



Macquarie Group Management Discussion and Analysis

Year ended 31 March 2021

Macquarie Group Limited ACN 122 169 279

Notice to readers

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

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

Date of this report

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

Cover image

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



Explanatory notes

Comparative information and conventions

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

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

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

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

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

Independent Auditor’s Report

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

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

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

Disclaimer

The material in this document has been prepared by Macquarie Group Limited ABN 94 122 169 279 (MGL, the Company) and is general background information about Macquarie Group Limited and its subsidiaries’ (Macquarie) activities current as at the date of this document. This information is given in summary form and does not purport to be complete. The material in this document may include information derived from publicly available sources that have not been independently verified. Information in this document should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. No representation or warranty is made as to the accuracy, completeness or reliability of the information. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.

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

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01

Result Overview

FreeWire Boost Charger, United States

Part of the Macquarie Capital Venture Studio portfolio, FreeWire Technologies is a leading manufacturer of next-generation electric vehicle (EV) charging and battery-integrated power solutions for grid edge applications.



1.1 Executive Summary

Macquarie (MGL and its subsidiaries, the Consolidated Entity) is a global financial group with offices in 32 markets.

Macquarie Group Limited (MGL, the Company) is listed in Australia and is regulated by the Australian Prudential Regulation Authority (APRA), the Australian banking regulator, as a Non-Operating Holding Company (NOHC) of Macquarie Bank Limited (MBL), an authorised deposit-taking institution (ADI). Macquarie's activities are also subject to supervision by various other regulatory agencies around the world.

Founded in 1969, Macquarie now employs over 16,000⁽¹⁾ people globally, has total assets of \$A245.7 billion and total equity of \$A22.4 billion as at 31 March 2021.

Macquarie's breadth of expertise covers asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice and access to capital and principal investment. The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to Macquarie's 52-year record of unbroken profitability.

Macquarie acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to our clients. We have established leading market positions as a global specialist in a wide range of sectors, including resources and commodities, renewables, conventional energy, financial institutions, infrastructure and real estate and have a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by our willingness to both invest alongside clients and closely align the interests of our shareholders and staff.

\$A3,015m

FY2021 profit

Macquarie now employs over 16,000⁽¹⁾ people globally across 32 markets

EMEA ~15%



Americas ~16%



Asia ~25%



ANZ ~44%



1969

2021

⁽¹⁾ This figure includes staff employed in certain operationally segregated subsidiaries (OSS). Unless otherwise stated, further references to staff data and policies do not include those in OSS.

FY2021 net profit

\$A3,015m

↑ 10% on prior year

FY2021 return on equity

14.3%

↓ from 14.5% in prior year

FY2021 net operating income

\$A12,774m

↑ 4% on prior year

FY2021 operating expenses

\$A8,867m

- in line with prior year

FY2021 net profit contribution⁽¹⁾ by activity

Annuity-style activities

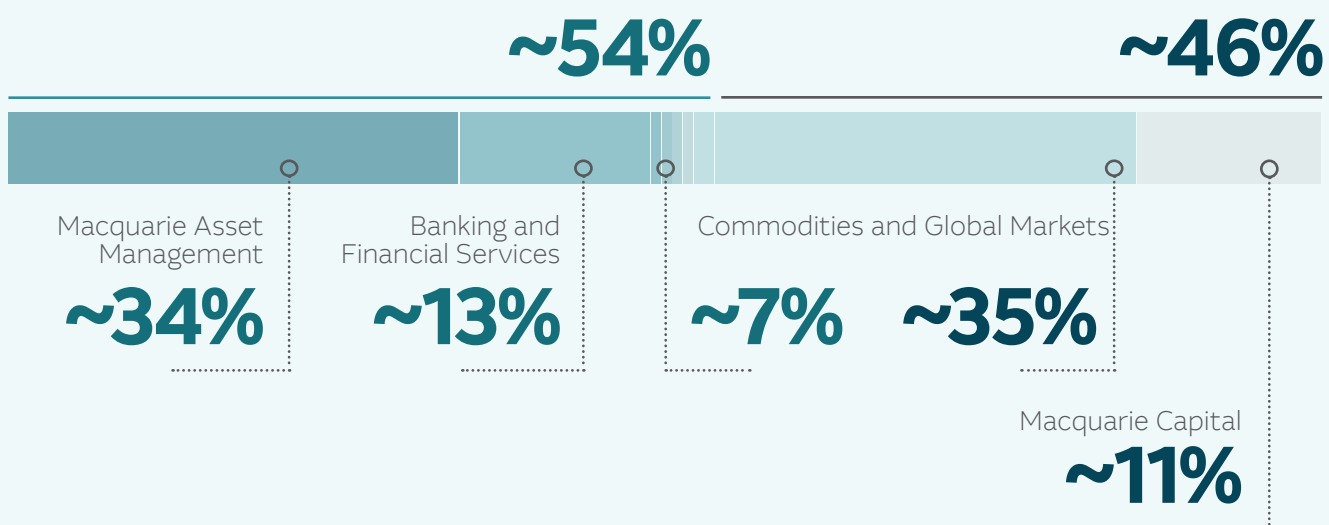
\$A3,314m

↓ 4% on prior year

Markets-facing activities

\$A2,783m

↑ 39% on prior year



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

1.1 Executive Summary

Continued

FY2021 net profit contribution by Operating Group

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

Non-Banking Group	Macquarie Asset Management (MAM) \$A2,074m ↓ 5% on prior year <ul style="list-style-type: none"> Decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and the sale of Macquarie European Rail in the current year. Decreased share of net profits from associates and joint ventures predominantly due to an equity accounted loss from Macquarie AirFinance as well as lower net profits from the sale of underlying assets within equity accounted investments. Decreased performance fees following a strong prior year. Decreased other fee and commission income, largely due to lower income from private capital markets, True Index products and transaction fees. <p>Partially offset by:</p> <ul style="list-style-type: none"> increased net income on equity and debt investments driven by the sale of Macquarie European Rail and decreased credit and other impairment charges, driven by a partial reversal of the impairment previously recognised on MIRA's investment in Macquarie Infrastructure Corporation (MIC). 	Macquarie Capital⁽¹⁾ \$A651m ↓ 15% on prior year <ul style="list-style-type: none"> Lower net income on equity, debt and other investments due to fewer material asset realisations compared to prior year. Lower fee and commission income due to lower mergers and acquisitions fee income and debt capital markets fee income, partially offset by higher equity capital markets fee income. <p>Partially offset by:</p> <ul style="list-style-type: none"> lower share of net losses from associates and joint ventures due to changes in the composition and improved performance of investments in the portfolio higher net interest and trading income due to lower funding costs, higher interest income resulting from the growth in the debt portfolio and lower mark-to-market losses compared to prior year lower operating expenses driven by the structural change in the prior year to refocus the Equities division on the Asia-Pacific region, active cost management throughout FY2021 across Macquarie Capital resulting in lower headcount and lower employment expenses, and lower travel and entertainment expenses due to COVID-19.
	Banking and Financial Services (BFS) \$A771m — In line with prior year <ul style="list-style-type: none"> Higher net interest and trading income driven by volume growth in BFS deposits and the loan portfolio, partially offset by margin compression on deposits and lower vehicle finance portfolio volumes. Decreased credit impairment charges driven by improvement in current and expected macroeconomic conditions compared to the prior year as a result of COVID-19. <p>Offset by:</p> <ul style="list-style-type: none"> higher employment expenses including increased headcount to support volume growth and clients impacted by COVID-19, as well as increased costs associated with investment in technology to support business growth and to meet regulatory requirements. 	Commodities and Global Markets⁽²⁾ (CGM) \$A2,601m ↑ 50% on prior year <ul style="list-style-type: none"> Strong results across the commodities risk management platform including increased contribution from Resources, North American Gas and Power, EMEA Gas and Power and Agriculture due to client hedging activity driven by increased volatility and commodity price movements. Increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility in North American Gas and Power, Oil and Precious Metals in addition to gains associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements. Improved client and trading activity in foreign exchange, interest rate and credit products. Increased net operating lease income driven by higher secondary income from the asset financing portfolio. <p>Partially offset by:</p> <ul style="list-style-type: none"> reduced fee and commission income due to decreased demand for commodity risk premia products and a reduction in client brokerage activity following a strong prior year.

Operating Groups update

Cash Equities was transferred from CGM to Macquarie Capital on 1 June 2020. Comparatives have been reclassified to reflect this reorganisation.

(1) Certain activities of the Equities business were undertaken from within the Banking Group.

(2) The Non-Banking Group includes certain activities of CGM.

Profit attributable to the ordinary equity holders

\$A3,015m

↑ 10% on prior year

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Financial performance summary						
Net interest income	1,162	1,033	12	2,195	1,859	18
Fee and commission income	2,563	2,613	(2)	5,176	5,837	(11)
Net trading income	1,995	1,487	34	3,482	2,861	22
Net operating lease income	221	245	(10)	466	745	(37)
Share of net profits/(losses) from associates and joint ventures	51	(54)	*	(3)	95	*
Net credit impairment charges	(27)	(407)	(93)	(434)	(805)	(46)
Other impairment charges	(50)	(40)	25	(90)	(235)	(62)
Other operating income and charges	1,340	642	109	1,982	1,968	1
Net operating income	7,255	5,519	31	12,774	12,325	4
Employment expenses	(2,902)	(2,615)	11	(5,517)	(5,323)	4
Brokerage, commission and trading-related fee expenses	(408)	(471)	(13)	(879)	(964)	(9)
Occupancy expenses	(186)	(196)	(5)	(382)	(400)	(5)
Non-salary technology expenses	(386)	(395)	(2)	(781)	(749)	4
Other operating expenses	(719)	(589)	22	(1,308)	(1,435)	(9)
Total operating expenses	(4,601)	(4,266)	8	(8,867)	(8,871)	(<1)
Operating profit before income tax	2,654	1,253	112	3,907	3,454	13
Income tax expense	(624)	(275)	127	(899)	(728)	23
Profit after income tax	2,030	978	108	3,008	2,726	10
Loss attributable to non-controlling interests	-	7	(100)	7	5	40
Profit attributable to ordinary equity holders of Macquarie Group Limited	2,030	985	106	3,015	2,731	10
Key metrics						
Expense to income ratio (%)	63.4	77.3		69.4	72.0	
Compensation ratio (%)	38.0	44.0		40.6	40.6	
Effective tax rate (%)	23.5	21.8		23.0	21.0	
Basic Earnings per share (cents per share)	565.2	276.7		842.9	791.0	
Diluted Earnings per share (cents per share)	546.0	272.9		824.6	764.5	
Dividend per ordinary share (cents per share)	335.0	135.0		470.0	430.0	
Ordinary dividend payout ratio (%)	60	50		56	56	
Annualised return on equity (%)	19.0	9.5		14.3	14.5	

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1.1 Executive Summary

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Net operating income

Net operating income of \$A12,774 million for the year ended 31 March 2021 increased 4% from \$A12,325 million in the prior year. Higher Net interest and trading income and lower Credit and other impairment charges were partially offset by lower Fee and commission income and Net operating lease income.

Net interest and trading income

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
5,677	4,720

↑ **20%**
on prior year

- Increased opportunities in inventory management and trading driven by market dislocations and increased volatility, as well as timing of income recognition on Oil and Gas storage contracts and transport agreements in CGM.
- Growth in average deposits and loan portfolio volumes in BFS.
- Lower interest expense in MAM driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and a decrease in receivables.

Partially offset by:

- margin compression on deposits and lower vehicle finance portfolio volumes in BFS
- lower income in Corporate primarily due to greater accounting volatility from changes in the fair value of economic hedges in the prior year.

Fee and commission income

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
5,176	5,837

↓ **11%**
on prior year

- Lower performance fees on a strong prior year in MAM.
- Lower mergers and acquisitions fee income in Macquarie Capital.
- Reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.
- Base fees broadly in line in MAM.

Net operating lease income

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
466	745

↓ **37%**
on prior year

- Lower income in MAM driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and the sale of Macquarie European Rail in the current year.

Partially offset by:

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

Share of net (losses)/profits from associates and joint ventures

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
(3)	95

↓
significantly
on prior year

- Losses from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income and related aircraft impairments in MAM.

Partially offset by:

- lower share of net losses in Macquarie Capital due to changes in the composition and improved performance of investments in the portfolio.

Credit and other impairment charges

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
(524)	(1,040)

↓ **50%**
on prior year

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

Other operating income and charges

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
1,982	1,968

↑ **1%**
on prior year

- Gain on sale of Macquarie European Rail in MAM.

Partially offset by:

- fewer material asset realisations compared to the prior year and increased activity in relation to the development of green energy projects in Macquarie Capital.

Operating expenses

Total operating expenses of \$A8,867 million for the year ended 31 March 2021 was broadly in line with \$A8,871 million in the prior year with decreases across Brokerage, commission and trading-related fee expenses and Other operating expenses, largely offset by increases in Employment expenses and Non-salary technology expenses.

Employment expenses

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
5,517	5,323

↑ **4%**
on prior year

- Increase in performance-related profit share expense mainly as a result of the improved performance of the Consolidated Entity.
- Higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19.
- Higher average headcount in Central Service Groups to support business growth, technology projects and ongoing regulatory compliance.

Partially offset by:

- favourable foreign exchange movements
- lower average headcount in Macquarie Capital including the structural change in the prior year to refocus Equities on the Asia-Pacific region.

Brokerage, commission and trading-related fee expenses

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
879	964

↓ **9%**
on prior year

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

Non-salary technology expenses

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
781	749

↑ **4%**
on prior year

- Higher cloud consumption, software license and maintenance costs as well as IT application costs to support business activity.

Partially offset by:

- favourable foreign exchange movements.

Other operating expenses and Occupancy

FULL YEAR TO

31 Mar 21 \$Am	31 Mar 20 \$Am
1,690	1,835

↓ **8%**
on prior year

- Reduced travel and entertainment expenses across the Consolidated Entity driven by COVID-19.
- Favourable foreign exchange movements.

Partially offset by:

- the recognition of certain transaction and other charges in Corporate.

Income tax expense

Income tax expense of \$A899 million for the year ended 31 March 2021 increased 23% from \$A728 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 23.0%, up from 21.0% in the prior year.

The higher effective tax rate was mainly driven by the geographic composition and nature of earnings.





02

Financial Performance Analysis

Gwynt y Môr Offshore Wind Farm, United Kingdom

Macquarie-managed funds have been invested in Gwynt y Môr Offshore Wind Farm since 2017. The 576 MW project, located off the coast of North Wales in the United Kingdom, has capacity to power the equivalent of 430,000 homes each year.

2.1 Net Interest and Trading Income

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest income	1,162	1,033	12	2,195	1,859	18
Net trading income	1,995	1,487	34	3,482	2,861	22
Net interest and trading income	3,157	2,520	25	5,677	4,720	20

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

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

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

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

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
MAM	(126)	(123)	2	(249)	(402)	(38)
BFS	902	844	7	1,746	1,728	1
CGM						
Commodities						
Risk management products	883	578	53	1,461	1,294	13
Lending and financing	116	118	(2)	234	266	(12)
Inventory management and trading	560	416	35	976	178	*
Foreign exchange, interest rates and credit	353	349	1	702	682	3
Equities	133	206	(35)	339	371	(9)
Specialised and Asset Finance	74	70	6	144	166	(13)
Macquarie Capital	63	6	*	69	(59)	*
Corporate	199	56	255	255	496	(49)
Net interest and trading income	3,157	2,520	25	5,677	4,720	20

Net interest and trading income of \$A5,677 million for the year ended 31 March 2021 increased 20% from \$A4,720 million in the prior year.

MAM

Net interest and trading expense includes funding costs related to equity investments, receivables and operating leases.

Net interest and trading expense of \$A249 million for the year ended 31 March 2021 decreased 38% from \$A402 million in the prior year, driven by a decrease in interest expense as a result of the sale of the Macquarie AirFinance business to a joint venture during the prior year and a decrease in receivables.

BFS

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

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

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

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

CGM

Net interest and trading income of \$A3,856 million for the year ended 31 March 2021 increased 30% from \$A2,957 million in the prior year.

Commodities

(i) Risk management products

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

Risk management products income of \$A1,461 million for the year ended 31 March 2021 increased 13% from \$A1,294 million in the prior year with contributions across the platform. Increased contributions recorded by Resources, North American Gas and Power, EMEA Gas and Power and Agriculture sectors due to increased client hedging activity as a result of volatility and commodity price movements.

(ii) Lending and financing

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

Lending and financing income of \$A234 million for the year ended 31 March 2021 decreased 12% from \$A266 million in the prior year driven by the impact of foreign exchange and reduced volumes in specific sectors.

(iii) Inventory management and trading

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

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

Inventory management and trading income of \$A976 million for the year ended 31 March 2021 increased significantly from \$A178 million in the prior year driven by market dislocations and increased volatility. Increased contributions were recorded in North American Gas and Power, Oil and Precious Metals, with North American Gas and Power impacted by increased volatility primarily associated with extreme weather conditions in 4Q21. The current year result also recognised a gain of \$A232 million associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements.

Foreign exchange, interest rates and credit

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A702 million for the year ended 31 March 2021 increased 3% from \$A682 million in the prior year driven by an increase in client activity in structured foreign exchange and credit products.

2.1 Net Interest and Trading Income

Continued

Equities

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

Equities net interest and trading income of \$A339 million for the year ended 31 March 2021 decreased 9% from \$A371 million in the prior year due to a decrease in contribution from EMEA and Asia which was offset by corresponding decreases in brokerage, commission and trading-related fee expenses.

Specialised and Asset Finance (SAF)

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

Net interest and trading income of \$A144 million for year ended 31 March 2021 decreased 13% from \$A166 million in the prior year. The decrease was largely as a result of a strong prior year which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A5.7 billion as at 31 March 2021, a decrease of 8% from \$A6.2 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and the equipment finance portfolio as well as the impact of foreign exchange movements.

Macquarie Capital

Net interest and trading income/(expense) includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading income of \$A69 million for the year ended 31 March 2021, compared to a net interest and trading expense of \$A59 million in the prior year. The increase was primarily due to lower funding costs, higher interest income resulting from the growth in the debt portfolio and lower mark-to-market losses compared to the prior year. The prior year included re-accretion and interest income on debt acquired at a discount and subsequently sold.

Corporate

Net interest and trading income in the Corporate segment includes the net result of managing Macquarie's liquidity and funding requirements, earnings on capital, funding costs associated with non-core and centrally held investments and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting under AASB 9 is unable to be achieved.

Net interest and trading income of \$A255 million for the year ended 31 March 2021 decreased 49% from \$A496 million in the prior year due to greater accounting volatility from changes in the fair value of economic hedges in the prior year, in addition to the impact on earnings on capital of lower average interest rates.

2.2 Fee and Commission Income

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Base fees	1,026	985	4	2,011	2,053	(2)
Other asset management fees	149	145	3	294	303	(3)
Base fees and other asset management fees	1,175	1,130	4	2,305	2,356	(2)
Performance fees	247	413	(40)	660	821	(20)
Mergers and acquisitions, advisory and underwriting fees	445	413	8	858	1,060	(19)
Brokerage and other trading-related fee income	415	401	3	816	870	(6)
Other fee and commission income	281	256	10	537	730	(26)
Total fee and commission income	2,563	2,613	(2)	5,176	5,837	(11)

Total fee and commission income of \$A5,176 million for the year ended 31 March 2021 decreased 11% from \$A5,837 million in the prior year. The decrease was primarily driven by lower performance fees and other fee and commission income in MAM, lower mergers and acquisitions fee income in Macquarie Capital and reduced demand for commodity risk premia products and reduced client brokerage activity in CGM.

Base fees, Other asset management fees and Performance fees

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Base fees						
MAM						
MIM	528	500	6	1,028	1,087	(5)
MIRA	486	471	3	957	934	2
Total MAM	1,014	971	4	1,985	2,021	(2)
Other Operating Groups	12	14	(14)	26	32	(19)
Total base fee income	1,026	985	4	2,011	2,053	(2)
Total other asset management fees	149	145	3	294	303	(3)
Performance fees						
MAM						
MIM	11	2	*	13	6	117
MIRA	229	411	(44)	640	815	(21)
Total MAM	240	413	(42)	653	821	(20)
Other operating groups	7	-	*	7	-	*
Total performance fee income	247	413	(40)	660	821	(20)

2.2 Fee and Commission Income

Continued

Base fees

Base fees of \$A2,011 million for the year ended 31 March 2021 decreased 2% from \$A2,053 million in the prior year.

Base fees are typically generated from funds management activities and are mainly attributable to MAM. MAM's base fees of \$A1,985 million for the year ended 31 March 2021 decreased 2% from \$A2,021 million in the prior year, driven by foreign exchange movements, asset realisations in MIRA-managed funds and the full-year impact of prior year net flows in MIM. This was partially offset by MIM market movements, investments made by MIRA-managed funds and mandates, contributions from MIM as a result of additional assets acquired in the prior year and fees earned from Macquarie AirFinance.

Refer to section 7 for further details of MAM's Assets under Management (AUM) and Equity under Management (EUM).

Other asset management fees

Other asset management fees includes fees earned on the BFS Wrap platform, as well as distribution and marketing service fees in MAM.

Other asset management fees of \$A294 million for the year ended 31 March 2021 decreased 3% from \$A303 million in the prior year.

Performance fees

Performance fees of \$A660 million for the year ended 31 March 2021 decreased 20% from \$A821 million in the prior year.

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks consisted of performance fees from a range of funds including Macquarie Infrastructure Partners (MIP) II, MIP III, Macquarie European Infrastructure Fund (MEIF) 4, Macquarie Super Core Infrastructure Fund (MSCIF) and other MIRA-managed funds, managed accounts and co-investors. The prior year included performance fees from MEIF, MEIF3, MEIF4, MIP, MIP II, Macquarie Global Infrastructure Fund (GIF) II, GIF III, MSCIF and other MIRA-managed funds, managed accounts and co-investors.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees, which are mainly attributable to Macquarie Capital, of \$A858 million for the year ended 31 March 2021 decreased 19% from \$A1,060 million in the prior year.

The movement was primarily due to lower mergers and acquisitions fee income and debt capital markets fee income, partially offset by higher equity capital markets fee income in Macquarie Capital.

Mergers and acquisitions fee income was down in Europe and ANZ regions, whilst income from the US was up compared to prior year. Mergers and acquisitions fee income increased in the second half across all regions compared to the first half due to improved market conditions in most regions.

Brokerage and other trading-related fee income

Brokerage and other trading-related fee income primarily includes brokerage income from the Equity Derivatives and Trading and Futures businesses in CGM, the Equities business in Macquarie Capital and brokerage income from the provision of wealth services in BFS.

Brokerage and other trading-related fee income of \$A816 million for the year ended 31 March 2021 decreased 6% from \$A870 million in the prior year.

The decrease was mainly driven by a reduction in client brokerage activity following a strong prior year in CGM.

Other fee and commission income

Other fee and commission income includes fees earned on a range of BFS' products and services including BFS Wrap and Vision platforms, home loans, vehicle finance, credit cards, business loans and deposits. MAM includes fees related to capital raising, income from True Index products and transaction fees, while CGM includes income from structured, index and retail products.

Other fee and commission income of \$A537 million for the year ended 31 March 2021 decreased 26% from \$A730 million in the prior year. The decrease was primarily due to reduced demand for commodity risk premia products in CGM and lower income from MAM driven by private capital markets, True Index products and transaction fees.

2.3 Net Operating Lease Income

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Rental income	410	539	(24)	949	1,748	(46)
Depreciation and other operating lease-related charges	(189)	(294)	(36)	(483)	(1,003)	(52)
Net operating lease income	221	245	(10)	466	745	(37)

Net operating lease income of \$A466 million for the year ended 31 March 2021 decreased 37% from \$A745 million in the prior year, driven by the sale of the Macquarie AirFinance business to a joint venture during the prior year and the sale of Macquarie European Rail in the current year in MAM, partially offset by higher secondary income from the asset financing portfolio in CGM.

The total operating lease portfolio was \$A2.8 billion as at 31 March 2021, a decrease of 28% from \$A3.9 billion⁽¹⁾ as at 31 March 2020. The decrease was primarily driven by the sale of Macquarie European Rail in the current year as well as depreciation across the remaining portfolios.

2.4 Share of Net Profits/(Losses) from Associates and Joint Ventures

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Share of net profits/(losses) from associates and joint ventures	51	(54)	*	(3)	95	*

Share of net losses from associates and joint ventures of \$A3 million for the year ended 31 March 2021, compared to a share of net profits from associates and joint ventures of \$A95 million in the prior year. The movement includes an equity accounted loss from Macquarie AirFinance, driven by the impact of COVID-19 on aircraft leasing income and related aircraft impairments, as well as lower net profits from the sale of underlying assets within equity accounted investments in MAM during the current year.

In addition, the prior year included a gain on a legacy investment in Corporate. This was partially offset by lower losses recognised in the current year in Macquarie Capital primarily due to changes in the composition, as well as the improved performance of investments in the portfolio.

(1) Within the operating lease portfolio Macquarie European Rail was classified as held for sale as at 31 March 2020.

2.5 Credit and Other Impairment Charges

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net credit impairment charges						
Loan assets	45	(368)	*	(323)	(618)	(48)
Other assets	(30)	(20)	50	(50)	(81)	(38)
Margin money and settlement assets	(6)	(36)	(83)	(42)	(71)	(41)
Loans to associates and joint ventures	(19)	2	*	(17)	(13)	31
Undrawn credit commitments and financial guarantees	(26)	17	*	(9)	(24)	(63)
Financial investments	9	(4)	*	5	(12)	*
Gross credit impairment charges	(27)	(409)	(93)	(436)	(819)	(47)
Recovery of loans previously written off	-	2	(100)	2	14	(86)
Total net credit impairment charges	(27)	(407)	(93)	(434)	(805)	(46)
Other impairment charges						
Interests in associates and joint ventures	93	(28)	*	65	(119)	*
Intangible and other non-financial assets	(143)	(12)	*	(155)	(116)	34
Total other impairment charges	(50)	(40)	25	(90)	(235)	(62)
Total credit and other impairment charges	(77)	(447)	(83)	(524)	(1,040)	(50)

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
MAM	96	(11)	*	85	(231)	*
BFS	(37)	(78)	(53)	(115)	(148)	(22)
CGM	(71)	(166)	(57)	(237)	(243)	(2)
Macquarie Capital	(110)	(119)	(8)	(229)	(282)	(19)
Corporate	45	(73)	*	(28)	(136)	(79)
Total credit and other impairment charges	(77)	(447)	(83)	(524)	(1,040)	(50)

Total credit and other impairment charges of \$A524 million for the year ended 31 March 2021 decreased 50% from \$A1,040 million in the prior year. This includes \$A434 million of total credit impairment charges, down from \$A805 million in the prior year reflecting improvement in the current and expected macroeconomic conditions. The second half included the reversal of a central overlay provision in Corporate for expected credit losses reflecting management's current view of the improvement in the outlook of the Group portfolio.

MAM

Credit and other impairment net reversal of \$A85 million for the year ended 31 March 2021, compared to a charge of \$A231 million in the prior year.

The current year includes a partial reversal of the impairment previously recognised on MIRA's investment in MIC.

BFS

Credit and other impairment charges of \$A115 million for the year ended 31 March 2021 decreased 22% from \$A148 million in prior year largely due to improvement in the current and expected macroeconomic conditions compared to the prior year and the exit of clients from payment pause.

CGM

Credit and other impairment charges of \$A237 million for the year ended 31 March 2021 decreased 2% from \$A243 million in the prior year driven by a reduction in specific credit provisions, partially offset by an overlay for industry specific credit risks and impairments on a small number of underperforming assets.

Macquarie Capital

Credit and other impairment charges of \$A229 million for the year ended 31 March 2021 decreased 19% from \$A282 million in the prior year.

Credit and other impairment charges for the current year primarily related to a small number of underperforming loan facilities and the growth of the debt portfolio, partially offset by reversals due to loan sales and repayments.

The prior year charge included a deterioration in forward-looking macroeconomic conditions as a result of COVID-19.

Corporate

Credit and other impairment charges of \$A28 million for the year ended 31 March 2021 decreased 79% from \$A136 million in the prior year reflecting an improving macroeconomic outlook leading to the partial release of credit provisions in the second half, partially offset by the impairment of intangibles acquired through historic legacy acquisitions.

For further information on the Consolidated Entity's determination of its expected credit losses, please refer to Note 13 *Expected credit losses* in the Financial Report.

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2.6 Other Operating Income and Charges

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Investment income						
Net gain on interests in associates and joint ventures	954	109	*	1,063	1,235	(14)
Net gain on non-financial assets	98	394	(75)	492	35	*
Net gain on disposal of businesses and subsidiaries	165	74	123	239	291	(18)
Net gain on equity investments	182	33	*	215	76	183
Net gain on change of control, joint control and/or significant influence	(2)	11	*	9	113	(92)
Net gain/(loss) on debt investments	1	4	(75)	5	(38)	*
Total investment income	1,398	625	124	2,023	1,712	18
Subsidiaries held for investment purposes⁽¹⁾						
Net Operating Revenue ⁽²⁾	192	162	19	354	467	(24)
Expenses ⁽³⁾	(270)	(234)	15	(504)	(573)	(12)
Net loss incurred by subsidiaries held for investment purposes	(78)	(72)	8	(150)	(106)	42
Other income and charges	20	89	(78)	109	362	(70)
Total other operating income and charges	1,340	642	109	1,982	1,968	1

Total other operating income and charges of \$A1,982 million for the year ended 31 March 2021 were broadly in line with \$A1,968 million in the prior year, mainly driven by the gain on sale of Macquarie European Rail in MAM, partially offset by lower investment income in Macquarie Capital.

Investment income

Investment income totalled \$A2,023 million for the year ended 31 March 2021, an increase of 18% from \$A1,712 million in the prior year primarily driven by the gain on sale of Macquarie European Rail, a gain on revaluation of property investments and a number of other investments in MAM as well as gains on listed equity investments in the commodities sector in CGM. This was partially offset by fewer material asset realisations compared to the prior year in Macquarie Capital.

Net loss incurred by subsidiaries held for investment purposes

Net loss incurred by subsidiaries held for investment purposes of \$A150 million for the year ended 31 March 2021 increased 42% from \$A106 million in the prior year. The movement was primarily driven by increased activity in relation to the development of green energy projects in Macquarie Capital.

Other income and charges

Other income of \$A109 million for the year ended 31 March 2021 decreased 70% from \$A362 million in the prior year. The movement was primarily driven by MAM, which included a one-off payment from Atlas Arteria (ALX) for the termination of management rights related to APRR in the prior year and the loss on sale of loan positions in Macquarie Capital.

(1) Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Macquarie's regular markets-facing activities.

(2) Includes revenue of \$A968 million (2020: \$A858 million) after deduction of \$A614 million (2020: \$A391 million) related to cost of goods sold.

(3) Includes employment expenses, depreciation and amortisation expenses and other operating expenses.

2.7 Operating Expenses

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Employment expenses						
Salary and related costs including commissions, superannuation and performance-related profit share	(2,445)	(2,077)	18	(4,522)	(4,395)	3
Share-based payments	(303)	(279)	9	(582)	(586)	(1)
Provision for long service leave and annual leave	(11)	(75)	(85)	(86)	(20)	*
Total compensation expenses	(2,759)	(2,431)	13	(5,190)	(5,001)	4
Other employment expenses including on-costs, staff procurement and staff training	(143)	(184)	(22)	(327)	(322)	2
Total employment expenses	(2,902)	(2,615)	11	(5,517)	(5,323)	4
Brokerage, commission and trading-related fee expenses	(408)	(471)	(13)	(879)	(964)	(9)
Occupancy expenses	(186)	(196)	(5)	(382)	(400)	(5)
Non-salary technology expenses	(386)	(395)	(2)	(781)	(749)	4
Other operating expenses						
Professional fees	(279)	(216)	29	(495)	(505)	(2)
Travel and entertainment expenses	(9)	(8)	13	(17)	(183)	(91)
Advertising and communication expenses	(66)	(64)	3	(130)	(139)	(6)
Amortisation of intangibles assets	(30)	(33)	(9)	(63)	(70)	(10)
Audit fees	(32)	(23)	39	(55)	(40)	38
Other expenses	(303)	(245)	24	(548)	(498)	10
Total other operating expenses	(719)	(589)	22	(1,308)	(1,435)	(9)
Total operating expenses	(4,601)	(4,266)	8	(8,867)	(8,871)	(<1)

Total operating expenses of \$A8,867 million for the year ended 31 March 2021 were broadly in line with \$A8,871 million in the prior year. Favourable foreign exchange movements and reduced travel and entertainment expenses driven by COVID-19 were mainly offset by higher performance-related profit share expense and higher leave provisions.

Key drivers of the movement included:

- Total employment expenses of \$A5,517 million for the year ended 31 March 2021 increased 4% from \$A5,323 million in the prior year driven by higher performance-related profit share expense as a result of higher Group performance, higher leave provisions due to less holiday entitlements being taken by staff across the Consolidated Entity driven by COVID-19, and higher average headcount, partially offset by favourable foreign exchange movements. The higher average headcount is mainly driven by Central Service Groups to support business growth, technology projects and ongoing regulatory compliance, and by BFS to support volume growth and clients impacted by COVID-19, partially offset by lower average headcount in Macquarie Capital including the structural change in the prior year to refocus Equities on the Asia-Pacific region
- brokerage, commission and trading-related fee expenses of \$A879 million for the year ended 31 March 2021 decreased 9% from \$A964 million in the prior year primarily due to lower Wealth management expenses in BFS, as well as reduced equities activity in EMEA and Asia in CGM and favourable foreign exchange movements
- non-salary technology expenses of \$A781 million for the year ended 31 March 2021 increased 4% from \$A749 million in the prior year primarily driven by higher cloud consumption, software license and maintenance costs as well as IT application costs to support business activity. This was partially offset by favourable foreign exchange movements
- total other operating expenses of \$A1,308 million for the year ended 31 March 2021 decreased 9% from \$A1,435 million in the prior year mainly due to reduced travel and entertainment expenses across the Consolidated Entity driven by COVID-19, and favourable foreign exchange movements. This was partially offset by the recognition of certain transaction and other charges in Corporate.

2.8 Headcount

	AS AT			MOVEMENT	
	Mar 21	Sep 20	Mar 20	Sep 20 %	Mar 20 %
Headcount by Operating Group⁽¹⁾					
MAM	1,921	1,904	1,899	1	1
BFS	2,986	2,895	2,660	3	12
CGM ⁽²⁾	2,133	2,167	2,136	(2)	(<1)
Macquarie Capital ⁽²⁾	1,821	1,992	2,047	(9)	(11)
Total headcount – Operating Groups	8,861	8,958	8,742	(1)	1
Total headcount – Corporate	7,598	7,398	7,107	3	7
Total headcount	16,459	16,356	15,849	1	4
Headcount by region					
Australia ⁽³⁾	7,283	7,076	6,670	3	9
International:					
Americas	2,681	2,728	2,756	(2)	(3)
Asia	4,063	4,104	4,014	(1)	1
Europe, Middle East and Africa	2,432	2,448	2,409	(1)	1
Total headcount – International	9,176	9,280	9,179	(1)	(<1)
Total headcount	16,459	16,356	15,849	1	4
International headcount ratio (%)	56	57	58		

Total headcount increased 4% to 16,459 as at 31 March 2021 from 15,849 as at 31 March 2020, mainly due to an increase in the Central Service Groups to support business growth, technology projects and ongoing regulatory compliance, and an increase in BFS to support volume growth and clients impacted by COVID-19. This was partially offset by active cost management across Macquarie Capital resulting in lower headcount.

(1) Headcount numbers in this document includes certain staff employed in operationally segregated subsidiaries (OSS).

(2) Headcount as at 31 March 2020 has been restated to reflect the transfer of Cash Equities from CGM to Macquarie Capital.

(3) Includes New Zealand.

2.9 Income Tax Expense

	FULL YEAR TO	
	Mar 21 \$Am	Mar 20 \$Am
Operating profit before income tax	3,907	3,454
<i>Prima facie tax @ 30%</i>	1,172	1,036
Income tax permanent differences	(273)	(308)
Income tax expense	899	728
Effective tax rate⁽¹⁾	23.0%	21.0%

Income tax expense of \$A899 million for the year ended 31 March 2021 increased 23% from \$A728 million in the prior year. The effective tax rate for the year ended 31 March 2021 was 23.0%, up from 21.0% in the prior year.

The higher effective tax rate was mainly driven by the geographic composition and nature of earnings.

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(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests increased operating profit before income tax by \$A7 million for the year ended 31 March 2021 (31 March 2020: increased operating profit before income tax by \$A5 million).





03

Segment Analysis

The Home of Good Borrowers

The Home of Good Borrowers campaign featured across high impact outdoor spaces nationally, increasing our share of voice and awareness and reinforcing the reasons why Australians are choosing to say I Bank with Macquarie.

3.1 Basis of Preparation

Operating Segments

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

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

During the current year, Cash Equities was transferred from CGM to Macquarie Capital. Comparatives have been reclassified to reflect this reorganisation between the Operating Groups.

The financial information disclosed relates to the Consolidated Entity's ordinary activities.

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

- **MAM** provides investment solutions to clients across a range of capabilities, including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income and multi-asset solutions
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance⁽¹⁾ products and services to retail clients, advisers, brokers and business clients
- **CGM** provides an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange, commodities and technology, media and telecoms, as well as providing clients with risk and capital solutions across physical and financial markets. CGM also delivers a range of tailored specialised asset finance solutions across a variety of industries and asset classes
- **Macquarie Capital** has global capability in advisory and capital raising services, investing alongside partners and clients across the capital structure, and providing clients with specialist expertise, advice and flexible capital solutions across a range of sectors. It also has global capability in the development and investment in infrastructure and energy projects and companies, and in relation to renewable energy projects, the supply of green energy solutions to corporate clients. Additionally, Macquarie Capital's equities brokerage business provides clients with access to equity research, sales, execution capabilities and corporate access.

The Corporate segment, which is not considered an Operating Group, comprises head office and Central Service Groups, including Group Treasury. As applicable, the Corporate segment holds certain legacy and strategic investments, assets and businesses that are not allocated to any of the Operating Groups.

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

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

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

Internal funding arrangements

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

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

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

Transactions between Operating Segments

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

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

(1) Includes general plant and equipment.

Accounting for derivatives that hedge interest rate risk

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

Central Service Groups

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

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

Performance-related profit share and share-based payments expense

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

Income tax

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

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

Presentation of segment income statements

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

3.1 Basis of Preparation

Continued

	MAM \$Am	BFS \$Am
Full year ended 31 March 2021		
Net interest and trading (expense)/income	(249)	1,746
Fee and commission income/(expense)	2,921	419
Net operating lease income	79	-
Share of net (losses)/profits from associates and joint ventures	(12)	(3)
Other operating income and charges		
Credit and other impairment reversals/(charges)	85	(115)
Other operating income and charges	699	30
Internal management revenue/(charge)	31	1
Net operating income	3,554	2,078
Total operating expenses	(1,474)	(1,307)
Operating profit/(loss) before income tax	2,080	771
Income tax expense	-	-
(Profit)/loss attributable to non-controlling interests	(6)	-
Net profit/(loss) contribution	2,074	771
Full year ended 31 March 2020		
Net interest and trading (expense)/income	(402)	1,728
Fee and commission income/(expense)	3,207	445
Net operating lease income	380	-
Share of net profits/(losses) from associates and joint ventures	224	2
Other operating income and charges		
Credit and other impairment charges	(231)	(148)
Other operating income and charges	465	8
Internal management revenue/(charge)	89	2
Net operating income	3,732	2,037
Total operating expenses	(1,554)	(1,267)
Operating profit/(loss) before income tax	2,178	770
Income tax expense	-	-
(Profit)/loss attributable to non-controlling interests	(1)	-
Net profit/(loss) contribution	2,177	770

	CGM \$Am	Macquarie Capital \$Am	Corporate \$Am	Total \$Am	Result Overview
	3,856	69	255	5,677	
	485	1,387	(36)	5,176	
	383	-	4	466	
	43	(35)	4	(3)	
	(237)	(229)	(28)	(524)	
	153	1,025	75	1,982	
	(5)	31	(58)	-	
	4,678	2,248	216	12,774	
	(2,077)	(1,614)	(2,395)	(8,867)	
	2,601	634	(2,179)	3,907	
	-	-	(899)	(899)	
	-	17	(4)	7	
	2,601	651	(3,082)	3,015	
	2,957	(59)	496	4,720	
	630	1,592	(37)	5,837	
	360	-	5	745	
	24	(198)	43	95	
	(243)	(282)	(136)	(1,040)	
	97	1,397	1	1,968	
	15	61	(167)	-	
	3,840	2,511	205	12,325	
	(2,102)	(1,765)	(2,183)	(8,871)	
	1,738	746	(1,978)	3,454	
	-	-	(728)	(728)	
	-	17	(11)	5	
	1,738	763	(2,717)	2,731	

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3.2 MAM

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest and trading expense	(126)	(123)	2	(249)	(402)	(38)
Fee and commission income						
Base fees	1,014	971	4	1,985	2,021	(2)
Performance fees	240	413	(42)	653	821	(20)
Other fee and commission income	162	121	34	283	365	(22)
Total fee and commission income	1,416	1,505	(6)	2,921	3,207	(9)
Net operating lease income	33	46	(28)	79	380	(79)
Share of net profits/(losses) from associates and joint ventures	43	(55)	*	(12)	224	*
Other operating income and charges						
Net income on equity, debt and other investments	240	404	(41)	644	273	136
Credit and other impairment reversals/(charges)	96	(11)	*	85	(231)	*
Other income	34	21	62	55	192	(71)
Total other operating income and charges	370	414	(11)	784	234	235
Internal management revenue	29	2	*	31	89	(65)
Net operating income	1,765	1,789	(1)	3,554	3,732	(5)
Operating expenses						
Employment expenses	(230)	(257)	(11)	(487)	(505)	(4)
Brokerage, commission and trading-related fee expenses	(126)	(123)	2	(249)	(267)	(7)
Other operating expenses	(397)	(341)	16	(738)	(782)	(6)
Total operating expenses	(753)	(721)	4	(1,474)	(1,554)	(5)
Non-controlling interests⁽¹⁾	-	(6)	(100)	(6)	(1)	*
Net profit contribution	1,012	1,062	(5)	2,074	2,177	(5)
Non-GAAP metrics						
MAM (including MIRA) assets under management (\$Ab) ⁽²⁾	562.2	554.9	1	562.2	597.7	(6)
MIRA equity under management (\$Ab)	142.0	139.8	2	142.0	149.3	(5)
Headcount	1,921	1,904	1	1,921	1,899	1

Net profit contribution of \$A2,074 million for the year ended 31 March 2021, down 5% from the prior year due to:

- decreased net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and the sale of Macquarie European Rail in the current year
- decreased share of net profits from associates and joint ventures predominantly due to an equity accounted loss from Macquarie AirFinance as well as lower net profits from the sale of underlying assets within equity accounted investments
- decreased performance fees following a strong prior year
- decreased other fee and commission income, largely due to lower income from private capital markets, True Index products and transaction fees.

Partially offset by:

- increased net income on equity and debt investments driven by the sale of Macquarie European Rail and decreased credit and other impairment charges, driven by a partial reversal of the impairment previously recognised on MIRA's investment in MIC.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit contribution represents the net profit attributable to ordinary equity holders.

(2) Assets under management as at 31 Mar 20 has been restated to reflect an immaterial misstatement in total MAM AUM reported on 8 May 2020.

Net interest and trading expense

Net interest and trading expense includes funding costs related to equity investments, receivables and operating leases.

Net interest and trading expense of \$A249 million for the year ended 31 March 2021 decreased 38% from \$A402 million in the prior year, driven by a decrease in interest expense as a result of the sale of the Macquarie AirFinance business to a joint venture during the prior year and a decrease in receivables.

Base fees

Base fee income of \$A1,985 million for the year ended 31 March 2021 decreased 2% from \$A2,021 million in the prior year, driven by foreign exchange movements, asset realisations in MIRA-managed funds and the full-year impact of prior year net flows in MIM. This was partially offset by MIM market movements, investments made by MIRA-managed funds and mandates, contributions from MIM as a result of additional assets acquired in the prior year and fees earned from Macquarie AirFinance.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of \$A653 million for the year ended 31 March 2021 decreased 20% from \$A821 million in the prior year. The year ended 31 March 2021 included performance fees from a range of funds including MIP II, MIP III, MEIF4, MSCIF and other MIRA-managed funds, managed accounts and co-investors. The prior year included performance fees from MEIF, MEIF3, MEIF4, MIP, MIP II, GIF II, GIF III, MSCIF and other MIRA-managed funds, managed accounts and co-investors.

Other fee and commission income

Other fee and commission income includes fees related to capital raising, distribution services and transactions, brokerage and commission income and income from True Index products.

Distribution service fees and brokerage and commission income are offset by associated expenses that, for accounting purposes, are recognised in Operating expenses.

Other fee and commission income of \$A283 million for the year ended 31 March 2021 decreased 22% from \$A365 million in the prior year, largely due to lower income from private capital markets, True Index products and transaction fees. This is partially offset by a disposition fee from MIC in relation to the divestment of IMTT.

Net operating lease income

Net operating lease income of \$A79 million for the year ended 31 March 2021 decreased 79% from \$A380 million in the prior year, driven by the sale of the Macquarie AirFinance business to a joint venture during the prior year and the sale of Macquarie European Rail in the current year.

The operating lease portfolio of \$A0.8 billion as at 31 March 2021, is a decrease of 53% from \$A1.7 billion⁽¹⁾ as at 31 March 2020. The decrease was driven by the sale of Macquarie European Rail in the current year.

Share of net profits/(losses) from associates and joint ventures

Share of net losses from associates and joint ventures of \$A12 million for the year ended 31 March 2021 decreased significantly from a profit of \$A224 million in the prior year. This is predominantly due to an equity accounted loss from Macquarie AirFinance as well as lower net profits from the sale of underlying assets within equity accounted investments.

Macquarie AirFinance losses are driven by the impact of COVID-19 on aircraft leasing income and related aircraft impairments.

Net income on equity, debt and other investments

Net income on equity, debt and other investments of \$A644 million for the year ended 31 March 2021 increased significantly from \$A273 million in the prior year driven by the gain on sale of Macquarie European Rail, a gain on revaluation of property investments and a number of other investments.

Credit and other impairment reversals/(charges)

Credit and other impairment net reversal of \$A85 million for the year ended 31 March 2021, compared to a charge of \$A231 million in the prior year.

The current year includes a partial reversal of the impairment previously recognised on MIRA's investment in MIC.

Other income

Other income of \$A55 million for the year ended 31 March 2021 decreased 71% from \$A192 million in the prior year, driven by a one-off payment from ALX for the termination of management rights related to APRR in the prior year.

Operating expenses

Total operating expenses of \$A1,474 million for the year ended 31 March 2021 decreased 5% from \$A1,554 million in the prior year. The decrease was primarily driven by foreign exchange movements, reduced travel on account of COVID-19, and the sale of the Macquarie AirFinance business to a joint venture during the prior year. This was partially offset by increased charges from Central Service Groups and expenses related to the acquisition of new business. The business continues to focus on cost saving initiatives.

(1) Within the operating lease portfolio Macquarie European Rail was classified as held for sale as at 31 March 2020.

3.3 BFS

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest and trading income	902	844	7	1,746	1,728	1
Fee and commission income						
Wealth management fee income	138	136	1	274	284	(4)
Banking and leasing fee income	78	67	16	145	161	(10)
Total fee and commission income	216	203	6	419	445	(6)
Share of net (losses)/profits from associates and joint ventures	(2)	(1)	100	(3)	2	*
Other operating income and charges						
Credit and other impairment charges	(37)	(78)	(53)	(115)	(148)	(22)
Other income	14	16	(13)	30	8	275
Total other operating income and charges	(23)	(62)	(63)	(85)	(140)	(39)
Internal management revenue	-	1	(100)	1	2	(50)
Net operating income	1,093	985	11	2,078	2,037	2
Operating expenses						
Employment expenses	(193)	(197)	(2)	(390)	(355)	10
Brokerage, commission and trading-related fee expenses	(61)	(81)	(25)	(142)	(172)	(17)
Technology expenses ⁽¹⁾	(192)	(202)	(5)	(394)	(374)	5
Other operating expenses	(193)	(188)	3	(381)	(366)	4
Total operating expenses	(639)	(668)	(4)	(1,307)	(1,267)	3
Net profit contribution	454	317	43	771	770	<1
Non-GAAP metrics						
Funds on platform ⁽²⁾ (\$Ab)	101.4	89.3	14	101.4	79.1	28
Loan and lease portfolio ⁽³⁾ (\$Ab)	89.1	79.1	13	89.1	75.3	18
BFS deposits ⁽⁴⁾ (\$Ab)	80.7	74.4	8	80.7	63.9	26
Headcount	2,986	2,895	3	2,986	2,660	12

Net profit contribution of \$A771 million for the year ended 31 March 2021, broadly in line with the prior year due to:

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

Offset by:

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

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

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

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

(4) BFS deposits exclude corporate/wholesale deposits.

Net interest and trading income

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

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

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

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

Wealth management fee income

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

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

Wealth management fee income of \$A274 million for the year ended 31 March 2021 decreased 4% from \$A284 million in the prior year due to competitive platform margin compression.

Banking and leasing fee income

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

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

Credit and other impairment charges

Credit and other impairment charges of \$A115 million for the year ended 31 March 2021 decreased 22% from \$A148 million in the prior year largely due to improvement in the current and expected macroeconomic conditions compared to the prior year and the exit of clients from payment pause.

Other income

Other income of \$A30 million for the year ended 31 March 2021 increased from \$A8 million in the prior year mainly driven by the revaluation of an equity investment.

Operating expenses

Total operating expenses of \$A1,307 million for the year ended 31 March 2021 increased 3% from \$A1,267 million in the prior year.

Employment expenses of \$A390 million for the year ended 31 March 2021 increased 10% from \$A355 million in the prior year largely due to higher headcount to support volume growth and clients impacted by COVID-19.

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

Technology expenses of \$A394 million for the year ended 31 March 2021 increased 5% from \$A374 million in the prior year to support business growth and to meet regulatory requirements.

Other operating expenses of \$A381 million for the year ended 31 March 2021 increased 4% from \$A366 million in the prior year and included increased risk, regulatory and other business related costs.

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3.4 CGM

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest and trading income						
Commodities						
Risk management products	883	578	53	1,461	1,294	13
Lending and financing	116	118	(2)	234	266	(12)
Inventory management and trading	560	416	35	976	178	*
Total commodities	1,559	1,112	40	2,671	1,738	54
Foreign exchange, interest rates and credit	353	349	1	702	682	3
Equities	133	206	(35)	339	371	(9)
Specialised and Asset Finance	74	70	6	144	166	(13)
Net interest and trading income	2,119	1,737	22	3,856	2,957	30
Fee and commission income						
Brokerage and other trading-related fee income	97	112	(13)	209	251	(17)
Other fee and commission income	131	145	(10)	276	379	(27)
Total fee and commission income	228	257	(11)	485	630	(23)
Net operating lease income	185	198	(7)	383	360	6
Share of net profits from associates and joint ventures	30	13	131	43	24	79
Other operating income and charges						
Net income on equity, debt and other investments	28	53	(47)	81	8	*
Credit and other impairment charges	(71)	(166)	(57)	(237)	(243)	(2)
Other income	35	37	(5)	72	89	(19)
Total other operating income and charges	(8)	(76)	(89)	(84)	(146)	(42)
Internal management (charges)/revenue	(6)	1	*	(5)	15	*
Net operating income	2,548	2,130	20	4,678	3,840	22
Operating expenses						
Employment expenses	(284)	(298)	(5)	(582)	(584)	(<1)
Brokerage, commission and trading-related fee expenses	(172)	(216)	(20)	(388)	(418)	(7)
Other operating expenses	(573)	(534)	7	(1,107)	(1,100)	1
Total operating expenses	(1,029)	(1,048)	(2)	(2,077)	(2,102)	(1)
Net profit contribution	1,519	1,082	40	2,601	1,738	50
Non-GAAP metrics						
Headcount	2,133	2,167	(2)	2,133	2,136	(<1)

Net profit contribution of \$A2,601 million for the year ended 31 March 2021, up 50% on the prior year due to:

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

Partially offset by:

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

Net interest and trading income

Net interest and trading income of \$A3,856 million for the year ended 31 March 2021 increased 30% from \$A2,957 million in the prior year.

Commodities net interest and trading income

(i) Risk management products

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

Risk management products income of \$A1,461 million for the year ended 31 March 2021 increased 13% from \$A1,294 million in the prior year with contributions across the platform. Increased contributions recorded by Resources, North American Gas and Power, EMEA Gas and Power and Agriculture sectors due to increased client hedging activity as result of volatility and commodity price movements.

(ii) Lending and financing

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

Lending and financing income of \$A234 million for the year ended 31 March 2021 decreased 12% from \$A266 million in the prior year driven by the impact of foreign exchange and reduced volumes in specific sectors.

(iii) Inventory management and trading

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

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

Inventory management and trading income of \$A976 million for the year ended 31 March 2021 increased significantly from \$A178 million in the prior year driven by market dislocations

and increased volatility. Increased contributions were recorded in North American Gas and Power, Oil and Precious Metals, with North American Gas and Power impacted by increased volatility primarily associated with extreme weather conditions in 4Q21. The current year result also recognised a gain of \$A232 million associated with the timing of income recognition on Oil and Gas storage contracts and transport agreements.

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

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

Net interest and trading income from foreign exchange, interest rates and credit related activities of \$A702 million for the year ended 31 March 2021 increased 3% from \$A682 million in the prior year driven by an increase in client activity in structured foreign exchange and credit products.

Equities net interest and trading income

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

Equities net interest and trading income of \$A339 million for the year ended 31 March 2021 decreased 9% from \$A371 million in the prior year due to a decrease in contribution from EMEA and Asia which was offset by corresponding decreases in brokerage, commission and trading-related fee expenses.

Specialised and Asset Finance net interest and trading income

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

Net interest and trading income of \$A144 million for year ended 31 March 2021 decreased 13% from \$A166 million in the prior year. The decrease was largely as a result of a stronger prior year which benefited from net proceeds from end of lease asset sales.

The loan and finance lease portfolio was \$A5.7 billion as at 31 March 2021, a decrease of 8% from \$A6.2 billion as at 31 March 2020. The reduction was largely due to reduced activity across funds finance and the equipment finance portfolio as well as the impact of foreign exchange movements.

3.4 CGM

Continued

Fee and commission income

Fee and commission income of \$A485 million for the year ended 31 March 2021 decreased 23% from \$A630 million in the prior year.

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

Net operating lease income

Net operating lease income of \$A383 million for the year ended 31 March 2021 increased 6% from \$A360 million in the prior year. The movement was primarily driven by higher secondary income from the asset financing portfolio.

Net income on equity, debt and other investments

Net income on equity, debt and other investments of \$A81 million for the year ended 31 March 2021 was up significantly on the prior year. The current year primarily reflected gains on listed equity investments in the commodities sector.

Credit and other impairment charges

Credit and other impairment charges of \$A237 million for the year ended 31 March 2021 decreased 2% from \$A243 million in the prior year driven by a reduction in specific credit provisions, partially offset by an overlay for industry specific credit risks and impairments on a small number of underperforming assets.

Operating expenses

Total operating expenses of \$A2,077 million for the year ended 31 March 2021 decreased 1% from \$A2,102 million in the prior year.

Employment expenses of \$A582 million for the year ended 31 March 2021 were broadly in line with the prior year.

Brokerage, commission and trading-related fee expenses include fees paid in relation to trading-related activities. Brokerage, commission and trading-related fee expenses of \$A388 million for the year ended 31 March 2021 decreased 7% from \$A418 million in the prior year, driven by reduced equities activity in EMEA and Asia.

Other operating expenses of \$A1,107 million for the year ended 31 March 2021 increased 1% from \$A1,100 million in the prior year, driven by expenditure on technology infrastructure, as well as increasing compliance and regulatory requirements, partially offset by a reduction in travel and entertainment expenses.

3.5 Macquarie Capital

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest and trading income/(expense)	63	6	*	69	(59)	*
Fee and commission income	722	665	9	1,387	1,592	(13)
Share of net losses from associates and joint ventures	(18)	(17)	6	(35)	(198)	(82)
Other operating income and charges						
Net income on equity, debt and other investments	998	141	*	1,139	1,430	(20)
Credit and other impairment charges	(110)	(119)	(8)	(229)	(282)	(19)
Other (expenses)/income	(52)	(62)	(16)	(114)	(33)	245
Total other operating income and charges	836	(40)	*	796	1,115	(29)
Internal management revenue	31	-	*	31	61	(49)
Net operating income	1,634	614	166	2,248	2,511	(10)
Operating expenses						
Employment expenses	(303)	(361)	(16)	(664)	(733)	(9)
Brokerage, commission and trading-related fee expenses	(48)	(50)	(4)	(98)	(107)	(8)
Other operating expenses	(447)	(405)	10	(852)	(925)	(8)
Total operating expenses	(798)	(816)	(2)	(1,614)	(1,765)	(9)
Non-controlling interests⁽¹⁾	4	13	(69)	17	17	-
Net profit/(loss) contribution	840	(189)	*	651	763	(15)
Non-GAAP metrics						
Headcount	1,821	1,992	(9)	1,821	2,047	(11)

Net profit contribution of \$A651 million for the year ended 31 March 2021, down 15% from the prior year due to:

- lower net income on equity, debt and other investments due to fewer material asset realisations compared to prior year
- lower fee and commission income due to lower mergers and acquisitions fee income and debt capital markets fee income, partially offset by higher equity capital markets fee income.

Partially offset by:

- lower share of net losses from associates and joint ventures due to changes in the composition and improved performance of investments in the portfolio
- higher net interest and trading income due to lower funding costs, higher interest income resulting from the growth in the debt portfolio and lower mark-to-market losses compared to prior year
- lower operating expenses driven by the structural change in the prior year to refocus the Equities division on the Asia-Pacific region, active cost management throughout FY2021 across Macquarie Capital resulting in lower headcount and lower employment expenses, and lower travel and entertainment expenses due to COVID-19.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net profit or loss contribution represents the net profit or loss attributable to ordinary equity holders.

3.5 Macquarie Capital

Continued

Net interest and trading income/(expense)

Net interest and trading income/(expense) includes the interest income earned from debt investments and the funding costs associated with both the debt and equity investment portfolios.

Net interest and trading income of \$A69 million for the year ended 31 March 2021, compared to a net interest and trading expense of \$A59 million in the prior year. The increase was primarily due to lower funding costs, higher interest income resulting from the growth in the debt portfolio and lower mark-to-market losses compared to the prior year. The prior year included re-accretion and interest income on debt acquired at a discount and subsequently sold.

Fee and commission income

Fee and commission income of \$A1,387 million for the year ended 31 March 2021 decreased 13% from \$A1,592 million in the prior year.

The decrease in fee and commission income was primarily due to lower mergers and acquisitions fee income and debt capital markets fee income, partially offset by higher equity capital markets fee income.

Brokerage income was down 6% due to a decrease in the US and EMEA, broadly offset by increases in Asia-Pacific region following the structural change in the Equities division made in the prior year.

Mergers and acquisitions fee income for the year ended 31 March 2021 was down in Europe and ANZ regions, whilst income from the US was up compared to prior year. Mergers and acquisitions fee income increased in the second half across all regions compared to the first half due to improved market conditions in most regions.

Share of net losses from associates and joint ventures

Share of net losses from associates and joint ventures of \$A35 million for the year ended 31 March 2021 decreased 82% from \$A198 million in the prior year.

The movement was primarily due to changes in the composition, as well as the improved performance of investments in the portfolio.

Net income on equity, debt and other investments

Net income on equity, debt and other investments of \$A1,139 million for the year ended 31 March 2021 decreased 20% from \$A1,430 million in the prior year.

The decrease in income was due to fewer material asset realisations compared to prior year.

The investment income for the year ended 31 March 2021 primarily included income from asset realisations in Europe and ANZ, particularly in the green energy and technology sectors.

Credit and other impairment charges

Credit and other impairment charges of \$A229 million for the year ended 31 March 2021 decreased 19% from \$A282 million in the prior year.

Credit and other impairment charges for the current year primarily related to a small number of underperforming loan facilities and the growth of the debt portfolio, partially offset by reversals due to loan sales and repayments.

The prior year charge included a deterioration in forward-looking macroeconomic conditions as a result of COVID-19.

Other (expenses)/income

Other expenses were \$A114 million for the year ended 31 March 2021 compared to \$A33 million in the prior year.

The movement primarily reflected higher expenditure resulting from increased activity in relation to the development of green energy projects.

Operating expenses

Total operating expenses of \$A1,614 million for the year ended 31 March 2021 decreased 9% from \$A1,765 million in the prior year. This decrease was primarily driven by the structural change in the prior year to refocus the Equities division on the Asia-Pacific region, active cost management throughout the current year across Macquarie Capital resulting in lower headcount and lower employment expenses, and lower travel and entertainment expenses due to COVID-19.

3.6 Corporate

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Net interest and trading income	199	56	255	255	496	(49)
Fee and commission expense	(19)	(17)	12	(36)	(37)	(3)
Net operating lease income	3	1	200	4	5	(20)
Share of net (losses)/profits from associates and joint ventures	(2)	6	*	4	43	(91)
Other operating income and charges						
Net income/(loss) on equity and debt investments	45	5	*	50	(15)	*
Credit and other impairment reversals/(charges)	45	(73)	*	(28)	(136)	(79)
Other income and charges	(2)	27	*	25	16	56
Total other operating income and charges	88	(41)	*	47	(135)	*
Internal management charge	(54)	(4)	*	(58)	(167)	(65)
Net operating income and charges	215	1	*	216	205	5
Operating expenses						
Employment expenses	(1,892)	(1,502)	26	(3,394)	(3,146)	8
Other operating expenses	510	489	4	999	963	4
Total operating expenses	(1,382)	(1,013)	36	(2,395)	(2,183)	10
Income tax expense	(624)	(275)	127	(899)	(728)	23
Macquarie Income Securities	-	-	-	-	(12)	(100)
Non-controlling interests ⁽¹⁾	(4)	-	*	(4)	1	*
Net loss contribution	(1,795)	(1,287)	39	(3,082)	(2,717)	13
Non-GAAP metrics						
Headcount	7,598	7,398	3	7,598	7,107	7

The Corporate segment comprises head office and Central Service Groups, including Group Treasury, and certain legacy and strategic investments that are not aligned to an Operating Group. The Corporate segment also includes costs that are not allocated to the Operating Groups, including performance-related profit share and share-based payments expense, income tax expense and the net result of managing Macquarie's liquidity and funding requirements.

(1) 'Non-controlling interests' adjusts reported consolidated profit or loss for the share that is attributable to non-controlling interests, such that the net loss contribution represents the net loss attributable to ordinary equity holders.

3.6 Corporate

Continued

Net interest and trading income

Net interest and trading income in the Corporate segment includes the net result of managing Macquarie's liquidity and funding requirements, earnings on capital, funding costs associated with certain legacy and strategic investments and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting under AASB 9 is unable to be achieved.

Net interest and trading income of \$A255 million for the year ended 31 March 2021 decreased 49% from \$A496 million in the prior year due to greater accounting volatility from changes in the fair value of economic hedges in the prior year, in addition to the impact on earnings on capital of lower average interest rates.

Share of net (losses)/profits from associates and joint ventures

Share of net profits from associates and joint ventures of \$A4 million for the year ended 31 March 2021 decreased significantly from \$A43 million in the prior year, which reflected a gain on a legacy investment.

Credit and other impairment reversals/(charges)

Credit and other impairment charges of \$A28 million for the year ended 31 March 2021 decreased 79% from \$A136 million in the prior year reflecting an improving macroeconomic outlook leading to the partial release of credit provisions in the second half, partially offset by the impairment of intangibles acquired through historic legacy acquisitions.

Employment expenses

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

Employment expenses of \$A3,394 million for the year ended 31 March 2021 increased 8% from \$A3,146 million in the prior year. The current year includes an increase in performance-related profit share expense mainly as a result of the improved performance of the Consolidated Entity, the impact of higher average headcount in Central Service Groups to support technology projects and ongoing regulatory compliance, and higher leave provisions driven by less holiday entitlements being taken by staff as a result of COVID-19.

Other operating expenses

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

The net recovery from the Operating Groups of \$A999 million for the year ended 31 March 2021 increased 4% from \$A963 million in the prior year. The current year includes lower travel and entertainment expenses due to COVID-19, increased recovery of a higher central services groups' cost base driven by higher average headcount, partially offset by certain transaction and other charges.

Macquarie Income Securities (MIS)

MIS were redeemed on 16 April 2020.

3.7 International Income

International income⁽¹⁾ by region

	HALF YEAR TO			FULL YEAR TO		
	Mar 21 \$Am	Sep 20 \$Am	Movement %	Mar 21 \$Am	Mar 20 \$Am	Movement %
Americas	2,462	1,725	43	4,187	3,018	39
Asia	753	665	13	1,418	1,573	(10)
Europe, Middle East and Africa	1,515	1,348	12	2,863	3,470	(17)
Total international income	4,730	3,738	27	8,468	8,061	5
Australia ⁽²⁾	2,256	1,776	27	4,032	3,892	4
Total income (excluding earnings on capital and other corporate items)	6,986	5,514	27	12,500	11,953	5
Earnings on capital and other corporate items	269	5	*	274	372	(26)
Net operating income (as reported)	7,255	5,519	31	12,774	12,325	4
International income (excluding earnings on capital and other corporate items) ratio (%)	68	68		68	67	

International income by Operating Group and region

	FULL YEAR TO MAR 21						
	Americas \$Am	Asia \$Am	Europe, Middle East and Africa \$Am	Total International \$Am	Australia ⁽²⁾ \$Am	Total Income \$Am	Total International %
MAM	1,913	229	1,027	3,169	354	3,523	90
BFS	-	-	-	-	2,077	2,077	-
CGM	1,941	716	1,217	3,874	809	4,683	83
Macquarie Capital	333	473	619	1,425	792	2,217	64
Total	4,187	1,418	2,863	8,468	4,032	12,500	68

Total international income was \$A8,468 million for the year ended 31 March 2021, an increase of 5% from \$A8,061 million in the prior year. Total international income represented 68% of total income (excluding earnings on capital and other corporate items), broadly in line with the prior year.

Income from the Americas of \$A4,187 million for the year ended 31 March 2021 increased 39% from \$A3,018 million in the prior year. The increase was mainly driven by CGM with strong results across the commodities risk management platform and increased opportunities in inventory management and trading primarily driven by market dislocations and increased volatility, particularly in North American Gas and Power. MAM recognised a partial reversal of the impairment previously recognised on MIRA's investment in MIC, higher performance fees and higher investment income from gains on sale of MIRA-held investments.

In Asia, income of \$A1,418 million for the year ended 31 March 2021 decreased 10% from \$A1,573 million in the prior year. The decrease was mainly due to fewer material asset realisations in Macquarie Capital and lower gains on sale of MIRA-held investments in MAM. This was partially offset by lower share of net losses from associates and joint ventures due to improved performance of investments in the portfolio in Macquarie Capital.

Income from Europe, Middle East and Africa of \$A2,863 million for the year ended 31 March 2021 decreased 17% from \$A3,470 million in the prior year. This was primarily due to lower net operating lease income driven by the sale of the Macquarie AirFinance business to a joint venture in the prior year and subsequent equity accounted losses resulting from the impact of COVID-19 on aircraft leasing in MAM. The decrease also reflects lower performance fees in MAM and fewer material asset realisations in Macquarie Capital. This was partially offset by the gain on sale of Macquarie European Rail in MAM. The prior year included a one-off payment from ALX for the termination of management rights related to APRR in MAM.

In Australia, income of \$A4,032 million for the year ended 31 March 2021 increased 4% from \$A3,892 million in the prior year. The increase was driven by higher asset realisations in Macquarie Capital, particularly in the technology sector and lower credit and other impairment charges in BFS largely due to improvement in the current and expected macroeconomic conditions compared to the prior year and the exit of clients from payment pause. This was partially offset by lower performance fees in MAM.

(1) International income reflects net operating income excluding internal management revenue/(charge).

(2) Includes New Zealand.





04

Balance Sheet

Viridis Ag, Australia

Macquarie-managed funds oversee investments in 4.7 million hectares of farmland, with operating company Viridis Ag helping to embed more sustainable farming practices in Australia.

4.1 Statement of Financial Position

	AS AT		MOVEMENT
	Mar 21 \$Am	Mar 20 \$Am	Mar 20 %
Assets			
Cash and bank balances	18,425	9,717	90
Cash collateral on securities borrowed and reverse repurchase agreements	36,681	37,710	(3)
Trading assets	21,746	16,855	29
Margin money and settlement assets	14,397	16,393	(12)
Derivative assets	20,642	45,607	(55)
Financial investments	9,566	8,930	7
Held for sale assets	279	1,634	(83)
Other assets	6,006	6,868	(13)
Loan assets	105,026	94,117	12
Interests in associates and joint ventures	4,194	8,319	(50)
Property, plant and equipment and right-of-use assets	4,676	5,044	(7)
Intangible assets	2,543	3,268	(22)
Deferred tax assets	1,472	1,340	10
Total assets	245,653	255,802	(4)
Liabilities			
Cash collateral on securities lent and repurchase agreements	4,542	2,334	95
Trading liabilities	6,205	5,544	12
Margin money and settlement liabilities	22,124	22,815	(3)
Derivative liabilities	17,579	38,399	(54)
Deposits	84,199	67,342	25
Held for sale liabilities	18	260	(93)
Other liabilities	8,211	8,027	2
Borrowings	9,817	17,093	(43)
Debt issued	60,980	64,556	(6)
Deferred tax liabilities	204	234	(13)
Total liabilities excluding loan capital	213,879	226,604	(6)
Loan capital	9,423	7,414	27
Total liabilities	223,302	234,018	(5)
Net assets	22,351	21,784	3
Equity			
Contributed equity	8,531	7,851	9
Reserves	1,286	2,773	(54)
Retained earnings	12,231	10,439	17
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	22,048	21,063	5
Non-controlling interests	303	721	(58)
Total equity	22,351	21,784	3

Statement of financial position

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

Assets

Total assets of \$A245.7 billion as at 31 March 2021 decreased 4% from \$A255.8 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total assets, the principal drivers for the decrease in the Consolidated Entity's total assets were as follows:

- derivative assets of \$A20.6 billion as at 31 March 2021 decreased 55% from \$A45.6 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- interests in associates and joint ventures of \$A4.2 billion as at 31 March 2021 decreased 50% from \$A8.3 billion as at 31 March 2020 primarily due to the disposal of certain associates during the year
- margin money and settlement assets of \$A14.4 billion as at 31 March 2021 decreased 12% from \$A16.4 billion as at 31 March 2020 primarily due to lower trade volumes resulting in a decrease in margin placed with financial institutions by CGM
- held for sale assets of \$A0.3 billion as at 31 March 2021 decreased 83% from \$A1.6 billion as at 31 March 2020 primarily due to the subsequent sale of certain assets during the current year
- cash collateral on securities borrowed and reverse repurchase agreements of \$A36.7 billion as at 31 March 2021 decreased 3% from \$A37.7 billion as at 31 March 2020 primarily due to a decrease in reverse repurchase agreements in CGM partially offset by an increase in Group Treasury reverse repurchase agreements following lower Operating Group funding requirements.

These decreases were partially offset by:

- loan assets of \$A105.0 billion as at 31 March 2021 increased 12% from \$A94.1 billion as at 31 March 2020 primarily due to growth in the home loan portfolio partially offset by a decrease in the vehicle finance portfolio in BFS and a decrease in the corporate and commercial lending portfolio in CGM
- cash and bank balances of \$A18.4 billion as at 31 March 2021 increased 90% from \$A9.7 billion as at 31 March 2020 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- trading assets of \$A21.7 billion as at 31 March 2021 increased 29% from \$A16.9 billion as at 31 March 2020 primarily due to an increase in precious metal and oil inventories in CGM.

Liabilities

Total liabilities of \$A223.3 billion as at 31 March 2021 decreased 5% from \$A234.0 billion as at 31 March 2020. In addition to the appreciation of the Australian dollar against major currencies which contributed to the decrease in total liabilities, the principal drivers for the decrease in the Consolidated Entity's total liabilities were as follows:

- derivative liabilities of \$A17.6 billion as at 31 March 2021 decreased 54% from \$A38.4 billion as at 31 March 2020 primarily due to a decrease in client trade volumes and mark-to-market movements in energy markets, commodities, interest rate and foreign exchange products in CGM
- borrowings of \$A9.8 billion as at 31 March 2021 decreased 43% from \$A17.1 billion as at 31 March 2020 primarily due to the net repayment of debt facilities and disposal of borrowings, together with related assets, to an associate
- debt issued of \$A61.0 billion as at 31 March 2021 decreased 6% from \$A64.6 billion as at 31 March 2020 primarily due to the repayment of bondholder notes issued by securitisation vehicles in BFS partially offset by the issuance of short-term debt in Group Treasury.

These decreases were partially offset by:

- deposits of \$A84.2 billion as at 31 March 2021 increased 25% from \$A67.3 billion as at 31 March 2020 primarily due to an increase in retail and business banking deposits in BFS
- cash collateral on securities lent and repurchase agreements of \$A4.5 billion as at 31 March 2021 increased significantly from \$A2.3 billion as at 31 March 2020 primarily due to the draw down of the Term Funding Facility from the RBA by Group Treasury and increased stock lending transactions in CGM
- loan capital of \$A9.4 billion as at 31 March 2021 increased 27% from \$A7.4 billion as at 31 March 2020 primarily due to the net issuance of capital instruments and subordinated debt during the year.

Equity

Total equity of \$A22.4 billion as at 31 March 2021 increased 3% from \$A21.8 billion as at 31 March 2020.

The increase in the Consolidated Entity's equity was predominantly attributable to the increase in retained earnings, net of the amortisation of share-based payment arrangements during the year, of \$A2.3 billion. This was partially offset by a decrease in the foreign currency translation and net investment hedge reserve of \$A1.7 billion following the appreciation of the Australian dollar against major currencies, and redemption of the Macquarie Income Securities of \$A0.4 billion.

4.2 Loan Assets

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

	AS AT		MOVEMENT
	Mar 21 \$Ab	Mar 20 \$Ab	Mar 20 %
Loan assets per the Statement of financial position	105.0	94.1	12
Operating lease assets	2.6	3.9	(33)
Other reclassifications ⁽¹⁾	0.7	1.3	(46)
Less: loans held by consolidated SPEs which are available as security to noteholders and debt providers ⁽²⁾	(10.4)	(12.8)	(19)
Total loan assets including operating lease assets per the funded balance sheet⁽³⁾	97.9	86.5	13

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

	Notes	AS AT		MOVEMENT
		Mar 21 \$Ab	Mar 20 \$Ab	Mar 20 %
BFS				
Home loans	1	59.1	43.2	37
Business banking	2	10.5	9.4	12
Vehicle finance	3	9.6	10.6	(9)
Total BFS		79.2	63.2	25
CGM				
Loans and finance lease assets		5.7	6.2	(8)
Operating lease assets		1.8	2.2	(18)
Specialised and Asset Finance	4	7.5	8.4	(11)
Resources and commodities	5	2.1	3.0	(30)
Foreign exchange, interest rate and credit	6	2.3	3.2	(28)
Total CGM		11.9	14.6	(18)
MAM				
Operating lease assets	7	0.8	1.7	(53)
Other	8	-	0.3	(100)
Total MAM		0.8	2.0	(60)
Macquarie Capital				
Principal Finance	9	5.6	4.2	33
Other	10	0.4	2.5	(84)
Total Macquarie Capital		6.0	6.7	(10)
Total		97.9	86.5	13

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

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

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

Explanatory notes concerning asset security of funded loan asset portfolio

1. Home loans

Secured by Australian residential property.

2. Business banking

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

3. Vehicle finance

Secured by Australian motor vehicles.

4. Specialised and Asset Finance

Predominantly secured by underlying financed assets.

5. Resources and commodities

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

6. Foreign exchange, interest rate and credit

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

7. Operating lease assets

Secured by underlying financed assets including transportation assets.

8. MAM Other

Secured by underlying financed assets.

9. Principal Finance

Diversified corporate and real estate lending portfolio, predominantly consisting of loans which are senior, secured, covenanted and with a hold to maturity horizon.

10. Macquarie Capital Other

Includes diversified secured corporate lending.

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4.3 Equity Investments

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

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

The classification is driven by a combination of the level of influence Macquarie has over the investment and management's intention with respect to the holding of the asset in the short-term. For the purpose of analysis, equity investments have been re-grouped into the following categories:

- Investments in Macquarie-managed funds; and
- Other investments.

Equity investments reconciliation

	AS AT		MOVEMENT
	Mar 21 \$Ab	Mar 20 \$Ab	Mar 20 %
Equity investments			
Statement of financial position			
Equity investments at fair value	1.4	1.3	8
Interests in associates and joint ventures ⁽¹⁾	4.3	8.4	(49)
Total equity investments per statement of financial position	5.7	9.7	(41)
Adjustment for funded balance sheet			
Borrowings ⁽²⁾	-	(2.3)	(100)
Total funded equity investments	5.7	7.4	(23)
Adjustment for equity investment analysis			
Associates' reserves ⁽³⁾	0.2	0.1	100
Total adjusted equity investments⁽⁴⁾	5.9	7.5	(21)

(1) Includes certain associates classified as held for sale.

(2) Asset specific borrowings relating to Macquarie's investment in an associate.

(3) Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.

(4) The adjusted book value represents the total net exposure to Macquarie.

Equity investments by category

	AS AT		MOVEMENT
	Mar 21 \$Ab	Mar 20 \$Ab	Mar 20 %
Macquarie-managed funds			
Listed MIRA managed funds	0.7	0.9	(22)
Unlisted MIRA managed funds	0.8	0.9	(11)
Other Macquarie-managed funds	0.3	0.3	-
Total Macquarie-managed funds	1.8	2.1	(14)
Other investments			
Transport, industrial and infrastructure ⁽¹⁾	1.0	1.3	(23)
Telecommunications, information technology, media and entertainment	1.0	1.2	(17)
Green energy ⁽²⁾	0.7	1.0	(30)
Conventional energy, resources and commodities	0.3	0.4	(25)
Real estate investment, property and funds management	0.5	1.0	(50)
Finance, wealth management and exchanges	0.6	0.5	20
Total other investments	4.1	5.4	(24)
Total equity investments	5.9	7.5	(21)

(1) Includes a 50% interest in Macquarie AirFinance investment following the sale of the Macquarie AirFinance business to a joint venture in the prior year. Macquarie held a 75% interest in 1H20 and sold a 25% interest in the joint venture in 2H20.

(2) Green energy includes Macquarie's investment in an associate partially funded with asset-specific borrowings.





05

Funding and Liquidity

Oxy Low Carbon Ventures, Americas

Macquarie and Oxy Low Carbon Ventures deliver the world's first shipment of carbon neutral oil.

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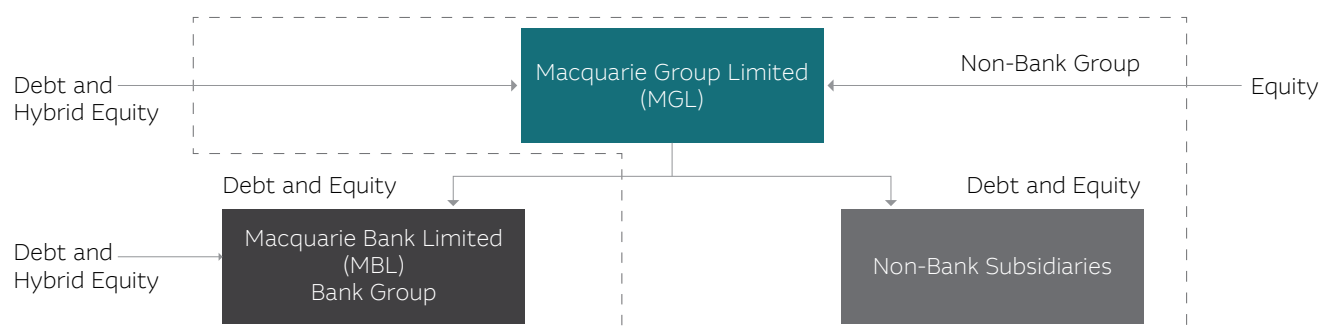
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5.1 Liquidity Risk Governance and Management Framework

Governance and oversight

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

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



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

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

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

Liquidity policy and risk appetite

The MGL and MBL liquidity policies are designed so that each of Macquarie, the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due. The MBL liquidity policy outlines the standalone framework for the Bank Group and its principles are consistent with the MGL liquidity policy. In some cases, other entities within Macquarie may also be required to have a standalone liquidity policy. In these cases, the principles applied within the entity-specific liquidity policies are also consistent with those applied in the broader MGL liquidity policy.

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

Macquarie's liquidity risk appetite is intended to ensure that Macquarie is able to meet all of its liquidity obligations during a period of liquidity stress: a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie's franchise businesses.

Reflecting the longer-term nature of the Non-Bank Group asset profile, MGL is funded predominantly with a mixture of capital and long-term wholesale funding. MBL is an authorised deposit-taking institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

Liquidity risk tolerance and principles

Macquarie's liquidity risk appetite is supported by a number of risk tolerances and principles applied to managing liquidity risk in both MGL and MBL.

Risk tolerances

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

Liquidity management principles

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

Liquidity contingency plan

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

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

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

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

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

Funding strategy

Macquarie prepares funding strategies for MGL and MBL on an annual basis and monitors progress against the strategies throughout the year. The funding strategies aim to maintain diversity of current and projected funding sources for MGL and MBL, ensure ongoing compliance with all liquidity requirements and facilitate forecast asset growth. The funding strategies are reviewed by the ALCO and approved by the respective Boards.

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5.2 Management of Liquidity Risk

Scenario analysis

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

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

The scenarios separately consider the requirements of the Bank Group, the Non-Bank Group and the Consolidated Entity. These scenarios use a range of assumptions, which Macquarie intends to be conservative, regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

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

Liquid asset holdings

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

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

The cash and liquid asset portfolio is held in a range of currencies consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches. Certain other Operating Segments also hold cash and liquid assets as part of their operations. Macquarie had \$A41.6 billion cash and liquid assets as at 31 March 2021 (31 March 2020: \$A38.9 billion), of which \$A37.0 billion was held by Macquarie Bank (31 March 2020: \$A33.6 billion).

Funds transfer pricing

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

Credit ratings⁽¹⁾ as at 31 March 2021

	MACQUARIE BANK LIMITED			MACQUARIE GROUP LIMITED		
	Short-term rating	Long-term rating	Outlook	Short-term rating	Long-term rating	Outlook
Moody's Investors Service	P-1	A2	Stable	P-2	A3	Stable
Standard and Poor's	A-1	A+	Negative	A-2	BBB+	Stable
Fitch Ratings	F-1	A	Negative	F-2	A-	Negative

Regulatory liquidity metrics

The Australian Prudential Regulation Authority's (APRA) liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework for Australian banks. In addition to a range of qualitative requirements, the standard incorporates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The LCR and NSFR apply specifically to Macquarie Bank as the regulated ADI in Macquarie. As an APRA authorised and regulated Non-Operating Holding Company, MGL is required to manage liquidity in compliance with APS 210's qualitative requirements. Separate quantitative requirements are imposed internally by the ALCO and the Board.

Liquidity coverage ratio

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

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

Net stable funding ratio

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

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

5.3 Funded Balance Sheet

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

The table below reconciles the reported assets of Macquarie to the net funded assets as at 31 March 2021. The following pages split this between the Bank Group and the Non-Bank Group to assist in the analysis of each of the separate funding profiles of the respective entities.

	Notes	AS AT	
		Mar 21 \$Ab	Mar 20 \$Ab
Total assets per Macquarie's Statement of financial position		245.7	255.8
Accounting deductions:			
Derivative revaluation accounting gross-ups	1	(17.4)	(38.0)
Segregated funds	2	(7.7)	(7.0)
Outstanding trade settlement balances	3	(7.5)	(6.8)
Working capital assets	4	(9.1)	(8.4)
Non-controlling interests	5	(0.3)	(0.3)
Self-funded assets:			
Self-funded trading assets	6	(15.9)	(17.7)
Securitised assets and other non-recourse funding	7	(11.4)	(16.0)
Net funded assets		176.4	161.6

Explanatory notes concerning net funded assets

1. Derivative revaluation accounting gross-ups

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

2. Segregated funds

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

3. Outstanding trade settlement balances

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

4. Working capital assets

As with the outstanding trade settlement balances above, Macquarie through its day-to-day operations generates working capital assets (e.g. receivables and prepayments) and working capital liabilities (e.g. creditors and accruals) that produce a 'net balance' that either requires or provides funding.

5. Non-controlling interests

These include the portion of equity ownership in subsidiaries not attributable to Macquarie. As this is not a position that Macquarie is required to fund, it is netted against the consolidated assets and liabilities in preparing the funded balance sheet.

6. Self-funded trading assets

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

7. Securitised assets and other non-recourse funding

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

5.4 Funding profile for Macquarie

Funded balance sheet

		AS AT	
	Notes	Mar 21 \$Ab	Mar 20 \$Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		0.4	0.6
Commercial paper		12.9	5.0
Net trade creditors	2	1.4	2.0
Structured notes	3	1.1	2.0
Secured funding	4	3.8	3.8
Bonds	5	34.3	40.9
Other loans	6	1.2	1.2
Syndicated loan facilities	7	5.8	10.1
Customer deposits	8	84.0	67.1
Subordinated debt	9	5.1	3.5
Equity and hybrids	10	26.4	25.4
Total		176.4	161.6
Funded assets			
Cash and liquid assets	11	41.6	38.9
Self-securitisation	12	33.1	23.5
Net trading assets	13	25.6	23.2
Loan assets including operating lease assets less than one year	14	12.3	13.4
Loan assets including operating lease assets greater than one year	14	52.5	49.6
Debt investments	15	2.7	1.9
Co-investment in Macquarie-managed funds and other equity investments	16	5.7	7.4
Property, plant and equipment and intangibles		2.9	3.7
Total		176.4	161.6

See section 5.7 for Notes 1–16.

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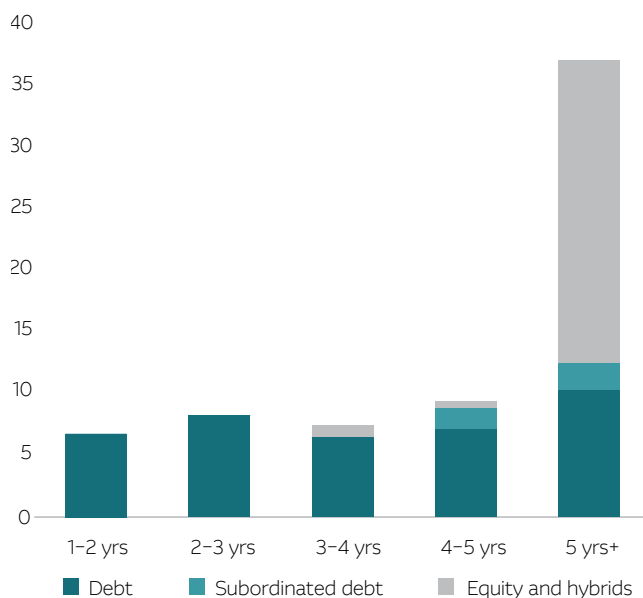
5.4 Funding Profile for Macquarie

Continued

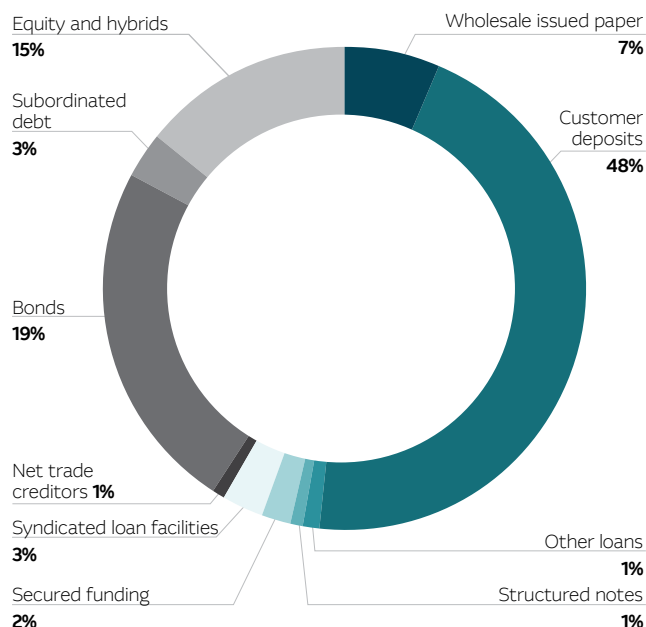
Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



Diversity of funding sources



AS AT MAR 21

	1-2yrs \$Ab	2-3yrs \$Ab	3-4yrs \$Ab	4-5yrs \$Ab	5yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	-	0.1	0.4	0.1	0.5	1.1
Secured funding ⁽²⁾	0.6	1.9	-	-	-	2.5
Bonds	6.0	4.8	5.6	3.2	9.8	29.4
Other loans	0.2	-	0.1	-	0.1	0.4
Syndicated loan facilities	-	1.5	0.4	3.9	-	5.8
Total debt	6.8	8.3	6.5	7.2	10.4	39.2
Subordinated debt ⁽³⁾	-	-	-	1.7	2.2	3.9
Equity and hybrids ⁽³⁾	-	-	1.0	0.6	24.8	26.4
Total funding sources drawn	6.8	8.3	7.5	9.5	37.4	69.5
Undrawn ⁽⁴⁾	0.3	-	-	2.0	-	2.3
Total funding sources drawn and undrawn	7.1	8.3	7.5	11.5	37.4	71.8

Macquarie has a funding base that is stable with minimal reliance on short-term wholesale funding markets.

As at 31 March 2021, Macquarie's term assets were covered by term funding maturing beyond one year, stable deposits, hybrids and equity.

The weighted average term to maturity of term funding maturing beyond one year⁽⁵⁾ was 4.8 years as at 31 March 2021.

As at 31 March 2021, customer deposits represented \$A84.0 billion, or 48% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented \$A13.3 billion, or 7% of total funding, and other debt funding maturing within 12 months and net trade creditors represented \$A9.6 billion, or 6% of total funding.

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Includes drawn RBA Term Funding Facility (TFF) Initial Allowance of \$A1.7 billion.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(4) Does not include undrawn accessible TFF Allowances.

(5) Including drawn TFF, excluding equity which is a permanent source of funding, and securitisations.

Term funding initiatives

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

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

		Bank Group \$Ab	Non-Bank Group \$Ab	Total \$Ab
Issued paper	– Senior and subordinated	6.2	5.1	11.3
Loan facilities	– MGL loan facilities	–	3.9	3.9
Secured funding	– Term securitisation and other secured finance	2.6	0.7	3.3
	– RBA Term Funding Facility ⁽¹⁾	1.7	–	1.7
Hybrids	– Hybrid instruments	0.7	0.7	1.4
Total		11.2	10.4	21.6

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

From 1 April 2020 to 31 March 2021, Macquarie raised \$A21.6 billion⁽²⁾ of term funding including:

- \$A11.3 billion of term wholesale issued paper comprising of \$A6.0 billion of senior unsecured debt, \$A3.2 billion of subordinated unsecured debt and \$A2.1 billion of private placements and structured notes
- \$A3.9 billion of MGL USD syndicated loan facilities
- \$A2.3 billion refinance of secured trade finance facilities
- \$A1.7 billion draw down of the RBA Term Funding Facility⁽¹⁾
- \$A1.4 billion of hybrid instrument issuance comprising of MCN5 and BCN2; and
- \$A1.0 billion of PUMA RMBS securitisation issuance.

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

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

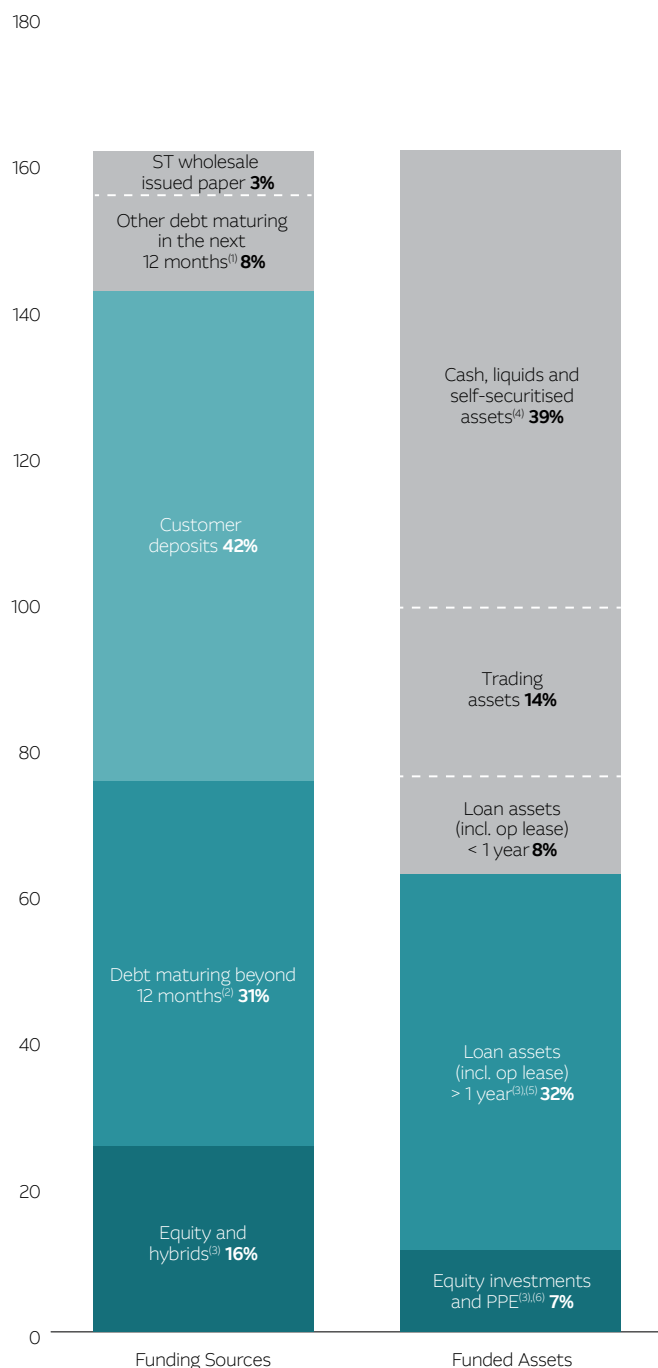
5.4 Funding Profile for Macquarie

Continued

The change in composition of the funded balance sheet is illustrated in the chart below.

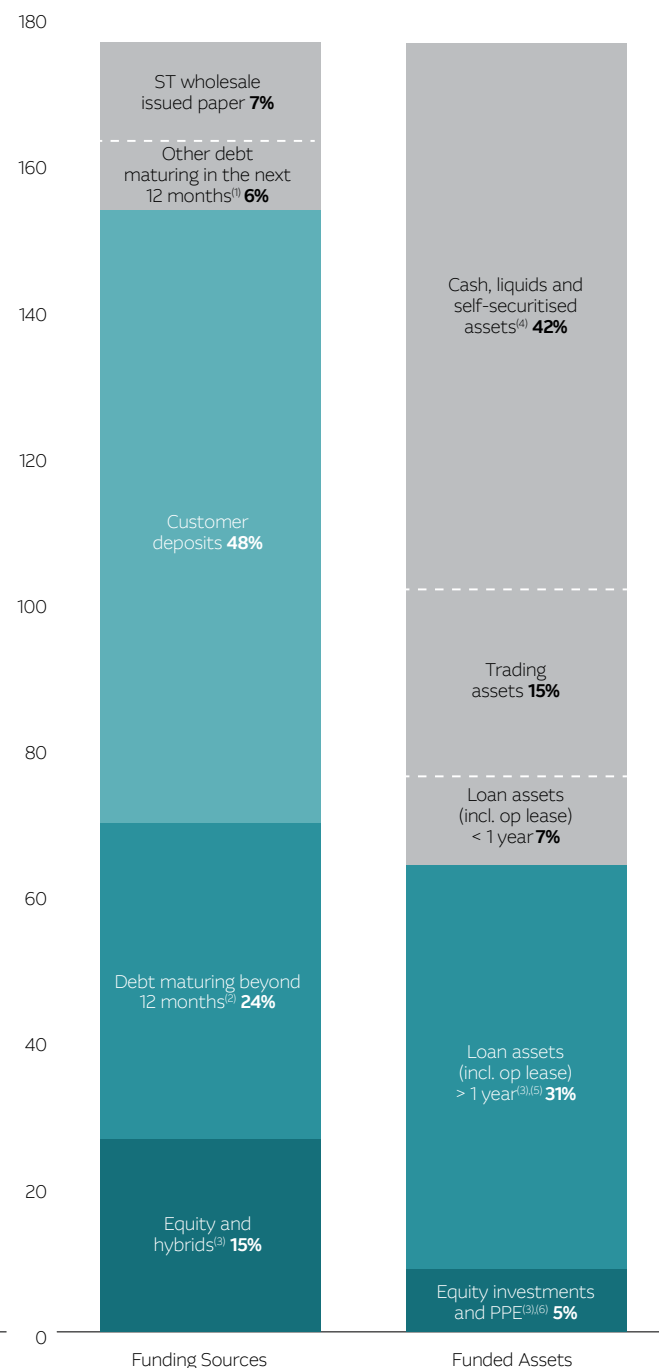
31 March 2020

\$A billion



31 March 2021

\$A billion



(1) Other debt maturing in the next 12 months includes Secured funding, Bonds, Other loans, Subordinated debt and Net trade creditors.

(2) Debt maturing beyond 12 months includes Subordinated debt, Structured notes, Secured funding (including drawn TFF), Bonds, Syndicated loan facilities and Other loans not maturing within next 12 months.

(3) Non-controlling interests are netted down in Equity and hybrids, Equity investments and PPE and Loan assets (incl. op lease) > 1 year.

(4) Cash, liquids and self-securitised assets includes self-securitisation of repo eligible Australian assets originated by Macquarie, a portion of which Macquarie can utilise as collateral in the RBA's CLF and TFF. Refer to page 63 for split of Cash and liquid assets and Self-securitisation.

(5) Loan assets (incl. op lease) > 1 year includes Debt investments.

(6) Equity investments and PPE includes Macquarie's co-investments in Macquarie-managed funds and other equity investments.

5.5 Funding Profile for the Bank Group

Funded balance sheet

		AS AT	
	Notes	Mar 21 \$Ab	Mar 20 \$Ab
Funding sources			
Wholesale issued paper:	1		
Certificates of deposit		0.4	0.6
Commercial paper		12.9	5.0
Net trade creditors	2	1.3	1.1
Structured notes	3	0.5	1.9
Secured funding	4	3.4	3.2
Bonds	5	19.0	24.4
Other loans	6	1.0	0.9
Customer deposits	8	84.0	67.1
Subordinated debt	9	5.1	3.5
Equity and hybrids	10	15.8	15.8
Total		143.4	123.5
Funded assets			
Cash and liquid assets	11	37.0	33.6
Self-securitisation	12	33.1	23.5
Net trading assets	13	24.4	22.0
Loan assets including operating lease assets less than one year	14	11.8	12.2
Loan assets including operating lease assets greater than one year	14	46.1	41.7
Debt investments	15	2.1	1.7
Non-Bank Group deposit with MBL		(12.4)	(12.2)
Co-investment in Macquarie-managed funds and other equity investments	16	0.5	0.4
Property, plant and equipment and intangibles		0.8	0.6
Total		143.4	123.5

See section 5.7 for Notes 1–16.

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5.5 Funding Profile for the Bank Group

Continued

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion

20

15

10

5

0

1-2 yrs

2-3 yrs

3-4 yrs

4-5 yrs

5 yrs+

■ Debt

■ Subordinated debt

■ Equity and hybrids

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

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

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

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Includes drawn RBA Term Funding Facility (TFF) Initial Allowance of \$A1.7 billion.

(3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(4) Does not include undrawn accessible TFF Allowances.

(5) Including drawn TFF, excluding equity which is a permanent source of funding, and securitisations.

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

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

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

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

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

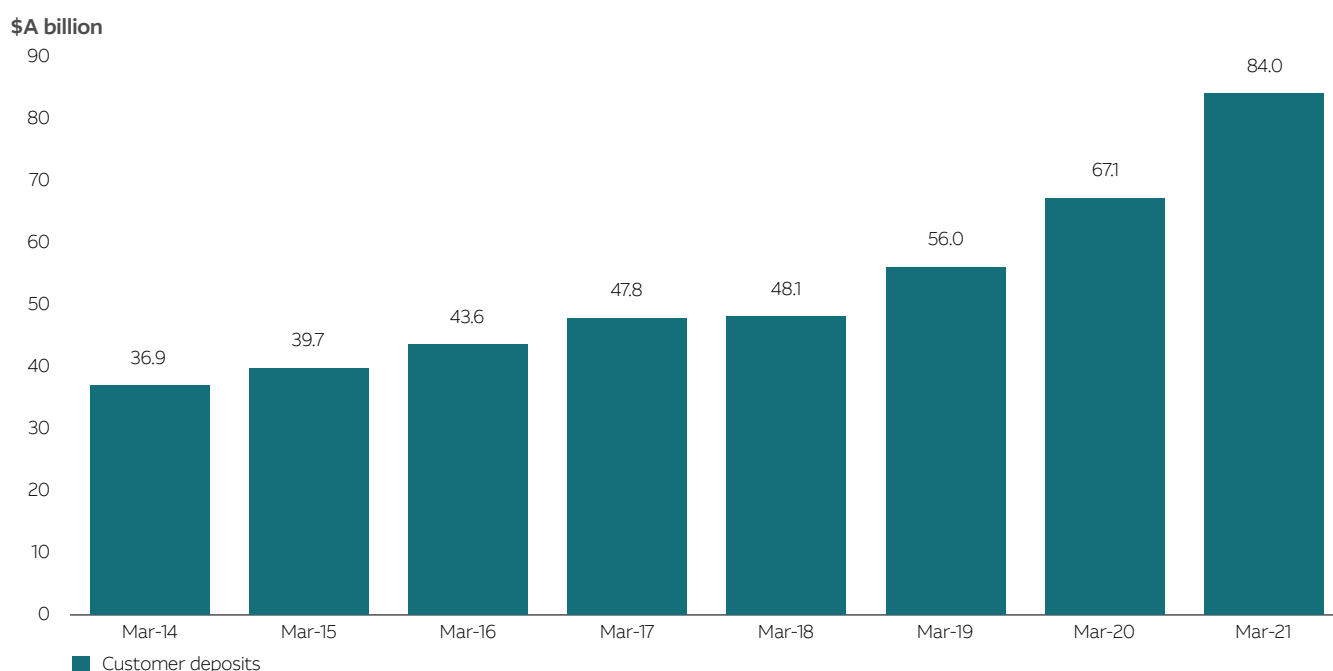
Deposit strategy

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

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

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

Deposit trend



(1) Funding outstanding excludes capitalised costs.

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

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

5.6 Funding Profile for the Non-Bank Group

Funded balance sheet

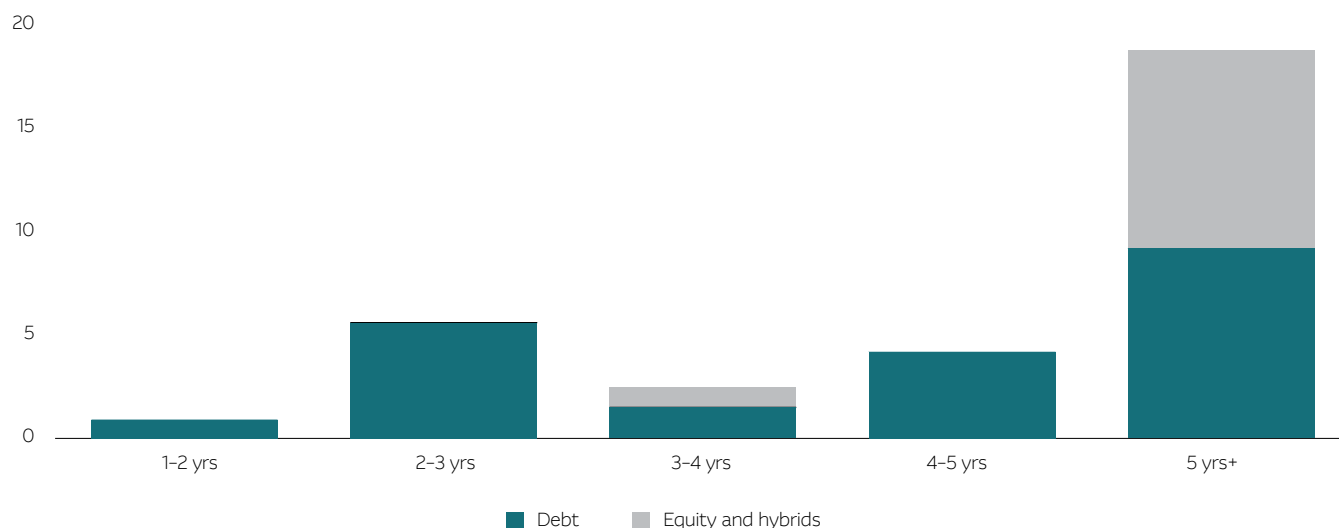
		AS AT	
	Notes	Mar 21 \$Ab	Mar 20 \$Ab
Funding sources			
Net trade creditors	2	0.1	0.9
Structured notes	3	0.6	0.1
Secured funding	4	0.4	0.6
Bonds	5	15.3	16.5
Other loans	6	0.2	0.3
Syndicated loan facilities	7	5.8	10.1
Equity and hybrids	10	10.6	9.6
Total		33.0	38.1
Funded assets			
Cash and liquid assets	11	4.6	5.3
Non-Bank Group deposit with MBL		12.4	12.2
Net trading assets	13	1.2	1.2
Loan assets including operating lease assets less than one year	14	0.5	1.2
Loan assets including operating lease assets greater than one year	14	6.4	7.9
Debt investments	15	0.6	0.2
Co-investment in Macquarie-managed funds and other equity investments	16	5.2	7.0
Property, plant and equipment and intangibles		2.1	3.1
Total		33.0	38.1

See section 5.7 for Notes 2-16.

Term funding profile

Detail of drawn funding maturing beyond one year

\$A billion



	AS AT MAR 21					
	1-2 yrs \$Ab	2-3 yrs \$Ab	3-4 yrs \$Ab	4-5 yrs \$Ab	5 yrs+ \$Ab	Total \$Ab
Structured notes ⁽¹⁾	-	-	0.4	0.1	0.1	0.6
Secured funding	-	-	-	-	-	-
Bonds	0.8	4.1	0.7	0.2	9.0	14.8
Other loans	0.1	-	-	-	0.1	0.2
Syndicated loan facilities	-	1.5	0.4	3.9	-	5.8
Total debt	0.9	5.6	1.5	4.2	9.2	21.4
Equity and hybrids ⁽²⁾	-	-	1.0	-	9.6	10.6
Total funding sources drawn	0.9	5.6	2.5	4.2	18.8	32.0
Undrawn	0.3	-	-	2.0	-	2.3
Total funding sources drawn and undrawn	1.2	5.6	2.5	6.2	18.8	34.3

The weighted average term to maturity of term funding maturing beyond one year⁽³⁾ was 5.5 years as at 31 March 2021.

As at 31 March 2021, other debt funding maturing within 12 months and net trade creditors represented \$A1.0 billion or 3% of total funding.

The key tools used for raising debt funding of MGL, which primarily funds the Non-Bank Group, are as follows⁽⁴⁾:

- \$US20 billion US Rule 144A/Regulation S Medium-Term Note Program, under which \$US6.4 billion of debt securities were outstanding as at 31 March 2021
- \$US10 billion Regulation S Debt Instrument Program, incorporating Euro Commercial Paper, Euro Medium-Term Notes and senior fixed/floating rate notes. The Debt Instrument Program had \$US3.2 billion debt securities outstanding as at 31 March 2021
- \$A7.8 billion⁽⁵⁾ of Syndicated Loan Facilities of which \$A5.9 billion⁽⁵⁾ was drawn as at 31 March 2021.
- \$US5 billion Structured Note Program under which \$US0.5 billion of structured notes were outstanding as at 31 March 2021
- \$US2.0 billion of Muni-gas Prepayment funding outstanding as at 31 March 2021; and
- \$US0.5 billion Secured Trade Finance Facility of which \$US0.3 billion was drawn as at 31 March 2021.

(1) Structured notes are profiled using a behavioural maturity profile.

(2) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

(3) Excluding equity which is a permanent source of funding.

(4) Funding outstanding excludes capitalised costs.

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

5.7 Explanatory Notes Concerning Funding Sources and Funded Assets

1. Wholesale issued paper

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

2. Net trade creditors

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

3. Structured notes

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

4. Secured funding

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

5. Bonds

Unsecured long-term wholesale funding.

6. Other loans

Unsecured loans provided by financial institutions and other counterparties.

7. Syndicated loan facilities

Loan facilities provided by a syndicate of wholesale lenders.

8. Customer deposits

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

9. Subordinated debt

Long-term subordinated debt.

10. Equity and hybrids

Equity balances are comprised of issued capital, retained earnings and reserves. Hybrid instruments as at 31 March 2021 include MACS, BCN2 and MCN 3, 4 and 5.

11. Cash and liquid assets

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

12. Self-securitisation

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

13. Net trading assets

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

14. Loan assets including operating lease assets

This represents loans provided to retail and wholesale borrowers, as well as assets held under operating leases. See section 4.2 for further information.

15. Debt investments

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

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

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

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06

Capital

Green Frog Power flexible power generation site, United Kingdom

In December 2020, Macquarie's Specialised and Asset Finance division provided a £38 million senior secured debt facility to Green Frog Power, the owner and operator of 222 MW of flexible power stations across 12 sites in England and Wales.

6.1 Overview

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

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

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

Transactions internal to Macquarie are eliminated.

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

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

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

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

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

Pillar 3

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

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

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

Macquarie Basel III regulatory capital surplus calculation

	AS AT MAR 21		AS AT SEP 20		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Macquarie eligible capital:						
Bank Group Gross Tier 1 capital	15,707	15,707	15,535	15,535	1	1
Non-Bank Group eligible capital	10,588	10,588	9,075	9,075	17	17
Eligible capital	26,295	26,295	24,610	24,610	7	7
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA) ⁽¹⁾	85,024	93,335	80,342	87,821	6	6
Capital required to cover RWA at 8.5% ⁽²⁾	7,227	7,933	6,829	7,465	6	6
Tier 1 deductions	190	2,239	184	1,836	3	22
Total Bank Group capital requirement	7,417	10,172	7,013	9,301	6	9
Total Non-Bank Group capital requirement	7,318	7,318	5,928	5,928	23	23
Total Macquarie capital requirement (at 8.5%^{(2),(3)} of the Bank Group RWA)	14,735	17,490	12,941	15,229	14	15
Macquarie regulatory capital surplus (at 8.5%^{(2),(3)} of Bank Group RWA)	11,560	8,805	11,669	9,381	(<1)	(6)

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA internal to Macquarie are eliminated (31 March 2021: \$A624 million; 30 September 2020: \$A946 million).

(2) Calculated at 8.5% of the Bank Group's RWA. The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer (CCB).

(3) Based on materiality, the countercyclical capital buffer (CCyB) of ~1bps has not been included. The individual CCyB varies by jurisdiction and the Bank Group's CCyB is calculated as a weighted average based on exposures in different jurisdictions.

6.2 Bank Group Capital

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

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

Common Equity Tier 1 capital

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

Tier 1 capital

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

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

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

Bank Group Basel III Tier 1 Capital

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

6.2 Bank Group Capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT MAR 21		AS AT SEP 20		MOVEMENT	
	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III \$Am	APRA Basel III \$Am	Harmonised Basel III %	APRA Basel III %
Credit risk						
Subject to IRB approach:						
Corporate	25,444	25,444	23,603	23,603	8	8
SME Corporate	4,629	4,629	4,383	4,383	6	6
Sovereign	1,199	1,199	491	491	144	144
Bank	1,423	1,423	1,349	1,349	5	5
Residential mortgage	8,907	21,461	7,977	19,030	12	13
Other retail	3,501	3,501	3,725	3,725	(6)	(6)
Retail SME	2,940	2,952	3,134	3,143	(6)	(6)
Total RWA subject to IRB approach	48,043	60,609	44,662	55,724	8	9
Specialised lending exposures subject to slotting criteria⁽¹⁾	6,847	6,847	6,114	6,114	12	12
Subject to Standardised approach:						
Corporate	92	92	225	225	(59)	(59)
Residential mortgage	690	690	705	705	(2)	(2)
Other Retail	1,513	1,513	1,463	1,463	3	3
Total RWA subject to Standardised approach	2,295	2,295	2,393	2,393	(4)	(4)
Credit risk RWA for securitisation exposures	759	759	705	705	8	8
Credit Valuation Adjustment RWA	3,931	3,931	6,033	6,033	(35)	(35)
Exposures to Central Counterparties RWA	736	736	752	752	(2)	(2)
RWA for Other Assets	4,811	2,412	3,940	2,245	22	7
Total Credit risk RWA	67,422	77,589	64,599	73,966	4	5
Equity risk exposures RWA	2,229	-	1,888	-	18	-
Market risk RWA	5,660	5,660	4,280	4,280	32	32
Operational risk RWA	10,337	10,337	10,521	10,521	(2)	(2)
Interest rate risk in banking book RWA	-	373	-	-	-	*
Total Bank Group RWA	85,648	93,959	81,288	88,767	5	6
Capital ratios						
Bank Group Level 2 Common Equity Tier 1 capital ratio (%)	16.2	12.6	16.8	13.5		
Bank Group Level 2 Tier 1 capital ratio (%)	18.1	14.3	18.9	15.4		

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

6.3 Non-Bank Group Capital

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for banks, with both calculating capital at a one year 99.9% confidence level. The key features are:

RISK ⁽¹⁾	BASEL III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment ⁽²⁾ . Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 34% and 84% of face value; average 52%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed VaR plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

(1) The ECAM also covers non-traded interest rate risk and the risk on assets held as part of business operations, including fixed assets, goodwill, intangible assets, capitalised expenses.

(2) Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

6.3 Non-Bank Group Capital

Continued

Non-Bank Group capital requirement

The capital requirement of the Non-Bank Group is set out in the table below.

	AS AT MAR 21		
	Assets \$Ab	Capital requirement \$Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	4.6	80	22%
Loan assets ⁽¹⁾	6.9	695	126%
Debt investments	0.6	67	140%
Co-investments in Macquarie-managed funds and other equity investments	4.7	2,355	626%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.5		
Property, plant and equipment and intangibles	2.1	956	569%
Non-Bank Group deposit with MBL	12.4		
Net trading assets	1.2		
Total funded assets	33.0	4,153	
Accounting deductions			
Derivative revaluation accounting gross-ups	0.2		
Segregated funds	0.3		
Outstanding trade settlement balances	5.7		
Working capital assets	6.0		
Non-controlling interests	0.3		
Self-funded assets			
Self-funded trading assets	0.5		
Assets funded non-recourse	1.0		
Total self-funded and non-recourse assets	14.0		
Total Non-Bank Group assets	47.0		
Equity commitments		974	
Off balance sheet exposures, operational, market and other risks and diversification offset ⁽²⁾		2,191	
Non-Bank Group capital requirement		7,318	

(1) Includes leases.

(2) Capital associated with net trading assets (including market risk capital) and net trade debtors has been included here.

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07

Funds Management

Incheon Grand Bridge, South Korea

The 12.3km Incheon Grand Bridge, connecting Korea's largest airport to outer Seoul and Incheon City, is managed by the Korea Exchange-listed Macquarie Korea Infrastructure Fund.



7.1 Assets Under Management

	AS AT			MOVEMENT	
	Mar 21 \$Ab	Sep 20 \$Ab	Mar 20 ⁽¹⁾ \$Ab	Sep 20 %	Mar 20 %
Assets under Management by type					
MIM					
Fixed Income	197.5	201.0	235.7	(2)	(16)
Equities	159.9	140.0	137.0	14	17
Alternatives and Multi-asset	9.7	9.9	9.9	(2)	(2)
Total MIM	367.1	350.9	382.6	5	(4)
MIRA					
Infrastructure Equity	157.8	162.0	168.4	(3)	(6)
Infrastructure Debt	12.8	11.4	11.7	12	9
Real Estate	18.8	25.2	29.1	(25)	(35)
Agriculture	3.3	2.7	2.8	22	18
Transport Finance	2.4	2.7	3.1	(11)	(23)
Total MIRA	195.1	204.0	215.1	(4)	(9)
Total MAM	562.2	554.9	597.7	1	(6)
Other Operating Groups	1.3	1.4	1.2	(7)	8
Total Assets under Management	563.5	556.3	598.9	1	(6)
Assets under Management by region					
Americas	279.1	277.2	293.0	1	(5)
Europe, Middle East and Africa	115.1	115.5	122.2	(<1)	(6)
Australia	133.8	125.2	116.4	7	15
Asia	35.5	38.4	67.3	(8)	(47)
Total Assets under Management	563.5	556.3	598.9	1	(6)

Assets under Management (AUM) is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflects Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.

AUM of \$A563.5 billion as at 31 March 2021 decreased 6% from \$A598.9 billion as at 31 March 2020. The decrease was largely due to impacts from foreign exchange, a reduction in contractual insurance assets and asset realisations made by MIRA-managed funds. This was partially offset by MIM market movements, investments made by MIRA-managed funds and net flows in MIM (see section 7.2 *Equity under Management* for further details).

(1) AUM as at 31 March 2020 has been restated to reflect an immaterial misstatement in total MAM AUM reported on 08 May 2020.

7.2 Equity Under Management

The MIRA division of MAM tracks its funds under management using an Equity under Management (EUM) measure as base management fee income is typically aligned with EUM.

Type of equity investment	Basis of EUM calculation
Listed equity	Market capitalisation at the measurement date plus underwritten or committed future capital raisings for listed funds.
Unlisted equity	Committed capital from investors at the measurement date less called capital subsequently returned to investors for unlisted funds; Invested capital at measurement date for managed businesses. ⁽¹⁾

If a fund is managed through a joint venture with another party, the EUM amount is weighted based on Macquarie's proportionate economic interest in the joint venture management entity.

Equity under Management by type and region

	AS AT ^{(2),(3)}		MOVEMENT	
	Mar 21 \$Ab	Sep 20 \$Ab	Mar 20 \$Ab	Sep 20 %
Equity under Management by type				
Listed equity	10.0	9.2	9.7	9
Unlisted equity	132.0	130.6	139.6	1
Total EUM	142.0	139.8	149.3	2
Equity under Management by region⁽⁴⁾				
Australia	12.3	14.3	14.4	(14)
Europe, Middle East and Africa	78.0	77.3	86.3	1
Americas	26.6	25.9	24.0	3
Asia	25.1	22.3	24.6	13
Total EUM	142.0	139.8	149.3	2

EUM of \$A142.0 billion as at 31 March 2021 decreased 5% from \$A149.3 billion as at 31 March 2020. The decrease was primarily due to foreign exchange impacts and equity returned by unlisted funds due to divestment of underlying assets. These were partially offset by equity raised for listed funds, unlisted funds and co-investments and share price movements for listed funds.

(1) Managed businesses includes third-party equity invested in MIRA managed businesses where management arrangements exist with Macquarie.

(2) Excludes equity invested by Macquarie Group in businesses managed by MIRA.

(3) Where a fund's EUM is denominated in a foreign currency, amounts are translated to Australian dollars at the exchange rate prevailing at the measurement date.

(4) By location of fund management team.





08

Glossary

The voice of the client - Kerrie-Anne and Phillip

"The digital experience for refinancing was exceptional, and that's why we bank with Macquarie."

Our Home of Good Borrowers campaign uses real clients to tell their story and why they choose to bank with Macquarie. Kerrie-Anne and Phillip wanted a digital experience that makes their life easier. They found it with Macquarie's digital refinance experience and user-friendly banking app.

8.1 Glossary

Defined term	Definition
1H20	The six months ended 30 September 2019.
2H20	The six months ended 31 March 2020.
1H21	The six months ended 30 September 2020.
2H21	The six months ended 31 March 2021.
4Q21	The three months ended 31 March 2021.
A	
AASB	Australian Accounting Standards Board.
ABS	Asset Backed Securities.
ADI	Authorised deposit-taking institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and • provide for fully discretionary capital distributions.
Additional Tier 1 Deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Assets under Management (AUM)	AUM is calculated as the proportional ownership interest in the underlying assets of funds and mandated assets that Macquarie actively manages or advises for the purpose of wealth creation, adjusted to exclude cross-holdings in funds and reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in MIRA.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by MIRA, and the location of the investor for all other funds.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for sale (HFS) associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
B	
Bank Group	MBL and its subsidiaries.
Bank Group Capital	Level 2 regulatory group capital.
Banking Group	The Banking Group comprised of BFS, certain activities of CGM and certain activities of the Equities business in Macquarie Capital.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 <i>Capital Adequacy: Internal Ratings-based Approach to Credit Risk</i> .
BCBS	Basel Committee on Banking Supervision.
BCN2	On 2 June 2020, MBL issued 6.4 million Macquarie Bank Capital Notes 2 (BCN2) at a face value of \$A100 each. BCN2 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

Defined term	Definition
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.
BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Term Deposits and Relationship Banking deposits. Counterparties primarily consist of individuals, self-managed super funds and small-medium enterprises.
BIS	Bank for International Settlements.
C	
CCB	Capital Conservation Buffer.
Central Service Groups	The Central Service Groups consist of the Corporate Operations Group, Financial Management Group, Risk Management Group, Legal and Governance and Central Executive.
CGM	Commodities and Global Markets.
CLF	Reserve Bank of Australia Committed Liquidity Facility.
CMA	Cash Management Account.
Common Equity Tier 1 Capital	A capital measure defined by APRA, comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • do not impose any unavoidable servicing charge against earnings; and • rank behind the claims of depositors and other creditors in the event of winding up. Common Equity Tier 1 Capital comprises paid up capital, Retained earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 Deductions expressed as a percentage of RWA.
Common Equity Tier 1 Deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
Compensation ratio	The ratio of Compensation expense to Net operating income.
Consolidated Entity	Macquarie Group Limited and its subsidiaries.
D	
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
E	
Earnings on capital and certain corporate income items	Net operating income includes the income generated by Macquarie's Operating Groups, income from the investment of Macquarie's capital, and certain items of operating income not attributed to Macquarie's Operating Groups. Earnings on capital and certain corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133: <i>Earnings Per Share</i> .
ECAM	Economic Capital Adequacy Model.
ECL	Expected Credit Losses as defined and measured in terms of AASB 9: <i>Financial Instruments</i> .
Effective tax rate	The income tax expense as a percentage of the profit before income tax, both adjusted for amounts attributable to non-controlling interests. The effective tax rate differs from the Australian company tax rate due to permanent differences arising from the income tax treatment of certain income and expenses as well as tax rate differentials on some of the income earned offshore.
Equity under Management (EUM)	Refer to definition in section 7.2.
Expense/Income ratio	Total operating expenses expressed as a percentage of Net operating income.

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8.1 Glossary

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

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

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8.1 Glossary

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Defined term	Definition
S	
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation.
Specialised and Asset Finance (SAF)	SAF is a global provider of specialist finance and asset management solutions across: Technology, Media and Telecoms; Energy, Renewables and Sustainability; Fund Finance; Resources; Structured Lending; and Shipping and Export Credit Agencies.
SPEs	Special purpose entities.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
SYD distribution	In-specie distribution of Sydney Airport stapled securities to Macquarie ordinary shareholders in January 2014.
T	
TFF	Reserve Bank of Australia Term Funding Facility.
Tier 1 Capital	Tier 1 Capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 Capital Deductions comprises of (i) Common Equity Tier 1 Capital Deductions; and (ii) Additional Tier 1 Capital Deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
True Index products	True Index products deliver clients pre-tax index returns (before buy/sell spreads on transactions). Any under-performance is compensated by Macquarie and conversely, any out-performance is retained by Macquarie.
U	
UK	The United Kingdom.
US	The United States of America.

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Ten year history

Storegga, Shell St Fergus, United Kingdom

CGM has announced further investment in Storegga, a United Kingdom carbon reduction and removal company. The investment will help fund Storegga's Acorn Project and plans for a Direct Air Capture facility.

9.1 Ten Year History

	YEAR ENDED 31 MARCH ⁽¹⁾									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Income statement (\$Am)										
Net operating income	12,774	12,325	12,754	10,920	10,364	10,158	9,262	8,132	6,657	6,963
Total operating expenses	(8,867)	(8,871)	(8,887)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)	(5,914)
Operating profit before income tax	3,907	3,454	3,867	3,464	3,104	3,015	2,522	2,106	1,405	1,049
Income tax expense	(899)	(728)	(879)	(883)	(868)	(927)	(899)	(827)	(533)	(287)
Profit after income tax	3,008	2,726	2,988	2,581	2,236	2,088	1,623	1,279	872	762
Loss/(profit) attributable to non-controlling interests	7	5	(6)	(24)	(19)	(25)	(19)	(14)	(21)	(32)
Profit attributable to ordinary equity holders of Macquarie Group Limited	3,015	2,731	2,982	2,557	2,217	2,063	1,604	1,265	851	730
Statement of financial position (\$Am)										
Total assets	245,653	255,802	197,757	191,325	182,877	196,755	187,976	153,904	144,748	153,626
Total liabilities	(223,302)	(234,018)	(179,393)	(173,145)	(165,607)	(181,091)	(173,580)	(141,990)	(132,793)	(141,894)
Net assets	22,351	21,784	18,364	18,180	17,270	15,664	14,396	11,914	11,955	11,732
Total loan assets	105,026	94,117	77,811	73,509	69,288	72,393	67,663	49,965	47,449	41,930
Impaired loan assets (net of provisions) ⁽²⁾	1,544	1,528	1,674	351	547	418	594	365	368	357
Share information										
Dividends per share (cents per share)										
Interim	135	250	215	205	190	160	130	100	75	65
Final	335	180	360	320	280	240	200	160	125	75
Special ⁽³⁾	-	-	-	-	-	-	-	116	-	-
Total	470	430	575	525	470	400	330	376	200	140
Basic earnings per share (cents per share)	842.9	791.0	883.3	758.2	657.6	619.2	502.3	383.6	251.2	210.1
Share price at reporting date (\$A)	152.83	85.75	129.42	102.90	90.20	66.09	76.67	57.93	37.15	29.08
Ordinary shares (million shares)	361.8	354.4	340.4	340.4	340.4	340.3	333.5	321.1	339.5	348.6
Market capitalisation as at reporting date (fully paid ordinary shares) (\$Am)	55,297	30,388	44,052	35,024	30,700	22,491	25,569	18,601	12,613	10,137
Net tangible assets per ordinary share (\$A)	53.91	50.21	46.21	45.12	42.74	41.23	38.19	31.71	29.94	28.12
Ratios										
Return on average ordinary shareholders' funds (%)	14.3	14.5	18.0	16.8	15.2	14.7	14.0	11.1	7.8	6.8
Ordinary dividend payout ratio (%)	56.4	55.8	65.6	69.8	72.0	65.7	67.6	66.8	79.0	66.4
Expense/income ratio (%)	69.4	72.0	69.7	68.3	70.1	70.3	72.8	74.1	78.9	84.9
Net loan loss as % of loan assets (excluding securitisation SPVs)	0.4	0.8	0.4	0.3	0.5	1.0	0.7	0.4	0.4	0.5
Assets under Management (\$Ab)										
	563.5	598.9	551.3	496.7	481.7	478.6	486.3	426.9	347.4	326.9
Staff numbers										
	16,459	15,849	15,602	14,810	13,925	14,660	14,373	14,180	13,905	14,519

(1) Results are prepared on the accounting standard application in that year and may not be necessarily comparable.

(2) Represents net exposure in credit impaired loan assets as per Australian Accounting Standards since 31 March 2019. For financial years ended 31 March 2012-2018, represents net exposure in impaired loan assets disclosed as per Australian regulatory authority requirements.

(3) The special dividend for the year ended 31 March 2014 represented the special dividend component of the in-specie distribution of Sydney Airport stapled securities in January 2014. The total distribution including return of capital was 373 cents per share.

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