



MACQUARIE  
BANK

**Macquarie Bank Limited**  
(ABN 46 008 583 542)

Disclosure Report (U.S. Version)  
for the half year ended September 30, 2020

Dated: November 20, 2020

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## CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2020 (this “*Report*”), unless otherwise specified or the context otherwise requires:

- “*2020 Annual U.S. Disclosure Report*” means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2020 and the documents incorporated by reference therein;
- “*2020 Fiscal Year Management Discussion and Analysis Report*” means our Management Discussion and Analysis Report dated May 8, 2020, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2020, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website;
- “*2021 Half Year Management Discussion and Analysis Report*” means our Management Discussion and Analysis Report dated November 6, 2020, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2020 compared to the half year ended September 30, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2020, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website;
- “*2021 Interim Directors’ Report and Financial Report*” means our 2021 Interim Directors’ Report and Financial Report; and
- “*2021 interim financial statements*” means our unaudited financial statements for the half year ended September 30, 2020 contained in our 2021 Interim Directors’ Report and Financial Report.

In addition, you should refer to “Certain Definitions” beginning on page ii of our 2020 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 “*2020*” 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;
- 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;
- increased governmental and regulatory scrutiny and negative publicity;
- litigation and regulatory actions against us;
- risks associated with the replacement of benchmark indices;
- changes in the credit quality of MBL’s clients and counterparties;
- credit constraints of potential purchasers of our assets or on our clients;
- our ability to attract and retain employees;
- inadequate or failed internal or external operational systems and risk management processes;

- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- adverse impact on our brand and reputation;
- the performance and financial condition of MGL;
- the impact of cyber attacks, technology failures and other information or security breaches;
- environmental and social factors and climate change;
- 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;
- 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 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 MBL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2021 Half Year Management Discussion and Analysis Report and in our 2020 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference in our 2020 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, which will oversee the administration of enquiries concerning Australian sanctions regimes and sanctions permits. 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 2020 Annual U.S. Disclosure Report, our 2021 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, 2020 and the impact of such operating conditions on 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 2021 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, 2020 compared to the half year ended September 30, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2020, and which has been posted on MBL’s U.S. Investors’ Website;
- our Pillar 3 Disclosure Document dated June 2020, the Pillar 3 Disclosure Document dated March 2020, the Pillar 3 Disclosure Document dated December 2019 and the Pillar 3 Disclosure Document dated September 2019, which describe the Bank’s capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MBL’s U.S. Investors’ Website; and
- our historical financial statements, which are included in the extracts from our 2021 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\$0.7160 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, 2020. The noon buying rate on November 13, 2020 was US\$0.7256 per A\$1.00.

### **Our historical financial statements**

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

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

The results for the half year ended September 30, 2020 are reported under the new group structure with reclassified results for prior periods.

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

### **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 2020 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 2020 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 2021 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 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 2020 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 2020 Annual Report of MGL and in Note 33 to our 2020 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 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 or 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 MGL Group, including MBL.

***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 impact on global, regional and national economies and disruption to international trade and business activity. The COVID-19 pandemic has already caused increased unemployment and the levels of equity and other financial markets to decline sharply and to become volatile, and such effects may continue or worsen in the future. 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.

We have implemented a range of support measures to provide short term financial assistance to customers who are facing difficulties as a consequence of COVID-19. For example, in March 2020, as part of financial accommodation measures announced by the Australian Prudential Regulation Authority (“APRA”), we provided various individual and business customers of our personal and banking businesses, who were experiencing financial difficulties due to COVID 19, the ability to defer their loan repayments for an initial six-month period until September 30, 2020. In July 2020, APRA announced the ability for ADIs to extend this deferral for a further four months to cover a maximum period of 10 months from the start of a repayment deferral, or until March 31, 2021, whichever comes first. We have implemented, and may continue to implement, a range of other support measures, including short term deferrals and payment plans for some of our other businesses.

The impact of COVID-19 has and may lead to further reduced client activity and demand for our products and services, higher credit and valuation losses in our loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on our financial position, including possible constraints on capital and liquidity, as well as higher costs of capital, and possible changes or downgrades to our credit ratings. 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. Please refer to our 2021 interim financial statements for further information on the financial statement impact of COVID-19, including, but not limited to, Note 11 which discusses its impact on our expected credit losses.

Additionally, despite the business continuity and crisis management policies currently in place, travel restrictions or potential impacts on personnel and operations may disrupt our business and increase operational risk losses. The expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy and our personnel and operations are unclear. Should the impact of COVID-19 be prolonged or increasingly widespread and severe and the actions taken to control its spread be unsuccessful, our results of operations and financial condition may be adversely affected.

### **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 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), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore and Hong Kong and representative offices in the United States, New Zealand 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.

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.

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

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

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

We are also subject in our operations worldwide to laws and regulations relating to corrupt and illegal payments and adherence to anti-money laundering (“*AML*”) obligations, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. 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 such rules or regulations and any such violation 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. Our ability to comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability. See “Regulatory and supervision developments” below and the discussion under the heading “Regulation and Supervision” on page 24 of our 2020 Annual U.S. Disclosure Report for more information on the regulatory developments affecting MBL.

***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 has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Responding to and addressing such matters, regardless of the ultimate outcome, is time-consuming, expensive, can adversely affect investor confidence and can divert the time and effort of our staff (including senior management) from our business.

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

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

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

finding in a regulatory or litigation matter could harm our reputation or brand, thereby adversely affecting our business.

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

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

- *Conduct risks* – where, by undertaking actions to transition away from using the IBORs, we face conduct risks which may lead to customer complaints, regulatory sanctions or reputational impact if the MBL Group is (i) considered to be undertaking market activities that are manipulative or create a false or misleading impression; (ii) misusing sensitive information or not identifying or appropriately managing or mitigating conflicts of interest; (iii) not taking an appropriate or consistent response to remediation activity or customer complaints; or (iv) providing regulators with inaccurate regulatory reporting.
- *Legal and execution risks* – relating to documentation changes required for new RFR products and for the transition of legacy contracts to RFRs, which transition will, in turn, depend, to a certain extent, on the availability of RFR products and on the participation of customers and third-party market participants in the transition process; legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts; and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates.
- *Financial risks and pricing risks* – arising from:
  - any changes in the pricing mechanisms of financial instruments linked to RFRs which could impact the valuations of these instruments; and
  - the implementation of the International Swaps and Derivatives Association’s protocol for the transition of derivatives contracts, and similar guidance for cash products which could cause earnings volatility depending on the nature of contract modifications and changes in hedge accounting.
- *Operational risks* – due to the potential need for us, our customers and the market to adapt IT systems, operational processes and controls to accommodate one or more RFRs for a large volume of trades.

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

**Counterparty 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 33 to our 2020 annual financial statements for details on the concentration of credit risk by significant geographical locations and counterparty types. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

Historically, we have generated a portion of our income from the sale of assets to third parties, including our funds. If buyers are unable to obtain financing to purchase assets that we currently hold or purchase with the intention to sell in the future, we may be required to hold investment assets for longer period 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.

**Write-downs**

***We may experience write-downs of our investments, loans and other assets.***

MBL Group recorded A\$262 million of credit and other impairment charges for the half year ended September 30, 2020, including A\$241 million for net credit impairment charges, and A\$21 million for other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline. Credit and other impairment charges may also vary following a change to the inputs or forward looking information used in the determination of expected credit losses. Please refer to Note 11 of our 2021 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 failed internal or external operational systems and risk management processes.***

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that

the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances. For a further discussion of our risk management policies and procedures, see Note 33 to our 2020 annual financial statements and in the “Risk Management Report” in the 2020 Annual Report of MGL, which is incorporated by reference in our 2020 Annual U.S. Disclosure Report.

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

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

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

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

***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 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 MBL Group, but their actions may reflect directly on our reputation.

Our business may be adversely affected by the 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 MBL Group and 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.

***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 systems and infrastructure.***

Our businesses depend on the security and efficacy of our information technology systems, as well as those of third parties with whom we interact or on whom we rely. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. 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 cybersecurity risks. We implement measures designed to protect the security, confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security.

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

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

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

It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and perpetrators can be well resourced. Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for 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 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.



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. Failure to effectively manage these risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

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.

***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 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 Group relies on services provided by MGL.***

Under the Services Agreements, MGL provides shared services to MBL Group. These shared services include risk management, financial operations and economic research services, information technology, treasury, markets operation services, human resources, business services, company secretarial and investor relations, media relations and corporate communications, taxation, business improvement and strategy, central executive services, accommodation and related services, other group-wide services and business services. Other than exercising its rights under the Services Agreements, MBL Group has no direct control over the provision of those services, MGL's continued provision of those services or the cost at which such services are provided. Any failure by MGL to continue to provide those services or an increase in the cost of those services will have an adverse impact on our results or operations.

***Apart from its rights under the Services Agreements, MBL has no control over the management, operations or business of entities in MGL Group that are not part of MBL Group.***

Entities in MGL Group that are not part of MBL Group may establish or operate businesses that are different from or compete with the businesses of MBL Group and those other entities are not obligated to support the businesses of MBL Group other than as required by APRA prudential standards. Other than APRA prudential standards and capital adequacy requirements described in "Regulation and Supervision" beginning on page 24 of our 2020 Annual U.S. Disclosure Report, there are no regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including 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 MBL Group or our management's time may be diverted to facilitate the integration of the acquired business into 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.

***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 MGL Group. While we believe we have adequate procedures and controls in place to address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients or counterparties to enter into transactions may be adversely affected if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to claims by and liabilities to clients, litigation or enforcement actions.

## **Tax**

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

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

## **Accounting standards**

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

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

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

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2020.

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

	As at	
	Sep 30, 2020	Sep 30, 2020
	US\$m <sup>1</sup>	A\$m
<b>CAPITALIZATION</b>		
<b>Borrowings<sup>2</sup></b>		
Debt issued — due greater than 12 months.....	13,101	18,297
Loan capital — due greater than 12 months .....	3,440	4,805
<b>Total borrowings<sup>3</sup>.....</b>	<b>16,541</b>	<b>23,102</b>
<b>Equity</b>		
Contributed equity		
Ordinary share capital .....	5,934	8,288
Equity contribution from ultimate parent entity.....	159	222
Reserves .....	(6)	(9)
Retained earnings.....	304	424
Other non-controlling interests.....	3,521	4,918
<b>Total equity.....</b>	<b>9,912</b>	<b>13,843</b>
<b>TOTAL CAPITALIZATION.....</b>	<b>26,453</b>	<b>36,945</b>

<sup>1</sup> Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2020, which was US\$0.7160 per A\$1.00.

<sup>2</sup> As at September 30, 2020, we had A\$2.3 billion of secured indebtedness due in greater than 12 months compared to A\$1.2 billion as at March 31, 2020.

<sup>3</sup> Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short term debt totaled A\$14.7 billion as at September 30, 2020 and securitizations and non-recourse debt totaled A\$11.9 billion as at September 30, 2020 compared to A\$16.1 billion and A\$12.8 billion, respectively, as at March 31, 2020.

For details on our short-term debt position as at September 30, 2020, see section 5.5 of our 2021 Half Year Management Discussion and Analysis Report.

## RECENT DEVELOPMENTS

*The following are significant recent developments for MBL Group that have occurred since the release of our 2020 Annual U.S. Disclosure Report on May 22, 2020.*

*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 13 of our 2020 Annual U.S. Disclosure Report and other information posted on MBL’s U.S. Investors’ Website.*

### **Successful offerings of A\$641 million Macquarie Bank Capital Notes 2, A\$750 million Macquarie Bank Subordinated Notes and US\$750 million Macquarie Bank Subordinated Notes**

On June 2, 2020, MBL issued 6,410,270 Macquarie Bank Capital Notes 2 (“BCN2”) at an issue price of A\$100 each, raising A\$641 million. The BCN2 constitute regulatory capital of MBL that satisfies APRA’s regulatory capital requirements for Tier 1 Capital.

On May 28, 2020, MBL issued A\$750 million of 10 year subordinated notes with a 5-year non-call period and, on June 3, 2020, issued US\$750 million of 10 year subordinated notes (together, the “Subordinated Notes”). The Subordinated Notes are debt obligations of MBL and constitute regulatory capital of MBL that satisfies APRA’s regulatory capital requirements for Tier 2 Capital.

### **Board changes announced during the half year ended September 30, 2020**

- Gary Banks retired as an Independent Voting Director of MGL and MBL, effective July 30, 2020.
- Michael Hawker retired as an Independent Voting Director of MGL and MBL, effective September 30, 2020.

### **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 Cash Equities business and the Commodity Markets and Finance business; and some other less financially significant activities).

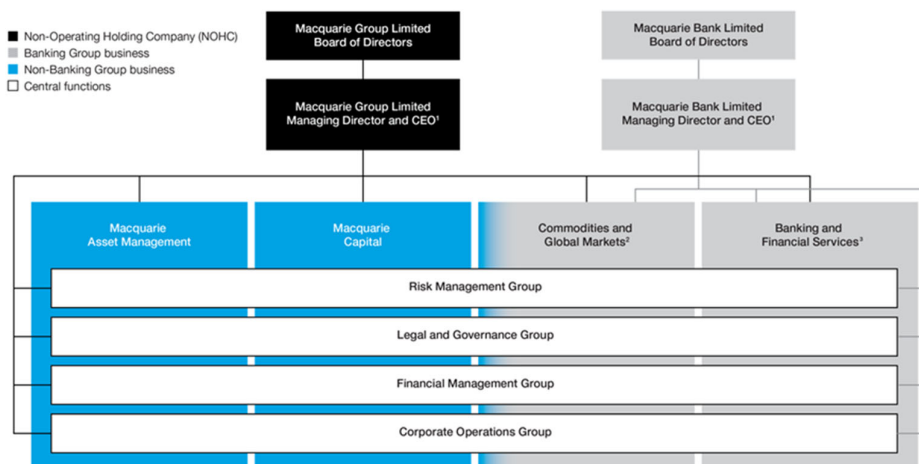
MGL Group currently provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment.<sup>1</sup> The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate Affairs, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Business Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

MBL and MGL have corporate governance and policy frameworks that meet APRA’s requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL’s liquidity and funding, see the discussion in section 5.0 of our 2021 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 MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

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<sup>1</sup> As part of APRA’s discussions with MGL on resolution planning and intragroup funding, Macquarie Group Services Australia, the main group shared services entity for both the Banking Group and the Non-Banking Group, is proposed to be transferred to the Banking Group in December 2020.

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



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

MGL and MBL will continue to monitor and review the appropriateness of the MGL structure, including the provision of shared services. 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 14 of our 2020 Annual U.S. Disclosure Report.

MBL has met all of its capital requirements throughout the half year ended September 30, 2020. As at September 30, 2020, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 16.8%, a Tier 1 capital ratio of 18.9% and a total capital ratio of 22.7%. The Banking Group's APRA Basel III Common Equity Tier 1 capital ratio was 13.5%, Tier 1 capital ratio was 15.4% and total capital ratio was 18.9%. 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, 2020, see section 6.0 of our 2021 Half Year Management Discussion and Analysis Report.

### Our strategy

Our strategy is set out under "Macquarie Bank Limited — Our strategy" on page 16 of our 2020 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 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 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\$315 million for the half year ended September 30, 2020. Banking and Financial Services experienced margin compression on deposits; and increased credit impairment charges and costs to support clients as a result of COVID-19, partially offset by strong home loan and deposits growth.

Commodities and Global Markets in MBL contributed a net profit contribution of A\$924 million for the half year ended September 30, 2020. Commodities and Global Markets' result was down on a strong comparative half year ended September 30, 2019. Results were reflective of two distinct quarters, with the three months ended June 30, 2020 benefiting from strong client activity and increased trading opportunities given dislocated markets and elevated volatility levels, and the three months ended September 30, 2020 seeing market conditions increasingly subdued resulting in lower volatility and significantly reduced client activity. Additionally there were increased credit impairment charges in the half year ended September 30, 2020 as a result of COVID-19.

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, 2020, see our 2021 Half Year Management Discussion and Analysis Report for further information.

## Overview of MBL Group

As at September 30, 2020, MBL had total assets of A\$205.9 billion and total equity of A\$13.8 billion. For the half year ended September 30, 2020, our net operating income was A\$2,943 million and profit after tax attributable to the ordinary equity holder was A\$660 million. Of MBL Group's revenues from external customers, 51% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution of each of our operating groups for the half years ended September 30, 2020 and 2019.

*Net operating income of MBL Group by operating group for the half years ended September 30, 2020 and 2019<sup>1</sup>*

	Half Year ended		Movement <sup>4</sup>
	Sep 30, 2020	Sep 30, 2019	
	A\$m	A\$m	%
Banking and Financial Services .....	983	1,020	(4)
Commodities and Global Markets <sup>2</sup> .....	1,867	2,049	(9)
<b>Total net operating income from operating groups</b> .....	<b>2,850</b>	<b>3,069</b>	<b>(7)</b>
Corporate <sup>3</sup> .....	93	361	(74)
<b>Total net operating income</b> .....	<b>2,943</b>	<b>3,430</b>	<b>(14)</b>

<sup>1</sup> For further information on our segment reporting, see section 3.0 of our 2021 Half Year Management Discussion and Analysis Report and Note 3 to our 2021 interim financial statements. During the current period, certain activities of CGM's Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The Cash Equities current period result and comparatives have been reclassified into the Corporate segment to reflect the reorganization from CGM.

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

<sup>3</sup> The Corporate segment includes earnings from legacy businesses within the Bank Group, the net impact of managing liquidity for the MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments and central credit and asset related impairments including certain additional central overlays on expected credit losses.

<sup>4</sup> "\*" 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 of MBL Group by operating group for the half years ended September 30, 2020 and 2019<sup>1</sup>

	Half Year ended		Movement <sup>4</sup>
	Sep 30, 2020	Sep 30, 2019	
	A\$m	A\$m	
Banking and Financial Services .....	315	384	(18)
Commodities and Global Markets <sup>2</sup> .....	924	1,140	(19)
<b>Total contribution to net profit from operating groups from continuing operations.....</b>	<b>1,239</b>	<b>1,524</b>	<b>(19)</b>
Corporate <sup>3</sup> .....	(579)	(532)	9
<b>Net profit attributable to the ordinary equity holder of MBL from continuing operations.....</b>	<b>660</b>	<b>992</b>	<b>(33)</b>

<sup>1</sup> For further information on our segment reporting, see section 3.0 of our 2021 Half Year Management Discussion and Analysis Report and Note 3 to our 2021 interim financial statements. During the current period, certain activities of CGM's Cash Equities business, which operated within the Bank Group, were transferred to Macquarie Capital in the Non-Bank Group. The Cash Equities current period result and comparatives have been reclassified into the Corporate segment to reflect the reorganization from CGM.

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

<sup>3</sup> 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 including certain additional central overlays on expected credit losses, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

<sup>4</sup> “\*” 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, 2020, MBL Group employed 4,476 staff globally and conducted its operations in 16 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, 2020, MBL Group employed 3,185 staff in Australia. In the half year September 30, 2020, Australia contributed A\$2,183 million (49%) of our revenues from external customers as compared to A\$2,925 million (53%) in the half year ended September 30, 2019.

*Americas.* MBL Group has been active in the Americas for over 20 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, 2020, MBL Group employed 447 staff across three markets. In the half year September 30, 2020, the Americas contributed A\$916 million (21%) of our revenues from external customers as compared to A\$1,212 million (22%) in the half year ended September 30, 2019.

*Asia.* MBL Group has been active in Asia for more than 20 years, when we established our first office in Hong Kong in 1995. As at September 30, 2020, MBL Group employed 190 staff across seven 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 Cash Equities business and 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, 2020, Asia contributed A\$453 million (10%) of our revenues from external customers as compared to A\$388 million (7%) in the half year ended September 30, 2019.

*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, 2020, MBL Group employed 654 staff across five markets. In the half year ended September 30, 2020, Europe, Middle East & Africa contributed A\$864 million (20%) of our revenues from external customers as compared to A\$973 million (18%) in the half year ended September 30, 2019.



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

## **Recent developments within 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\$315 million to MBL Group’s net profit in the half year ended September 30, 2020 and, as at September 30, 2020, had over 2,875 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 19 of our 2020 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 risk management, lending and financing, and physical execution and logistics services across the energy, metals and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.
- **Credit Markets:** Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans.
- **Equity Derivatives and Trading:** Issues retail derivatives in key locations and provides derivatives products and equity finance solutions to its institutional client base, and conducts risk management and market making activities. Generally, the Derivatives and Trading division’s activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group.
- **Fixed Income & Currencies:** Provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally.

- Futures: Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of major markets globally.
- Specialised and Asset Finance: Delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes
- Central: Develops various non-division specific, early stage or cross-divisional initiatives as well as housing various CGM-wide services including the COO and CFO teams, legal and other specialist activities. The division also encompasses operational risk, focusing on the reduction of operational and other non-financial risks across the business.

CGM contributed A\$924 million to MBL Group's net profit in the half year ended September 30, 2020 and, as at September 30, 2020, had over 1,590 staff located in 16 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 20 of our 2020 Annual U.S. Disclosure Report.

### **Recent developments within the Corporate segment of MBL Group**

The Corporate segment includes earnings from the net impact of managing liquidity and funding requirements 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.

Corporate contributed a net loss of A\$579 million in the half year ended September 30, 2020.

For further information on Corporate's results of operations and financial condition for the half year ended September 30, 2020, see section 3.4 of our 2021 Half Year Management Discussion and Analysis Report.

### **Legal proceedings and regulatory matters**

For a description of a description of certain legal proceedings and regulatory matters that MBL Group is party to, see "Macquarie Bank Limited — Legal proceedings and regulatory matters" beginning on page 21 of our 2020 Annual U.S. Disclosure Report.

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 2021 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 MBL Group faces in the markets in which it operates, see "Macquarie Bank Limited — Competition" beginning on page 21 of our 2020 Annual U.S. Disclosure Report.

### **Additional financial disclosures for the half year ended September 30, 2020**

#### ***Euro-zone and other exposures***

This table includes MBL Group's exposures to certain Euro-zone and other European countries that until recently were experiencing significant economic, fiscal and/or political strains, due to which the likelihood of default by sovereign governments and non-sovereign entities based in those countries was higher than would be anticipated in the absence of such factors. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures.

MBL continues to monitor these exposures.

Financial instrument	As at Sep 30, 2020			
	Sovereign exposure	Non sovereign exposure		Total exposure
		Financial institutions	Corporate	
	A\$m	A\$m	A\$m	A\$m
<b>Greece</b>				
Loans, receivables and commitments <sup>1</sup> .....	—	—	0.1	0.1
Derivative assets <sup>2</sup> .....	—	—	11.1	11.1
<b>Greece totals</b> .....	<b>—</b>	<b>—</b>	<b>11.2</b>	<b>11.2</b>
<b>Ireland</b>				
Loans, receivables and commitments <sup>1</sup> .....	0.1	173.2	88.2	261.5
Derivative assets <sup>2</sup> .....	—	4.4	17.7	22.1
Traded debt securities .....	—	1,334.9	—	1,334.9
Equity .....	—	—	6.2	6.2
<b>Ireland totals</b> .....	<b>0.1</b>	<b>1,512.5</b>	<b>112.1</b>	<b>1,624.7</b>
<b>Italy</b>				
Loans, receivables and commitments <sup>1</sup> .....	—	6.7	54.8	61.5
Derivative assets <sup>2</sup> .....	—	0.2	86.7	86.9
Traded debt securities .....	—	112.3	—	112.3
<b>Italy totals</b> .....	<b>—</b>	<b>119.2</b>	<b>141.5</b>	<b>260.7</b>
<b>Portugal</b>				
Loans, receivables and commitments <sup>1</sup> .....	—	—	0.4	0.4
Derivative assets <sup>2</sup> .....	—	—	19.2	19.2
<b>Portugal totals</b> .....	<b>—</b>	<b>—</b>	<b>19.6</b>	<b>19.6</b>
<b>Spain</b>				
Loans, receivables and commitments <sup>1</sup> .....	—	6.5	160.7	167.2
Derivative assets <sup>2</sup> .....	—	3.9	38.9	42.8
Traded debt securities .....	—	11.7	—	11.7
<b>Spain totals</b> .....	<b>—</b>	<b>22.1</b>	<b>199.6</b>	<b>221.7</b>
<b>Total exposure</b> .....	<b>0.1</b>	<b>1,653.8</b>	<b>484.0</b>	<b>2,137.9</b>

<sup>1</sup> Includes debt instruments held as loans, hold-to-maturity securities or available-for-sale securities, measured on an amortized cost basis. Includes finance lease receivables, but does not include assets which are on operating leases. Unfunded commitments are measured as the value of the commitment.

<sup>2</sup> Derivative asset exposures represent the sum of positive mark-to-market counterparty positions, net of any cash collateral held against such positions.

***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, 2020, MBL Group had A\$8,050 million of contingent liabilities and commitments, including A\$2,406 million of contingent liabilities and A\$5,644 million of commitments including undrawn credit facilities and securities commitments. See Note 20 “Contingent liabilities and commitments” to our 2021 interim financial statements which shows MBL Group’s contingent liabilities and commitments at September 30, 2020.

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

Each year we prepare a detailed analysis of market risk as it applies to 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 33 “Financial risk management” to our 2020 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 24 of our 2020 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 failed internal or external operational systems and risk management 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 MBL Group that have occurred since the release of our 2020 Annual U.S. Disclosure Report on May 22, 2020 and a summary of certain regulatory developments prior to May 22, 2020.

#### **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 ADI, and MGL is a NOHC, under the Australian Banking Act and, as such, each is subject to prudential regulation and supervision by APRA. MBL and MGL have corporate governance and policy frameworks designed to meet APRA’s requirements for ADIs and NOHCs, respectively.

Under the Australian Banking Act, APRA has powers to issue directions to MGL and MBL and, in certain circumstances, to appoint a Banking Act statutory manager to take control of MBL’s business. In addition, APRA may, in certain circumstances, require MBL to transfer all or part of its business to another entity under the Financial Sector (Transfer and Restructure) Act 1999 of Australia (the “*Australian FSTR Act*”). A transfer under the Australian FSTR Act overrides anything in any contract or agreement to which MBL is a party to, including the terms of its debt securities. APRA’s powers under the Australian Banking Act and Australian FSTR Act are discretionary and may be more likely to be exercised by it in circumstances where MGL or MBL is in material breach of applicable banking laws and/or regulations or is in financial distress, including where MGL or MBL has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions

imposed, under that Act), or where MBL has informed APRA that it is unlikely to meet its obligations or is otherwise in financial distress or that it is about to suspend its payments. In these circumstances, APRA is required to have regard to protecting the interests of MBL’s depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of MGL and MBL. For more information regarding legislative enhancement of APRA’s powers in relation to ADIs, see the “— Crisis Management and Resolution Planning” section below.

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

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

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

#### *APRA’s prudential supervision – Capital adequacy*

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

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

#### *Market risk*

On January 14, 2019, the Basel Committee published a set of revisions to the market risk framework (“*Minimum capital requirements for market risk*”), which replaces an earlier version of the standard as published in January 2016. The standard was revised to address issues that the Basel Committee identified in the course of monitoring the implementation and impact of the framework.

APRA plans to commence formal consultation on the broader reforms to the market risk framework, known as the fundamental review of the trading book. The revised standard is now expected to take effect from January 1, 2024.

## *IRRBB*

In September 2019, APRA issued a response to submissions in respect of interest rate risk in the banking book (“*IRRBB*”). While only IRB ADIs 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.

Standardized ADIs will not be subject to an IRRBB capital charge unless APRA determines otherwise. Due to the COVID-19 outbreak, APRA has deferred its scheduled implementation of these changes by one year to January 1, 2023.

### *“Unquestionably Strong”*

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

The Discussion Papers also outlined potential revisions to the leverage ratio requirements for ADIs, including APRA’s intention to apply a minimum leverage ratio for ADIs, expressed as the ratio of Tier 1 Capital to total exposures.

On November 27, 2018, APRA released its Response to Submissions Paper in relation to the introduction of the leverage ratio requirement for ADIs and revised draft of APS 110. In summary, in response to the submissions APRA proposes to:

- set the minimum leverage ratio requirement for IRB ADIs at 3.5%;
- set the minimum leverage ratio requirement for standardized ADIs at 3%;
- allow standardized ADIs to use AASB, rather than the more complex Basel III methodology, to calculate certain parts of the ratio; and
- require IRB ADIs to largely follow the Basel III methodology to calculate their leverage ratios.

On November 21, 2019, APRA proposed further amendments to incorporate recent technical changes to the Basel Committee’s leverage ratio standard.

A further response to the Submission was released by APRA on June 12, 2019. This response paper addresses key elements of the proposals relating to residential mortgages, the standardized approaches to credit risk and operational risk, and the simplified framework.

Accompanying this response paper were draft versions of the following Prudential Standards:

- APS 112 Capital Adequacy: Standardised Approach to Credit Risk: among other changes, APRA is proposing to:
  - narrow the definition of “non-standard” mortgage;
  - amend mortgage risk weights, providing more granularity and higher risk weights for higher LVR exposures compared to the current standard;
  - differentiate between owner-occupied, principal-and-interest mortgages as compared to all other mortgages;

- apply more granular risk-weightings for SME exposures, as well as recognize that collateral (motor vehicles, commercial property and plant, equipment and machinery) may mitigate losses in the event of default;
  - increase the off-balance sheet credit conversion factor, even where a contractual right exists for the bank to cancel the undrawn credit;
  - broaden the definition of “subordinated debt” to capture both contractual and structural subordination; and
  - recalibrate certain supervisory haircuts and introduce new exposure formula and minimum haircut floors for securities financing transactions.
- APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk: amending the residential mortgages extract, including to more narrowly define the scope of residential mortgages and to simplify the method for calculating capital requirements for residential mortgages; and
  - APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk: revised to replace the Advanced Measurement Approach and reflect the requirements of the Standardised Measurement Approach, excluding the loss component, and released as final in December 2019.

APRA proposed the revisions to the Basel III capital framework were to come into effect from January 1, 2022, the internationally agreed implementation date set by the Basel Committee. In light of the COVID-19 outbreak, APRA announced on March 30, 2020, that it is deferring its scheduled implementation of certain Basel III reforms in Australia (including APS 110, 112, 113, and 115) by one year to January 2023. This approach is also consistent with the recent decision by the Basel Committee on Banking Supervision (BCBS) to defer the internationally agreed start dates for the Basel III standards.

#### *Measurement of capital*

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

The consultation period closed on January 31, 2020. At present, APRA has not provided guidance on the start date of the proposed changes to APS 111.

#### *Liquidity*

APRA’s liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework (issued by the Basel Committee) 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 requires unencumbered liquid assets be held to cover expected net cash outflows under a combined “idiosyncratic” and market-wide stress scenario lasting 30 calendar days. The NSFR is a 12-month structural funding metric, requiring that “available stable funding” be sufficient to cover “required stable funding”, where “stable” funding has an actual or assumed maturity of greater than 12 months. MBL currently complies with the requirements of the LCR and NSFR.

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

### *Credit risk management*

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

In December 2019, APRA released an updated APS 220, which deferred implementation from January 1, 2020 to January 1, 2021. On April 16, 2020, APRA further deferred the implementation date of the final updated APS 220 to January 1, 2022.

### *Loss absorbency at the point of non-viability*

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

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 anticipates finalizing the new prudential standard and guidance by mid-2023.

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, is proposed to be transferred to the Banking Group in December 2020.

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

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

The key elements of the proposed approach are:

- a new requirement for ADIs to maintain additional loss absorbency for resolution purposes. The requirement would be implemented by adjusting the amount of total capital that ADIs must maintain (estimated to be an additional 4 to 5% of capital), therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments (expected to be in the form of Tier 2 Capital); and
- for ADIs that are not domestic systemically important banks ("*D-SIBs*") (such as MBL), the need for additional loss absorbency would be considered as part of resolution planning on an institution-by-institution basis.



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

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

#### *Management of large exposures*

On December 7, 2017, APRA released a response paper setting out the revisions to its prudential framework on large exposures for ADIs as set out in Prudential Standard *APS 221: Large Exposures* (“APS 221”). APRA’s large exposure framework aims to limit the impact of losses when a large counterparty defaults, and to restrict contagion risk spreading across the financial system. The core components of APRA’s new large exposures framework are: (i) a reference to Tier 1 Capital as a basis for determining large exposures (ii) a recalibration of existing large exposure limits and the introduction of a lower limit on certain exposures; and (iii) a stronger set of requirements for measuring exposure values and for assessing groups of connected counterparties. As of January 1, 2019, APRA required ADIs to implement most aspects of APS 221. From January 1, 2020, MBL and all ADIs have adopted the full implementation of the large exposures framework.

#### *Associations with Related Entities*

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

- Removing the eligibility of an ADI’s overseas subsidiaries to be regulated under APRA’s ELE (extended licensed entity) framework.
- A broader definition of related entities that includes board directors, substantial shareholders, senior managers of the ADI (and their relatives).
- Revised limits on the extent to which ADIs can be exposed to related entities.
- Minimum requirements for ADIs to assess contagion risk.
- APRA will also require ADIs to regularly assess and report on their exposure to step-in risk which is the likelihood that they may need to “step-in” to support an entity to which they are not directly related.

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

#### *Remuneration*

APRA initially consulted on a new draft prudential standard for remuneration (“CPS 511”) in July 2019. MGL provided a submission in October 2019. On November 12, 2020, APRA published a second consultation, including a revised draft of CPS 511 and a response paper. There is a three-month consultation period closing on February 12, 2021. The revised standard has 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”). MGL is currently reviewing the second consultation package.

#### *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.

#### *Loan repayment deferrals*

On March 23, 2020, APRA announced that banks that offered borrowers impacted by the COVID-19 pandemic an option to defer repayments for a period of up to six months need not treat the repayment deferral period as a period of arrears for capital adequacy and regulatory reporting purposes. On July 8, 2020, APRA extended the temporary capital treatment from six months to ten months from the start of a repayment deferral, or until March 31, 2021, whichever comes first. On September 9, 2020, APRA formalized the capital measures through adding Attachment E of APS 220 for loans impacted by COVID-19.

#### *APRA recommences policy program*

On March 23, 2020, APRA suspended its planned policy and supervision initiatives in response to the impact of COVID-19. On August 10, 2020, APRA announced it will recommence public consultations on certain high-priority prudential policy reforms including remuneration and capital reforms incorporating APRA's unquestionably strong framework, Basel III and measures to improve transparency, comparability and flexibility. APRA maintains strong oversight over the financial and operational impacts of COVID-19, and as such a number of other reform areas have been excluded from its 2020 policy agenda. APRA's policy program for 2021 will be reviewed in light of the current environment, and with a view to continuing to support the financial sector as it responds to the impact of COVID-19.

#### *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.

#### ***Other Australian regulatory activity***

##### *ASIC guidance on fees and costs disclosure*

In November 2019, ASIC released its updated regulatory guide Disclosing fees and costs in PDSs and periodic statements (RG 97) and legislative instrument relating to fees and costs disclosure in product disclosure statements (PDSs) and periodic statements. The release of the updated regulatory guide follows a period of consultation, an external expert review of the guide as well as consumer testing of proposed changes.

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.

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

##### *Responsible lending*

On September 25, 2020, the Australian government announced its intention to reform responsible lending obligations in order to reduce barriers to credit. The government has proposed that the reforms commence from March 1, 2021, subject to the passing of legislation. The government is consulting with stakeholders prior to finalizing the draft legislation, which was released on November 4, 2020. Public consultation on the exposure draft and explanatory material closes on November 20, 2020.

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

#### *Open Banking*

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

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

The Consumer Data Right Rules, which set out details of how the consumer data right works, came into effect on February 6, 2020. The rules are expected to be updated in April 2020. On April 24, 2020, the ACCC released proposed amendments to the rules for consultation.

The Open Banking regime forms the first component of the Australian federal government's CDR. All Australian deposit taking institutions must comply with Open Banking. Following an updated timeline announced by the ACCC, the commencement date for major banks was July 1, 2020 to provide CDR data on credit and debit card, deposit and transaction accounts and November 1, 2020 for mortgage and personal loan data. The commencement date for non-major banks (including MBL) to share product reference data (e.g., fees and charges, terms and conditions and eligibility criteria) for phase one products (TSA, credit cards, CMA and business deposit accounts) was October 1, 2020 (previously July 1, 2020) following a three month exemption provided by the ACCC due to the COVID-19 pandemic.

#### *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 1 July 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.

#### *Dispute resolution*

Following a consultation period in 2019, on July 30, 2020, ASIC released updated guidance, and associated legislative instrument, on complaints handling Regulatory Guide 271 *Internal Dispute Resolution*. The updated guidance introduces reduced timeframes for responding to complaints, sets out what information firms must include in written IDR responses to allow consumers to decide whether to escalate their complaint, sets new timeframe requirements for customer advocate reviews of appeals against IDR decisions and gives guidance about how firms can deal with representatives who are not acting in consumers' best interests.

### **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 MBL 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 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, which are in turn subject to oversight by the Board of Governors of the Federal Reserve System (the “FRB”).

#### *Derivatives regulations*

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

MBL and its U.S. subsidiary, Macquarie Energy LLC (“MELLC”), are provisionally registered as swap dealers with the Commodity Futures Trading Commission (“CFTC”). Macquarie Futures USA LLC (“MFUSA”) is registered as a futures commission merchant with the CFTC. As CFTC registrants, MELLC, MBL and MFUSA are subject to comprehensive regulatory oversight by the CFTC. In addition, MBL is expected to register as a security-based swap dealer with the Securities and Exchange Commission (“SEC”) once registration becomes required on November 1, 2021.

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

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

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

### *Anti-money laundering regulations*

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

The Bank Secrecy Act requires certain types of financial institutions (including U.S. representative offices of foreign banks and U.S. futures commission merchants, securities broker-dealers and mutual funds) to establish and maintain written AML compliance programs. The AML compliance program must be approved in writing by the board of directors, board of trustees or senior management, depending on the institution, and must include the following components:

- i. a system of internal controls to assure ongoing compliance with the applicable AML laws and regulations;
- ii. independent testing for compliance, to be conducted by the institution's personnel or by a qualified outside party;
- iii. designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance;
- iv. training of personnel; and
- v. the establishment of a risk-based customer due diligence procedure, including procedures designed to identify and verify the identities of the beneficial owners of legal entity customers (the "*Beneficial Ownership Rule*").

In order to comply with the Beneficial Ownership Rule, financial institutions are required to establish and maintain written procedures reasonably designed to identify and verify for each legal entity customer: (i) the identity of any individual who owns 25% or more of the legal entity customer, and (ii) one individual who controls the legal entity customer. These requirements only apply to new accounts opened on or after May 11, 2018 by a legal entity customer.

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

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

On September 1, 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, MGL's subsidiaries that are registered, or required to be registered, with the SEC as investment advisers would be required to comply with these new AML requirements, and the SEC would examine such subsidiaries for compliance with these new AML requirements. This rule has been in proposal status for several years and it has 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, we are regulated by the SEC and by the Financial Industry Regulatory Authority (“*FINRA*”) with respect to securities and corporate finance-related activities conducted through broker-dealers and by the SEC with respect to securities and corporate finance-related activities conducted through investment advisers or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or 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.

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*

#### *Brexit*

On March 29, 2017, the United Kingdom invoked Article 50 of the Treaty on European Union and officially notified the European Union of its decision to withdraw from the European Union (known as “*Brexit*”). This commenced a formal process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the United Kingdom and the European Union. On October 17, 2019, following negotiations between the United Kingdom and European Union, a revised withdrawal agreement was agreed on negotiators level, which was subsequently ratified by the U.K. government and the EU Commission. Under the terms of the ratified Article 50 withdrawal agreement (the “*Article 50 Withdrawal Agreement*”), a transition period has now commenced which will last until December 31, 2020. During this period, most European Union rules and regulations will continue to apply to and in the United Kingdom and negotiations in relation to a free trade agreement will be ongoing. Under the Article 50 Withdrawal Agreement, the transition period could, before July 1, 2020, have been extended once by up to two years, but was not. In addition, the U.K. legislation ratifying the Article 50 Withdrawal Agreement (the European Union (Withdrawal) Act 2018 as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the “*EUWA*”) contains a prohibition on a Minister of the Crown agreeing any extension to the transition period. While this does not entirely remove the prospect that the transition period will be extended (as the U.K. Parliament could pass legislation that would override the effect of the prohibition in the EUWA), the likelihood of a further extension is reduced. As the transition period expires shortly, there is a significant risk that the United Kingdom and the European Union will not reach agreement on the future relationship between them, or may reach a significantly narrower agreement than that envisaged by the political declaration of the European Commission and the U.K. government.

To minimize the risks for firms and businesses the U.K. government continues preparations (including the U.K. government publishing further draft secondary legislation under powers provided in the EUWA) to ensure that there is a functioning statute book at the end of the transition period.

The pan-European Union authorities, such as the European Commission, have not proposed temporary legislative regimes similar to those being put in place by the U.K. authorities to enable continued access, for a time limited period, for U.K. firms in the event of the loss of passporting rights at the end of the transition period. Some (but not all) national legislators and regulators have passed or proposed legislation when preparing for the prospect of a “hard” Brexit, which would have enabled a degree of continuity of access to clients in their jurisdiction. There is, however, little clarity on what the final position will be in many jurisdictions at the end of the transition period. U.K. firms and businesses have been warned to prepare on the basis that access rights into the European Union will be curtailed as of the expiration of the extended timeline described above.

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

The MBL Group has planned for Brexit by establishing a credit institution in Ireland, Macquarie Bank Europe Designated Activity Company (“*MBE DAC*”), which is authorized and regulated by the Central Bank of Ireland. MBE DAC has branches in Germany and France and passporting rights throughout the EEA. MBE DAC has commenced operations, therefore enabling the MBL Group to be able to continue to conduct banking business in the EEA after the end of the transition period. MBL will continue to monitor developments in relation to Brexit and assess the impact it may have on the MBL Group.

## ***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.

### *Ireland*

The Central Bank of Ireland (the “*CBP*”) 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, 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 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 the Capital Requirements Regulation (575/2013/EU) (“*CRR*”) and Capital Requirements Directive (2013/36/EU) (“*CRD IV*”), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014, and Directive 2014/65/EU (“*MiFID II*”) and the Markets in Financial Instruments Regulation (600/2014/EU) (“*MiFIR*”), which relate to the carrying on of investment business and took effect on January 3, 2018). Under the Irish Rules, regulated banks and certain investment firms are required to have an adequate regulatory capital in place, amongst other requirements.

### *CRD IV and CRR*

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

### *CRD V and CRR II*

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

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

CRD V and CRR II will affect MGL Group entities that are currently in scope of CRD IV and CRR, as noted above. In the context of Brexit, it is expected that the U.K. government will introduce rules that achieve similar outcomes as those in CRD V and CRR II, even if such changes are due to take effect on or after December 31, 2020.

### *IFD and IFR*

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

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

As IFD and IFR will be effective after the expiry of the transitional period under the Article 50 Withdrawal Agreement, IFR and IFD will not automatically apply in the United Kingdom. However, in its policy statement “Prudential standards in the Financial Services Bill: June update” published in June 2020, HM Treasury confirmed that it intends to introduce a UK Investment Firm Prudential Regime (“*IFPR*”) that will be based on the IFR and IFD. It is currently expected that Macquarie Infrastructure and Real Assets (Europe) Limited, MCEL, MIMEL and Green Investment Group Management Limited will be affected by IFPR.



### *BRRD and BRRD 2*

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

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

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

### ***Other regulators***

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

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

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

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

In addition to the foregoing, certain businesses and assets owned or managed by 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 2021 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, 2020 compared to the half year ended September 30, 2019, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2020, 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 44 of our 2020 Annual U.S. Disclosure Report.*

### **Half year ended September 30, 2020 compared to half year ended September 30, 2019**

See sections 1.0 – 6.0 of our 2021 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, 2020 and 2019, which has been incorporated by reference herein.



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