in equity market prices or increases in interest rates may reduce the value of our clients’ portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive prices for other investments could cause our clients to transfer their assets out of our funds or other products.

Interest rate benchmarks around the world (for example, the London Interbank Offered Rate or “*LIBOR*”) have been subject to regulatory scrutiny and are subject to change. See also “Risk Factors — We may not manage risks associated with the replacement of benchmark indices effectively”.

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

***Funding constraints of investors and clients may adversely impact our income.***

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

In addition, we derive a portion of our income from mergers and acquisitions advisory fees, which are typically paid upon completion of a transaction. Our clients that engage in mergers and acquisitions often rely on access to credit markets to finance their transactions. The lack of available credit and the increased cost of credit may adversely affect the size, volume and timing of our clients' merger and acquisition transactions, particularly large transactions, and may also adversely affect our financial advisory and underwriting businesses.

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

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

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

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

The COVID-19 pandemic caused, and will likely continue to cause, severe impacts on global, regional and national economies and disruption to international trade and business activity. Governments worldwide, including in Australia, enacted emergency measures to combat the spread of the virus, including wide ranging restrictions on, suspensions of, or advice against, regional and international travel, gatherings of groups of people, as well as prolonged closures of workplaces and many other normal activities, all of which have had, and may continue to have, a substantial negative impact on economic and business activity due to a range of factors. While financial markets have rebounded from the significant declines that occurred early in the pandemic, certain circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic have persisted, including (i) relatively weak consumer confidence; (ii) elevated levels of market volatility; (iii) yields on government bonds which, at times, were near zero; (iv) ongoing heightened credit risk with regard to industries that have been most severely impacted by the pandemic; (v) higher cyber security, information security and operational risks as a result of hybrid work arrangements; and (vi) interruptions in the supply chain that have adversely affected many businesses and have contributed to higher rates of inflation. This may in turn reduce the level of activity in sectors in which certain of our businesses operate and thus have a negative impact on such businesses' ability to generate revenues or profits.

Governments and central banks around the world have taken increased measures to stabilize the financial markets and support economic growth. If the COVID-19 pandemic is prolonged and/or actions of governments and central banks are unsuccessful in mitigating the economic disruption, the negative impact on global growth and global financial markets could be amplified, and may lead to recessions in national, regional or global economies.

We continue to closely monitor the pandemic and related risks as they evolve globally and domestically. The impact of COVID-19 on the economy and our personnel and operations is highly uncertain and cannot be predicted and will depend on the magnitude and duration of the pandemic, the emergence and spread of variants of COVID-19, the prevalence of escalating rates of infection in various jurisdictions, the availability, adoption and efficacy of treatments and vaccines, future actions taken by government authorities, central banks and other third parties in response to the pandemic. All these factors may lead to further reduced client activity and demand for our products and services, higher

credit and valuation losses in our loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on our financial position, including possible constraints on capital and liquidity, as well as higher costs of capital, and possible changes or downgrades to our credit ratings. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and our ability to replace maturing liabilities may be limited, which could adversely affect our ability to fund and grow our business. This may adversely impact our results of operations and financial condition. Please refer to our 2022 annual financial statements for further information on the financial statement impact of COVID-19.

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

Our businesses could also suffer losses due to climate change. Climate change is systemic in nature and is a significant long-term driver of both financial and non-financial risks. Climate change related impacts include physical risks from changing climatic conditions which could result from increased frequency and/or severity of adverse weather events. Such disasters could disrupt our operations or the operations of customers or third parties on which we rely. Additionally, climate change could result in transition risks such as changes to laws and regulations, technology development and disruptions and changes in consumer and market preferences towards low carbon goods and services. These factors could restrict the scope of our existing businesses, limit our ability to pursue certain business activities and offer certain products and services, amplify credit and market risks, negatively impact asset values and/or otherwise adversely impact us, our business or our customers.

As part of our commodities business, we purchase and sell certain physical commodities, arrange for their storage and transport, and engage in market making of commodities. These activities subject us and/or the entities in which we invest to extensive and evolving federal, state and local energy, environmental, and other governmental laws and regulations worldwide. Additionally, rising climate change concerns have led to additional regulation that could increase the operating costs and adversely affect the profitability of certain of our investments. Commodities involved in our intermediation activities and investments may also be subject to the risk of unforeseen or catastrophic events, which are likely to be outside of our control. The occurrence of any of such events may prevent us from performing under our agreements with clients, may impair our operations or financial results and may result in litigation, regulatory scrutiny and/or action, negative publicity or other reputational harm.

Our response to climate change, our climate strategies, policies and disclosure, and/or our ability to achieve our climate-related goals and commitments (which are subject to risks and uncertainties, many of which are outside of our control) may affect MGL Group's performance and could have wide-ranging impacts for the MGL Group. These include, but are not limited to, impacts on the probability of default and losses arising from defaults, asset valuations and collateral, may result in litigation, regulatory scrutiny and/or action, negative publicity or other reputational harm, reduced investor and stakeholder confidence or could prompt us to exit certain businesses altogether. Failure to effectively manage these risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

**Legal and regulatory risks**

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

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

Regulatory agencies and governments frequently review and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences or impacts across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial

services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in the markets in which we operate and may lead to further significant changes of this kind. Health, safety and environmental laws and regulations can also change rapidly and significantly. The occurrence of any adverse health, safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards could have a significant impact on operations and/or result in material expenditures.

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

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

MGL is regulated by APRA as a NOHC. APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MGL as a NOHC. Any such event could result in changes to the organizational structure of MGL Group and adversely affect the MGL Group.

MGL is a holding company and many of its subsidiaries, including its broker-dealer and bank subsidiaries, such as MBL, are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to MGL. Restrictions or regulatory action of that kind could impede access to funds that MGL needs to make payments on its obligations, including debt obligations, or dividend payments. In particular, the availability of MBL's funding to meet the obligations of MGL or the Non-Banking Group is subject to regulatory restrictions. See "Regulation and Supervision" below for more information on the regulatory developments affecting the MGL Group, including MBL.

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

We are subject in our operations worldwide to laws and regulations relating to corrupt and illegal payments, counter-terrorism financing, anti-bribery and corruption and adherence to anti-money laundering obligations, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries ("*AML/CTF laws*"). The geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, increases the risk that we may be found in violation of AML/CTF laws. Emerging financial crime risk typologies could also limit our ability to track the movement of funds thereby heightening the risk of our breaching AML/CTF laws. Additionally, as a result of the ongoing Russia-Ukraine conflict, the current sanctions environment remains dynamic and rapidly evolving. Sanctions and export controls could adversely affect our business activities and investments in sanctioned jurisdictions, as well as expose us to compliance risk and reputational harm. Our ability to comply with AML/CTF laws is dependent on our detection and reporting capabilities, control processes and oversight accountability.

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

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

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

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

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

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

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

LIBOR and other interest rate benchmarks (collectively, the "*IBORs*") have been the subject of ongoing national and international regulatory scrutiny and reform. The LIBOR administrator ceased publication of non-USD LIBOR and one-week and two-months USD LIBOR on a representative basis on December 31, 2021 with plans to cease publication of all other USD LIBOR tenors on June 30, 2023. The transition away from and discontinuance of LIBOR or any other benchmark rate and the adoption of alternative reference rates ("A*RR*") by the market introduce a number of risks for us, our clients, and the financial services industry more widely. These include, but are not limited to:

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

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

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

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

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

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

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

**Counterparty credit risk**

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

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we may hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 36 to our 2022 annual financial statements for details on the concentration of credit risk by significant geographical locations and counterparty types. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

MGL Group recorded A$509 million of credit and other impairment charges for the 2022 fiscal year, including A$250 million for net credit impairment charges, and A$259 million for net other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline. Credit and other impairment charges may also vary following a change to the inputs or forward looking information used in the determination of expected credit losses. Please refer to Note 13 of our 2022 annual financial statements for further information on the determination of expected credit losses.

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

In addition, market volatility impacts the value of our funds. Future valuations, in light of factors then prevailing, may result in further impairments to our investments in our funds. At the time of any sale of our investments in our funds, the price we ultimately realize will depend on the demand in the market at the time and may be materially lower than their current market value. Any of these factors could require us to make further write-downs on our investments in our funds management assets and other investments and assets, which may be significant and may have an adverse effect on our businesses, prospects, results of operations and financial condition in future periods.

**Operational risks**

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

Our employees are our most important resource, and our performance largely depends on the talents and efforts of highly skilled individuals. Our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry, such as professional service firms, hedge funds, private equity funds and venture capital funds, for qualified employees has historically been intense. Recent employment conditions associated with the pandemic have made the competition to hire and retain qualified employees significantly more challenging.

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

to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees.

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

***We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failure in internal or external operational systems and infrastructures, people and processes.***

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances. For a further discussion of our risk management policies and procedures, see "Risk Management" in section 2 of our 2022 Annual Report and Note 36 to our 2022 annual financial statements.

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

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

Our businesses manage a large volume of sensitive data and rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our data management systems and technology, and in those managed, processed and stored by third parties on behalf of us. Inadequate data management and data quality, which include the capture, processing, distribution, retention and disposal of data, could lead to poor decision making in the provision of credit as well as affecting our data management regulatory obligations, all of which may cause us to incur losses or lead to regulatory actions. We are subject to laws, rules and regulations in a number of jurisdictions regarding compliance with our privacy policies and the disclosure, collection, use, sharing and safeguarding of personally identifiable information of certain parties, such as our employees, customers, suppliers, counterparties and other third parties, the violation of which could result in litigation, regulatory fines and enforcement actions. Furthermore, a breach, failure or other disruption of our data management systems and technology, or those of our third party service providers, could lead to the unauthorized or unintended release, misuse, loss or destruction of personal or confidential data about our customers, employees or other third parties in our possession. A purported or actual unauthorized access or unauthorized disclosure of personal or confidential data could materially damage our reputation and expose us to liability for violations of privacy and data protection laws.

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

We are also exposed to the risk of loss resulting from the actions, inactions of our employees, contractors and external service providers. Conduct risks can arise from human errors, lack of reasonable care and diligence exercised or intentional malfeasance and other misconduct, including the misuse of client information in connection with insider trading or for other purposes, even if promptly discovered and remediated, can result in reputational damage and material losses and liabilities for us.

There have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

***Our operations rely on our ability to maintain appropriately staffed workforces, and on the competence, trustworthiness, health and safety of employees.***

Our ability to operate our businesses efficiently and profitably, to offer products and services that meet the expectations of our clients and customers, and to maintain an effective risk management framework is highly dependent on our ability to staff our operations appropriately and on the competence, integrity, health and safety of our employees.

Our operations could be impaired if the measures we take to ensure the health and safety of our employees are ineffective, or if any external party on which we rely fails to take appropriate and effective actions to protect the health and safety of our employees.

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

Our businesses depend on the security and efficacy of our data management systems and technology, as well as those of third parties with whom we interact or on whom we rely. To access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cyber security risks. While we seek to operate in a control environment that limits the likelihood of a cyber and information security incident, and to ensure that the impact of a cyber and information security incident can be minimized by information security capability and incident response, there can be no assurances that our security controls will provide absolute security against a changing external threat environment.

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

Despite efforts to protect the integrity of our systems through the implementation of controls, processes, policies and other protective measures, we may not be able to prevent all security breaches.

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

We anticipate cyber-attacks will continue to occur because perpetrators are well resourced, deploying highly sophisticated techniques that can evolve rapidly. This challenges our ability to implement effective controls measures to prevent or minimize damage that may be caused by all information security threats. Cyber-attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences

for the MGL Group, including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures and additional compliance costs, all of which could have a material adverse impact on the MGL Group.

***We could suffer losses due to hostile, catastrophic or unforeseen events, including due to environmental and social factors.***

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

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses. Any such long-term, adverse environmental or social consequences could prompt us to exit certain businesses altogether. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

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

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

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

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

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

**Strategic risks**

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

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

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our legal, accounting, IT, risk management and operational infrastructure and result in increased expenses. A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact with new clients, new asset classes and other new products or new markets. These business activities

expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from IT systems and reputational concerns with the manner in which these businesses are being operated or conducted.

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

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

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in the MGL Group and many of the funds managed by entities owned, in whole or in part, by MGL use the Macquarie name.

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

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

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

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

The widespread adoption and rapid evolution of new technologies, including analytic capabilities, self-service digital trading platforms, internet services, distributed ledgers, such as the blockchain system, cryptocurrencies, Central Bank Digital Currencies ("*CBDC*") and payment systems, could have a substantial impact on the financial services industry. As CBDC initiatives evolve and mature, our businesses and results of operations could therefore be adversely impacted.

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

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

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

***Our dependence on the revenue we generate from managing funds and transacting with the assets we manage exposes us to risk.***

As at March 31, 2022, we had A$774.8 billion in Assets under Management, and for the 2022 fiscal year, we derived A$2,796 million of base fee income from the funds that we managed. Our financial condition and results of operations are directly and indirectly affected by the results of the funds or the assets we manage. Our revenue from Assets under Management is derived principally from three sources: (i) management fees, based on the size of our funds; (ii) incentive income, based on the performance of our funds; and (iii) investment income based on our investments in the funds, which we refer to as our "principal investments". If any of our funds perform poorly due to market conditions or our underperformance, our revenue and results of operations may decline. If the return of a fund is negative in any period, this may also have a long-term effect on incentive income. This is because a deficit against a performance benchmark will usually be carried forward until the deficit has been eliminated. In addition, in some cases investors may withdraw their investments in our funds or may decline to invest in future funds we establish.

**Tax**

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

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. Any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

**Accounting standards**

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

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

Accounting standard setting bodies issue new accounting standards and interpretations in response to outreach activities, evolving interpretations, application of accounting principles as well as changes in market developments. In addition, changes in interpretations by accounting standard setting bodies; regulators; and our independent external auditor may also arise from time to time. These changes may be difficult to predict in terms of the nature of such changes and the timing thereof. The application of new requirements and interpretations may impact how we prepare and report our financial statements. In some cases, we may be required to apply a new or revised standard or change in interpretation retrospectively, resulting in a requirement to represent our previously reported financial information.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2022.

The information relating to the MGL Group in the following table is based on our 2022 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

External securitizations of home loans (and other relevant assets), which are a source of funding for such assets, are no longer netted down on the funded balance sheet and hence included under balance of debt issued in the table below including relevant footnotes. Comparatives have been restated to reflect this change. Refer to section 5.3 of our 2022 Fiscal Year Management Discussion and Analysis Report for more details.

| | As at | |
|---|---|---|
| | **Mar 31, 2022** | **Mar 31, 2022** |
| | **US$m[1]** | **A$m** |
| **CAPITALIZATION** | | |
| Borrowings[2] | | |
| Debt issued — due greater than 12 months | 56,393 | 75,200 |
| Loan capital — due greater than 12 months | 7,159 | 9,546 |
| **Total borrowings[3]** | **63,552** | **84,746** |
| **Equity** | | |
| Contributed equity | | |
| Ordinary share capital | 10,616 | 14,156 |
| Treasury shares | (1,393) | (1,858) |
| Reserves | 1,142 | 1,523 |
| Retained earnings | 11,054 | 14,740 |
| Other non-controlling interests | 184 | 245 |
| **Total equity** | **21,603** | **28,806** |
| **TOTAL CAPITALIZATION** | **85,155** | **113,552** |

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 31, 2022, which was US$0.7499 per A$1.00.

2 As at March 31, 2022, we had A$22.1 billion of secured indebtedness due in greater than 12 months compared to A$10.2 billion as at March 31, 2021.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or non-recourse funding. Short-term debt totaled A$51.1 billion as at March 31, 2022 and non-recourse and security backed funding totaled A$1.3 billion as at March 31, 2022 compared to A$25.2 billion and A$1.4 billion, respectively, as at March 31, 2021.

For details on our short-term debt position as at March 31, 2022, see section 5.4 of our 2022 Fiscal Year Management Discussion and Analysis Report.

# MACQUARIE GROUP LIMITED

## Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. As a provider of asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities, MGL Group is primarily a client-driven business which generates income by providing a diversified range of products and services to its clients. MGL Group offers a range of services to government, institutional, corporate and retail clients. MGL operates through a Banking Group, comprising MBL and its operating groups, and a Non-Banking Group. See ”— Organizational structure” for more information. MGL's market capitalization as at the close of business on May 13, 2022 was A$70.3 billion (approximately US$48.6 billion based on the noon buying rate on May 13, 2022 of US$0.6918 per A$1.00).

As at March 31, 2022, MGL employed 18,133 staff,[1] had total assets of A$399.2 billion and total equity of A$28.8 billion. For the 2022 fiscal year, MGL net operating income was A$17,324 million and profit after tax attributable to ordinary equity holders was A$4,706 million. As at March 31, 2022, MGL conducted its operations in 33 markets, with 75% of our net operating income (excluding earnings on capital and other corporate items) being derived from international income. See "— Our business — Regional activity" below for further information. MGL was incorporated in Australia and registered in the State of Victoria on October 12, 2006. Its principal place of business is Level 6, 50 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +61 2-8232-3333.

## Board and management changes during the 2022 fiscal year

### *MGL Board elections and retirements:*

- Michelle Hinchliffe was appointed as a non-executive Voting Director of MGL and MBL on March 1, 2022.
- Diane Grady retired as a non-executive Voting Director of MGL and MBL on February 24, 2022.

### *MGL Group management changes:*

- In January 2022, Evie Bruce joined the MGL Group and became Group General Counsel and Group Head of the Legal and Governance Group, succeeding Michael Herring in that role, following his planned retirement on May 6, 2022. Ms. Bruce also joined the MGL and MBL Executive Committees on March 2, 2022.
- Mary Reemst retired from her roles as Managing Director and Chief Executive Officer of MBL, and executive Voting Director of MBL, on July 1, 2021. She resigned as a member of the MGL and MBL Executive Committees on June 30, 2021.
- Stuart Green was appointed as Managing Director and Chief Executive Officer of MBL, executive Voting Director of MBL, and as a member of the MGL and MBL Executive Committees on July 1, 2021.
- Florian Herold resigned as a member of the MGL Executive Committee on May 7, 2021.
- Martin Stanley resigned as a member of the MGL Executive Committee on March 31, 2021. He retired from his role as Group Head of Macquarie Asset Management effective April 1, 2021.
- Ben Way was appointed Group Head of Macquarie Asset Management and as a member of the MGL Executive Committee on April 1, 2021.
- Patrick Upfold retired as Chief Risk Officer of the MGL Group, Group Head of the Risk Management Group, and as a member of the MGL Executive Committee, effective December 31, 2021. He was succeeded in these roles by Andrew Cassidy, who was appointed to the MGL Executive Committee effective January 1, 2022.

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

***Operating group updates during the 2022 fiscal year***

Effective April 1, 2022, MGL Group's Green Investment Group ("*GIG*"), previously operating within Macquarie Capital, commenced operating as part of Macquarie Asset Management, bringing together the MGL Group's specialist capabilities to provide clients with greater access to green investment opportunities.

The need for investment has grown substantially in GIG's areas of focus, as has investor appetite for access to such opportunities.

The combined teams significantly enhance the MGL Group's offering to clients, partners and other stakeholders through the ability to:

- mobilize institutional capital, connecting Macquarie Asset Management clients to a significantly expanded range of green investment opportunities through GIG's asset creation team;
- enable long-term investment across the asset lifecycle, from development to operations;
- provide greater scale of decarbonization solutions for clients, portfolio companies, communities and the environment; and
- identify opportunities across the transition to net zero, from established to emerging technologies.

GIG retains its brand and continues its mission to accelerate the green transition.

Macquarie Capital continues its principal investing activities across its broader areas of expertise, based on the specialist skills of its teams.

The MGL Group will continue to invest its balance sheet in providing aligned capital for the Macquarie Asset Management business.

**Our key strengths**

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

- *Strong brand and reputation*. We believe our business successes have resulted in us achieving a level of recognition for quality, integrity and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.
- *Diversified earnings*. Our diversified earnings base has been an important factor in our successful growth. MGL Group's diverse sources of income include the following:
  - *Fee and commission income*, including:
    - Brokerage and other trading related fee income primarily includes brokerage income from the Equity Derivatives and Trading and Futures businesses in Commodities and Global Markets, the Equities business in Macquarie Capital and brokerage income from the provision of wealth services in Banking and Financial Services;
    - Asset management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) primarily from Macquarie Asset Management;
    - Fee income from M&A, advisory and underwriting services which are mainly attributable to Macquarie Capital; and
    - Other fee and commission income includes fees earned on a range of Banking and Financial Services' products and services, including the BFS Wrap and Vision platforms, home loans, car loans, credit cards, business loans and deposits. Macquarie Asset Management includes fees

related to the MIC disposition, distribution services and transactions, transfer agent oversight services, capital raisings, brokerage and commission income, and income from True Index products, while Commodities and Global Markets includes income from structured, index and retail products.

- *Trading income* generated predominantly through client hedging activity and trading activities and products issued by Commodities and Global Markets;
- *Net interest income* primarily earned on residential mortgages, loans to Australian businesses, vehicle finance, and credit cards in Banking and Financial Services, interest income on trading assets, leasing, lending and asset financing from Commodities and Global Markets and interest income earned from debt investments in Macquarie Capital, partially offset by funding costs incurred by the MGL Group to fund business activity;
- *Net operating lease income* generated predominately from operating lease portfolios in Macquarie Asset Management and Commodities and Global Markets;
- *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, dividends and distributions as well as development expenditure in relation to green energy projects by Macquarie Capital; and
- *Equity accounted income* from principal investments in assets and businesses where significant influence is present.

- *Geographic diversity*. As at March 31, 2022, we employed 18,133 staff in 33 markets. Of those staff, approximately 54% were located in offshore markets. As the MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.
- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise. We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.
- *Strong capital position*. As at March 31, 2022, the MGL Group had total regulatory capital of A$33.6 billion, including A$10.7 billion of capital in excess of MGL Group's minimum APRA regulatory requirement (calculated at 8.5% of the Banking Group's RWA on a Basel III basis). The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer, per the minimum requirements in the APRA Prudential Standard APS110 which has been required by APRA since January 1, 2016. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management including (but not limited to) APRA's "Unquestionably Strong" benchmarks, as discussed below under "Regulation and Supervision". For further information on our regulatory capital position as at March 31, 2022, see section 6 of our 2022 Fiscal Year Management Discussion and Analysis Report.
- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 36 to our 2022 annual financial statements and in "Risk Management" in section 2 of our 2022 Annual Report incorporated by reference herein.

**Organizational structure**

MGL Group's business operations are conducted primarily through two groups, within which our individual businesses operate: the Banking Group and the Non-Banking Group.

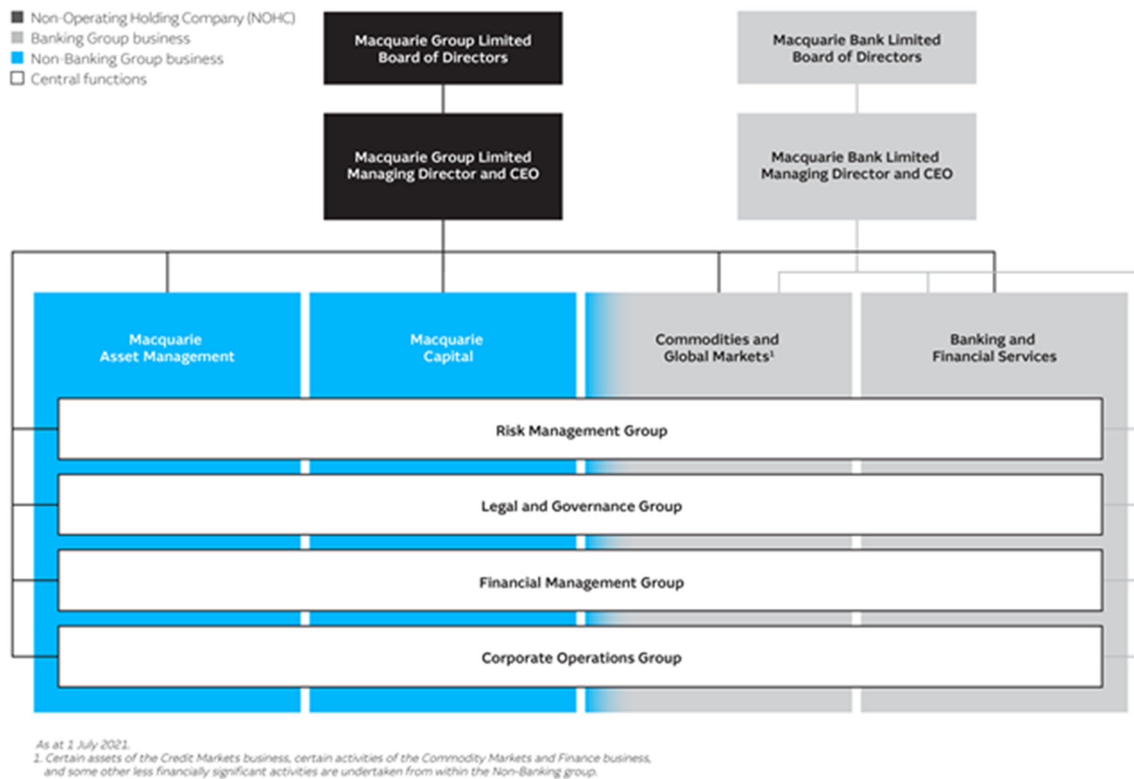
The Banking Group comprises MBL Group and has two operating groups: Banking and Financial Services and Commodities and Global Markets. (Certain assets of the Credit Markets business and certain activities of the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking Group.)

The Non-Banking Group consists of Macquarie Capital; Macquarie Asset Management; and those assets and activities in Commodities and Global Markets which are not in the Banking Group, as described above.

MBL Group currently provides services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and includes the following Central Service Groups: Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance Group and Central Executive. Services include: risk management, finance, technology, operations, group treasury, human resources, workplace, legal and corporate governance, corporate affairs, taxation services, strategy, operational risk management, data and transformation, resilience and global security, central executive services, and other services as may be agreed from time to time.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5 of our 2022 Fiscal Year Management Discussion and Analysis Report. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist the MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

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



As at 1 July 2021.
1. Certain assets of the Credit Markets business, certain activities of the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking group.

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

**Our strategy**

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

- *Risk management approach.* Adopting a conservative approach to risk management underpinned by a sound risk culture. MGL's robust risk management framework and risk culture is embedded across all Operating and Central Service Groups.

- *Strong balance sheet.* Maintaining a strong and conservative balance sheet. This is consistent with MGL's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. MGL has a liability driven approach to balance sheet management, where funding is raised prior to assets being taken on to the balance sheet. MGL continues to pursue the strategy of diversifying funding sources by growing the deposit base and accessing wholesale funding across a variety of products and markets.

- *Business mix.* Conducting a mix of annuity-style and markets-facing businesses that deliver consistent returns in a range of market conditions.

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

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

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

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

**Our history and evolution**

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

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

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

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

- the acquisition of Constellation Energy in the 2009 fiscal year, which enhanced Commodities and Financial Markets', which now forms part of Commodities and Global Markets, position within the North American natural gas market;
- the acquisition of Delaware Investments in the 2010 fiscal year, which enhanced Macquarie Asset Management's global asset management capability;
- the acquisition of the Ford Credit and GMAC portfolios in the 2010 and 2011 fiscal years, respectively, which enhanced the former Corporate and Asset Finance's (now Banking and Financial Services') motor vehicle leasing portfolio; and
- the acquisition of the ILFC aircraft operating lease portfolio in the 2011 fiscal year, which enhanced the former Corporate and Asset Finance's (now Macquarie Asset Management's) portfolio and the Macquarie Aviation Finance business.

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

**Our business**

***Overview of the MGL Group***

As at March 31, 2022, MGL had total assets of A$399.2 billion and total equity of A$28.8 billion. For the 2022 fiscal year, our net operating income was A$17,324 million and profit after tax attributable to ordinary equity holders was A$4,706 million, with 75% of our net operating income (excluding earnings on capital and other corporate items) derived from international income.

The tables below show the relative net operating income and profit contribution of each of our operating groups for the 2022 and 2021 fiscal years.

*Net operating income of MGL Group by operating group for the 2022 and 2021 fiscal years* [1]

| | **Fiscal Year ended** | | |
|---|---|---|---|
| | **Mar 31, 2022** | **Mar 31, 2021** | **Movement**[3] |
| | **A$m** | **A$m** | **%** |
| Macquarie Asset Management | 4,484 | 3,554 | 26 |
| Banking and Financial Services | 2,461 | 2,078 | 18 |
| Commodities and Global Markets | 6,179 | 4,678 | 32 |
| Macquarie Capital | 4,213 | 2,248 | 87 |
| **Total net operating income from operating groups** | **17,337** | **12,558** | **38** |
| Corporate[2] | (13) | 216 | * |
| **Total net operating income** | **17,324** | **12,774** | **36** |

[1] For further information on our segment reporting, see section 3 of our 2022 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2022 annual financial statements.

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

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

*Net profit contribution of MGL Group by operating group for the 2022 and 2021 fiscal years* [1]

| | Fiscal Year ended | | |
|---|---|---|---|
| | Mar 31, 2022 | Mar 31, 2021 | Movement[3] |
| | A$m | A$m | % |
| Macquarie Asset Management | 2,150 | 2,074 | 4 |
| Banking and Financial Services | 1,001 | 771 | 30 |
| Commodities and Global Markets | 3,911 | 2,601 | 50 |
| Macquarie Capital | 2,400 | 651 | 269 |
| **Total contribution to net profit by operating group** | **9,462** | **6,097** | **55** |
| Corporate[2] | (4,756) | (3,082) | 54 |
| **Profit attributable to the ordinary equity holders of MGL** | **4,706** | **3,015** | **56** |

1 For further information on our segment reporting, see section 3 of our 2022 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2022 annual financial statements.

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

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

**Regional activity**

As at March 31, 2022, the MGL Group employed 18,133 staff globally and conducted its operations in 33 markets.

*Australia and New Zealand*. MBL Group, the predecessor of the MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2022, the MGL Group employed 8,332 staff across Australia and New Zealand. In the 2022 fiscal year, Australia and New Zealand contributed A$4,390 million (25%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$4,032 million (32%) in the 2021 fiscal year.

*Americas*. MGL Group has been active in the Americas for over 25 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions. As at March 31, 2022, the MGL Group employed 3,205 staff across five markets. In the 2022 fiscal year, the Americas contributed A$8,246 million (48%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$4,187 million (34%) in the 2021 fiscal year.

*Asia*. MGL Group has been active in Asia for more than 25 years, when we established our first office in Hong Kong in 1995. As at March 31, 2022, the MGL Group employed 3,972 staff across 11 markets. MGL has expanded the regional investment and product platforms of Macquarie Asset Management and Commodities and Global Markets, which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the 2022 fiscal year, Asia contributed A$1,137 million (7%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1,418 million (11%) in the 2021 fiscal year.

*Europe, Middle East & Africa*. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2022, the MGL Group employed 2,624 staff across 15 markets. In the 2022 fiscal year, Europe, Middle East & Africa contributed A$3,511 million (20%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2,863 million (23%) in the 2021 fiscal year.

For further information on our segment reporting, see section 3 of our 2022 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2022 annual financial statements. For further information on our international income for the 2022 and 2021 fiscal years, see section 3.7 of our 2022 Fiscal Year Management Discussion and Analysis Report.

## Operating groups

### *Macquarie Asset Management*

Macquarie Asset Management ("*MAM*") is in the Non-Bank Group and is our asset management business. The majority of MAM's net operating income are fees earned from clients in relation to managing their capital. MAM had A$773.1 billion in Assets under Management as at March 31, 2022.

MAM is a leading specialist global asset manager, providing investment solutions to clients across a range of capabilities in Private Markets and Public Investments, including infrastructure, green investments, agriculture and natural assets, real estate, private credit, asset finance, equities, fixed income and multi-asset solutions.

MAM contributed A$2,150 million to MGL Group's net profit in the 2022 fiscal year and, as at March 31, 2022, had approximately 2,400 staff operating across 24 markets across Australia, the Americas, Europe and Asia.

During the 12 months to March 31, 2022, MAM successfully completed the acquisitions of and is integrating:

- Waddell & Reed Financial: One of the oldest asset managers in the United States, with approximately US$78.6 billion[2] assets under management and a leading offering distributed under the IVY INVESTMENTS® brand.

- Central Park Group: An independent investment advisory firm with approximately US$3.5 billion[3] of assets under management, specializing in alternative investment strategies for high-net-worth investors.

- AMP Capital's public investments business: Specialist fixed income, Australian listed equities, listed real estate and infrastructure team with approximately A$43 billion[4] of assets under management.

### *Banking and Financial Services*

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

BFS comprises the following businesses:

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

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

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

BFS contributed A$1,001 million to MGL Group's net profit in the 2022 fiscal year and, as at March 31, 2022, had over 3,350 staff operating predominately in Australia.

### *Commodities and Global Markets*

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

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[2] As at the April 30, 2021 acquisition date.
[3] As at December 31, 2021.
[4] As at March 31, 2021.

CGM comprises the following businesses:

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

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

- Equity Derivatives and Trading: Issues retail derivatives in key locations and provides derivatives products and equity finance solutions to its institutional and corporate client base, and conducts risk management and market making activities.

- Fixed Income & Currencies: Provides currency and fixed income trading and hedging services as well as financing via securitization, warehousing, seasoning and term financing facilities to a range of corporate and institutional clients globally.

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

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

- Central: Develops and manages non-business specific, early stage and CGM-wide initiatives including the Chief Operating Officer, Chief Financial Officer, data, legal and operational, specialist and non-financial risk teams.

CGM contributed A$3,911 million to MGL Group's net profit in the 2022 fiscal year and, as at March 31, 2022, had over 2,170 staff located in 21 markets in Australia and New Zealand, the Americas, Europe, Middle East, South Africa and Asia.

***Macquarie Capital***

Macquarie Capital provides advisory, capital raising and equity brokerage services and performs investing activities. Macquarie Capital's revenue is primarily generated by fees earned from clients in relation to advisory services and equity brokerage as well as investment income from investing activities. Macquarie Capital has global capability in:

- Advisory and capital raising services, investing alongside partners and clients across the capital structure, providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors.

- Development and investment in infrastructure and energy projects and companies, with a focus on transport, digital and social infrastructure.

- Equities brokerage, providing clients with access to equity research, sales, execution capabilities and corporate access.

Macquarie Capital contributed A$2,400 million to MGL Group's net profit in the 2022 fiscal year and, as at March 31, 2022, had over 1,840 staff operating across 27 markets in Australia and New Zealand, the Americas, Europe, South Africa and Asia.

***Corporate***

The Corporate segment includes earnings from the net result of managing the MGL Group's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, changes in central overlays to impairments or valuation of assets, unallocated head office costs and costs of Central Service Groups,

MGL Group’s performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests.

Corporate contributed a net loss of A$4,756 million in the 2022 fiscal year and, as at March 31, 2022, over 8,350 staff operating across most of the markets in which MGL operates.

For further information on Corporate’s results of operations and financial condition for the 2022 fiscal year, see section 3.6 of our 2022 Fiscal Year Management Discussion and Analysis Report.

**Asset management business**

MGL Group’s asset management businesses are conducted primarily in the Non-Banking Group by MAM.

Macquarie Asset Management provides access to specialist investment expertise across a diverse range of capabilities across both Private Markets and Public Investments. Its Private Markets activities—which span investment strategies across infrastructure, green investments, agriculture and natural assets, real estate, private credit, and asset finance—act as the manager of several listed and unlisted funds and managed accounts. The group has listed funds in the United States, South Korea and Mexico and unlisted global, regional, country, and sector specific funds in the Americas, Asia-Pacific, and Europe, the Middle East and Africa. See “— Operating groups — Macquarie Asset Management” for further information.

Public Investments offers securities investment management capabilities across a number of asset classes including equities, fixed income and multi-asset solutions. It delivers a full-service offering to both retail and institutional clients in Australia and the United States, with selective offerings in other regions. Public Investments also partners with select specialist investment managers through its Macquarie Professional Series funds. See “— Operating groups — Macquarie Asset Management” for further information.

Assets under Management provides a consistent measure of the scale of MGL Group’s asset management activities, primarily by MAM, in the Non-Banking Group, which is discussed in “— Assets under Management” section below. The earning of base management fees is closely aligned with the Equity under Management measure for Private Markets, which is discussed in section 7.2 of our 2022 Fiscal Year Management Discussion and Analysis Report. For a further explanation of the distinction between Assets under Management and Equity under Management, see “Financial Information Presentation — Non-GAAP financial measures” in this Report.

***Assets under Management***

For further information on MGL Group’s Assets under Management for the 2022 fiscal year, see section 7.1 of our 2022 Fiscal Year Management Discussion and Analysis Report.

MGL Group’s income from asset management is mainly derived from management fees. Management fee income includes base fees, which are ongoing fees generated from assets under management (or equity under management in the case of Macquarie Asset Management’s Private Markets activities), and performance fees, which are typically earned when the strategies outperform pre-determined benchmarks.

For Macquarie Asset Management’s Private Markets funds, the incentive income is typically 20% of any outperformance. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of the performance fee for subsequent periods. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return. Unlisted performance fees are generally payable upon the occurrence of a “liquidity event”, such as when capital is returned to investors following the completion of an asset sale or with a fund listing. The timing and quantum of these fees are therefore unpredictable.

For further detail on MGL Group’s income from funds management for the 2022 fiscal year, see section 2.2 of our 2022 Fiscal Year Management Discussion and Analysis Report and for further information on MGL Group’s Assets under Management for the 2022 fiscal year, see section 7.1 of our 2022 Fiscal Year Management Discussion and Analysis Report.

***Equity under Management***

For further information on MGL Group’s Equity under Management for the 2022 fiscal year, see section 7.2 of our 2022 Fiscal Year Management Discussion and Analysis Report.

## Legal proceedings and regulatory matters

### *Germany*

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

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

Since 2018, a number of German civil claims have been brought against MBL by investors in a group of independent investment funds financed by MBL to undertake German dividend trading in 2011, who seek total damages of approximately €59 million. The funds were trading shares around the dividend payment dates where investors were seeking to obtain the benefit of dividend withholding tax credits. The investors' credit claims were refused and there was no loss to the German revenue authority. MBL strongly disputes these claims noting that it did not arrange, advise or otherwise engage with the investors, who were high net-worth individuals with their own advisers. Many, if not all, had previously participated in similar transactions.

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

### *Other legal proceedings*

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

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 33 to our 2022 annual financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

## Competition

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

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

The international trend towards consolidation and strategic alliances, has significantly increased the capital base and geographic reach of some of our competitors. This trend has also hastened the globalization of the securities and financial services markets. To take advantage of some of our recent strategic acquisitions and organic growth opportunities, we will need to compete successfully with financial institutions that are larger and that may have a stronger local presence and longer operating history outside of Australia.

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

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

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

### Additional financial disclosures for the 2022 fiscal year

#### *MGL Group's credit risk by country and counterparty type*

The table below details the concentration of cross-border credit risk by country and counterparty type of MGL Group's financial assets measured at amortized cost or fair value through other comprehensive income ("*FVOCI*") and off-balance sheet exposures subject to the impairment requirements of AASB 9 *Financial Instruments*. AASB 9 is an equivalent standard to International Financial Reporting Standard 9 – *Financial Statements*, as issued by the International Accounting Standards Board. The table includes MGL Group's top ten credit risk exposures by country (excluding Australia), MGL Group's total credit risk exposures in all other countries other than Australia, MGL Group's credit exposure in Australia, and MGL Group's total credit exposure in all countries. The country classification is determined by the country of risk to which the MGL Group is most exposed when assessing the counterparty to meet its obligations as they fall due. The counterparty type is based on APRA classification. For purposes of this disclosure, the gross exposure of financial assets measured at amortized cost represents the amortized cost before the expected credit loss ("*ECL*") allowance and the gross exposure of financial assets measured at FVOCI represents carrying value before fair value adjustments and ECL allowance. Accordingly, these exposures will not be equal to the amount as presented in MGL Group's statements of financial position. This information is unaudited.

| | As at Mar 31, 2022[1] | | | |
|---|---|---|---|---|
| **Country** | **Governments** | **Financial Institutions** | **Other** | **Total exposure** |
| | **A$m** | **A$m** | **A$m** | **A$m** |
| **United States** | | | | |
| Cash and bank balances | — | 4,466 | — | 4,466 |
| Cash collateralized lending and reverse repurchase agreements | — | 9,186 | — | 9,186 |
| Margin money and settlement assets | 43 | 2,091 | 3,088 | 5,222 |
| Financial investments | — | 112 | — | 112 |
| Held for sale and other assets | — | 630 | 442 | 1,072 |
| Loan assets | 11 | 2,916 | 6,577 | 9,504 |
| Loans to associates and joint ventures | — | — | 236 | 236 |
| Off balance sheet exposures | 21 | 254 | 3,594 | 3,869 |
| **Total United States** | **75** | **19,655** | **13,937** | **33,667** |

| Country | Governments | Financial Institutions | Other | Total exposure |
|---|---|---|---|---|
| | As at Mar 31, 2022[1] | | | |
| | A$m | A$m | A$m | A$m |
| **United Kingdom** | | | | |
| Cash and bank balances | — | 1,168 | — | 1,168 |
| Cash collateralized lending and reverse repurchase agreements | — | 5,341 | — | 5,341 |
| Margin money and settlement assets | — | 1,739 | 5,935 | 7 ,674 |
| Financial investments | — | 3,040 | — | 3,040 |
| Held for sale and other assets | — | 90 | 632 | 722 |
| Loan assets | — | 679 | 3,079 | 3,758 |
| Loans to associates and joint ventures | — | — | 412 | 412 |
| Off balance sheet exposures | — | 15 | 318 | 333 |
| **Total United Kingdom** | **—** | **12,072** | **10,376** | **22,448** |
| **France** | | | | |
| Cash and bank balances | — | 671 | — | 671 |
| Cash collateralized lending and reverse repurchase agreements | — | 7,173 | — | 7,173 |
| Margin money and settlement assets | — | 304 | 278 | 582 |
| Financial investments | — | 66 | — | 66 |
| Held for sale and other assets | — | — | — | — |
| Loan assets | — | 174 | 339 | 513 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | — | 49 | 49 |
| **Total France** | **—** | **8,388** | **666** | **9,054** |
| **Germany** | | | | |
| Cash and bank balances | — | 475 | — | 475 |
| Cash collateralized lending and reverse repurchase agreements | — | 4,081 | — | 4 ,081 |
| Margin money and settlement assets | — | 161 | 1,003 | 1,164 |
| Financial investments | — | 7 | — | 7 |
| Held for sale and other assets | — | 23 | 80 | 103 |
| Loan assets | — | 36 | 174 | 210 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | 8 | 12 | 20 |
| **Total Germany** | **—** | **4,791** | **1,269** | **6,060** |
| **United Arab Emirates** | | | | |
| Cash and bank balances | — | 1 | — | 1 |
| Cash collateralized lending and reverse repurchase agreements | — | 5,136 | — | 5,136 |
| Margin money and settlement assets | — | 1 | 13 | 14 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | — | 1 | 1 |
| Loan assets | — | — | — | — |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | — | — | — |
| **Total United Arab Emirates** | **—** | **5,138** | **14** | **5,152** |

| Country | As at Mar 31, 2022[1] | | | |
|---|---|---|---|---|
| | Governments | Financial Institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| **Canada** | | | | |
| Cash and bank balances | — | 201 | — | 201 |
| Cash collateralized lending and reverse repurchase agreements | — | 2,090 | — | 2,090 |
| Margin money and settlement assets | 2 | 96 | 131 | 229 |
| Financial investments | — | 102 | — | 102 |
| Held for sale and other assets | 2 | 2 | 7 | 11 |
| Loan assets | 108 | 50 | 451 | 609 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | 86 | 353 | 439 |
| **Total Canada** | **112** | **2,627** | **942** | **3,681** |
| **Netherlands** | | | | |
| Cash and bank balances | — | 37 | — | 37 |
| Cash collateralized lending and reverse repurchase agreements | — | 2,171 | — | 2,171 |
| Margin money and settlement assets | — | 49 | 9 | 58 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | 46 | 2 | 48 |
| Loan assets | — | 189 | 161 | 350 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | — | — | — |
| **Total Netherlands** | **—** | **2,492** | **172** | **2,664** |
| **Belgium** | | | | |
| Cash and bank balances | — | — | — | — |
| Cash collateralized lending and reverse repurchase agreements | — | 798 | — | 798 |
| Margin money and settlement assets | — | 56 | 1,222 | 1,278 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | — | — | — |
| Loan assets | — | 189 | 17 | 206 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | 23 | — | 23 |
| **Total Belgium** | **—** | **1,066** | **1,239** | **2,305** |
| **China** | | | | |
| Cash and bank balances | — | 81 | — | 81 |
| Cash collateralized lending and reverse repurchase agreements | — | 1,672 | — | 1,672 |
| Margin money and settlement assets | — | 156 | 263 | 419 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | 1 | 1 | 2 |
| Loan assets | — | — | 53 | 53 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | — | — | — |
| **Total China** | **—** | **1,910** | **317** | **2,227** |

| Country | As at Mar 31, 2022[1] | | | |
|---|---|---|---|---|
| | Governments | Financial Institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| **Ireland** | | | | |
| Cash and bank balances | — | 81 | — | 81 |
| Cash collateralized lending and reverse repurchase agreements | — | 1,552 | — | 1,552 |
| Margin money and settlement assets | — | 21 | 1 | 22 |
| Financial investments | — | — | — | — |
| Held for sale and other assets | — | 12 | 17 | 29 |
| Loan assets | — | 110 | 29 | 139 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | — | 28 | 16 | 44 |
| **Total Ireland** | **—** | **1,804** | **63** | **1,867** |
| **Top ten countries** | | | | |
| Cash and bank balances | — | 7,181 | — | 7,181 |
| Cash collateralized lending and reverse repurchase agreements | — | 39,200 | — | 39,200 |
| Margin money and settlement assets | 45 | 4,674 | 11,943 | 16,662 |
| Financial investments | — | 3,327 | — | 3,327 |
| Held for sale and other assets | 2 | 804 | 1,182 | 1,988 |
| Loan assets | 119 | 4,343 | 10,880 | 15,342 |
| Loans to associates and joint ventures | — | — | 648 | 648 |
| Off balance sheet exposures | 21 | 414 | 4,342 | 4,777 |
| **Total top ten countries[2]** | **187** | **59,943** | **28,995** | **89,125** |
| **Other foreign countries** | | | | |
| Cash and bank balances | — | 4,707 | 1 | 4,708 |
| Cash collateralized lending and reverse repurchase agreements | — | 3,448 | — | 3,448 |
| Margin money and settlement assets | 32 | 2,424 | 2,692 | 5,148 |
| Financial investments | — | 694 | — | 694 |
| Held for sale and other assets | — | 510 | 1,126 | 1,636 |
| Loan assets | — | 1,075 | 1,879 | 2,954 |
| Loans to associates and joint ventures | — | — | — | — |
| Off balance sheet exposures | 5 | — | 677 | 682 |
| **Total other foreign countries** | **37** | **12,858** | **6,375** | **19,270** |
| **Gross credit risk in foreign countries** | | | | |
| Cash and bank balances | — | 11,888 | 1 | 11,889 |
| Cash collateralized lending and reverse repurchase agreements | — | 42,648 | — | 42,648 |
| Margin money and settlement assets | 77 | 7,098 | 14,635 | 21,810 |
| Financial investments | — | 4,021 | — | 4,021 |
| Held for sale and other assets | 2 | 1,314 | 2,308 | 3,624 |
| Loan assets | 119 | 5,418 | 12,759 | 18,296 |
| Loans to associates and joint ventures | — | — | 648 | 648 |
| Off balance sheet exposures | 26 | 414 | 5,019 | 5,459 |
| **Total gross credit risk in foreign countries** | **224** | **72,801** | **35,370** | **108,395** |

| Country | As at Mar 31, 2022[1] | | | |
|---|---|---|---|---|
| | Governments | Financial Institutions | Other | Total exposure |
| | A$m | A$m | A$m | A$m |
| **Australia** | | | | |
| Cash and bank balances | — | 40,865 | — | 40,865 |
| Cash collateralized lending and reverse repurchase agreements | — | 4,379 | — | 4,379 |
| Margin money and settlement assets | 39 | 1,778 | 1,054 | 2,871 |
| Financial investments | — | 4,704 | 1,220 | 5,924 |
| Held for sale and other assets | 15 | 169 | 1,109 | 1,293 |
| Loan assets[3] | 35 | 3,469 | 113,505 | 117,009 |
| Loans to associates and joint ventures | — | — | 1 | 1 |
| Off balance sheet exposures | 28 | 463 | 4,132 | 4,623 |
| **Total Australia** | **117** | **55,827** | **121,021** | **176,965** |
| **Gross credit risk** | | | | |
| Cash and bank balances | — | 52,753 | 1 | 52,754 |
| Cash collateralized lending and reverse repurchase agreements | — | 47,027 | — | 47,027 |
| Margin money and settlement assets | 116 | 8,876 | 15,689 | 24,681 |
| Financial investments | — | 8,725 | 1,220 | 9,945 |
| Held for sale and other assets | 17 | 1,483 | 3,417 | 4,917 |
| Loan assets | 154 | 8,887 | 126,264 | 135,305 |
| Loans to associates and joint ventures | — | — | 649 | 649 |
| Off balance sheet exposures | 54 | 877 | 9,151 | 10,082 |
| **Total gross credit risk[4]** | **341** | **128,628** | **156,391** | **285,360** |

1 Totals may not foot due to rounding.

2 The top ten countries represent 82.22% of MGL Group's total non-Australian credit risk exposures as at March 31, 2022.

3 Loan assets in the Australia region includes home loans of A$71,751 million, Asset financing of A$12,433 million and Corporate, commercial and other lending of A$10,146 million.

4 The total gross credit risk exposure aligns to the amount disclosed in Note 36.1 to our 2022 annual financial statements.

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

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

As at March 31, 2022, the MGL Group had A$20,391 million of contingent liabilities and commitments, including A$2,295 million of contingent liabilities and A$18,096 million of commitments including undrawn credit facilities and securities commitments. See Note 33 "Contingent liabilities and commitments" to our 2022 annual financial statements which shows MGL Group's contingent liabilities and commitments as at March 31, 2022.

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

Each year we prepare a detailed analysis of market risk as it applies to the MGL Group and a quantitative analysis of MBL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 36 "Financial risk management" to our 2022 annual financial statements for a quantitative and qualitative discussion of these risks.

# REGULATION AND SUPERVISION

**Australia**

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

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

***APRA***

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

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

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

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

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

*MBL Pillar 3 Restatement March 2018 to June 2021*

As indicated by APRA's April 1, 2021 announcement in relation to MGL's intragroup funding arrangements, MBL was required to restate certain historical regulatory returns. This included MBL's Level 1 capital ratios (Common Equity Tier 1, Tier 1 and Total capital) from March 31, 2018, as well as MBL's liquidity ratios from September 30, 2019. These are set out in a restatement of MBL's Pillar 3 disclosures, which is posted on MGL's U.S. Investors' Website.

*APRA's prudential supervision – Capital adequacy*

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

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("*APS 330*") are posted on MGL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in section 4 of the MBL Pillar 3 Disclosure Document dated September 2021, which is posted on MGL's U.S. Investors' Website.

On September 2, 2021, APRA announced that it will be delaying revisions to APS 330 by twelve months. The revised timeline means that consultation will occur in 2022, the final standard will be released in late 2022, and the effective date will be January 1, 2024.

*Market risk*

On January 14, 2019, the Basel Committee published a set of revisions to the market risk framework – "*Minimum capital requirements for market risk*", which replaces an earlier version of the standard as published in January 2016. The standard was revised to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework. On October 27, 2021, APRA provided an update on the extended timelines for revisions and implementation of market risk prudential standards including APS 117 from January 1, 2023 to January 1, 2024 and implementation of the Basel Committee on Banking Supervision's fundamental review of the trading book through a revised APS 116, and an updated Credit Valuation Adjustment risk framework through a revised APS 180 will be conducted in parallel, with a planned effective date of January 1, 2025 (previously January 1, 2024).

*IRRBB*

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

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

APRA announced on October 27, 2021 that finalization of the revised prudential standard for IRRBB will occur during 2022, with implementation targeted from 2024.

*Measurement of capital*

APRA, in updating its criteria for measuring an ADI's regulatory capital, released a discussion paper on October 15, 2019 regarding proposed changes to APS 111, "Revisions to APS 111 Capital Adequacy: Measurement of Capital", and

released a detailed response to industry on this consultation in May 2021. On August 5, 2021, APRA released the final revised standard for APS 111, which came into force on January 1, 2022.

The revised capital treatment of an ADI's equity investments in its subsidiaries is the most material change to APS 111. This revision, increases the amount of capital required to support equity investments in large subsidiaries and reduce the amount required for small subsidiaries. For banking and insurance subsidiaries where the total value of the equity investment into an individual subsidiary is above 10% of an ADI's Level 1 CET1 capital, the amount above this level is required to be treated as a CET1 deduction. The amount of the investment below this level is risk weighted at 250% (compared to the current 400% risk weight for unlisted subsidiaries).

Other changes included in the final APS 111 include:

- incorporating into the prudential standard various rulings and technical information APRA has published since APS 111 was last substantially updated in 2013;

- promoting simple and transparent capital issuance by removing the allowance for the use of special purpose vehicles (SPVs) and stapled security structures;

- aligning APS 111 with updated guidance from Basel Committee on Banking Supervision; and

- requiring a full deduction of total loss absorbing capital ("*TLAC*") exposures and pari passu instruments from Tier 2 Capital. A full deduction is consistent with APRA's existing approach to an ADI's holdings of another ADI's, or their own, regulatory capital instruments. APRA's proposal adopted the Basel Committee's framework of requiring a Tier 2 Capital deduction of TLAC instruments but did not adopt a threshold approach.

The final standard also contains further revisions including measures to clarify CET1 capital instruments are not permitted to have any unusual features that could undermine their role as loss absorbing capital.

*"Unquestionably Strong"*

Following the Basel Committee's Basel III announcement on December 7, 2017 ("*Basel III: Finalising post-crisis reforms*"), on February 14, 2018, APRA published two discussion papers on proposed changes to the ADI capital framework for Australian ADIs to incorporate both the Basel Committee's standards and to deliver "Unquestionably Strong" capital ratios, fulfilling a recommendation from the 2014 Financial System Inquiry (FSI). Draft standards for APS 112, part of APS 113 and APS 115 were published for consultation on June 12, 2019. On December 11, 2019, APRA released the final standard for the calculation of operational risk, APS 115, with the current Advanced Measurement Approach to be replaced with the Standardised Measurement Approach, excluding the loss component.

On November 29, 2021, APRA finalized its new bank capital framework, designed to embed "Unquestionably Strong" levels of capital and released the final capital adequacy and credit risk capital requirements for ADIs, contained in APS 110, APS 112, and APS 113. As Australian ADIs already meet the "Unquestionably Strong" benchmark, the new framework does not require ADIs to raise additional capital. Instead, it strengthens financial resilience by:

- ensuring existing high levels of capital adequacy are maintained;

- providing more flexibility and responsiveness to risks in the operating environment;

- having a more risk sensitive capital framework, through increasing capital requirements for higher risk lending and decreasing it for lower risks; and

- improving the comparability of bank capital ratios, both domestically and with global peers.

Based on current information available, the estimated pro forma impact on MGL's capital surplus above regulatory minimums as at September 30, 2021 is a reduction of approximately A$2.2 billion, largely on account of the increases to regulatory capital buffers. MGL's capital surplus has included a provision for these regulatory changes for some time.

The implementation of APRA's "Unquestionably Strong" framework is January 1, 2023, to align with the Basel Committee's implementation date.

*Liquidity*

APRA's liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, APS 210 incorporates the Liquidity Coverage Ratio ("*LCR*") and the Net Stable Funding Ratio ("*NSFR*"). The LCR and NSFR apply specifically to MBL (the regulated ADI in the MGL Group). As an APRA authorized and regulated NOHC, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements.

The LCR requires unencumbered liquid assets be held to cover expected net cash outflows under a combined "idiosyncratic" and market-wide stress scenario lasting 30 calendar days. Under APS 210, liquid assets include cash, balances held with central banks, Australian dollar Commonwealth Government and semi-government securities, any Committed Liquidity Facility (*"CLF"*) allocation, as well as foreign currency High Quality Liquid Assets ("*HQLA*") securities. As announced on April 1, 2021, APRA imposed a 15% add-on to the net cash outflow component of MBL's LCR calculation. This add-on increased to 25% from May 1, 2022 onwards. On September 10, 2021, APRA wrote to all ADIs advising that no ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022 and that ADIs should reduce their usage of the CLF to zero by the end of 2022, subject to financial market conditions. MBL is managing the CLF removal in accordance with APRA's requirement. MBL currently complies with the requirements of the LCR.

The NSFR is a 12-month structural funding metric, requiring that "available stable funding" (ASF) be sufficient to cover "required stable funding", where "stable" funding has an actual or assumed maturity of greater than 12 months. As announced on April 1, 2021, APRA has imposed a 1% decrease to the available stable funding component of MBL's NSFR calculation. MBL currently complies with the requirements of the NSFR.

On March 3, 2022, APRA commenced a consultation on the post-implementation review of Basel III liquidity reforms focusing on the core measures of the LCR and NSFR. The consultation period ended on April 14, 2022. The review explores the impact of the measures, and determines whether a net benefit has been achieved in implementation. APRA intends to release a report on the outcomes by mid-2022. The feedback is the first step in the broader review of APRA's liquidity requirements. which will culminate in a refresh of APS 210 in 2023.

*Credit risk management*

APS 220 Credit Risk Management replaced the existing APS 220 Credit Quality effective January 1, 2022. The substantial revisions to the prudential standard reflect APRA's increased expectations of credit standards and the ongoing monitoring and management of credit portfolios by ADIs. In addition, the revised standard incorporates:

- enhanced Board oversight of credit risk and the need for ADIs to maintain prudential credit risk policies, processes, practices and controls over the full credit life-cycle;
- a more consistent classification of credit exposures, by aligning with accounting standards on loan provisioning requirements, as well as Basel Committee guidance on asset classification and sound credit risk practices; and
- recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry regarding the valuation of collateral.

APRA also released a finalized APG 220 guidance standard on August 19, 2021.

APRA has sought feedback on a proposed new attachment to APS 220, Attachment C – Macroprudential policy: credit measures, which embeds credit-based macroprudential standards within APS 220. The proposed attachment will require ADIs to:

- ensure they have the ability to limit growth in particular forms of lending;
- moderate higher risk lending during periods of systemic risk or meet particular lending standards; and
- ensure there would be adequate reporting in place to monitor against limits.

APRA expects to finalize its response to the consultation in the first half of 2022, and the new attachment to come into effect shortly thereafter.

*Loss absorbency at the point of non-viability*

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

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

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

*Financial Contingency Planning and Resolution Planning*

As part of strengthening its crisis preparedness and resolution capabilities, APRA commenced consultation on two draft prudential standards, CPS 190 Financial Contingency Planning and CPS 900 Resolution Planning on December 2, 2021. The standards are aimed at ensuring that APRA regulated entities are prepared to deal with threats to their viability and apply to ADIs, general insurers and life insurers. The consultation period closes on April 29, 2022, with a proposed effective date from January 1, 2024.

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

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

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

The key elements of the proposed approach from this original discussion paper included:

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

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

During the consultation period of the proposed changes, concerns were raised about whether there would be sufficient capacity in debt markets to absorb the anticipated additional Tier 2 capital issuance. As a result, APRA announced on July 9, 2019 that there would be an interim requirement for D-SIBs to lift Total Capital by a revised threshold of 3% of risk weighted assets by January 1, 2024. On December 2, 2021, APRA released a letter finalizing LAC requirements for D-SIBs to increase Total Capital by 4.5% of risk weighted assets, which applies from January 1, 2026.

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

*Associations with Related Entities*

In August 2019, APRA finalized revisions to Prudential Standard APS 222 – Associations with Related Entities aimed at mitigating contagion risk within banking groups. The standard incorporates:

- a broader definition of related entities that includes substantial shareholders, related individuals (including senior managers of the ADI and individuals on the board of directors) and their relatives;
- removes the eligibility of an ADI's overseas subsidiaries to be regulated under APRA's ELE framework;
- revised limits on the extent to which ADIs can be exposed to related entities;
- minimum requirements for ADIs to assess contagion risk; and
- requirements for ADIs to regularly assess and report on their exposure to step-in risk, which is the likelihood that they may need to "step-in" to support an entity to which they are not directly related.

APRA had initially intended for the finalized framework to apply from January 1, 2021. However, on April 16, 2020, APRA revised the commencement date for the updated APS 222 and associated reporting forms to January 1, 2022.

In November 2021, APRA confirmed it would grant MBL a 12-month transition to January 1, 2023, in respect of a number of new APS 222 requirements. The MGL Group undertook restructuring of certain existing business activities and legal entities as a result of the new requirements, with no material impact on results. MBL has been compliant with all new APS 222 requirements from January 1, 2022.

*Remuneration*

On August 27, 2021, APRA released a finalized cross-industry Prudential Standard CPS 511 Remuneration ("*CPS 511"*) which comes into effect for the MGL Group on January 1, 2023. The new standard requires boards to maintain a remuneration framework that promotes effective risk management of both financial and non-financial risks including variable downward-adjustment tools and deferral periods to address poor risk and conduct outcomes.

On October 18, 2021, APRA released the finalized cross-industry Prudential Guidance CPG 511 Remuneration ("*CPG 511*") to support CPS 511 and assist entities in meeting the new requirements under CPS 511 which is aligned with the Government's proposed Financial Accountability Regime. On December 13, 2021, the MGL Group submitted a self-assessment of its current remuneration framework against the new requirements and an initial implementation plan to address the identified gaps.

Work is underway to implement changes required to the MGL Group's remuneration framework and the MGL Group maintains regular dialogue with APRA on this topic. The Board undertook a review of the various components of remuneration to address certain aspects of CPS 511 (including the deferral arrangements for senior executives), as well as the evolving expectations of MGL Group's stakeholders. As part of this review, the Board considered diverse perspectives, including those of shareholders and regulators, as well as global peer group benchmarking and increased global competition for talent in many of MGL Group's areas of activity. These changes will be implemented in a phased approach from the 2022 fiscal year.

*Information Security*

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

*APRA issues guidance on capital management*

On April 7, 2020, APRA sent a letter to all ADIs and insurers setting out its expectation that ADIs and insurers limit discretionary capital distributions in the months ahead given the COVID-19 pandemic, including prudent reductions in dividends, to ensure that they instead use buffers and maintain capacity to continue to lend and underwrite insurance.

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

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

*Strengthening residential mortgage lending assessments*

In response to APRA's concerns with heightened household indebtedness as a result of growing financial stability risks from ADIs' residential mortgage lending, on October 6, 2021, APRA released a letter to ADIs on loan serviceability expectations to counter rising risks in home lending. APRA's letter set forth the following expectations in relation to serviceability assessments:

- all ADIs are expected to adopt a more prudent setting for the mortgage serviceability buffer that is used to test borrowers' capacity to repay. All ADIs are expected to operate with a buffer of at least 3.0 percentage points over the loan interest rate;

- all ADIs are expected to keep the level of the buffer under review to assess whether it remains appropriate in relation to the broader risk environment; and

- all ADIs are requested to review their risk appetites for lending at high debt-to-income ratios.

On November 1, 2021, MBL increased its interest rate buffer for home loan serviceability assessments from 2.5% per annum to 3.0% per annum over the loan interest rate in accordance with APRA's expectations. APRA also published an information paper on November 11, 2021, setting out its framework for the use of macroprudential policy measures to promote the stability of the Australian financial system.

*Climate Change Financial Risk*

On November 4, 2021, APRA and the RBA published a joint statement on the actions they were taking to ensure financial institutions and the Australian financial system were prepared to respond to climate-related risks. APRA considered that climate change would be a driver of change in the value of certain assets and income streams, and would therefore pose a risk to financial institutions and financial stability.

Following consultation on a draft Prudential Practice Guide released in April 2021, APRA released its financial Prudential Practice Guide CPG 229 on November 26, 2021. The guide imposes no new regulatory requirements, but rather assists entities to manage climate-related risks within their existing risk management and governance practices. It covers APRA's view of sound practice in governance, risk management, scenario analysis and disclosure of climate-related financial risks. MGL has included climate change risk within its *Risk Appetite Statement* and *Risk Management Strategy.*

On March 2, 2022, APRA announced that it will shortly commence a voluntary climate risk self-assessment survey of medium-to-large entities. The survey is intended to improve APRA's understanding of the approaches being taken by entities to identify, assess and manage climate-related financial risks, using CPG 229 as a benchmark.

***RBA***

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

***ASIC***

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

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

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

***ASX24***

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

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

***ASX***

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

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

***ACCC***

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

***AUSTRAC***

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

The AML-CTF Act places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to financial products, electronic fund transfers, designated remittance arrangements

and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

A number of entities in MGL Group are considered to be "reporting entities" for the purposes of the AML-CTF Act and are required to undertake certain obligations, including "know your customer" obligations, on-boarding and ongoing customer risk assessments, identification and verification obligations, enhanced customer due diligence, establishing an AML-CTF program to identify, mitigate and manage the risk of money laundering and terrorism financing, enhanced record-keeping and reporting on suspicious matters, cash transactions above a set threshold and international funds transfer instructions to and from Australia.

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

***Other Australian regulators***

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

***Other Australian regulatory activity***

*Banking Executive Accountability Regime and Financial Accountability Regime*

In February 2018, the Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018 was passed by the Australian Parliament introducing a new banking executive accountability regime known as "*BEAR*". The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries and introduce enhanced transparency and personal accountability into the banking sector.

The Financial Accountability Regime ("*FAR*") will replace BEAR and extend the responsibility and accountability framework established under BEAR to all APRA-regulated entities. In addition to MBL, this will extend to Macquarie Group Limited, Macquarie Investment Management Limited ("*MIML*") and Macquarie Life Limited ("*MLL*") for the MGL Group. FAR is intended to strengthen the transparency and accountability of these entities and improve risk culture and governance for both prudential and conduct purposes. The regime will be co-regulated by APRA and ASIC.

Transitional arrangements for ADIs, such as MBL, are provided by the FAR (Consequential Amendments and Transitional Provisions) Bill 2021 released on September 2, 2021. This will involve repealing BEAR following the application of FAR to the banking sector (ADIs and their NOHCs). Application of the deferred remuneration obligations under FAR will be postponed so that the obligations will apply to the banking sector (ADIs and their authorized NOHCs) six months after the rest of FAR applies to that sector. The existing deferred remuneration obligations under BEAR will continue to apply to the banking sector (ADIs and their subsidiaries) during the six-month deferral period.

On October 28, 2021, the draft Financial Accountability Regime Bill 2021 ("*FAR Bill*") was introduced to Parliament. The FAR Bill was subsequently referred to the Senate Economics Legislation Committee for inquiry and report.

On February 15, 2022, the Committee endorsed, and recommended passage of, the FAR Bill without amendment. The FAR Bill has yet to pass and the commencement of FAR remains uncertain but is expected to occur in stages, first applying to MGL and MBL (i.e. the ADI and NOHC), then applying to other APRA-regulated entities a year later (which will include MIML and MLL).

*Design and distribution obligations*

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

The MGL Group implemented the new design and distribution obligations (DDO) for the commencement date of October 5, 2021 in line with RG 274. This was deferred for six months from the original commencement date of April 5, 2021, due to the impact of COVID-19 on the economy.

On September 14, 2021, the Australian government announced its intention to make a number of legislative amendments to achieve its intended operation of these reforms. *ASIC Corporations (Design and Distribution Obligations Interim measures) Instrument 2021/784* implemented these changes and they came into effect on October 5, 2021 and will last until October 5, 2023. The instrument removes the requirement for all distributors to report to issuers whether they have received a complaint, including where they have received no complaints, amongst other amendments. The MGL Group will monitor these changes as they are formally announced by the government and any interim relief is provided by ASIC.

*ASIC guidance on fees and costs disclosure*

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

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

MBL Group is updating relevant disclosure documents to comply with the requirements. The new rules apply to periodic and exit statements for reporting periods commencing on or after July 1, 2021. PDSs given from September 30, 2022 must comply with the new requirements.

*ASIC market integrity rules*

On March 10, 2022, ASIC announced that it has introduced new market integrity rules aimed at promoting the technological and operational resilience of securities and futures market operators and participants. The new technological and operational resilience rules apply from March 10, 2023, clarifying and strengthening existing obligations for market operators and participants and providing greater domestic and international alignment in relation to issues of management, outsourcing, information security, business continuity planning, governance and resourcing, and trading controls.

In addition, ASIC has extended the existing prohibition on payment for order flow in Part 5.4B of the Securities Markets Rules to cover, from June 10, 2022, when a market participant sells client order flow and payment for order flow that occurs amongst other market intermediaries. These amendments are a proactive measure to avoid the emergence of payment for order flow arrangements in Australia.

ASIC has also made a number of other changes including introducing a good fame and character test and suspicious activity reporting to the Futures Market Rules.

*Responsible lending*

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

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

- a stronger focus on the legislative purpose of the obligations and clarity around areas that are not subject to the obligations;

- more guidance and examples to illustrate where a licensee might undertake more, or less, detailed inquiries and verification steps based on different consumer circumstances and the type of credit that is being sought;

- more detailed guidance about the use of benchmarks, the Household Expenditure Method ("*HEM*") and how spending reductions may be considered as part of the licensee's consideration of the consumer's financial situation, requirements and objectives;

- greater clarity about certain complex situations for some consumers; and

- further guidance around technological developments including Open Banking and digital data capture services.

On September 25, 2020, the Australian government announced its intention to reform responsible lending obligations in order to reduce barriers to credit. Key elements of the reforms include removing the responsible lending obligations for most credit contracts, applying parts of APRA's ADI lending standards to non-ADIs and allowing lenders to rely on the information provided by consumers in relation to credit applications. The Australian government proposed that the reforms commence from March 1, 2021, subject to the passing of legislation. However, while the Australian government introduced legislation into Federal Parliament on December 9, 2020, it was referred to the Economics Legislation Committee for inquiry and report by March 12, 2021. The Economics Legislation Committee recommended that the bill be passed, and it is currently in the Federal Senate. ASIC's RG 209 will be reviewed and updated when the proposed reforms are finalized.

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

*Open Banking*

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

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

The CDR Rules, which set out details of how the consumer data right works, came into effect on February 6, 2020. Minor amendments were made to the rules in June, October, and December 2020. The rule-making function transferred from the ACCC to Treasury on February 28, 2021. Version 3 of the CDR Rules was registered on October 5, 2021.

The Open Banking regime forms the first component of the Australian government's CDR. All Australian deposit taking institutions must comply with Open Banking. Following an updated timeline announced by the ACCC, the commencement date for major banks was July 1, 2020 to provide CDR data on credit and debit card, deposit and transaction accounts, November 1, 2020 for mortgage and personal loan data, and February 1, 2021 to provide CDR data on various products including business finance, asset finance and trust account products. The commencement date for non-major banks (including MBL) to share product reference data (e.g., fees and charges, terms and conditions and eligibility criteria) for phase one products (TSA, credit cards, CMA and business deposit accounts) was October 1, 2020 (previously July 1, 2020) following a three month exemption provided by the ACCC due to the COVID-19 pandemic. There are several key compliance milestones for non-major banks, but it is expected that by February 1, 2022, implementation of the Open Banking regime will be completed and full data transfer for consumers will become available (excluding joint account holders and accounts held by corporate entities which is scheduled for later in 2022).

On May 6, 2021, the ACCC granted an exemption to MBL deferring the commencement dates of its consumer data sharing obligations (all phases) and its direct-to-consumer obligations, for specific business banking account products, until November 1, 2022. The exemption also provides MBL with permanent exemption for specific grandfathered product portfolios.

*Dispute resolution*

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

On July 30, 2020, ASIC released updated requirements, and associated legislative instrument, on complaints handling (RG 271). RG 271 replaced RG 165 on October 5, 2021 for complaints received subsequent to this date. ASIC will formally withdraw RG 165 on October 5, 2022.

MGL amended policies and processes to comply with RG 271 from October 5, 2021.

*Breach reporting*

In December 2020, the Australian Federal Parliament passed legislation endorsing several reforms recommended by the Financial Services Royal Commission, including reforms to the current regime for reporting significant breaches of financial services laws to ASIC. Key changes to the regime include introducing a comparable breach reporting regime for Australian credit licensees under the NCCP Act, expanding the significance test to require reports in a broader range of circumstances, extending the timeframe for reporting breaches, and mandating licensees to report serious compliance concerns about other licensees (targeted at misconduct by mortgage brokers or individual financial advisers). Following a period of consultation, the government released the final regulations specifying the civil penalty provisions excluded from "deemed significance" on August 5, 2021. In September 2021, the government announced its intention to make a number of technical amendments to achieve the intended operation of these reforms and consultation is underway. ASIC has already provided administrative relief to exclude non-compliance with IDR standards in RG 271 from deemed significance. The MGL Group will monitor these changes as they are formally announced by the government and any further interim relief is provided by ASIC.

On April 22, 2021, ASIC released a consultation paper to update its Regulatory Guide 78 *Breach reporting by AFS licensees and credit licensees* ("RG 78") and to seek feedback on a new Information Sheet on the new notify, investigate, and remediate obligations set to apply to AFS licensees who are financial advisers and credit licensees who are mortgage brokers. RG 78 sets out ASIC's interpretation of key concepts of the breach reporting obligation, its general approach to administering the obligation, and how licensees can demonstrate compliance with the breach reporting obligation. On September 7, 2021, ASIC released its updated RG 78. Information Sheet 259 outlining the obligations under the reforms was likewise issued on September 7, 2021.

These breach reporting reforms for AFS licensees and credit licensees commenced on October 1, 2021. However, unlike AFS licensees, credit licensees do not have to report breaches that occurred before October 1, 2021, even when identified after the commencement date.

MGL amended policies, processes and systems to comply with the new regime from October 1, 2021.

**International**

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

***United States***

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

*Banking regulations*

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

*Derivatives regulations*

The commodities and securities laws in the United States create a comprehensive regulatory regime for swaps and other derivatives, subject to the jurisdiction and regulations of multiple U.S. regulatory agencies, including the FRB, the Commodity Futures Trading Commission ("*CFTC*") and the Securities and Exchange Commission ("*SEC*"). The regulatory landscape for derivatives continues to change as new rules are adopted, implemented and enforced by the CFTC and SEC. These regulations, which vary by jurisdiction, may have a significant impact on the derivatives markets, and entities that participate in those markets.

MBL is provisionally registered as a swap dealer with the CFTC. Macquarie Futures USA LLC ("*MFUSA*") is registered as a futures commission merchant with the CFTC. As CFTC registrants, MBL and MFUSA are subject to comprehensive regulatory oversight by the CFTC. In addition, MBL is registered as a security-based swap dealer with the SEC. The CFTC and SEC continue to propose significant new or revised regulatory requirements which, if adopted, may have effects across the transaction lifecycle and apply to MBL and its subsidiaries.

As part of its swap dealer and security-based swap dealer obligations, MBL is subject to the FRB's capital regulations, as well as the FRB's initial and variation margin requirements for uncleared swaps and security-based swaps. MBL is also subject to additional margin requirements imposed by APRA and regulators in the European Union and the United Kingdom.

MBL's and MFUSA's businesses have been and will continue to be affected by a variety of regulations under the U.S. Commodity Exchange Act, as amended, and CFTC regulations including, but not limited to, mandatory trade execution and clearing requirements for certain classes of derivatives, reporting obligations (including amended swap reporting requirements that take effect in May 2022), recordkeeping, business conduct requirements, prohibitions on market manipulation and disruptive trading, prohibitions on the use of certain nonpublic information, treatment of separate accounts by futures commission merchants, registration and heightened supervision of MBL as a swap dealer, and more stringent and extensive position limits and aggregation requirements on derivatives on certain physical commodities. Pursuant to the CFTC's Comparability Determinations for Australia, MBL's compliance with provisions and requirements under the applicable Australian regulatory regimes is sufficient to meet some CFTC swap dealer requirements to which MBL would otherwise be subject. Together, these requirements will impact MBL and MFUSA as a direct market participant that transacts in derivatives, in the case of MBL, and as an intermediary that provides access to the derivatives markets for others, in the case of MFUSA. The SEC has jurisdiction over transactions in security-based swaps, which generally include swaps on a single security or a narrow-based index of securities or on a single loan and credit default swaps on a single issuer or issuers of securities in a narrow-based security index. The SEC has adopted regulations requiring, among other things, registration of security-based swap dealers and compliance with regulations on business conduct, trade reporting, recordkeeping, financial reporting and other matters. Security-based swaps, because they are securities, are subject to the general anti-fraud and anti-manipulation provisions of the U.S. federal securities laws. MBL is registered as a security-based swap dealer with the SEC and is required to comply with the SEC's regulations governing security-based swap dealers and security-based swaps. These registration and compliance obligations will likely result in increased costs with respect to MBL's security-based swaps business.

*Anti-money laundering regulations*

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

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

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

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

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

In January 2021, the Anti-Money Laundering Act of 2020 ("*AMLA*"), which amends the Bank Secrecy Act, was enacted. The AMLA is intended to comprehensively reform and modernize U.S. anti-money laundering laws. Among other things, the AMLA codified a risk-based approach to anti-money laundering compliance for financial institutions; required the development of standards by the Treasury Department for evaluating technology and internal processes for Bank Secrecy Act compliance; and expanded enforcement- and investigation-related authority, including significant expansions in the available sanctions for certain Bank Secrecy Act violations and in Bank Secrecy Act whistleblower incentives and protections.

New proposed regulations by FinCEN designed to implement the AMLA's "Corporate Transparency Act" provisions, which would impose new beneficial ownership information reporting requirements, remain in the rulemaking process as of the date of this Report.

*Economic sanctions*

The MBL representative offices and MGL Group's other operations that are within or that involve the United States (e.g., transactions through the United States, transfers through the U.S. financial system) must also comply with the economic sanctions programs administered by the Treasury Department's Office of Foreign Assets Control ("*OFAC*"), which enforces economic sanctions against targeted foreign countries, individuals and entities. The MBL representative offices and MGL Group's U.S. futures commission merchant, securities broker-dealers and other subsidiaries in the United States have adopted and implemented procedures that are reasonably designed to ensure their compliance with the economic sanctions programs administered by OFAC. MBL operations outside the United States and that do not otherwise involve the United States also are mindful of secondary U.S. sanctions, which target non-U.S. persons' activities outside the United States that are deemed by the U.S. government to counter U.S. foreign policy or U.S. national security.

*Securities, commodities and other regulations*

In the United States, MGL Group's securities broker-dealer subsidiaries are regulated by the SEC, by the Financial Industry Regulatory Authority ("*FINRA*"), various other self-regulatory organizations of which they are members and state securities regulators with respect to securities and corporate finance-related activities. We also conduct securities and corporate finance-related activities through several investment advisers and investment companies registered with

the SEC under, respectively, the U.S. Investment Advisers Act of 1940, as amended, and the U.S. Investment Company Act of 1940, as amended. We will be subject to ever greater oversight and regulation by the SEC and FINRA as our business grows in the United States. For example, on March 11, 2022, MAM completed the acquisition of Central Park Group, LLC, a U.S.-based asset manager.

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

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

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

***Canada***

*Derivative regulations*

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

***United Kingdom***

*U.K. regulators*

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

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

*MGL Group U.K. regulated entities*

MBL operates a branch, MBL LB, in the United Kingdom. The PRA and FCA have regulatory oversight of the U.K. activities of MBL LB. APRA, however, remains its prudential regulator. MBL LB is required to comply with certain U.K. legislation and regulatory requirements set forth by the FCA and the PRA in their handbooks of rules and guidance (as amended from time to time, including European Union legislation onshored in the United Kingdom as a result of Brexit, collectively, the "*Rules*"), as applicable. See the section titled "Brexit" below. The Rules include, among others, requirements as to systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers.

MBL operated a subsidiary in the United Kingdom, Macquarie Bank International Ltd ("*MBIL*"), which was authorized by the PRA and regulated by the PRA and the FCA. MBIL's U.K. regulatory permissions were withdrawn on September 15, 2021 and, since that date, MBIL no longer operates as an authorized firm in the United Kingdom.

MGL also has five regulated subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*"), Macquarie Investment Management Europe Limited ("*MIMEL*"), Macquarie Corporate and Asset Finance 1 Limited ("*MCAF1L*") and Green Investment Group Management Limited ("*GIGML*") authorized and regulated by the FCA. MIRAEL and GIGML are each authorized as an alternative investment fund manager ("*AIFM*") pursuant to the Financial Services and Markets Act 2000, as amended, and are able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom. MCEL and MIMEL are authorized and regulated by the FCA as investment firms. MCAF1L is authorized and regulated by the FCA as a consumer credit firm. GIGML has applied to the FCA to cancel its regulatory permissions. It is therefore in the process of winding-down its regulated businesses, although it must comply with applicable requirements of the U.K. regulatory regime prior to withdrawal of its authorization.

In many cases, the Rules reflect the requirements set out in European Union regulations and implemented by way of applicable European Union directives (such as (i) the Capital Requirements Regulation (575/2013/EU) ("*CRR*") and the Capital Requirements Directive (2013/36/EU) ("*CRD IV*"), each as subsequently amended, which relate to regulatory capital requirements for banks and certain investment firms and (ii) Directive 2014/65/EU ("*MiFID II*") and the Markets in Financial Instruments Regulation (600/2014/EU) ("*MiFIR*"), which relate to the carrying on of investment business). These Rules have, in certain cases, been amended in light of the U.K.'s withdrawal from the European Union. See the section titled "Brexit" below.

Under the Rules, U.K. banks and certain U.K. investment firms are required, among other things, to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MGL and MBL which considers the consolidated liquidity requirements of the MGL Group (including but not limited to MBL LB and other subsidiaries). In addition, MCEL, MIRAEL and MIMEL maintain their own standalone liquidity contingency plans. See section 5.1 of our 2022 Fiscal Year Management Discussion and Analysis Report.

*U.K. prudential framework*

CRR and CRD IV continued to apply in the United Kingdom until December 31, 2020 at 11:00 p.m. U.K. time (the "*IPCD*"). Since the IPCD, entities operating in the United Kingdom have been subject to the modified or "onshored" versions of CRR and CRD IV that the United Kingdom has put in place as a result of Brexit. The United Kingdom was required to transpose CRD V into national law, given that the application date (December, 29, 2020) fell before the Brexit transition period ended. This directive, with some exceptions, now forms part of retained or onshored European Union law in the United Kingdom. The United Kingdom did not transpose CRR II into its domestic legislation, however.

The U.K. Parliament passed the Financial Services Act 2021 in April 2021 (the "*2021 Act*"). The 2021 Act provided U.K. financial services regulators with powers to, among other things, amend and introduce other rules pertaining to CRR, CRR II and the Basel III international standards, which the U.K. government has committed to implement by 2023. HM Treasury has revoked a number of existing CRR articles and the PRA published a policy statement in July 2021 which outlined how it would implement such requirements. The U.K. regime, known as "*U.K. CRR*", began to be implemented on January 1, 2022. There is currently limited divergence between the requirements of the European Union and U.K. prudential regimes. However, the extent of such divergence is expected to increase as the U.K. government proposes further reforms to its prudential framework.

The MGL Group has ongoing programs to implement changes required to ensure compliance with the CRD V legislation, noting that certain elements are subject to phased implementation.

*IFPR*

The FCA has introduced a new prudential regime for investment firms that it regulates ("*IFPR*") with a view to reducing the potential harm to consumers and markets and capturing vulnerabilities and risks specific to these firms. The IFPR came into force on January 1, 2022, subject to certain transitional provisions, and replaced the classification of investment firms with two broader categories. Firms are either treated as a "small and non-interconnected" ("*SNI*") firm or not (a "*non SNI*") based on whether the activities that they conduct satisfy certain thresholds. SNI firms are prohibited from carrying out activities that are deemed to carry the greatest potential to harm customers (e.g., holding client money or safeguarding client assets) and restricted in the manner in which they undertake other activities (e.g., dealing on own account or underwriting). SNI firms are prohibited from carrying out any activities on such a scale that the FCA considers would cause significant harm to customers or the markets in which such firms operate.

In a similar manner to the European Union's IFR and IFD (as defined below), the IFPR introduces a new approach to calculating capital requirements, the "K factors". The K-factor capital requirements are a mixture of activity- and exposure-based requirements. The K-factors that apply to an FCA MiFID investment firm depend on the investment services and activities that it undertakes. The IFPR also introduces (a) new rules on prudential consolidation, liquidity and concentration risk that will apply to investment firms and their groups; (b) a new approach to the Internal Capital Adequacy Assessment Process; (c) new requirements on internal governance and remuneration policies; and (d) extensive reporting and disclosure requirements. The extent to which these changes impact investment firms will depend on their categorization.

MCEL and MIMEL are subject to the IFPR as are GIGML and MIRAEL (as alternative investment fund managers with top-up permissions to undertake certain investment services. Although, as noted above, GIGML has applied to cancel its permissions and, from the withdrawal of its authorization, it will not be subject to IFPR). The changes required as part of the implementation of the IFPR have been effected through a regulatory change program for the entities within scope of the regime.

*U.K. bank recovery and resolution*

The United Kingdom implemented the EU Bank Recovery and Resolution Directive (2014/59/EU) (the "*BRRD*") through the Banking Act 2009 (the "*2009 Act*") and Bank Recovery and Resolution (No. 2) Order 2014 (the "*2014 Order*"). It also largely implemented the EU BRRD reform package (known as "*BRRD II*") (see below) which became applicable on December 28, 2020 (although the U.K. did not implement those provisions which became applicable on or after January 1, 2021. These provisions subject to a "sunset" clause which disapplied them from January 1, 2021).

In the United Kingdom, BRRD II may affect the exercise of the special resolution regime powers under the 2009 Act and the 2014 Order.

In any event, there remains a risk that the U.K. regulators and/or authorities can make an instrument or order under the Banking Act in respect of MBL LB and/or its related parties could be adversely affected by any such instrument or order if made. The U.K. regulators may also consider the home country resolution strategy and any impacts that this may have on U.K. operations. The Banking Act is applied on a differential basis in relation to the resolution of U.K. branches of third-country institutions.

*U.K. anti-money laundering legislation*

Directive (EU) 2018/843 ("*5MLD*") was implemented in the United Kingdom in January 2020 by way of amendments to the Money Laundering, Terrorist Financing and the Transfer of Funds (Information on the Payer) Regulations 2017 (the "*2017 Regulations*"). The U.K. Proceeds of Crime Act 2002 also establishes requirements for firms in relation to money laundering controls. Although it required implementation prior to IPCD, the United Kingdom chose not to transpose the Sixth Money Laundering Directive (Directive (EU) 2018/1673) ("*6MLD*") on the basis that its money laundering regime already implemented a number of its provisions.

There remains a risk that the U.K. regime may diverge from the European Union regime in certain respects.

***European Union***

*European Union Regulators*

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

*France*

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

the market, its participants and investment products distributed via these markets and is also responsible for ensuring that investors are properly informed.

Macquarie Capital France Société Anonyme ("*MCF*") and the French branch of Macquarie Bank Europe Designated Activity Company ("*MBE DAC*") are regulated by both the ACPR and the AMF. They are required to comply with French legislation and regulatory requirements set out by the ACPR and AMF in the form of codes, regulations and guidance issued from time to time (collectively, the "*French Rules*"), as applicable. The French Rules include, among others, requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, financial crime, conduct of business and the treatment of customers.

*Ireland*

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

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

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

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

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

*Luxembourg*

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

MGL Group has the following Luxembourg regulated entities:

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

- Macquarie Asset Management Europe S.à r.l. ("*MAMES*"), which is authorized and regulated by the CSSF an alternative investment fund manager; and

- Macquarie Insurance Facility Luxembourg S.à r.l. ("*MIF Lux*"), which is authorized and regulated by the CAA as an investment broker.

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

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

*EU prudential framework*

The original components of the Basel III package were implemented in the European Economic Area ("*EEA*") through CRD IV and CRR, which were published in the Official Journal of the European Union on June 27, 2013. The CRR established a single set of harmonized prudential rules which apply directly to all credit institutions in the EEA, with CRD IV containing other provisions required to be transposed into national law. These regulations are structured in line with Basel Committee's three pillars of supervision: Pillar 1 "minimum capital requirements", Pillar 2 "supervisory review process" and Pillar 3 "market discipline". CRR directly applies to in-scope firms operating in the EEA whereas CRD IV was subject to local implementation in each individual EEA country.

In November 2016, the European Commission (the "*EC*") published a package of proposed amendments to CRD IV/CRR ("*CRD V*" and "*CRR II*", respectively). Following the EC's proposals, CRD V and CRR II entered into force on June 27, 2019 as Directive 2019/878/EU and Regulation 2019/876/EU respectively. Transposition by EU Member States of the requirements contained in Directive 2019/878/EU was supposed to take place by December 29, 2020. A significant number of the requirements of Regulation 2019/876/EU applied from June 28, 2021 although there was a differentiated implementation (with certain provisions applying from June 27, 2019 or December 28, 2020).

The amendments contained in the CRD V and CRR II package seek to implement remaining aspects of Basel III reforms. The key changes under CRD V and CRR II include new market risk rules, a standardized approach to counterparty risk, implementation of the leverage ratio and the net stable funding requirements as well as the tightening of the large exposures limits.

MBE DAC is required to comply with the provisions of CRD V and CRR II.

*IFR and IFD*

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

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

The IFR and IFD apply to MIMESA and MCF. The changes required as part of the new IFR and IFD regime have been implemented through a regulatory change program for the entities within scope of the regime.

*BRRD and BRRD II*

The BRRD may have certain impacts on European Union entities or branches of the MGL Group. This may include the power of the resolution authority to write down or convert certain minimum requirements for own funds and eligible liabilities ("*MREL*") and other liabilities into equity.

The European Commission proposed certain amendments to the BRRD through the BRRD II package which entered into force on June 27, 2019 and largely applied from December 28, 2020 and that contain, among others, the following provisions:

- the introduction of a new moratorium power for resolution authorities and requirements on the contractual stays in resolution;
- amendments to the Article 55 regime in respect of the contractual recognition of bail-in powers; and
- the implementation of certain requirements relating to the implementation of the total loss absorbing capacity standard applying from January 1, 2022 and additional minimum requirements for eligible liabilities and own funds ("*MREL*").

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

*EU anti-money laundering regulation*

The MGL Group's European Union entities are subject to a range of measures aimed at preventing financial crime. 5MLD came into force in July 2018 with the aim of enhancing processes to counter money laundering and terrorist financing (including certain activities related to cryptocurrencies). 6MLD establishes additional requirements in relation to criminal offences and penalties for money laundering. 6MLD was required to have been transposed into the national law of EU Member States by December 3, 2020.

***Environmental social and governance regulation***

There is also increased regulatory and investor scrutiny of the environmental, sustainability, social and governance ("*ESG*") impacts of the activities of financial groups such as MGL Group.

At a European Union level, Regulation (EU) No. 2020/852 and Regulation (EU) No. 2019/2088 ("*SFDR*") was introduced to increase transparency in relation to sustainability amongst financial institutions and market participants in order that clients can make informed investment decisions. SFDR consists of disclosure requirements at firm and service and/or product level to standardize sustainability disclosures (which aims to improve industry-wide comparability and help prevent greenwashing (i.e. the creation of a false impression about a firm or product's sustainability)).

The European Banking Authority has also released draft regulatory technical standards ("*RTS*") on prudential disclosures on ESG risks, which will apply to EU credit institutions and certain EU investment firms pursuant to the CRR framework. The RTS provide uniform templates for both quantitative and qualitative disclosures on ESG risks.

Following the UN Climate Change Conference held in Glasgow in late 2021 (COP 26), the U.K. government published "Greening Finance: A Roadmap to Sustainable Investing", containing proposals to introduce sustainability disclosure requirements across the economy, a sustainable labelling regime for investment products and a U.K.-specific green taxonomy. The FCA subsequently published new rules mandating climate-related disclosures for asset managers, asset owners, life insurers, FCA-regulated pension providers and standard listed companies, aligning with recommendations made by the Taskforce on Climate-related Financial Disclosures and building on previous rules set for premium listed companies. The new rules for asset managers and asset owners come into effect in a phased approach, applying to the largest firms from January 1, 2022 and smaller firms falling in scope from January 1, 2023.

In the United States, on March 21, 2022, the SEC proposed rules mandating climate-related disclosures in annual reports and registration statements filed by SEC reporting companies. The proposed rules would add extensive and prescriptive disclosure items requiring SEC reporting companies, including foreign private issuers, to disclose climate-related risks and greenhouse gas emissions. In addition, the proposed rules would require the inclusion of certain climate-related financial metrics in a note to audited financial statements filed by SEC reporting companies.

***Other regulators***

Outside Australia, the United States, the European Union and the United Kingdom, MBL has branches in the Dubai International Finance Centre, and Singapore that are regulated by the Dubai Financial Services Authority, and the Monetary Authority of Singapore, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, in South Africa, regulated by the Financial Sector Conduct Authority, in Brazil, regulated by the Banco Central do Brasil, and in Switzerland, regulated by the Swiss Financial Markets Supervisory Authority, which gives MBL limited authorization to conduct marketing of its products and services to institutions (and, in Switzerland, high net worth individuals), subject to local license limitations. Bank regulation varies from country to country, but generally is designed to protect depositors and the banking system as a whole, not holders of a bank's securities. Bank regulations may cover areas such as capital adequacy, minimum levels of liquidity, and the conduct and marketing of banking services.

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

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

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

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

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

*In addition to the information included in this Report, investors should refer to our 2022 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2022 fiscal year compared to the 2021 fiscal year, along with other balance sheet, capital and liquidity disclosures as at, and for the fiscal year ended, March 31, 2022, and our 2021 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2021 fiscal year compared to the 2020 fiscal year, each of which is posted on MGL's U.S. Investors' Website.*

**Recent developments post-March 31, 2022**

***MGL Board changes***

As announced on May 6, 2022, Michael Coleman will step down as a non-executive Voting Director of MGL (and MBL) effective at the conclusion of MGL's 2022 Annual General Meeting on July 28, 2022.

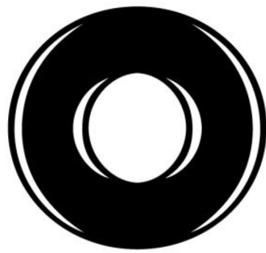
As announced on May 6, 2022 and confirmed on May 10, 2022, Peter Warne stepped down as Chairman of the MGL Board and retired as a non-executive Voting Director of MGL (and MBL) on May 9, 2022. Glenn Stevens has succeeded Mr. Warne as Chairman of the MGL (and MBL) Boards.

**Fiscal year ended March 31, 2022 compared to fiscal year ended March 31, 2021**

See sections 1 – 7 of our 2022 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2022 and 2021 fiscal years, which has been incorporated by reference herein.

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

See sections 1 – 7 of our 2021 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2021 and 2020 fiscal years, which has been incorporated by reference herein.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