



MACQUARIE
BANK

Macquarie Bank Limited
(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2021

Dated: November 12, 2021

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2021 (this “*Report*”), unless otherwise specified or the context otherwise requires:

- “*2021 Annual U.S. Disclosure Report*” means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2021 and the documents incorporated by reference therein;
- “*2021 Fiscal Year Management Discussion and Analysis Report*” means our Management Discussion and Analysis Report dated May 7, 2021, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2021, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website
- “*2022 Half Year Management Discussion and Analysis Report*” means our Management Discussion and Analysis Report dated October 29, 2021, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2021 compared to the half year ended September 30, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2021, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website;
- “*2022 Interim Directors’ Report and Financial Report*” means our 2022 Interim Directors’ Report and Financial Report; and
- “*2022 interim financial statements*” means our unaudited financial statements for the half year ended September 30, 2021 contained in our 2022 Interim Directors’ Report and Financial Report.

In addition, you should refer to “Certain Definitions” beginning on page ii of our 2021 Annual U.S. Disclosure Report, which is posted on Macquarie Bank Limited’s (“*MBL*”) U.S. Investors’ Website at <http://www.macquarie.com/au/en/disclosures/us-investors/macquarie-bank-limited.html> (“*MBL’s U.S. Investors’ Website*”).

Our fiscal year ends on March 31, so references to years such as “*2021*” or “*fiscal year*” and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operations and financial condition, references such as “*half year*” and like references are to the six months ending on September 30 of the preceding 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 United States Securities Exchange Act of 1934, as amended (the “*Exchange Act*”). Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as “*may*”, “*will*”, “*expect*”, “*intend*”, “*plan*”, “*estimate*”, “*anticipate*”, “*believe*”, “*continue*”, “*probability*”, “*risk*”, and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

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

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

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

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

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

Significant risk factors applicable to the MBL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2022 Half Year Management Discussion and Analysis Report and in our 2021 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference in our 2021 Annual U.S. Disclosure Report.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

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

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

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

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under “Financial Information Presentation” beginning on page ix of our 2021 Annual U.S. Disclosure Report, our 2022 Half Year Management Discussion and Analysis Report and our historical financial statements.

Our financial information

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

- the section of this Report under the heading “Recent Developments — Trading conditions and market update”, which includes a discussion of operating conditions during the half year ended September 30, 2021 and the impact of such operating conditions on the MBL Group;
- 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 Half Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2021 compared to the half year ended September 30, 2020, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2021, and which has been posted on MBL’s U.S. Investors’ Website; and
- our Pillar 3 Restatement for the period from March 2018 to June 2021, the Pillar 3 Disclosure Document dated June 2021, the Pillar 3 Disclosure Document dated March 2021, the Pillar 3 Disclosure Document dated December 2020 and the Pillar 3 Disclosure Document dated September 2020, which describe the Bank’s capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MBL’s U.S. Investors’ Website; and
- our historical financial statements, which are included in the extracts from our 2022 Half Year Management Discussion and Analysis Report posted on MBL’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\$0.7228 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 September 30, 2021. The noon buying rate on November 5, 2021 was US\$0.7408 per A\$1.00.

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

For information on certain differences between Australian Accounting Standards and U.S. GAAP, see “Financial Information Presentation — Certain differences between Australian Accounting Standards and U.S. GAAP” beginning on page xi of our 2021 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments

For information on our critical accounting policies and significant judgments, see “Financial Information Presentation — Critical accounting policies and significant judgments” beginning on page xi of our 2021 Annual U.S. Disclosure Report.

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 interim financial statements.

Non-GAAP financial measures

We report our financial results in accordance with Australian Accounting Standards. However, we include certain financial measures and ratios that are not prepared in accordance with Australian Accounting Standards that we believe provide useful information to investors in measuring the financial performance and condition of our business for the reasons set out below. In addition, some of these non-GAAP financial measures are used by the MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MBL's U.S. Investors' Website. For further information on our non-GAAP financial measures, see "Financial Information Presentation — Non-GAAP financial measures" beginning on page xi of our 2021 Annual U.S. Disclosure Report.

RISK FACTORS

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

Macro-economic risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Funding constraints of investors may adversely impact our income.

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

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

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

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

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

The COVID-19 pandemic has caused, and will likely continue to cause, severe impacts on global, regional and national economies and disruption to international trade and business activity. Governments worldwide, including in Australia, have enacted emergency measures to combat the spread of the virus, included 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 earlier in the pandemic, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persisted, including (i) muted levels of business activity across many sectors of the economy, relatively weak consumer confidence and high unemployment rates; (ii) elevated levels of market volatility; (iii) yields on government bonds near zero; (v) heightened credit risk with regard to industries that have been most severely impacted by the pandemic; and (vii) higher cyber security, information security and operational risks as a result of work-from-home arrangements. This may in turn reduce the level of activity in sectors in which certain of our businesses operate and thus have a negative impact on such businesses' ability to generate revenues or profits.

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

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 scope and duration of the pandemic and any recovery period, 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. Additionally, despite the business continuity and crisis management policies currently in place, travel restrictions or potential impacts on personnel and operations may disrupt our business and increase operational risk losses. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and our ability to replace maturing liabilities may be limited, which could adversely affect our ability to fund and grow our business. This may adversely impact our results of operations and financial condition. Please refer to our 2021 annual financial statements and 2022 interim financial statements for further information on the financial statement impact of COVID-19, including, but not limited to, Note 13 and Note 10, respectively, which discuss its impact on our expected credit losses.

We could suffer losses due to climate change.

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

reputational harm or could prompt us to exit certain businesses altogether. Failure to effectively manage these risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

Legal and regulatory risks

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

We operate various kinds of businesses across multiple jurisdictions or sectors, which are regulated by more than one regulator. Additionally, some members of the MGL Group own or manage assets and businesses that are regulated. Our businesses include an “authorised deposit-taking institution” (“ADTI”) in Australia (regulated by APRA), a credit institution in Ireland, bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore and Hong Kong 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 MBL’s securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation, as well as laws, regulations and oversight specific to the industries applicable to our businesses and assets.

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

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

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

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to MBL as an ADTI. Any such event could result in changes to the organizational structure of the Banking Group and/or the MGL Group and adversely affect the MBL Group. See “Recent Developments — Regulatory and supervision developments” below for more information on the regulatory developments affecting the MGL Group, including MBL.

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

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

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

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

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

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

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

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

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

The expected discontinuation of LIBOR or any other interest rate benchmarks (collectively, the “IBORs”) and the adoption of alternative reference rates (“ARR”) 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 MBL Group is (i) considered to be undertaking market activities that are manipulative or create a false or misleading impression; (ii) misusing sensitive information or not identifying or appropriately managing or mitigating conflicts of interest; (iii) not taking an appropriate or consistent response to remediation activity or customer complaints; or (iv) providing regulators with inaccurate regulatory reporting.
- *Legal and execution risks* – relating to documentation changes required for new 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 ARR which could impact the valuations of these instruments; and
 - the implementation of the International Swaps and Derivatives Association’s protocol for the transition of derivatives contracts, and similar guidance for cash products which could cause earnings volatility depending on the nature of contract modifications and changes in hedge accounting.
- *Operational risks* – due to the potential need for us, our customers and the market to adapt 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 MBL 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 2021 annual financial statements for details on the concentration of credit risk by significant geographical locations and counterparty types. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

MBL Group recorded A\$83 million of credit and other impairment charges for the half year ended September 30, 2021, including A\$94 million for net credit impairment charges, and A\$11 million for net other impairment reversals 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 10 of our 2022 interim financial statements for further information on the determination of expected credit losses.

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

Operational risks

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

Our employees are our most important resource, and our performance largely depends on the talents and efforts of highly skilled individuals. Our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from

businesses outside the financial services industry, such as professional service firms, hedge funds, private equity funds and venture capital funds, for qualified employees has historically been intense and we expect it to increase during periods of economic growth.

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

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

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or 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 Note 35 to our 2021 annual financial statements and the “Risk Management Report” in the 2021 Annual Report of MGL, which is incorporated by reference in our 2021 Annual U.S. Disclosure Report.

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

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

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 MBL Group, including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, violations of applicable privacy laws and other laws, litigation

exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures and additional compliance costs, all of which could have a material adverse impact on the MBL Group.

We could suffer losses due to environmental and social factors.

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

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

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

We also face increasing public scrutiny, laws and regulations related to environmental and social factors. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as diversity and inclusion, environmental stewardship, support for local communities, corporate governance and transparency and considering environmental and social factors (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.

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

Entities in the MGL Group that are not part of the MBL Group may establish or operate businesses that are different from or compete with the businesses of the MBL Group and those other entities are not obligated to support the businesses of the MBL Group other than as required by APRA prudential standards. Other than APRA prudential standards and capital adequacy requirements described in "Recent Developments — Regulatory and supervision developments", there are no regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including the MBL Group.

Strategic risks

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

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

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

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

Our business depends on our brand and reputation.

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

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

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

We face significant competition from local and international competitors, which compete vigorously in the markets and sectors across which we operate. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms, internet based firms, commodity trading firms and other investment and service firms as well as businesses in adjacent industries in connection with the various funds and assets we manage and services we provide. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. In addition, digital technologies and business models are changing consumer behavior and the competitive environment. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models, including in relation to digital payment services and open data banking, that challenge,

and could potentially disrupt, traditional financial services. We face competition from established providers of financial services as well as from businesses developed by non-financial services companies. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to obtain or increase market share.

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

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

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

Tax

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

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. 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 September 30, 2021.

The information relating to the MBL Group in the following table is based on our 2022 interim 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 Half Year Management Discussion and Analysis Report for more details.

	As at	
	Sep 30, 2021 US\$m ¹	Sep 30, 2021 A\$m
CAPITALIZATION		
Borrowings²		
Debt issued — due greater than 12 months.....	26,100	36,110
Loan capital — due greater than 12 months	5,338	7,385
Total borrowings³	31,438	43,495
Equity		
Contributed equity		
Ordinary share capital	6,346	8,779
Equity contribution from ultimate parent entity	189	262
Reserves	371	513
Retained earnings	4,687	6,485
Total equity	11,593	16,039
TOTAL CAPITALIZATION	43,031	59,534

¹ Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2021, which was US\$0.7228 per A\$1.00.

² As at September 30, 2021, we had A\$21.2 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. Short-term debt totaled A\$34.3 billion as at September 30, 2021 and security backed funding was nil as at September 30, 2021 compared to A\$24.2 billion and A\$0.4 billion, respectively, as at March 31, 2021.

For details on our short-term debt position as at September 30, 2021, see section 5.5 of our 2022 Half Year Management Discussion and Analysis Report.

RECENT DEVELOPMENTS

The following are significant recent developments for the MBL Group that have occurred since the release of our 2021 Annual U.S. Disclosure Report on May 21, 2021.

Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under “Risk Factors” beginning on page 1 and under “Macquarie Bank Limited” beginning on page 14 of our 2021 Annual U.S. Disclosure Report and other information posted on MBL’s U.S. Investors’ Website.

Successful offering of A\$655 million Macquarie Bank Capital Notes 3

On August 24, 2021, we issued 6,548,480 Macquarie Bank Capital Notes 3 (“BCN3”) at an issue price of A\$100 each, raising A\$655 million. The BCN3 constitute regulatory capital that satisfies APRA’s regulatory capital requirements for Tier 1 Capital.

Board and management changes announced during the half year ended September 30, 2021

MBL Board elections and retirements:

- Gordon Cairns retired as a non-executive Voting Director of MGL and MBL on May 7, 2021.
- Mary Reemst retired as Managing Director and Chief Executive Officer, and as executive Voting Director of MBL on July 1, 2021.
- Stuart Green was appointed as Managing Director and Chief Executive Officer, and as executive Voting Director of MBL on July 1, 2021.
- It is expected that Peter Warne will step down as Chairman of the MGL and MBL Boards and retire as a non-executive Voting Director of MGL and MBL following the completion of the 2022 MGL Annual General Meeting, as stated in the 2021 MGL AGM Notice of Meeting.

MBL Group management changes:

- On September 27, 2021, Evie Bruce was announced as the next Group General Counsel and Head of Legal and Governance and will join the MGL Group in January 2022, following the planned retirement of Michael Herring on May 6, 2022. Ms. Bruce will also join the MGL Executive Committee on May 6, 2022.
- Mary Reemst resigned as a member of the MGL and MBL Executive Committees on June 30, 2021.
- Stuart Green was appointed as a member of the MGL and MBL Executive Committees on July 1, 2021.

Organizational structure

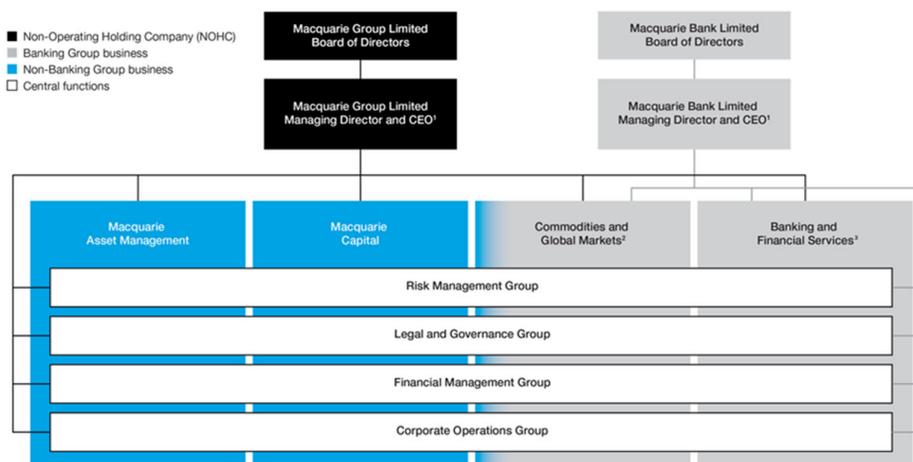
MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises two operating groups: Banking and Financial Services and Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance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

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

unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

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

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



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

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

Our key strengths

For a description of our key strengths, see “Macquarie Bank Limited — Our key strengths” on page 15 of our 2021 Annual U.S. Disclosure Report.

MBL has met all of its capital requirements throughout the half year ended September 30, 2021. As at September 30, 2021, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 14.8%, a Tier 1 capital ratio of 17.0% and a total capital ratio of 21.4%. The Banking Group’s APRA Basel III Common Equity Tier 1 capital ratio was 11.7%, Tier 1 capital ratio was 13.7% and total capital ratio was 17.8%. The MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on regulation and supervision, see “Regulatory and supervision developments — Australia — APRA” below and for further information on our regulatory capital position as at September 30, 2021, see section 6 of our 2022 Half Year Management Discussion and Analysis Report.

Our strategy

Our strategy is set out under “Macquarie Bank Limited — Our strategy” on page 17 of our 2021 Annual U.S. Disclosure Report. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for the MBL Group in the medium term.

Across our international operations, the strategy focuses on building a global platform in our key areas of expertise, through both acquisitions and organic growth, which we believe will enable us to offer a comprehensive range of MBL products to clients around the world. See “— Overview of the MBL Group — Regional activity” below for further information on MBL’s performance across its key geographical regions.

Trading conditions and market update

Banking and Financial Services in MBL contributed a net profit contribution of A\$482 million for the half year ended September 30, 2021.

Commodities and Global Markets in MBL contributed a net profit contribution of A\$1,772 million for the half year ended September 30, 2021.

For a discussion of the impact of trading and market conditions on our results of operations and financial condition for the half year ended September 30, 2021, see our 2022 Half Year Management Discussion and Analysis Report for further information.

Overview of the MBL Group

As at September 30, 2021, MBL had total assets of A\$306.1 billion and total equity of A\$16.0 billion. For the half year ended September 30, 2021, our net operating income was A\$4,412 million and profit after tax attributable to the ordinary equity holder was A\$1,243 million. Of MBL Group’s revenues from external customers, 58% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution of each of our operating groups for the half years ended September 30, 2021 and 2020.

Net operating income of MBL Group by operating group for the half years ended September 30, 2021 and 2020¹

	Half Year ended		Movement ⁴
	Sep 30, 2021	Sep 30, 2020	
	A\$m	A\$m	%
Banking and Financial Services	1,163	983	18
Commodities and Global Markets ²	2,720	1,867	46
Total net operating income from operating groups	3,883	2,850	36
Corporate ³	529	93	*
Total net operating income	4,412	2,943	50

¹ For further information on our segment reporting, see section 3.0 of our 2022 Half Year Management Discussion and Analysis Report and Note 3 to our 2022 interim financial statements.

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

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

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

Net profit contribution of MBL Group by operating group for the half years ended September 30, 2021 and 2020¹

	Fiscal Year ended		Movement⁴
	Sep 30, 2021	Sep 30, 2020	
	A\$m	A\$m	%
Banking and Financial Services	482	315	53
Commodities and Global Markets ²	1,772	924	92
Total contribution to net profit from operating groups	2,254	1,239	82
Corporate ³	(1,011)	(579)	75
Profit attributable to the ordinary equity holder of MBL	1,243	660	88

¹ For further information on our segment reporting, see section 3.0 of our 2022 Half Year Management Discussion and Analysis Report and Note 3 to our 2022 interim financial statements.

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

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

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

Regional activity

As at September 30, 2021, the MBL Group employed 12,648 staff globally and conducted its operations in 20 markets.

Australia. MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at September 30, 2021, the MBL Group employed 6,797 staff in Australia. In the half year ended September 30, 2021, Australia contributed A\$2,270 million (42%) of our revenues from external customers as compared to A\$2,183 million (49%) in the half year ended September 30, 2020.

Americas. MBL Group has been active in the Americas for over 25 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions. As at September 30, 2021, the MBL Group employed 1,427 staff across four markets. In the half year ended September 30, 2021, the Americas contributed A\$1,323 million (25%) of our revenues from external customers as compared to A\$916 million (21%) in the half year ended September 30, 2020.

Asia. MBL Group has been active in Asia for more than 25 years, when we established our first office in Hong Kong in 1995. As at September 30, 2021, the MBL Group employed 2,979 staff across nine markets. MBL has expanded the regional investment and product platforms of Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities), which had established an Asian regional “hub” in Singapore in the 2011 fiscal year. In the half year ended September 30, 2021, Asia contributed A\$418 million (8%) of our revenues from external customers as compared to A\$453 million (10%) in the half year ended September 30, 2020.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2021, the MBL Group employed 1,444 staff across six markets. In the half year ended September 30, 2021, Europe, Middle East & Africa contributed A\$1,333 million (25%) of our revenues from external customers as compared to A\$864 million (20%) in the half year ended September 30, 2020.

For further information on our segment reporting, see section 3.0 of our 2022 Half Year Management Discussion and Analysis Report and Note 3 to our 2022 interim financial statements.

Recent developments within the MBL Group

Banking and Financial Services

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

BFS comprises the following businesses:

- **Personal Banking:** Provides a diverse range of retail banking products to clients with home loans, credit cards, transaction and savings accounts and vehicle finance.
- **Wealth Management:** Provides clients with a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking.
- **Business Banking:** Provides a full range of deposit, lending and payment solutions, vehicle finance as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms.

BFS contributed A\$482 million to MBL Group’s net profit in the half year ended September 30, 2021 and, as at September 30, 2021, had over 3,150 staff operating predominately in Australia.

For further information and a description of the businesses within BFS and their respective activities, see “Macquarie Bank Limited — Operating groups — Banking and Financial Services” beginning on page 20 of our 2021 Annual U.S. Disclosure Report.

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

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

CGM comprises the following businesses in the Bank Group:

- **Commodity Markets and Finance:** Provides 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 client base, and conducts risk management and market making activities. Generally, the Equity Derivatives and Trading division’s activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group.
- **Fixed Income & Currencies:** Provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally.
- **Futures:** Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of major markets globally.

- Asset Finance: Delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes
- Central: Supports the foundation of the business and includes various CGM-wide services, including the Chief Operating Officer, Chief Financial Officer, operational and non-financial risk, legal and other specialist teams.

CGM contributed A\$1,772 million to MBL Group’s net profit in the half year ended September 30, 2021 and, as at September 30, 2021, had over 1,960 staff located in 20 markets in Australia, the Americas, Europe, Middle East and Asia.

For further information and a description of the businesses within CGM and their respective activities, see “Macquarie Bank Limited — Operating groups — Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Commodity Markets and Finance business; and some other less financially significant activities)” beginning on page 21 of our 2021 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of the MBL Group

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

Corporate contributed a net loss of A\$1,011 million in the half year ended September 30, 2021.

For further information on Corporate’s results of operations and financial condition for the half year ended September 30, 2021, see section 3.4 of our 2022 Half 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 20 to our 2022 interim 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

For a description of the competition the MBL Group faces in the markets in which it operates, see “Macquarie Bank Limited — Competition” beginning on page 22 of our 2021 Annual U.S. Disclosure Report.

Additional financial disclosures for the half year ended September 30, 2021

MBL Group’s credit risk by country and counterparty type

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

Country	As at Sep 30, 2021			
	Governments	Financial institutions	Other	Total exposure
	A\$m	A\$m	A\$m	A\$m
United States				
Cash and bank balances	—	3,496	—	3,496
Cash collateralized lending and reverse repurchase agreements	—	5,864	—	5,864
Margin money and settlement assets	56	1,947	1,667	3,670
Financial investments	—	117	10	127
Held for sale and other assets	—	4	215	219
Loan assets	10	2,917	1,230	4,157
Due from related body corporate entities ¹	—	216	1	217
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	8	169	1,369	1,546
Total United States	74	14,730	4,492	19,296
United Kingdom				
Cash and bank balances	—	216	—	216
Cash collateralized lending and reverse repurchase agreements	—	2,222	—	2,222
Margin money and settlement assets	—	596	2,428	3,024
Financial investments	—	411	—	411
Held for sale and other assets	46	1	205	252
Loan assets	4	375	947	1,326
Due from related body corporate entities ¹	—	147	4	151
Loans to associates and joint ventures	—	—	—	—

As at Sep 30, 2021

Country	Governments	Financial institutions	Other	Total exposure
	A\$m	A\$m	A\$m	A\$m
Undrawn credit commitments, letters of credit and financial guarantees	—	48	172	220
Total United Kingdom	50	4,016	3,756	7,822
Germany				
Cash and bank balances	—	112	—	112
Cash collateralized lending and reverse repurchase agreements	—	2,632	—	2,632
Margin money and settlement assets	—	139	816	955
Financial investments	—	—	—	—
Held for sale and other assets	—	1	272	273
Loan assets	—	—	36	36
Due from related body corporate entities ¹	—	—	—	—
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	—	—
Total Germany	—	2,884	1,124	4,007
France				
Cash and bank balances	—	87	—	87
Cash collateralized lending and reverse repurchase agreements	—	2,671	—	2,671
Margin money and settlement assets	—	10	463	473
Financial investments	—	71	—	71
Held for sale and other assets	—	—	2	2
Loan assets	—	—	22	22
Due from related body corporate entities ¹	—	—	—	—
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	—	—
Total France	—	2,839	487	3,326
Ireland				
Cash and bank balances	—	10	—	10
Cash collateralized lending and reverse repurchase agreements	—	1,771	—	1,771
Margin money and settlement assets	—	5	—	5
Financial investments	—	—	—	—
Held for sale and other assets	—	—	4	4
Loan assets	—	69	62	131
Due from related body corporate entities ¹	—	—	—	—
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	22	22
Total Ireland	—	1,855	88	1,943
United Arab Emirates				
Cash and bank balances	—	—	—	—
Cash collateralized lending and reverse repurchase agreements	—	1,895	—	1,895
Margin money and settlement assets	3	2	13	18
Financial investments	—	—	—	—

As at Sep 30, 2021

Country	Governments	Financial institutions	Other	Total exposure
	A\$m	A\$m	A\$m	A\$m
Held for sale and other assets.....	—	—	1	1
Loan assets	—	—	—	—
Due from related body corporate entities ¹	—	—	—	—
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	—	—
Total United Arab Emirates.....	3	1,897	14	1,914
Netherlands				
Cash and bank balances	—	2	—	2
Cash collateralized lending and reverse repurchase agreements.....	—	1,305	—	1,305
Margin money and settlement assets	—	22	3	25
Financial investments.....	—	—	—	—
Held for sale and other assets.....	—	—	24	24
Loan assets	—	159	64	223
Due from related body corporate entities ¹	—	—	—	—
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	—	—
Total Netherlands.....	—	1,488	91	1,579
Canada				
Cash and bank balances	—	37	—	37
Cash collateralized lending and reverse repurchase agreements.....	—	527	—	527
Margin money and settlement assets	—	57	100	157
Financial investments.....	—	287	—	287
Held for sale and other assets.....	6	—	7	13
Loan assets	—	10	18	28
Due from related body corporate entities ¹	—	138	—	138
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	2	2
Total Canada.....	6	1,056	127	1,189
China				
Cash and bank balances	—	218	—	218
Cash collateralized lending and reverse repurchase agreements.....	—	319	—	319
Margin money and settlement assets	—	124	178	302
Financial investments.....	—	90	—	90
Held for sale and other assets.....	—	1	3	4
Loan assets	—	—	61	61
Due from related body corporate entities ¹	—	3	2	5
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	8	8
Total China.....	—	755	252	1,007

As at Sep 30, 2021

Country	Governments	Financial institutions	Other	Total exposure
	A\$m	A\$m	A\$m	A\$m
Japan				
Cash and bank balances	—	25	—	25
Cash collateralized lending and reverse repurchase agreements	—	589	—	589
Margin money and settlement assets	—	8	56	64
Financial investments	—	30	—	30
Held for sale and other assets	—	—	—	—
Loan assets	—	—	13	13
Due from related body corporate entities ¹	—	1	1	2
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	—	—	—
Total Japan	—	653	70	723
Top ten countries				
Cash and bank balances	—	4,203	—	4,203
Cash collateralized lending and reverse repurchase agreements	—	19,794	—	19,794
Margin money and settlement assets	59	2,910	5,724	8,693
Financial investments	—	1,006	10	1,016
Held for sale and other assets	52	7	733	792
Loan assets	14	3,530	2,452	5,996
Due from related body corporate entities ¹	—	505	8	513
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	8	217	1,573	1,798
Total top ten countries²	133	32,172	10,500	42,805
Other foreign countries				
Cash and bank balances	—	506	1	507
Cash collateralized lending and reverse repurchase agreements	—	3,740	—	3,740
Margin money and settlement assets	72	458	2,912	3,442
Financial investments	—	626	—	626
Held for sale and other assets	14	9	276	299
Loan assets	—	508	1,041	1,549
Due from related body corporate entities ¹	—	306	6	312
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	—	3	396	399
Total other foreign countries	86	6,156	4,632	10,873
Gross credit risk in foreign countries				
Cash and bank balances	—	4,709	1	4,710
Cash collateralized lending and reverse repurchase agreements	—	23,534	—	23,534
Margin money and settlement assets	131	3,368	8,636	12,135
Financial investments	—	1,632	10	1,642
Held for sale and other assets	66	16	1,009	1,091
Loan assets	14	4,038	3,493	7,545

As at Sep 30, 2021

Country	Governments	Financial institutions	Other	Total exposure
	A\$m	A\$m	A\$m	A\$m
Due from related body corporate entities ¹	—	811	14	825
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	8	220	1,969	2,197
Total gross credit risk in foreign countries	219	38,328	15,132	53,678
Australia				
Cash and bank balances	—	24,059	—	24,059
Cash collateralized lending and reverse repurchase agreements	—	3,570	1	3,571
Margin money and settlement assets	11	2,376	1,047	3,434
Financial investments	—	5,726	1,208	6,934
Held for sale and other assets	7	73	1,111	1,191
Loan assets	39	2,876	99,636	102,551
Due from related body corporate entities ¹	—	1,238	3	1,241
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	14	399	4,203	4,616
Total Australia	71	40,317	107,209	147,597
Gross credit risk				
Cash and bank balances	—	28,768	1	28,769
Cash collateralized lending and reverse repurchase agreements	—	27,104	1	27,105
Margin money and settlement assets	142	5,744	9,683	15,569
Financial investments	—	7,358	1,218	8,576
Held for sale and other assets	73	89	2,120	2,282
Loan assets	53	6,914	103,129	110,096
Due from related body corporate entities ¹	—	2,049	17	2,066
Loans to associates and joint ventures	—	—	—	—
Undrawn credit commitments, letters of credit and financial guarantees	22	619	6,172	6,813
Total gross credit risk	290	78,646	122,408	201,276

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

² The top ten countries represent 79.75% of MBL Group's total non-Australian credit risk exposures as at September 30, 2021.

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 September 30, 2021, the MBL Group had A\$9,609 million of contingent liabilities and commitments, including A\$2,485 million of contingent liabilities and A\$7,124 million of commitments including undrawn credit facilities and securities commitments. See Note 18 "Contingent liabilities and commitments" to our 2022 interim financial statements which shows MBL Group's contingent liabilities and commitments as at September 30, 2021.

Quantitative and qualitative disclosures about market risk

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

Regulatory and supervision developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group, its businesses and the funds it manages in, and outside of, Australia, are subject to is set out under "Regulation and Supervision" beginning on page 29 of our 2021 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, 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", "Risk Factors — We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity" and "Risk Factors — 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" elsewhere in this Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia, the United States, the United Kingdom and other jurisdictions for the MBL Group that have occurred since the release of our 2021 Annual U.S. Disclosure Report on May 21, 2021 and a summary of certain regulatory developments prior to May 21, 2021.

Australia

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

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

APRA

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

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

legislative enhancement of APRA’s powers in relation to ADIs, see the “— Crisis Management and Resolution Planning” section below.

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

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

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

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, which are set out in a restatement of MBL’s Pillar 3 disclosures, which is posted on MBL’s U.S. Investors’ Website.

MBL’s Level 1 capital ratios from March 31, 2018 to September 30, 2019 were restated for historical errors in the application of prudential standards applicable to the intragroup funding arrangements, which were addressed prior to March 2020. MBL’s Level 1 Common Equity Tier 1 (“CET1”) ratio from March 2020 is unaffected by these errors.

The correct treatment of these intragroup funding arrangements caused certain wholly owned MBL subsidiaries to become ineligible to form part of MBL’s extended licensed entity (“ELE”), or Level 1 Group. While MBL Level 2 capital remained unchanged, up to approximately A\$5 billion of capital and retained earnings of these subsidiaries consequently ceased to contribute to MBL’s Level 1 capital, and the restated historical MBL Level 1 CET1 ratio fell to within a range of 4.8%-7.1% from March 2018 to September 2019. In addition, the correction caused an increase in MBL’s related party exposures at Level 1, resulting in a breach of related party limits.

As part of ongoing internal reviews of MGL’s intragroup arrangements, two further reporting errors relating to specific, unrelated intragroup arrangements were identified. Neither impacts MBL’s Level 2 capital ratios. Addressing these errors reduced MBL’s reported Level 1 capital ratios by up to 40 basis points between March 2020 and March 2021, and by less than 10 basis points prior to March 2020. This has also been reflected in the restatement of MBL’s Pillar 3 disclosures. MBL’s related party exposures at Level 1 remain within limits from March 2020.

As the errors applied to arrangements within the MBL Group, there was no impact from the restatement on the equivalent historical MBL Level 2 capital ratios. The MGL capital surplus was also unaffected by the restatement and is as previously reported. The restatement had no effect on MBL’s Additional Tier 1 capital instruments.

The restatement of MBL's LCR primarily related to the correction of items identified by MGL during an internal review of liquidity assumptions and calculations which concluded in 2021, as well as other operational errors. The impact of the restatement is approximately 10 percentage points for most periods.

The MGL Group notes APRA's comment on April 1, 2021 that these breaches are historical and do not impact the current overall soundness of MGL's capital or liquidity positions. MBL's Level 2 CET1 ratio was 12.6% and MGL's capital surplus was A\$8.8 billion as at March 31, 2021.

The MGL Group has ongoing programs which focus on strengthening MBL's processes and controls, including those around intragroup funding arrangements and internal exposures; capital and liquidity reporting; risk management frameworks; and accountabilities and governance. A number of these programs also form part of a remediation plan as required by APRA, which has been established to define and deliver programs of work that strengthen MBL's governance, risk culture, structure, and incentives to ensure full and ongoing compliance with prudential standards.

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 MBL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in Section 4.0 of the MBL Pillar 3 Disclosure Document dated March 2021, which is posted on MBL's U.S. Investors' Website.

Market risk

On January 14, 2019, the Basel Committee published a set of revisions to the market risk framework (*"Minimum capital requirements for market risk"*), which replaces an earlier version of the standard as published in January 2016. The standard was revised to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework. APRA announced on October 27, 2021 that consultation on changes to market risk prudential standards will continue during 2022, with targeted implementation of the revised standards starting in 2025.

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 is updating its criteria for measuring an ADI's regulatory capital and released a discussion paper on October 15, 2019 regarding proposed changes to APS 111, "Revisions to APS 111 Capital Adequacy: Measurement of Capital", and a detailed response to industry on this consultation in May 2021. These updates incorporate further technical information to assist ADIs in issuing capital instruments, as well as recent changes to international standards and guidance on capital adequacy measures. APRA is also reviewing the capital treatment of a parent ADI's equity investments in banking and insurance subsidiaries, to ensure that sufficient capital is held by the parent ADI for the protection of depositors in Australia. On August 5, 2021, APRA released a response to submissions and the final revised standard for APS 111, which will come 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 will, in effect, increase the amount of capital required to support equity investments in large subsidiaries and reduce the amount required for small subsidiaries. For banking and insurance subsidiaries where the total value of the equity investment into an individual subsidiary is above 10% of an ADI's Level 1 CET1 capital, the amount above this level is required to be treated as a CET1 deduction. The amount of the investment below this level will be treated as a 250% risk weight (compared to the current 400% risk weight for unlisted subsidiaries). This change is not expected to increase system capital requirements, though the impact will differ across individual ADIs.

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

Other changes included in the final APS 111 revised standard released on August 5, 2021 include:

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

The final standard also contains further minor revisions which were not included as part of the initial 2019 consultation. These revisions include measures to clarify that CET1 capital is not permitted to have any unusual features that could undermine its role as the highest quality loss absorbing capital.

"Unquestionably Strong"

Following the Basel Committee's Basel III announcement on December 7, 2017, on February 14, 2018, APRA published two discussion papers on proposed changes to the ADI capital framework 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). Australian ADIs were expected to build up capital buffers to meet APRA's "Unquestionably Strong" benchmarks as of January 1, 2020. 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.

APRA published updated draft standards to APS 110, APS 112 and APS 113 on December 8, 2020, with the aim being to embed “Unquestionably Strong” levels of capital, improve the framework’s flexibility and transparency and also increase the capital strength of ADIs. APRA’s proposed improvements to the capital framework included:

- greater risk sensitivity within the risk weighting framework, including more differentiated risk weights for different types of mortgages through the introduction of mortgage scalars, an increase in the IRB scaling factor from 1.06x to 1.1x, increasing the loss given default (“LGD”) from 45% to 50% for senior unsecured exposures subject to the foundation internal ratings-based (“IRB”) approach (which includes MBL), and reduced risk weights for small business lending;
- providing for ADIs to hold a larger share of their required capital as buffers, enhancing the ability of the framework to respond flexibly to future stress events, by increasing the capital conservation buffer (CCB) from 250 to 400 basis points for ADIs applying the IRB approach, and including a default level of the countercyclical capital buffer (CCyB) of 100 basis points for all ADIs;
- implementation of a capital floor to limit the capital benefit of IRB ADIs relative to the capital requirement for ADIs utilizing the standardized approach, with the floor set at 72.5% of RWAs under the standardized approach;
- improving the transparency and comparability of the capital framework by requiring all ADIs to disclose their capital ratios under the standardized basis, and better alignment of the APRA standards with those of the Basel Committee;
- introduction of a minimum leverage ratio of 3.5% for IRB ADIs, expressed as the ratio of Tier 1 Capital to total exposures, with amendments to incorporate recent technical changes to the Basel Committee’s leverage ratio calculation; and
- applying a proportionate approach for smaller ADIs with less than A\$20bn in total assets, consisting of a simplified capital framework and removal of the proposed leverage ratio requirements.

The consultation period ended on April 1, 2021. This involved the submission of written feedback and a Quantitative Impact Study (the “QIS”), that allowed APRA to quantify the proposed changes to the framework. After reviewing the responses provided during the consultation period, APRA released refinements to the previously proposed framework on July 21, 2021. These refinements accounted for feedback provided by ADIs and the results of the QIS. Key refinements from the draft standards released in December 2020 included:

- a reduction of the IRB scaling factor to 1.05x, from the previously proposed increase to 1.1x;
- the removal of mortgage multipliers for defaulted mortgage exposures;
- revisions to the “Other Physical Collateral” collateral category (such as reducing the LGD to 25% to align with that of the Basel Committee) and introduction of a new “Exposures with eligible recovery value” category; and
- reducing the scope of the non-standard treatment for Interest-Only Mortgages to mortgages with an LVR greater than 80% and a contractual interest-only period greater than 5 years.

To evaluate these, APRA provided ADIs a consultation period that ended on August 20, 2021. It is expected that final standards will be released in November 2021.

APRA initially proposed that the revisions to the Basel III capital framework were to come into effect from January 1, 2022, but due to COVID-19, APRA deferred the implementation of certain Basel III reforms (including APS 110, 112, 113 and 115) by one year to January 1, 2023 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 has imposed a 15% add-on to the net cash outflow component of MBL's LCR calculation. 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 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.

Credit risk management

APS 220 Credit Risk Management will replace 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.
- 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.

Loss absorbency at the point of non-viability

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

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

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

Crisis Management and Resolution Planning

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

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

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

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

The key elements of the proposed approach 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 it will require the major banks to lift Total Capital by a revised threshold of 3% of risk weighted assets by January 1, 2024 (instead of 4% to 5%). APRA’s overall long-term target is an additional 4% to 5% of loss absorbing capacity (“*LAC*”).

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

Associations with Related Entities

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

- Removing the eligibility of an ADI’s overseas subsidiaries to be regulated under APRA’s ELE framework.
- 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.
- Revised limits on the extent to which ADIs can be exposed to related entities.
- Minimum requirements for ADIs to assess contagion risk.
- APRA will also require ADIs to regularly assess and report on their exposure to step-in risk which is the likelihood that they may need to “step-in” to support an entity to which they are not directly related.

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

In November 2020, APRA confirmed it will grant the MGL Group a 12-month transition to January 1, 2023, in respect of a number of new APS 222 requirements. The MGL Group will undertake restructuring of certain existing business activities and legal entities as a result of these new requirements, and does not anticipate this will have a material impact on results. The MGL Group is expected to be compliant with all other new APS 222 requirements by January 1, 2022.

Remuneration

APRA initially consulted on a new draft prudential standard for remuneration (“CPS 511”) in July 2019. The revised standard moved to a more principles-based approach that is designed to be risk based and proportionate, with more comprehensive requirements for larger, more complex regulated entities (designated as “Significant Financial Institutions” or “SFIs”). On November 12, 2020, APRA published its revised remuneration standard for consultation, and the MGL Group provided a submission on February 12, 2021. The new standard requires boards to strengthen incentives to manage non-financial risks, regularly assess for risk management failings and have deferral arrangements that allow boards to reduce remuneration for poor risk outcomes. APRA commenced the consultation on the new Prudential Practice Guide (“CPG 511”) on April 30, 2021, and the MGL Group provided a submission on July 23, 2021. A final CPS 511 and CPG 511 were published by APRA on August 27, 2021 and October 18, 2021, respectively; these are due to come into effect from January 1, 2023.

Information Security

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

APRA issues guidance on capital management

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

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

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

Strengthening residential mortgage lending assessments

On October 6, 2021, APRA released a letter to ADIs on strengthening residential mortgage lending assessments, which set forth the following expectations and recommendations 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.

APRA also indicated plans to publish an information paper later in 2021, outlining its framework for macroprudential policy, which will cover all capital and credit options. 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 this recent APRA guidance.

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.

On July 16, 2021, the Australian Treasury released the exposure draft Financial Accountability Regime Bill 2021 ("FAR") for consultation. It is proposed that 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. The indicative timing for commencement of FAR for MGL and MBL is from July 1, 2022 (or six months after commencement of FAR, if that is later). For other APRA-regulated entities (which will include MIML and MLL), the indicative commencement date is from July 1, 2023 (or 18 months after commencement of FAR, if that is later).

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 authorised 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.

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. 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 power to ban senior officials in the financial sector

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

Responsible lending

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

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

- a stronger focus on the legislative purpose of the obligations and clarity around areas that are not subject to the obligations;
- more guidance and examples to illustrate where a licensee might undertake more, or less, detailed inquiries and verification steps based on different consumer circumstances and the type of credit that is being sought;
- more detailed guidance about the use of benchmarks, the Household Expenditure Method (“HEM”) and how spending reductions may be considered as part of the licensee’s consideration of the consumer’s financial situation, requirements and objectives;

- greater clarity about certain complex situations for some consumers; and
- further guidance around technological developments including Open Banking and digital data capture services.

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

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

Open Banking

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

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

The 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.

Banking Code of Practice

The Banking Code of Practice (the “Code”) is the banking industry’s customer charter on best banking practice standards. It sets out the banking industry’s key commitments and obligations to retail and small business customers on standards of practice, disclosure and principles of conduct for their banking services. The revised Code, which was approved by ASIC, commenced on July 1, 2019. On December 17, 2019, ASIC subsequently approved an updated version of the Code. These amendments implement the recommendations of the Royal

Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and address stakeholder feedback relating to various small business protections, accessibility of banking products and an easing of the financial burden on agricultural borrowers affected by drought and natural disaster. Temporary changes were made to the Code in response to COVID-19 to reflect the fact that, in some limited circumstances, banks may not be able to comply with usual timing requirements specified in the Code and to assist with the flow of credit to small businesses.

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

ASIC enhanced supervision and enforcement

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

ASIC has established the Office of Enforcement to strengthen the governance and effectiveness of ASIC's enforcement.

In response to the COVID-19 pandemic, ASIC deferred onsite supervisory work but continued to monitor and conduct desk-based reviews. MGL Group will continue to monitor ASIC's approach and engage in accordance with its Regulator Engagement Principles.

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.

MBL 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.

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

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

Banking regulations

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

Derivatives regulations

The Dodd-Frank Act amended the commodities and securities laws in the United States to create a regulatory regime for swaps and other derivatives, subject to the jurisdiction and regulations of the applicable U.S. regulatory agency, such as the FRB, the Commodity Futures Trading Commission (“CFTC”) and the Securities and Exchange Commission (“SEC”). Regulations arising out of the Dodd-Frank Act continue to be adopted and implemented 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.

Some of the key areas covered by these regulations include, but are not limited to, business conduct standards, prohibitions on market manipulation and disruptive trading, treatment of separate accounts by futures commission merchants, mandatory clearing and trade execution, transaction reporting, recordkeeping, margin requirements for uncleared derivatives, and position limits. Several jurisdictions relevant to MBL, including the United States, have proposed significant new or revised regulatory requirements which, if adopted, may have effects across the transaction lifecycle and apply to MBL and its subsidiaries.

MBL 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 expected to register as a security-based swap dealer with the SEC.

Pursuant to the CFTC’s Comparability Determinations for Australia, MBL’s compliance with provisions and requirements under the applicable Australian regulatory regimes is sufficient to meet some CFTC swap dealer requirements to which MBL would otherwise be subject. As part of its swap dealer obligations, MBL is subject to the FRB’s capital and margin regulations. MBL became subject to the FRB’s variation margin requirements for uncleared swaps and security-based swaps in 2017 and, starting on September 1, 2021, became subject to the FRB’s initial margin requirements. MBL is also subject to additional margin requirements imposed by APRA and regulators in the European Union and the United Kingdom.

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

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

Anti-money laundering regulations

The MBL representative offices, MFUSA, and MGL Group's securities broker-dealers and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to AML laws and regulations in the United States. Applicable regulations include those issued by the Treasury Department's Financial Crimes Enforcement Network ("*FinCEN*") to implement various AML requirements of the Bank Secrecy Act (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 codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards by the Treasury Department for evaluating technology and internal processes for Bank Secrecy Act compliance; and expands enforcement- and

investigation-related authority, including significant expansions in the available sanctions for certain Bank Secrecy Act violations and in Bank Secrecy Act whistleblower incentives and protections. Many of the statutory provisions in the AMLA will require additional rulemakings, reports and other measures, and the impact of the AMLA on MGL and its subsidiaries will depend on, among other things, rulemakings and implementation guidance that have not been adopted as of the date of this Report.

Economic sanctions

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

Securities, commodities and other regulations

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

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

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

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

Canada

Derivative Regulations

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

United Kingdom

U.K. Regulators

The Financial Conduct Authority (the "*FCA*") and the Prudential Regulation Authority (the "*PRA*") are responsible for the regulation of financial business in the United Kingdom, including banking, investment

business, consumer credit and insurance. Deposit-taking institutions, insurers and significant investment firms are dual-regulated, with the PRA responsible for the authorization, prudential regulation and day-to-day supervision of such firms, and the FCA responsible for regulating conduct of business requirements.

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

MGL Group U.K. Regulated Entities

MBL operates a branch, MBL LB, in the United Kingdom. APRA remains the lead prudential regulator for MBL LB, with regulatory oversight by the FCA and the PRA. 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 subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEI"), Macquarie Capital (Europe) Limited ("MCEL"), Macquarie Investment Management Europe Limited ("MIMEL"), Macquarie Corporate and Asset Finance 1 Limited ("MCAFIL") and Green Investment Group Management Limited ("GIGML") authorized and regulated by the FCA. MIRAEI and GIGML are each authorized as an alternative investment fund manager ("AIFM") pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773) (as amended from time to time), which implemented the Alternative Investment Fund Managers Directive (2011/61/EU) in the United Kingdom, 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. MCAFIL is authorized and regulated by the FCA as a consumer credit firm.

In many cases, the Rules reflect the requirements set out in European Union regulations and implemented applicable European Union directives (such as (i) the Capital Requirements Regulation (575/2013/EU) ("CRR") and the Capital Requirements Directive (2013/36/EU) ("CRD II"), which relate to regulatory capital requirements for banks and investment firms and which came into force on January 1, 2014; 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 and which took effect on January 3, 2018).

Under the Rules, regulated banks and certain 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 requirements of the MGL Group (including but not limited to MBL LB and other subsidiaries). In addition, MCEL maintains its own standalone liquidity contingency plan. See section 5.1 of our 2022 Half Year Management Discussion and Analysis Report.

Brexit

On March 29, 2017, the United Kingdom invoked Article 50 of the Treaty on European Union and officially notified the European Union of its decision to withdraw from the European Union (known as "Brexit"). This commenced a formal process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the United Kingdom and the European Union. On October 17, 2019, following negotiations between the United Kingdom and the European Union, a revised withdrawal agreement was agreed, which was subsequently ratified by the U.K. government and the European Commission. Under the terms of the ratified withdrawal agreement (the "Article 50 Withdrawal Agreement"), a transition period commenced on January 31, 2020, which lasted until December 31, 2020. During this period, most European Union rules and regulations continued to apply to and in the United Kingdom, while negotiations in relation to a free trade agreement were ongoing. On December 24, 2020, an agreement in principle was reached in relation to the

European Union-United Kingdom Trade and Cooperation Agreement (the “*Trade and Cooperation Agreement*”) to govern future relations between the European Union and the United Kingdom following the end of the transition period on December 31, 2020. The Trade and Cooperation Agreement was signed on December 30, 2020, was applied provisionally as of January 1, 2021 and came into force on May 1, 2021, following ratification by the European Union. The Trade and Cooperation Agreement does not, however, create a detailed framework to govern the cross-border provision of regulated financial services from the United Kingdom into the European Union and from the European Union into the United Kingdom.

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

To minimize the risks for firms and businesses, the U.K. government implemented secondary legislation under powers provided in the Withdrawal Agreement (the European Withdrawal Act 2018, as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the “*EUWA*”), to ensure that the United Kingdom has a functioning statute book from December 31, 2020. More specifically, post-December 31, 2020, European Union law ceased to apply in the United Kingdom. European Union regulations and any other European Union-derived legislation were incorporated into U.K. law as they applied on December 31, 2020 at 11:00 p.m. U.K. time (the “*IPCD*”), and amended to render them fit for purpose in their new context under the EUWA. This is colloquially referred to as “onshoring”. The new body of law under the EUWA replicated several different sources of European Union law: (i) European Union-derived domestic legislation; and (ii) direct European Union legislation (i.e. including, but not limited to, all European Union regulations, decisions or tertiary legislation). The EUWA also granted powers to HM Treasury and various U.K. regulatory bodies, including the PRA and the FCA, to rectify certain so-called deficiencies in the onshored body of law, such deficiencies including references to the powers of European regulatory agencies which have transferred to U.K. equivalents, or references within legislation to the European Union or the European Economic Area and statutory cross-references.

The United Kingdom’s financial services regulators have also been granted temporary transitional powers to delay or modify certain regulatory obligations firms face as a result of a statutory instrument made under Section 8 of the EUWA. These modifications are temporary and there can be no assurance that such arrangements will continue to be available in the future.

One of the measures taken by the U.K. government in order to prevent disruption to former European Economic Area (“*EEA*”) passporting entities (i.e. EEA entities which have historically relied on so-called European Union financial services passports) immediately following the IPCD was to introduce the temporary permissions regime (the “*TPR*”) under the EEA Passport Rights (Amendment, etc., and Transitions Provisions) EU Exit Regulations 2018. Former EEA passporting entities which validly entered the TPR can generally continue to operate in the United Kingdom, subject to certain conditions, for a limited period of up to three years from the IPCD.

The pan-European Union authorities, such as the European Commission, did not put in place temporary legislative regimes similar to those in place in the United Kingdom to enable continued access to the European Union markets, for a time-limited period, for U.K. firms after their loss of passporting rights since the IPCD.

The MGL Group does not believe that the United Kingdom’s withdrawal from the European Union is a material event for the MGL Group. However, the precise impact on MGL Group’s business is difficult to determine, due to the ongoing political uncertainty with regard to the structure of the future financial services relationship between the United Kingdom and the European Union.

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

U.K. Senior Managers and Certification Regime

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

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

Under Extended SMCR criteria there are three categories of firms:

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

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

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

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

European Union

European Union Regulators

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

France

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

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

Ireland

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

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

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

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

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

Luxembourg

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

MGL Group has the following Luxembourg regulated entities:

- MIMESA, which is authorized and regulated by the CSSF as an investment firm;
- MAMES, which is authorized and regulated by the CSSF as an alternative investment fund manager;
- GLL Management Company S.à r.l. (“GLL”), which is authorized and regulated by the CSSF as an alternative investment fund manager; and
- MIF Lux, which is authorized and regulated by the CAA as an investment broker.

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

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

CRD IV and CRR

The original components of the Basel III reform package were implemented in the EEA through CRD IV and CRR, which were published in the Official Journal of the European Union on June 27, 2013. The CRR established a single set of harmonized prudential rules which apply directly to all credit institutions in the EEA, with CRD IV containing other provisions required to be transposed into national law. 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. CRR and CRD IV apply to MBE DAC, MCEL and (with respect to certain matters), MBL, London Branch (“*MBL LB*”) and MBIL (prior to surrender of regulatory permissions). For MCEL, MBL LB and MBIL (prior to surrender of regulatory permissions), CRR and CRD IV continued to apply in the United Kingdom until the IPCD. Since the IPCD, entities operating in the United Kingdom have been subject to the modified or “on-shored” versions of CRR and CRD IV that the United Kingdom has put in place as a result of Brexit (known as the U.K. CRR).

CRD V and CRR II

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

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

CRD V and CRR II affects MBL LB and MBE DAC. 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 Financial Services Act 2021, which largely applied (with certain exceptions) from April 29, 2021 and June 29, 2021, provides the U.K. 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.

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.

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 rules, for example those contained in CRD IV, were developed largely with deposit-taking institutions in mind. The new regime has applied since 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) the 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) 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, and the MGL Group has ongoing programs to implement changes required to ensure compliance with the legislation, noting that certain supervisory elements are still to be confirmed.

IFPR

Since the European Union’s IFR and IFD did not apply at IPCD, they were not incorporated into U.K. law. However, MIRAEL, MCEL, MIMEL and GIGML are in scope of the U.K. Investment Firms Prudential Regime (the “*IFPR*”), which is heavily based on the European Union’s IFR and IFD though not identical; the IFPR will apply from January 1, 2022.

The IFPR sets out new prudential requirements for FCA MiFID investment firms to subject them to meaningful and consistent prudential requirements, not just those subject to the current CRR regime, with a view to reducing the potential harm to consumers and markets and capture vulnerabilities and risks specific to these firms. The IFPR will replace all current definitions of FCA MiFID investment firms with two broad categories; each firm will be classified as either a “small and non-interconnected” (“*SNP*”) firm or not (a “*non SNP*”). The IFPR affords SNI firms additional proportionality. Firms are categorized by reference to their activities and certain thresholds. SNI firms will be 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) or the markets in which such firms operate (e.g., dealing on own account or underwriting), and they will be 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.

Like the European Union’s IFR and IFD, 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 will apply to an FCA MiFID investment firm depend on the investment services and activities 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.

The MGL Group has ongoing programs to implement changes required to ensure compliance with the IFPR legislation.

BRRD and BRRD II

The EU Bank Recovery and Resolution Directive (2014/59/EU) (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 Directive ((EU) 2019/879) (“*BRRD II*”), which entered into force on June 27, 2019 and largely applied from December 28, 2020 and that contain, among others, the following provisions:

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

The effects of BRRD II are wide-ranging and, in particular, it will impact how in-scope institutions, such as MBE DAC and (to a certain extent) MBL LB, 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).

The United Kingdom implemented the majority of the BRRD II provisions which became applicable on December 28, 2020 but not those which became applicable on or after January 1, 2021 and it has also “sunsetting” a number of provisions (i.e. implemented certain reforms under BRRD II from December 28, 2020 to December 31, 2020 only). In the United Kingdom, BRRD II may affect the exercise of the special resolution regime powers under the United Kingdom’s Banking Act 2009 (the “*Banking Act*”) and the Bank Recovery and Resolution (No. 2) Order 2014.

In any event, there remains a risk that the U.K. regulators and/or authorities can make an instrument or order under the Banking Act in respect of the entities referred to above and/or that related parties could be adversely affected by any such instrument or order if made.

Other regulators

Outside Australia, the United States, the European Union and the United Kingdom, MBL has branches in the Dubai International Finance Centre, Hong Kong and Singapore that are regulated by the Dubai Financial Services Authority, the Hong Kong Monetary Authority and the Monetary Authority of Singapore, respectively. MBL also has a representative office in Auckland, regulated by the Reserve Bank of New Zealand, 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, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited;
- the Investment Industry Regulation Organization of Canada, the TMX and the various provincial and territorial securities regulatory authorities in Canada;
- the Monetary Authority of Singapore and the Singapore Exchange Regulation Pte Ltd; and
- the Financial Sector Conduct Authority of South Africa.

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS OF INTERIM RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In addition to the information included in this Report, investors should refer to our 2022 Half Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2021 compared to the half year ended September 30, 2020, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2021, which is posted on MBL’s U.S. Investors’ Website. Such information should be read in conjunction with the discussion under “Management’s Discussion and Analysis of Results of Operations and Financial Condition” beginning on page 51 of our 2021 Annual U.S. Disclosure Report.

Recent developments post-September 30, 2021

MBL Group management changes

Patrick Upfold will step down as Chief Risk Officer, Head of the Risk Management Group and from MBL’s Executive Committee effective December 31, 2021. Mr. Upfold intends to retire in mid-2022 after completing an extended handover to his successor, Andrew Cassidy. Mr. Cassidy, who is based in Sydney, has been with the MGL Group for 18 years in various roles, including leadership of the MGL Group’s principal investment activity in Asia Pacific. Mr. Cassidy transferred to the Risk Management Group two years ago to work closely with Mr. Upfold in further strengthening the MGL Group’s risk framework. Mr. Cassidy will join MBL’s Executive Committee effective January 1, 2022.

Half year ended September 30, 2021 compared to half year ended September 30, 2020

See sections 1 – 7 of our 2022 Half Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the half years ended September 30, 2021 and 2020, which has been incorporated by reference herein..



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