MACQUARIE

Macquarie Group Management Discussion and Analysis

Half year ended 30 September 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 Interim Financial Report (the Financial Report) for the half year ended 30 September 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.

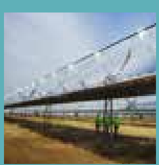
Certain financial information in this report is prepared on a different basis to that contained in the Financial Report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards,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

Date of this report

This report has been prepared for the half year ended 30 September 2021 and is current as at 29 October 2021.

Cover image

Since 2012, Macquarie Asset Management's Private Credit team has invested approximately €2.7 billion across more than 39 renewable energy projects, with a total installed capacity of 15 GW, including this parabolic trough solar plant in Andalusia in southern Spain.



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 corresponding period (pcp) are to the six months ended 30 September 2020.

References to the prior period are to the six months ended 31 March 2021.

References to the current period and current half year are to the six months ended 30 September 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 Review Report

This document should be read in conjunction with the Financial Report for the half year ended 30 September 2021, which was subject to independent review by PricewaterhouseCoopers.

PricewaterhouseCoopers' independent auditor's review report to the members of Macquarie Group Limited dated 29 October 2021 was unqualified.

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

Contents

03

Segment Analysis

04

Balance Sheet

05

Funding and Liquidity

08

Glossary

09

Ten Year History

01 Result Overview

1.1 Executive Summary

1H22 net profit

$A2,043m

↑ 107% on pcp

1H22 annualised return on equity

17.8%

↑ from 9.5% in the pcp

1H22 net operating income

$A7,804m

↑ 41% on pcp

1H22 operating expenses

$A5,069m

↑ 19% on pcp

1H22 net profit contribution[1] by activity

Annuity-style activities

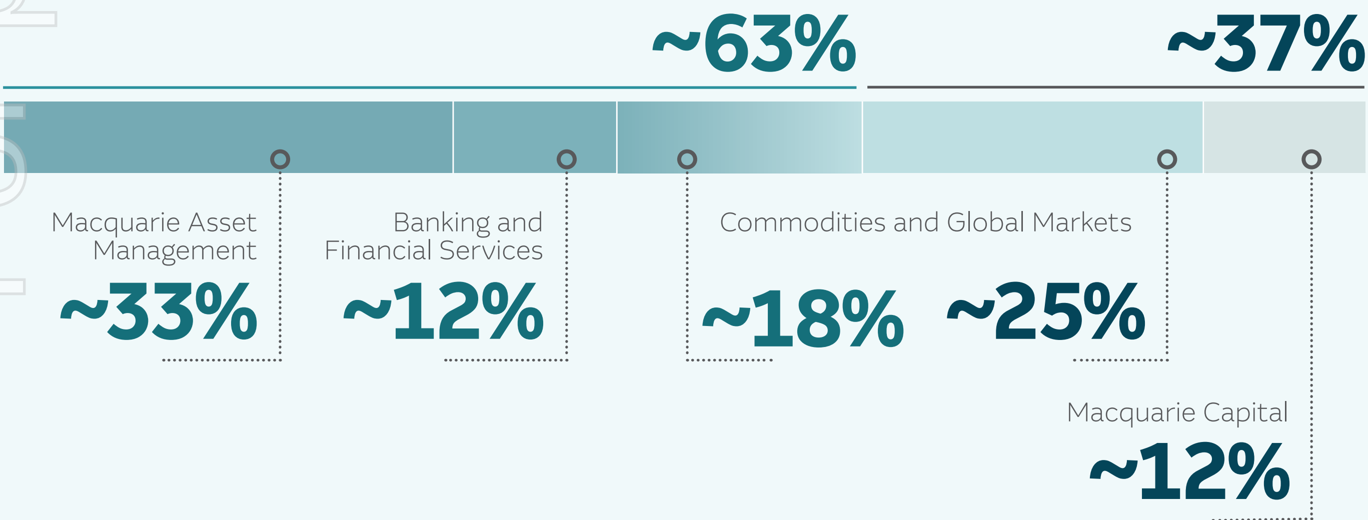
$A2,517m

↑ 57% on pcp

Markets-facing activities

$A1,467m

↑ 118% on pcp



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

1H22 net profit contribution by Operating Group

Summary of the Operating Groups' performance for the half year ended 30 September 2021.

Annuity-style businesses

Non-Banking Group

Macquarie Asset Management (MAM)

$A1,305m

↑ **23%** on pcp

- Increased other fee and commission income largely due to the disposition fee from Macquarie Infrastructure Corporation (MIC)
- Increased base fees primarily driven by the acquisition of Waddell & Reed Financial, Inc. (Waddell & Reed), investments made by Private Markets-managed funds and mandates and Public Investments market movements
- Increased share of net profits from associates and joint ventures, primarily driven by equity accounted income from MIC and increased Macquarie AirFinance income compared to the prior corresponding period, which included the impact of COVID-19
- Decreased credit and other impairment charges driven by a reversal of the impairment previously recognised on MAM's investment in MIC.

Partially offset by:

- increased operating expenses driven by Waddell & Reed one-off acquisition and ongoing costs
- decreased net income on equity, debt and other investments driven by the sale of Macquarie European Rail in the prior corresponding period
- decreased performance fees following a strong prior corresponding period.

Banking Group

Banking and Financial Services (BFS)

$A482m

↑ **52%** on pcp

- Higher net interest and trading income driven by volume growth in the loan portfolio and BFS deposits
- Decreased credit impairment charges driven by an improvement in expected macroeconomic conditions compared to the prior corresponding period
- Decreased brokerage, commission and fee expenses largely due to the cessation of grandfathered commission payments to third party advisors in line with legislation.

Partially offset by:

- higher employment and technology expenses, including increased headcount, to support business growth.

Markets-facing businesses

Macquarie Capital

$A468m

↑ **significantly on pcp**

- Higher net income on equity, debt and other investments driven by higher revenue from asset realisations predominantly in Europe, in the business services and technology sectors
- Higher fee and commission income due to higher mergers and acquisitions fee income and debt capital markets fee income, partially offset by lower equity capital markets fee income
- Higher net interest and trading income resulting from growth in the Principal Finance debt portfolio, and lower funding costs compared to the prior corresponding period
- Higher other income reflecting gains on sale of green energy projects
- Lower operating expenses predominantly driven by lower employment costs.

Partially offset by:

- higher credit and other impairment charges primarily due to a small number of underperforming equity investments and growth of the debt portfolio
- higher non-controlling interests predominantly driven by share of gains on disposal attributable to non-controlling interests.

Commodities and Global Markets[1] (CGM)

$A1,729m

↑ **60%** on pcp

- Increased risk management products income reflecting strong results across all sectors particularly from Gas and Power, Resources, and Agriculture due to increased client hedging activity and gains associated with management of those exposures as a result of elevated levels of volatility and price movements in commodity markets
- Net income on equity, debt and other investments up significantly driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio
- Decreased credit and other impairment charges due to an improvement in expected global macroeconomic conditions.

Partially offset by:

- lower inventory management and trading income included strong trading gains from supply and demand imbalances in Gas and Power that were more than offset by the impact of timing of income recognition, primarily on storage contracts and transport agreements
- lower fee and commission income due to a reduction in fees associated with structured deals in asset finance which occur on an intermittent basis.

(1) Certain assets of the Credit Markets business, certain activities of the Commodity Markets and Finance business, and some other less financially significant activities are undertaken from within the Non-Banking Group.

1.1 Executive Summary

Continued

Profit attributable to the ordinary equity holders

$A2,043m

↑ 107% on pcp

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Financial performance summary					
Net interest income	**1,373**	1,162	1,033	*18*	*33*
Fee and commission income	**3,452**	2,563	2,613	*35*	*32*
Net trading income	**1,659**	1,995	1,487	*(17)*	*12*
Net operating lease income	**186**	221	245	*(16)*	*(24)*
Share of net profits/(losses) from associates and joint ventures	**242**	51	(54)	*	*
Net credit impairment charges	**(176)**	(27)	(407)	*	*(57)*
Net other impairment charges	**(54)**	(50)	(40)	*8*	*35*
Net other operating income	**1,122**	1,340	642	*(16)*	*75*
Net operating income	**7,804**	7,255	5,519	*8*	*41*
Employment expenses	**(3,164)**	(2,902)	(2,615)	*9*	*21*
Brokerage, commission and fee expenses	**(498)**	(408)	(471)	*22*	*6*
Non-salary technology expenses	**(417)**	(386)	(395)	*8*	*6*
Other operating expenses	**(990)**	(905)	(785)	*9*	*26*
Total operating expenses	**(5,069)**	(4,601)	(4,266)	*10*	*19*
Operating profit before income tax	**2,735**	2,654	1,253	*3*	*118*
Income tax expense	**(603)**	(624)	(275)	*(3)*	*119*
Profit after income tax	**2,132**	2,030	978	*5*	*118*
(Profit)/loss attributable to non-controlling interests	**(89)**	–	7	*	*
Profit attributable to ordinary equity holders of Macquarie Group Limited	**2,043**	2,030	985	*1*	*107*
Key Metrics					
Expense to income ratio (%)	**65.0**	63.4	77.3		
Compensation ratio (%)	**38.5**	38.0	44.0		
Effective tax rate (%)	**22.8**	23.5	21.8		
Basic earnings per share (cents per share)	**562.5**	565.2	276.7		
Diluted earnings per share (cents per share)	**545.4**	546.0	272.9		
Dividend per ordinary share (cents per share)	**272.0**	335.0	135.0		
Ordinary dividend payout ratio (%)[1]	**50**	60	50		
Annualised return on equity (%)	**17.8**	19.0	9.5		

(1) The ordinary dividend payout ratio for the half year ended 30 September 2021 is calculated as the estimated number of eligible shares on the record date multiplied by the dividend per share, divided by the profit attributable to MGL shareholders.

Net operating income

Net operating income of $A7,804 million for the half year ended 30 September 2021 increased 41% from $A5,519 million in the prior corresponding period. The increase was primarily driven by higher Fee and commission income, Net interest and trading income, Net other operating income and Share of net profits/(losses) from associates and joint ventures.

Net interest and trading income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
3,032	3,157	2,520

↑ 20% on pcp

- Increased risk management products income reflecting strong results across all sectors, particularly from Gas and Power, Resources, and Agriculture in CGM
- Growth in the average loan and lease portfolio and growth in average deposit volumes in BFS
- Growth in the Principal Finance debt portfolio in Macquarie Capital
- Higher income in Corporate due to accounting volatility from changes in the fair value of economic hedges.

Partially offset by:

- lower inventory management and trading income with strong trading gains more than offset by the impact of timing of income recognition in CGM.

Fee and commission income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
3,452	2,563	2,613

↑ 32% on pcp

- MAM included the disposition fee from MIC, and higher base fee income primarily driven by the acquisition of Waddell & Reed
- Higher mergers and acquisitions fee income and debt capital markets fee income in Macquarie Capital.

Partially offset by:

- lower performance fees in MAM
- lower equity capital markets fee income in Macquarie Capital.

Net operating lease income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
186	221	245

↓ 24% on pcp

- Reduction in secondary income in Technology, Media and Telecoms as well as the partial sale of the UK Meters portfolio of assets in CGM.

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

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
242	51	(54)

↑ significantly on pcp

- Equity accounted income from MIC in MAM. The prior corresponding period included an equity accounted loss from Macquarie AirFinance
- Overall improved performance of Macquarie Capital's investment portfolio.

Credit and other impairment charges

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
(230)	(77)	(447)

↓ 49% on pcp

- Lower credit impairment charges recognised across the Consolidated Entity compared to the prior corresponding period reflecting improvement in expected macroeconomic conditions
- A reversal of the impairment previously recognised on MAM's investment in MIC.

Partially offset by:

- higher impairment charges in Macquarie Capital driven by a small number of underperforming equity investments and growth of the debt portfolio.

Net other operating income

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
1,122	1,340	642

↑ 75% on pcp

- Gain on the partial sale of the UK Meters portfolio of assets in CGM
- Higher revenue from asset realisations predominantly in Europe, in the business services and technology sectors, and gains on sale of green energy projects in Macquarie Capital.

Partially offset by:

- gain on sale of Macquarie European Rail in the prior corresponding period in MAM.

1.1 Executive Summary

Continued

Operating expenses

Total operating expenses of $A5,069 million for the half year ended 30 September 2021 increased 19% from $A4,266 million in the prior corresponding period with increases across all expense categories.

Employment expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
3,164	2,902	2,615

↑ **21%** on pcp

- Higher performance-related profit share expense and share-based payments mainly as a result of the improved performance of the Consolidated Entity
- Higher expenses from the Waddell & Reed acquisition in MAM.

Partially offset by:

- favourable foreign exchange movements.

Brokerage, commission and fee expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
498	408	471

↑ **6%** on pcp

- Higher expenses from the Waddell & Reed acquisition in MAM.

Partially offset by:

- the cessation of grandfathered commission payments to third party advisors in line with legislation in BFS
- reduced trading volumes in financial markets in specific high volume activities in CGM.

Non-salary technology expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
417	386	395

↑ **6%** on pcp

- Higher expenses from the Waddell & Reed acquisition in MAM
- Higher cloud consumption and on-going investment in technology to support business activity.

Partially offset by:

- favourable foreign exchange movements.

Other operating expenses

HALF YEAR TO		
30 Sep 21 $Am	31 Mar 21 $Am	30 Sep 20 $Am
990	905	785

↑ **26%** on pcp

- Higher expenses from the Waddell & Reed acquisition in MAM.

Partially offset by:

- favourable foreign exchange movements.

Income tax expense

Income tax expenses of $A603 million for the half year ended 30 September 2021 increased significantly from $A275 million in the prior corresponding period, primarily reflecting the higher operating profit before income tax. The effective tax rate for the half year ended 30 September 2021 was 22.8%, up from 21.8% in the prior corresponding period and down from 23.5% in the prior period.

The higher effective tax rate compared to the prior corresponding period was mainly driven by the geographic composition and nature of earnings.

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02

Financial Performance Analysis

2.1 Net Interest and Trading Income

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net interest income	**1,373**	1,162	1,033	*18*	*33*
Net trading income	**1,659**	1,995	1,487	*(17)*	*12*
Net interest and trading income	**3,032**	3,157	2,520	*(4)*	*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 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			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
MAM	**(135)**	(126)	(123)	*7*	*10*
BFS	**974**	902	844	*8*	*15*
CGM					
Commodities					
Risk management products	**949**	883	578	*7*	*64*
Lending and financing	**116**	116	118	*–*	*(2)*
Inventory management and trading	**189**	560	416	*(66)*	*(55)*
Foreign exchange, interest rates and credit	**348**	353	349	*(1)*	*(<1)*
Equities	**183**	133	206	*38*	*(11)*
Asset Finance	**93**	74	70	*26*	*33*
Macquarie Capital	**115**	63	6	*83*	***
Corporate	**200**	199	56	*1*	*257*
Net interest and trading income	**3,032**	3,157	2,520	*(4)*	*20*

Net interest and trading income of $A3,032 million for the half year ended 30 September 2021 increased 20% from $A2,520 million in the prior corresponding period.

MAM

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

Net interest and trading expense of $A135 million for the half year ended 30 September 2021 increased 10% from $A123 million in the prior corresponding period primarily driven by higher interest expense on the acquisition of Waddell & Reed.

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 $A974 million for the half year ended 30 September 2021 increased 15% from $A844 million in the prior corresponding period mainly due to a 22% growth in the average loan and lease portfolio and 19% growth in the average BFS deposit volumes.

As at 30 September 2021 the loan and lease, and deposit portfolios included:

- home loan volumes of $A76.4 billion, up 14% from $A67.0 billion as at 31 March 2021
- business banking loan volumes of $A11.0 billion, up 8% from $A10.2 billion as at 31 March 2021
- vehicle finance volumes of $A10.9 billion, down 5% from $A11.5 billion as at 31 March 2021, and
- BFS deposits of $A88.2 billion up 9% from $A80.7 billion as at 31 March 2021.

CGM

Net interest and trading income of $A1,878 million for the half year ended 30 September 2021 increased 8% from $A1,737 million in the prior corresponding period:

Commodities

i) Risk management products

Income from risk management products is driven by managing clients' exposure to commodity price volatility which is supported by our strong internal risk management framework.

Risk management products income of $A949 million for the half year ended 30 September 2021 increased 64% from $A578 million in the prior corresponding period with contributions across the platform. Increased contributions were recorded by Gas and Power, Resources, and Agriculture due to increased client hedging activity and gains associated with management of those exposures as a result of elevated levels of volatility and price movements in commodity markets.

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 $A116 million for the half year ended 30 September 2021 decreased 2% from $A118 million in the prior corresponding period with consistent contributions across the commodity platform.

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 $A189 million for the half year ended 30 September 2021 decreased 55% from $A416 million in the prior corresponding period. The current period included strong trading gains from supply and demand imbalances recorded in Gas and Power which were largely offset by the unfavourable impact of timing of income recognition of $A376 million, primarily on 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 $A348 million for the half year ended 30 September 2021 was broadly in line with $A349 million in the prior corresponding period with continued strong client activity in structured foreign exchange and credit products across regions.

2.1 Net Interest and Trading Income

Continued

Equities

Equities net interest and trading income is generated from the issuance 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 $A183 million for the half year ended 30 September 2021 decreased 11% from $A206 million in the prior corresponding period due to a reduction in trading activities in EMEA. This was largely offset by a corresponding decrease in brokerage, commission and fee expenses.

Asset Finance

Net interest and trading income in 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).

Asset Finance net interest and trading income of $A93 million for the half year ended 30 September 2021 increased 33% from $A70 million in the prior corresponding period. The increase was largely as a result of increased volumes in Structured Lending, Technology, Media and Telecoms and Shipping Finance.

The loan and finance lease portfolio was $A6.6 billion as at 30 September 2021, an increase of 35% from $A4.9 billion as at 30 September 2020. The increase was largely due to increased activity across the Structured Lending, Technology, Media and Telecoms and Shipping Finance portfolios.

Macquarie Capital

Net interest and trading income 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 $A115 million for the half year ended 30 September 2021 increased significantly from $A6 million in the prior corresponding period. The increase was primarily due to higher interest income resulting from growth in the Principal Finance debt portfolio, and lower funding costs compared to the prior corresponding period.

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 investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting is unable to be achieved.

Net interest and trading income of $A200 million for the half year ended 30 September 2021 was significantly up from $A56 million in the prior corresponding period mainly due to accounting volatility from the changes in the fair value of economic hedges.

2.2 Fee and Commission Income

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Base fees	**1,374**	1,026	985	*34*	*39*
Other asset management fees	**218**	149	145	*46*	*50*
Base fees and other asset management fees	**1,592**	1,175	1,130	*35*	*41*
Performance fees	**177**	247	413	*(28)*	*(57)*
Mergers and acquisitions, advisory and underwriting fees	**618**	445	413	*39*	*50*
Brokerage and other trading-related fee income	**381**	415	401	*(8)*	*(5)*
Other fee and commission income	**684**	281	256	*143*	*167*
Total fee and commission income	**3,452**	2,563	2,613	*35*	*32*

Total fee and commission income of $A3,452 million for the half year ended 30 September 2021 increased 32% from $A2,613 million in the prior corresponding period. The increase was primarily driven by increases in base fees and other fee and commission income in MAM as well as mergers and acquisitions fee income in Macquarie Capital, partially offset by lower performance fees in MAM.

Base fees, Other asset management fees and Performance fees

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Base fees					
MAM					
Public Investments (PI)	**833**	528	500	*58*	*67*
Private Markets (PM)	**529**	486	471	*9*	*12*
Total MAM	**1,362**	1,014	971	*34*	*40*
Other Operating Groups	**12**	12	14	–	*(14)*
Total base fee income	**1,374**	1,026	985	*34*	*39*
Total other asset management fees	**218**	149	145	*46*	*50*
Performance fees					
MAM					
Public Investments (PI)	**1**	11	2	*(91)*	*(50)*
Private Markets (PM)	**176**	229	411	*(23)*	*(57)*
Total MAM	**177**	240	413	*(26)*	*(57)*
Other Operating Groups	**–**	7	–	*(100)*	–
Total performance fee income	**177**	247	413	*(28)*	*(57)*

2.2 Fee and Commission Income

Continued

Base fees

Base fees of $A1,374 million for the half year ended 30 September 2021 increased 39% from $A985 million in the prior corresponding period.

Base fees, which are typically generated from funds management activities, are mainly attributable to MAM. MAM's base fees of $A1,362 million for the half year ended 30 September 2021 increased 40% from $A971 million in the prior corresponding period, primarily driven by the acquisition of Waddell & Reed, investments made by Private Markets-managed funds and mandates and Public Investments market movements. This was partially offset by foreign exchange movements and asset realisations in Private Markets-managed funds.

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 $A218 million for the half year ended 30 September 2021 increased 50% from $A145 million in the prior corresponding period. The increase was driven by distribution fees following the acquisition of Waddell & Reed.

Performance fees

Performance fees of $A177 million for the half year ended 30 September 2021 decreased 57% from $A413 million in the prior corresponding period.

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) III, Macquarie European Infrastructure Fund (MEIF) 4 and other Private Markets-managed funds, managed accounts and co-investors. The prior corresponding period included performance fees from MIP II, MEIF4 and other Private Markets-managed funds and managed accounts.

Mergers and acquisitions, advisory and underwriting fees

Mergers and acquisitions, advisory and underwriting fees of $A618 million for the half year ended 30 September 2021 increased 50% from $A413 million in the prior corresponding period and were mainly attributable to Macquarie Capital.

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

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 $A381 million for the half year ended 30 September 2021 decreased 5% from $A401 million in the prior corresponding period, primarily in Macquarie Capital.

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 raisings, MIC disposition, transactions services, transfer agent oversight services, brokerage and commission income and income from True Index products, while CGM includes structured, index and retail products.

Other fee and commission income of $A684 million for the half year ended 30 September 2021 was significantly up from $A256 million in the prior corresponding period, primarily in MAM, due to the disposition fee from MIC.

2.3 Net Operating Lease Income

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Rental income	**359**	410	539	*(12)*	*(33)*
Depreciation and other operating lease-related charges	**(173)**	(189)	(294)	*(8)*	*(41)*
Net operating lease income	**186**	221	245	*(16)*	*(24)*

Net operating lease income of $A186 million for the half year ended 30 September 2021, decreased 24% from $A245 million in the prior corresponding period due to a reduction in secondary income in Technology, Media and Telecoms as well as the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio, in CGM, and the impact of sale of the Macquarie European Rail in the prior corresponding period in MAM.

The total operating lease portfolio was $A2.9 billion as at 30 September 2021, up 4% from $A2.8 billion as at 31 March 2021. The operating lease assets related to the partial sale of CGM's UK Meters portfolio of assets in the current period were recognised as Held for sale as at 31 March 2021.

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

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Share of net profits/(losses) from associates and joint ventures	**242**	51	(54)	*	*

Share of net profits from associates and joint ventures of $A242 million for the half year ended 30 September 2021 compared to losses of $A54 million in the prior corresponding period. The movement is primarily driven by equity accounted income from MIC in MAM in the current period, as well as the overall improved performance of the investment portfolio in Macquarie Capital.

The prior corresponding period included an equity accounted loss from Macquarie AirFinance in MAM.

2.5 Credit and Other Impairment Charges

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net credit impairment (charges)/reversals					
Loan assets	**(64)**	45	(368)	*	*(83)*
Other assets	**(52)**	(30)	(20)	*73*	*160*
Margin money and settlement assets	**(11)**	(6)	(36)	*83*	*(69)*
Loans to associates and joint ventures	**(33)**	(19)	2	*74*	*
Undrawn credit commitments, letters of credit and financial guarantees	**(12)**	(26)	17	*(54)*	*
Financial investments	**(4)**	9	(4)	*	–
Gross credit impairment charges	**(176)**	(27)	(409)	*	*(57)*
Recovery of loans previously written off	**–**	–	2	–	*(100)*
Net credit impairment charges	**(176)**	(27)	(407)	*	*(57)*
Net other impairment (charges)/reversals					
Interests in associates and joint ventures	**(5)**	93	(28)	*	*(82)*
Intangible assets and other non-financial assets	**(49)**	(143)	(12)	*(66)*	*
Net other impairment charges	**(54)**	(50)	(40)	*8*	*35*
Total credit and other impairment charges	**(230)**	(77)	(447)	*199*	*(49)*

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
MAM	**116**	96	(11)	*21*	*
BFS	**(31)**	(37)	(78)	*(16)*	*(60)*
CGM	**(58)**	(71)	(166)	*(18)*	*(65)*
Macquarie Capital	**(209)**	(110)	(119)	*90*	*76*
Corporate	**(48)**	45	(73)	*	*(34)*
Total credit and other impairment charges	**(230)**	(77)	(447)	*199*	*(49)*

Total credit and other impairment charges of $A230 million for the half year ended 30 September 2021 decreased 49% from $A447 million in the prior corresponding period. This included $A176 million of net credit impairment charges, down from $A407 million in the prior corresponding period reflecting improvement in expected macroeconomic conditions, partially offset by increased volumes.

Net credit impairment charges include losses arising from defaulted positions and ECL charges calculated on a forward-looking basis using modelled outcomes as well as overlays reflecting management judgement for modelling, regional and industry specific risks.

Net other impairment charges include impairments on a small number of underperforming equity investments in Macquarie Capital, partially offset by the reversal of an impairment previously recognised on MAM's investment in MIC.

MAM

Credit and other impairment reversals of $A116 million for the half year ended 30 September 2021, compared to a charge of $A11 million in the prior corresponding period.

The current period includes a reversal of the impairment previously recognised on MAM's investment in MIC.

BFS

Credit and other impairment charges of $A31 million for the half year ended 30 September 2021, decreased 60% from $A78 million in the prior corresponding period largely due to improvement in expected macroeconomic conditions compared to the prior corresponding period.

CGM

Credit and other impairment charges of $A58 million for the half year ended 30 September 2021, decreased 65% from $A166 million in the prior corresponding period due to an improvement in expected global macroeconomic conditions.

Macquarie Capital

Credit and other impairment charges of $A209 million for the half year ended 30 September 2021, increased 76% from $A119 million in the prior corresponding period primarily due to a small number of underperforming equity investments and growth of the debt portfolio.

Corporate

Credit and other impairment charges of $A48 million for the half year ended 30 September 2021, decreased 34% from $A73 million in the prior corresponding period which included higher central overlay provisions for expected credit losses.

For further information on the Consolidated Entity's determination of its expected credit losses, please refer to Note 11 *Expected credit losses* in the Financial Report.

2.6 Net Other Operating Income

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Investment income					
Net gain on interests in associates and joint ventures	**44**	954	109	*(95)*	*(60)*
Net gain on non-financial assets	**34**	98	394	*(65)*	*(91)*
Net gain on disposal of businesses and subsidiaries	**794**	165	74	*	*
Net gain on equity investments	**120**	182	33	*(34)*	*264*
Net (loss)/gain on change of control, joint control and/or significant influence	**–**	(2)	11	*(100)*	*(100)*
Net gain on debt investments	**2**	1	4	*100*	*(50)*
Total investment income	**994**	1,398	625	*(29)*	*59*
Subsidiaries held for investment purposes[1]					
Net Operating Revenue[2]	**287**	197	157	*46*	*83*
Expenses[3]	**(265)**	(275)	(229)	*(4)*	*16*
Net profit/(loss) from subsidiaries held for investment purposes	**22**	(78)	(72)	*	*
Other income	**106**	20	89	*	*19*
Total net other operating income	**1,122**	1,340	642	*(16)*	*75*

Total net other operating income of $A1,122 million for the half year ended 30 September 2021 increased 75% from $A642 million in the prior corresponding period. This increase was mainly driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio, in CGM, partially offset by the sale of Macquarie European Rail in MAM in the prior corresponding period.

Investment income

Investment income of $A994 million for the half year ended 30 September 2021 increased 59% from $A625 million in the prior corresponding period. The movement was primarily driven by the gain on the partial sale of the UK Meters portfolio of assets in CGM and gains from asset realisations in Macquarie Capital, predominantly in Europe in the business services and technology sectors. This was partially offset by the sale of Macquarie European Rail in MAM in the prior corresponding period.

Subsidiaries held for investment purposes

Net profit from subsidiaries held for investment purposes of $A22 million for the half year ended 30 September 2021 increased significantly from a loss of $A72 million in the prior corresponding period. The increase was primarily driven by gains on sale of green energy projects in Macquarie Capital.

Other income

Other income of $A106 million for the half year ended 30 September 2021 increased 19% from $A89 million in the prior corresponding period. The movement included transition services revenue following the sale of Waddell & Reed's wealth management platform to LPL Financial Holdings Inc in MAM.

(1) Subsidiaries held for investment purposes are consolidated entities that are held with the ultimate intention to sell as part of Consolidated Entity's investment activities.
(2) Includes revenue of $A699 million (half year to 31 March 2021: $A485 million, half year to 30 September 2020: $A483 million) after deduction of $A412 million (half year to 31 March 2021: $A288 million, half year to 30 September 2020: $A326 million) related to cost of goods sold.
(3) Includes employment expenses, depreciation, amortisation expenses and other operating expenses.

2.7 Operating Expenses

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Employment expenses					
Salary and related costs including commissions, superannuation and performance-related profit share	**(2,628)**	(2,445)	(2,077)	*7*	*27*
Share-based payments	**(319)**	(303)	(279)	*5*	*14*
Provision for long service leave and annual leave	**(54)**	(11)	(75)	*	*(28)*
Total compensation expenses	**(3,001)**	(2,759)	(2,431)	*9*	*23*
Other employment expenses including on-costs, staff procurement and staff training	**(163)**	(143)	(184)	*14*	*(11)*
Total employment expenses	**(3,164)**	(2,902)	(2,615)	*9*	*21*
Brokerage, commission and fee expenses	**(498)**	(408)	(471)	*22*	*6*
Non-salary technology expenses	**(417)**	(386)	(395)	*8*	*6*
Other operating expenses					
Occupancy expenses	**(182)**	(186)	(196)	*(2)*	*(7)*
Professional fees	**(241)**	(279)	(216)	*(14)*	*12*
Indirect and other taxes	**(85)**	(75)	(79)	*13*	*8*
Advertising and promotional expenses	**(96)**	(54)	(46)	*78*	*109*
Amortisation of intangibles assets	**(70)**	(30)	(33)	*133*	*112*
Audit fees	**(26)**	(32)	(23)	*(19)*	*13*
Other	**(290)**	(249)	(192)	*16*	*51*
Total other operating expenses	**(990)**	(905)	(785)	*9*	*26*
Total operating expenses	**(5,069)**	(4,601)	(4,266)	*10*	*19*

Total operating expenses of $A5,069 million for the half year ended 30 September 2021 increased 19% from $A4,266 million in the prior corresponding period. The increase in operating expenses was mainly as a result of the one-off acquisition and ongoing costs related to Waddell & Reed, which had a material impact across all operating expense categories, particularly in Other operating expenses and Employment expenses. In addition, the current period included higher performance-related profit share expense and share-based payments driven mainly by the performance of the Consolidated Entity. This was partially offset by favourable foreign exchange movements.

2.8 Headcount

	AS AT			MOVEMENT	
	Sep 21	Mar 21	Sep 20	*Mar 21 %*	*Sep 20 %*
Headcount by Operating Group[1]					
MAM	**2,354**	1,921	1,904	*23*	*24*
BFS	**3,152**	2,986	2,895	*6*	*9*
CGM	**2,120**	2,133	2,167	*(1)*	*(2)*
Macquarie Capital	**1,831**	1,821	1,992	*1*	*(8)*
Total headcount – Operating Groups	**9,457**	8,861	8,958	*7*	*6*
Total headcount – Corporate	**7,752**	7,598	7,398	*2*	*5*
Total headcount	**17,209**	16,459	16,356	*5*	*5*
Headcount by region					
Australia[2]	**7,652**	7,283	7,076	*5*	*8*
International:					
Americas	**3,161**	2,681	2,728	*18*	*16*
Asia	**3,939**	4,063	4,104	*(3)*	*(4)*
Europe, Middle East and Africa	**2,457**	2,432	2,448	*1*	*<1*
Total headcount – International	**9,557**	9,176	9,280	*4*	*3*
Total headcount	**17,209**	16,459	16,356	*5*	*5*
International headcount ratio (%)	**56**	56	57		

Total headcount increased 5% to 17,209 at 30 September 2021 from 16,356 at 30 September 2020 mainly due to the acquisition of Waddell & Reed in MAM and the increased headcount in the Central Service Groups to support business growth and ongoing regulatory compliance and in BFS to support volume growth. This was partially offset by lower headcount in Macquarie Capital.

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

2.9 Income Tax Expense

	HALF YEAR TO		
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am
Operating profit before income tax	**2,735**	2,654	1,253
Prima facie tax @ 30%	**821**	796	376
Income tax permanent differences	**(218)**	(172)	(101)
Income tax expense	**603**	624	275
Effective tax rate[(1)]	**22.8%**	23.5%	21.8%

Income tax expense of $A603 million for the half year ended 30 September 2021 increased significantly from $A275 million in the prior corresponding period, primarily reflecting the higher operating profit before income tax. The effective tax rate for the half year ended 30 September 2021 was 22.8%, up from 21.8% in the prior corresponding period and down from 23.5% in the prior period.

The higher effective tax rate compared to the prior corresponding period was mainly driven by the geographic composition and nature of earnings.

(1) The effective tax rate is calculated on Operating profit before income tax and after non-controlling interests. Non-controlling interests reduced operating profit before income tax by $A89 million for the half year ended 30 September 2021 (31 March 2021: Nil; 30 September 2020: increased operating profit before income tax by $A7 million).

03

Segment Analysis

3.1 Basis of Preparation

Operating Segments

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

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

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 & renewables, real estate, agriculture & natural assets, asset finance, private credit, equities, fixed income and multi-asset solutions aiming to deliver positive impact for everyone
- **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** is a global business offering capital and financing, risk management, market access, physical execution and logistics solutions to its diverse client base across Commodities, Financial Markets and Asset Finance
- **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 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, and 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 Banking 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 economically 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 purposes, 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 MGL'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 Group (LGG) 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 are not allocated to Operating Groups.

Income tax

Income tax expense and benefits are recognised in the Corporate segment and are 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
Half year ended 30 September 2021		
Net interest and trading (expense)/income	(135)	974
Fee and commission income/(expense)	2,143	220
Net operating lease income	32	–
Share of net profits/(losses) from associates and joint ventures	185	(1)
Other operating income and charges		
Net credit and other impairment reversals/(charges)	116	(31)
Net other operating income	115	1
Internal management revenue/(charge)	–	–
Net operating income	2,456	1,163
Total operating expenses	(1,152)	(681)
Operating profit/(loss) before income tax	1,304	482
Income tax expense	–	–
Loss/(profit) attributable to non-controlling interests	1	–
Net profit/(loss) contribution	**1,305**	**482**
Half year ended 31 March 2021		
Net interest and trading (expense)/income	(126)	902
Fee and commission income/(expense)	1,416	216
Net operating lease income	33	–
Share of net profits/(losses) from associates and joint ventures	43	(2)
Other operating income and charges		
Net credit and other impairment reversals/(charges)	96	(37)
Net other operating income	274	14
Internal management revenue/(charge)	29	–
Net operating income	1,765	1,093
Total operating expenses	(753)	(639)
Operating profit/(loss) before income tax	1,012	454
Income tax expense	–	–
Loss/(profit) attributable to non-controlling interests	–	–
Net profit/(loss) contribution	**1,012**	**454**
Half year ended 30 September 2020		
Net interest and trading (expense)/income	(123)	844
Fee and commission income/(expense)	1,505	203
Net operating lease income	46	–
Share of net (losses)/profits from associates and joint ventures	(55)	(1)
Other operating income and charges		
Net credit and other impairment charges	(11)	(78)
Net other operating income	425	16
Internal management revenue/(charge)	2	1
Net operating income	1,789	985
Total operating expenses	(721)	(668)
Operating profit/(loss) before income tax	1,068	317
Income tax expense	–	–
(Profit)/loss attributable to non-controlling interests	(6)	–
Net profit/(loss) contribution	**1,062**	**317**

CGM $Am	Macquarie Capital $Am	Corporate $Am	**Total $Am**
1,878	115	200	**3,032**
228	871	(10)	**3,452**
152	–	2	**186**
15	43	–	**242**
(58)	(209)	(48)	**(230)**
520	451	35	**1,122**
34	17	(51)	**–**
2,769	1,288	128	**7,804**
(1,040)	(730)	(1,466)	**(5,069)**
1,729	558	(1,338)	**2,735**
–	–	(603)	**(603)**
–	(90)	–	**(89)**
1,729	**468**	**(1,941)**	**2,043**
2,119	63	199	**3,157**
228	722	(19)	**2,563**
185	–	3	**221**
30	(18)	(2)	**51**
(71)	(110)	45	**(77)**
63	946	43	**1,340**
(6)	31	(54)	**–**
2,548	1,634	215	**7,255**
(1,029)	(798)	(1,382)	**(4,601)**
1,519	836	(1,167)	**2,654**
–	–	(624)	**(624)**
–	4	(4)	**–**
1,519	**840**	**(1,795)**	**2,030**
1,737	6	56	**2,520**
257	665	(17)	**2,613**
198	–	1	**245**
13	(17)	6	**(54)**
(166)	(119)	(73)	**(447)**
90	79	32	**642**
1	–	(4)	**–**
2,130	614	1	**5,519**
(1,048)	(816)	(1,013)	**(4,266)**
1,082	(202)	(1,012)	**1,253**
–	–	(275)	**(275)**
–	13	–	**7**
1,082	**(189)**	**(1,287)**	**985**

3.2 MAM

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net interest and trading expense	**(135)**	(126)	(123)	*7*	*10*
Fee and commission income					
Base fees	**1,362**	1,014	971	*34*	*40*
Performance fees	**177**	240	413	*(26)*	*(57)*
Other fee and commission income	**604**	162	121	*273*	*
Total fee and commission income	**2,143**	1,416	1,505	*51*	*42*
Net operating lease income	**32**	33	46	*(3)*	*(30)*
Share of net profits/(losses) from associates and joint ventures	**185**	43	(55)	*	*
Other operating income and charges					
Net income on equity, debt and other investments	**58**	240	404	*(76)*	*(86)*
Net credit and other impairment reversals/(charges)	**116**	96	(11)	*21*	*
Other income	**57**	34	21	*68*	*171*
Total other operating income and charges	**231**	370	414	*(38)*	*(44)*
Internal management revenue	**–**	29	2	*(100)*	*(100)*
Net operating income	**2,456**	1,765	1,789	*39*	*37*
Operating expenses					
Employment expenses	**(356)**	(230)	(257)	*55*	*39*
Brokerage, commission and fee expenses	**(207)**	(126)	(123)	*64*	*68*
Other operating expenses	**(589)**	(397)	(341)	*48*	*73*
Total operating expenses	**(1,152)**	(753)	(721)	*53*	*60*
Non-controlling interests(1)	**1**	–	(6)	*	*
Net profit contribution	**1,305**	1,012	1,062	*29*	*23*
Non-GAAP metrics					
Assets under management ($Ab)	**735.5**	562.2	554.9	*31*	*33*
Equity under management ($Ab)	**158.8**	142.0	139.8	*12*	*14*
Headcount	**2,354**	1,921	1,904	*23*	*24*

Net profit contribution of $A1,305 million for the half year ended 30 September 2021, up 23% from the prior corresponding period due to:

- increased other fee and commission income largely due to the disposition fee from MIC
- increased base fees primarily driven by the acquisition of Waddell & Reed, investments made by Private Markets-managed funds and mandates and Public Investments market movements
- increased share of net profits from associates and joint ventures, primarily driven by equity accounted income from MIC and increased Macquarie AirFinance income compared to the prior corresponding period, which included the impact of COVID-19
- decreased credit and other impairment charges driven by a reversal of the impairment previously recognised on MAM's investment in MIC.

Partially offset by:

- increased operating expenses driven by Waddell & Reed one-off acquisition and ongoing costs
- decreased net income on equity, debt and other investments driven by the sale of Macquarie European Rail in the prior corresponding period
- decreased performance fees following a strong prior corresponding period.

(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.

Net interest and trading expense

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

Net interest and trading expense of $A135 million for the half year ended 30 September 2021 increased 10% from $A123 million in the prior corresponding period primarily driven by higher interest expense on the acquisition of Waddell & Reed.

Base fees

Base fee income of $A1,362 million for the half year ended 30 September 2021 increased 40% from $A971 million in the prior corresponding period primarily driven by the acquisition of Waddell & Reed, investments made by Private Markets-managed funds and mandates and Public Investments market movements. This was partially offset by foreign exchange movements and asset realisations in Private Markets-managed funds.

Performance fees

Performance fees, which are typically generated from Macquarie-managed funds and assets that have outperformed pre-defined benchmarks, of $A177 million for the half year ended 30 September 2021 decreased 57% from $A413 million in the prior corresponding period.

The half year ended 30 September 2021 included performance fees from a range of funds including MIP III, MEIF4 and other Private Markets-managed funds, managed accounts and co-investors. The prior corresponding period included performance fees from MIP II, MEIF4 and other Private Markets-managed funds and managed accounts.

Other fee and commission income

Other fee and commission income includes fees related to capital raisings, MIC disposition, distribution services and transactions, transfer agent oversight services, 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 $A604 million for the half year ended 30 September 2021 increased significantly from $A121 million in the prior corresponding period, largely due to the disposition fee from MIC. The increase was also driven by distribution services fees and transfer agent oversight service fees following the acquisition of Waddell & Reed.

Net operating lease income

Net operating lease income of $A32 million for the half year ended 30 September 2021 decreased 30% from $A46 million in the prior corresponding period primarily driven by the sale of the Macquarie European Rail in the prior corresponding period and foreign exchange movements.

The operating lease portfolio as at 30 September 2021 of $A0.9 billion was broadly in line with 31 March 2021.

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

Share of net profits from associates and joint ventures of $A185 million for the half year ended 30 September 2021 compared to a loss of $A55 million in the prior corresponding period, primarily driven by equity accounted income from MIC. The prior corresponding period included an equity accounted loss from Macquarie AirFinance.

Net income on equity, debt and other investments

Net income on equity, debt and other investments of $A58 million for the half year ended 30 September 2021 decreased 86% from $A404 million in the prior corresponding period primarily driven by the non-recurrence of gain on sale of Macquarie European Rail.

Net credit and other impairment reversals/(charges)

Credit and other impairment reversal of $A116 million for the half year ended 30 September 2021, compared to a charge of $A11 million in the prior corresponding period.

The current period included a reversal of the impairment previously recognised on MAM's investment in MIC.

Other income

Other income of $A57 million for the half year ended 30 September 2021 increased significantly from $A21 million in the prior corresponding period primarily driven by transition services revenue following the sale of Waddell & Reed's wealth management platform to LPL Financial Holdings Inc.

Operating expenses

Total operating expenses of $A1,152 million for the half year ended 30 September 2021 increased 60% from $A721 million in the prior corresponding period. The increase was primarily driven by one-off acquisition and ongoing costs related to Waddell & Reed.

3.3 BFS

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net interest and trading income	**974**	902	844	*8*	*15*
Fee and commission income					
Wealth management fee income	**147**	138	136	*7*	*8*
Banking and leasing fee income	**73**	78	67	*(6)*	*9*
Total fee and commission income	**220**	216	203	*2*	*8*
Share of net losses from associates and joint ventures	**(1)**	(2)	(1)	*(50)*	–
Other operating income and charges					
Net credit and other impairment charges	**(31)**	(37)	(78)	*(16)*	*(60)*
Other income	**1**	14	16	*(93)*	*(94)*
Total other operating income and charges	**(30)**	(23)	(62)	*30*	*(52)*
Internal management revenue	**–**	–	1	–	*(100)*
Net operating income	**1,163**	1,093	985	*6*	*18*
Operating expenses					
Employment expenses	**(219)**	(193)	(197)	*13*	*11*
Brokerage, commission and fee expenses	**(53)**	(61)	(81)	*(13)*	*(35)*
Technology expenses[1]	**(214)**	(192)	(202)	*11*	*6*
Other operating expenses	**(195)**	(193)	(188)	*1*	*4*
Total operating expenses	**(681)**	(639)	(668)	*7*	*2*
Net profit contribution	**482**	454	317	*6*	*52*
Non-GAAP metrics					
Funds on platform[2] ($Ab)	**116.4**	101.4	89.3	*15*	*30*
Loan and lease portfolio[3] ($Ab)	**98.7**	89.1	79.1	*11*	*25*
BFS deposits[4] ($Ab)	**88.2**	80.7	74.4	*9*	*19*
Headcount	**3,152**	2,986	2,895	*6*	*9*

Net profit contribution of $A482 million for the half year ended 30 September 2021, up 52% from the prior corresponding period due to:

- higher net interest and trading income driven by volume growth in the loan portfolio and BFS deposits
- decreased credit impairment charges driven by an improvement in expected macroeconomic conditions compared to the prior corresponding period
- decreased brokerage, commission and fee expenses largely due to the cessation of grandfathered commission payments to third party advisors in line with legislation.

Partially offset by:

- higher employment and technology expenses, including increased headcount, to support business growth.

(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 and includes portfolios that have been classified as held for sale.
(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 $A974 million for the half year ended 30 September 2021 increased 15% from $A844 million in the prior corresponding period mainly due to a 22% growth in the average loan and lease portfolio and 19% growth in the average BFS deposit volumes.

As at 30 September 2021 the loan and lease, and deposit portfolios included:

- home loan volumes of $A76.4 billion, up 14% from $A67.0 billion as at 31 March 2021
- business banking loan volumes of $A11.0 billion, up 8% from $A10.2 billion as at 31 March 2021
- vehicle finance volumes of $A10.9 billion, down 5% from $A11.5 billion as at 31 March 2021, and
- BFS deposits of $A88.2 billion up 9% from $A80.7 billion as at 31 March 2021.

Wealth management fee income

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

Funds on platform closed at $A116.4 billion at 30 September 2021, an increase of 15% from $A101.4 billion at 31 March 2021 due to market movements and strong client net inflows.

Wealth management fee income of $A147 million for the half year ended 30 September 2021 increased 8% from $A136 million in the prior corresponding period driven by higher administration fees due to higher funds on platform, and higher advisor fees.

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 $A73 million for the half year ended 30 September 2021 increased 9% from $A67 million driven by higher lending and transaction volumes.

Net credit and other impairment charges

Credit and other impairment charges of $A31 million for the half year ended 30 September 2021 decreased 60% from $A78 million in the prior corresponding period largely due to improvement in the expected macroeconomic conditions compared to the prior corresponding period.

Other income

Other income of $A16 million in the prior corresponding period was mainly driven by the revaluation of an equity investment.

Operating expenses

Total operating expenses of $A681 million for the half year ended 30 September 2021 increased 2% from $A668 million in the prior corresponding period.

Employment expenses of $A219 million for the half year ended 30 September 2021 increased 11% from $A197 million in the prior corresponding period largely due to higher average headcount to support volume growth and regulatory requirements.

Brokerage, commission and fee expenses of $A53 million for the half year ended 30 September 2021 decreased 35% from $A81 million in the prior corresponding period largely due to the cessation of grandfathered commission payments to third party advisors in line with legislation. A corresponding benefit, passed on to customers since its cessation, is reflected in Net interest and trading income.

Technology expenses of $A214 million for the half year ended 30 September 2021 increased 6% from $A202 million in the prior corresponding period driven by investment in digitisation to support business growth.

Other operating expenses of $A195 million for the half year ended 30 September 2021 increased 4% from $A188 million in the prior corresponding period driven by increased investment in marketing acquisition spend.

3.4 CGM

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net interest and trading income					
Commodities					
Risk management products	**949**	883	578	*7*	*64*
Lending and financing	**116**	116	118	–	*(2)*
Inventory management and trading	**189**	560	416	*(66)*	*(55)*
Total commodities	**1,254**	1,559	1,112	*(20)*	*13*
Foreign exchange, interest rates and credit	**348**	353	349	*(1)*	*(<1)*
Equities	**183**	133	206	*38*	*(11)*
Asset Finance	**93**	74	70	*26*	*33*
Net interest and trading income	**1,878**	2,119	1,737	*(11)*	*8*
Fee and commission income					
Brokerage and other trading-related income	**112**	97	112	*15*	–
Other fee and commission income	**116**	131	145	*(11)*	*(20)*
Total fee and commission income	**228**	228	257	–	*(11)*
Net operating lease income	**152**	185	198	*(18)*	*(23)*
Share of net profits from associates and joint ventures	**15**	30	13	*(50)*	*15*
Other operating income and charges					
Net income on equity, debt and other investments	**473**	28	53	*	*
Net credit and other impairment charges	**(58)**	(71)	(166)	*(18)*	*(65)*
Other income	**47**	35	37	*34*	*27*
Total other operating income and charges	**462**	(8)	(76)	*	*
Internal management revenue/(charges)	**34**	(6)	1	*	*
Net operating income	**2,769**	2,548	2,130	*9*	*30*
Operating expenses					
Employment expenses	**(286)**	(284)	(298)	*1*	*(4)*
Brokerage, commission and fee expenses	**(195)**	(172)	(216)	*13*	*(10)*
Other operating expenses	**(559)**	(573)	(534)	*(2)*	*5*
Total operating expenses	**(1,040)**	(1,029)	(1,048)	*1*	*(1)*
Net profit contribution	**1,729**	1,519	1,082	*14*	*60*
Non-GAAP metrics					
Headcount	**2,120**	2,133	2,167	*(1)*	*(2)*

Net profit contribution of $A1,729 million for the half year ended 30 September 2021, up 60% from the prior corresponding period due to:

- increased risk management products income reflecting strong results across all sectors particularly from Gas and Power, Resources, and Agriculture due to increased client hedging activity and gains associated with management of those exposures as a result of elevated levels of volatility and price movements in commodity markets
- net income on equity, debt and other investments up significantly driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio
- decreased credit and other impairment charges due to an improvement in expected global macroeconomic conditions.

Partially offset by:

- lower inventory management and trading income included strong trading gains from supply and demand imbalances in Gas and Power that were more than offset by the impact of timing of income recognition, primarily on storage contracts and transport agreements
- lower fee and commission income due to a reduction in fees associated with structured deals in asset finance which occur on an intermittent basis.

Net interest and trading income

Net interest and trading income of $A1,878 million for the half year ended 30 September 2021 increased 8% from $A1,737 million in the prior corresponding period:

Commodities net interest and trading income

i) Risk management products

Income from risk management products is driven by managing clients' exposure to commodity price volatility which is supported by our strong internal risk management framework.

Risk management products income of $A949 million for the half year ended 30 September 2021 increased 64% from $A578 million in the prior corresponding period with contributions across the platform. Increased contributions were recorded by Gas and Power, Resources, and Agriculture due to increased client hedging activity and gains associated with management of those exposures as a result of elevated levels of volatility and price movements in commodity markets.

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 $A116 million for the half year ended 30 September 2021 decreased 2% from $A118 million in the prior corresponding period with consistent contributions across the commodity platform.

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 $A189 million for the half year ended 30 September 2021 decreased 55% from $A416 million in the prior corresponding period. The current period included strong trading gains from supply and demand imbalances recorded in Gas and Power which were largely offset by the unfavourable impact of timing of income recognition of $A376 million, primarily on 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 $A348 million for the half year ended 30 September 2021 was broadly in line with $A349 million in the prior corresponding period with continued strong client activity in structured foreign exchange and credit products across regions.

Equities net interest and trading income

Equities net interest and trading income is generated from the issuance 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 $A183 million for the half year ended 30 September 2021 decreased 11% from $A206 million in the prior corresponding period due to a reduction in trading activities in EMEA. This was largely offset by a corresponding decrease in brokerage, commission and fee expenses.

Asset Finance net interest and trading income

Net interest and trading income in 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).

Asset Finance net interest and trading income of $A93 million for the half year ended 30 September 2021 increased 33% from $A70 million in the prior corresponding period. The increase was largely as a result of increased volumes in Structured Lending, Technology, Media and Telecoms and Shipping Finance.

The loan and finance lease portfolio was $A6.6 billion as at 30 September 2021, an increase of 35% from $A4.9 billion as at 30 September 2020. The increase was largely due to increased activity across Structured Lending, Technology, Media and Telecoms and Shipping Finance portfolios.

Fee and commission income

Fee and commission income of $A228 million for the half year ended 30 September 2021 decreased 11% from $A257 million in the prior corresponding period.

The decrease primarily relates to a reduction in fees associated with structured deals in asset finance which occur on an intermittent basis.

Net operating lease income

Net operating lease income of $A152 million for the half year ended 30 September 2021 decreased 23% from $A198 million in the prior corresponding period. The movement was primarily driven by a reduction in secondary income in Technology, Media and Telecoms and the partial sale of the UK Meters portfolio of assets.

Net income on equity, debt and other investments

Net income on equity and debt investments of $A473 million for the half year ended 30 September 2021 increased significantly from $A53 million in the prior corresponding period. The current year primarily reflected the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio.

Net credit and other impairment charges

Credit and other impairment charges of $A58 million for the half year ended 30 September 2021 decreased 65% from $A166 million in the prior corresponding period due to an improvement in expected global macroeconomic conditions.

Operating expenses

Total operating expenses of $A1,040 million for the half year ended 30 September 2021 decreased 1% from $A1,048 million in the prior corresponding period.

Employment expenses of $A286 million for the half year ended 30 September 2021 decreased 4% from $A298 million in the prior corresponding period mainly due to lower average headcount due to structural change in the UK Meters portfolio and Technology, Media and Telecoms.

Brokerage, commission and fee expenses include fees paid in relation to trading-related activities. Brokerage, commission and fee expenses of $A195 million for the half year ended 30 September 2021 decreased 10% from $A216 million in the prior corresponding period driven by reduced trading volumes in financial markets in specific high volume activities.

Other operating expenses of $A559 million for the half year ended 30 September 2021 increased 5% from $A534 million in the prior corresponding period, mainly driven by expenditure on technology infrastructure and increasing investment in platform.

3.5 Macquarie Capital

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Net interest and trading income	**115**	63	6	*83*	*
Fee and commission income	**871**	722	665	*21*	*31*
Share of net profits/(losses) from associates and joint ventures	**43**	(18)	(17)	*	*
Other operating income and charges					
Net income on equity, debt and other investments	**422**	998	141	*(58)*	*199*
Net credit and other impairment charges	**(209)**	(110)	(119)	*90*	*76*
Other income/(expenses)	**29**	(52)	(62)	*	*
Total other operating income and charges	**242**	836	(40)	*(71)*	*
Internal management revenue	**17**	31	–	*(45)*	*
Net operating income	**1,288**	1,634	614	*(21)*	*110*
Operating expenses					
Employment expenses	**(304)**	(303)	(361)	*<1*	*(16)*
Brokerage, commission and fee expenses	**(43)**	(48)	(50)	*(10)*	*(14)*
Other operating expenses	**(383)**	(447)	(405)	*(14)*	*(5)*
Total operating expenses	**(730)**	(798)	(816)	*(9)*	*(11)*
Non-controlling interests[(1)]	**(90)**	4	13	*	*
Net profit/(loss) contribution	**468**	840	(189)	*(44)*	*
Non-GAAP metrics					
Headcount	**1,831**	1,821	1,992	*1*	*(8)*

Net profit contribution of $A468 million for the half year ended 30 September 2021, increased significantly from the prior corresponding period due to:

- higher net income on equity, debt and other investments driven by higher revenue from asset realisations predominantly in Europe, in the business services and technology sectors
- higher fee and commission income due to higher mergers and acquisitions fee income and debt capital markets fee income, partially offset by lower equity capital markets fee income
- higher net interest and trading income resulting from growth in the Principal Finance debt portfolio, and lower funding costs compared to the prior corresponding period
- higher other income reflecting gains on sale of green energy projects
- lower operating expenses predominantly driven by lower employment costs.

Partially offset by:

- higher credit and other impairment charges primarily due to a small number of underperforming equity investments and growth of the debt portfolio
- higher non-controlling interests predominantly driven by share of gains on disposal attributable to non-controlling interests.

(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

Net interest and trading income 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 $A115 million for the half year ended 30 September 2021 increased significantly from $A6 million in the prior corresponding period. The increase was primarily due to higher interest income resulting from growth in the Principal Finance debt portfolio, and lower funding costs compared to the prior corresponding period.

Fee and commission income

Fee and commission income of $A871 million for the half year ended 30 September 2021 increased 31% from $A665 million in the prior corresponding period.

The increase in fee and commission income was primarily due to higher mergers and acquisitions fee income and debt capital markets fee income.

Mergers and acquisitions fee income for the half year ended 30 September 2021 increased across all major regions, and was significantly up compared to the prior corresponding period.

Debt capital markets fee income for the half year ended 30 September 2021 was up compared to the prior corresponding period.

This was partially offset by equity capital market fee income and brokerage income, which were down on a strong prior corresponding period.

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

Share of net profits of associates and joint ventures was $A43 million for the half year ended 30 September 2021 compared to losses of $A17 million in the prior corresponding period.

The movement was primarily due to the overall improved performance of the investment portfolio.

Net income on equity, debt and other investments

Net income on equity, debt and other investments of $A422 million for the half year ended 30 September 2021 increased significantly from $A141 million in the prior corresponding period.

The increase in income was primarily driven by higher revenue from asset realisations predominantly in Europe, in the business services and technology sectors.

Net credit and other impairment charges

Credit and other impairment charges of $A209 million for the half year ended 30 September 2021 increased 76% from $A119 million in the prior corresponding period.

The increase in credit and other impairment charges was primarily due to a small number of underperforming equity investments and growth of the debt portfolio.

Other income/(expenses)

Other income was $A29 million for the half year ended 30 September 2021 compared to expenses of $A62 million in the prior corresponding period

The movement primarily reflected gains on sale of green energy projects.

Operating expenses

Total operating expenses of $A730 million for the half year ended 30 September 2021 decreased 11% from $A816 million in the prior corresponding period. This decrease was predominantly driven by lower employment costs.

Non-Controlling Interests

Profit attributable to non-controlling interests of $A90 million for the half year ended 30 September 2021 compared to a loss of $A13 million in the prior corresponding period. The current period balance was driven by share of gains on disposal attributable to non-controlling interests.

3.6 Corporate

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	Mar 21 %	Sep 20 %
Net interest and trading income	**200**	199	56	*1*	*257*
Fee and commission expense	**(10)**	(19)	(17)	*(47)*	*(41)*
Net operating lease income	**2**	3	1	*(33)*	*100*
Share of net (losses)/profits from associates and joint ventures	**–**	(2)	6	*(100)*	*(100)*
Other operating income and charges					
Net income on equity and debt investments	**32**	45	5	*(29)*	*
Net credit and other impairment (charges)/reversals	**(48)**	45	(73)	*	*(34)*
Other income and charges	**3**	(2)	27	*	*(89)*
Total other operating income and charges	**(13)**	88	(41)	*	*(68)*
Internal management charge	**(51)**	(54)	(4)	*(6)*	*
Net operating income and charges	**128**	215	1	*(40)*	*
Operating expenses					
Employment expenses	**(1,999)**	(1,892)	(1,502)	*6*	*33*
Other operating expenses	**533**	510	489	*5*	*9*
Total operating expenses	**(1,466)**	(1,382)	(1,013)	*6*	*45*
Income tax expense	**(603)**	(624)	(275)	*(3)*	*119*
Non-controlling interests[1]	**–**	(4)	–	*(100)*	–
Net loss contribution	**(1,941)**	(1,795)	(1,287)	*8*	*51*
Non-GAAP metrics					
Headcount	**7,752**	7,598	7,398	*2*	*5*

The Corporate segment comprises head office and Central Service Groups, including Group Treasury, and certain 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 investments held centrally and accounting volatility arising from movements in underlying rates relating to economically hedged positions where hedge accounting is unable to be achieved.

Net interest and trading income of $A200 million for the half year ended 30 September 2021 was significantly up from $A56 million in the prior corresponding period mainly due to accounting volatility from the changes in the fair value of economic hedges.

Net income on equity and debt investments

Net income on equity and debt investments income of $A32 million for the half year ended 30 September 2021 significantly up from $A5 million in the prior corresponding period.

Net credit and other impairment charges

Credit and other impairment charges of $A48 million for the half year ended 30 September 2021 decreased 34% from $A73 million in the prior corresponding period which included higher central overlay provisions for expected credit losses.

Other income and charges

The charge of $A3 million for the half year ended 30 September 2021 decreased 89% from $A27 million in the prior corresponding period.

Employment expenses

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

Employment expenses of expense of $A1,999 million for the half year ended 30 September 2021 increased 33% from $A1,502 million in the prior corresponding period. The current year includes an increase in performance-related profit share expense mainly as a result of the improved performance of the Consolidated Entity and an increase in the Central Service Groups to support business growth and ongoing regulatory compliance.

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 $A533 million for the half year ended 30 September 2021 increased 9% from $A489 million in the prior corresponding period driven by lower central operating expenses.

3.7 International Income

International income(1) by region

	HALF YEAR TO			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	Mar 21 %	Sep 20 %
Americas	**2,996**	2,462	1,725	*22*	*74*
Asia	**569**	753	665	*(24)*	*(14)*
Europe, Middle East and Africa	**1,962**	1,515	1,348	*30*	*46*
Total international income	**5,527**	4,730	3,738	*17*	*48*
Australia(2)	**2,098**	2,256	1,776	*(7)*	*18*
Total income (excluding earnings on capital and other corporate items)	**7,625**	6,986	5,514	*9*	*38*
Earnings on capital and other corporate items	**179**	269	5	*(33)*	*
Net operating income (as reported)	**7,804**	7,255	5,519	*8*	*41*
International income (excluding earnings on capital and other corporate items) ratio (%)	**72**	68	68		

International income by Operating Group and region

	HALF YEAR TO SEP 21						
	Americas $Am	Asia $Am	Europe, Middle East and Africa $Am	**Total International $Am**	Australia(2) $Am	Total Income $Am	**Total International %**
MAM	1,785	118	386	**2,289**	167	2,456	**93**
BFS	–	–	–	**–**	1,163	1,163	**–**
CGM	796	376	1,118	**2,290**	445	2,735	**84**
Macquarie Capital	415	75	458	**948**	323	1,271	**75**
Total	**2,996**	**569**	**1,962**	**5,527**	**2,098**	**7,625**	**72**

Total international income was $A5,527 million for the half year ended 30 September 2021, an increase of 48% from $A3,738 million in the prior corresponding period. Total international income represented 72% of total income (excluding earnings on capital and other corporate items), up from 68% in the prior corresponding period.

Income from the Americas of $A2,996 million for the half year ended 30 September 2021 increased 74% from $A1,725 million in the prior corresponding period. The increase was mainly due to MAM, which included the acquisition of Waddell & Reed and the disposition fee, equity accounted income and impairment reversal from MIC, partially offset by lower performance fees. Macquarie Capital included higher mergers and acquisitions fee income and debt capital markets fee income, as well as the overall improved performance of the investment portfolio. CGM included strong trading gains from supply and demand imbalances in Gas and Power offset by unfavourable impact of timing of income recognition on storage contracts and transport agreements.

In Asia, income of $A569 million for the half year ended 30 September 2021 decreased 14% from $A665 million in the prior corresponding period. The decrease was primarily driven by higher impairment charges on an underperforming equity investment in Macquarie Capital.

Income from Europe, Middle East and Africa of $A1,962 million for the half year ended 30 September 2021 increased 46% from $A1,348 million in the prior corresponding period. The increase was driven by the gain on the partial sale of the UK Meters portfolio of assets, comprising the industrial and commercial portfolio, in CGM and higher revenue in Macquarie Capital from asset realisations predominantly in the business services and technology sectors. This was partially offset by the gain on sale in MAM of Macquarie European Rail in the prior corresponding period.

In Australia, income of $A2,098 million for the half year ended 30 September 2021 increased 18% from $A1,776 million in the prior corresponding period, mainly due to volume growth in BFS deposits and the loan portfolio, and lower credit impairment charges driven by an improvement in the expected macroeconomic conditions in BFS and CGM. Macquarie Capital included higher mergers and acquisitions fee income, partially offset by lower equity capital markets fee income.

(1) International income reflects net operating income excluding internal management revenue/(charge).
(2) Includes New Zealand.

04

Balance Sheet

4.1 Statement of Financial Position

	AS AT			MOVEMENT	
	Sep 21 $Am	Mar 21 $Am	Sep 20 $Am	*Mar 21 %*	*Sep 20 %*
Assets					
Cash and bank balances	**32,221**	18,425	8,681	*75*	*271*
Cash collateralised lending and reverse repurchase agreements	**39,444**	36,681	42,933	*8*	*(8)*
Trading assets	**21,783**	21,746	19,252	*<1*	*13*
Margin money and settlement assets	**22,143**	14,397	12,338	*54*	*79*
Derivative assets	**77,186**	20,642	22,055	*274*	*250*
Financial investments	**13,142**	9,566	8,977	*37*	*46*
Held for sale assets	**1,940**	279	2,176	*	*(11)*
Other assets	**7,805**	6,006	6,331	*30*	*23*
Loan assets	**118,359**	105,026	93,414	*13*	*27*
Property, plant and equipment and right-of-use assets	**4,961**	4,676	4,519	*6*	*10*
Interests in associates and joint ventures	**4,675**	4,194	6,012	*11*	*(22)*
Intangible assets	**3,497**	2,543	2,816	*38*	*24*
Deferred tax assets	**1,411**	1,472	1,231	*(4)*	*15*
Total assets	**348,567**	245,653	230,735	*42*	*51*
Liabilities					
Cash collateralised borrowing and repurchase agreements	**13,809**	4,542	4,961	*204*	*178*
Trading liabilities	**5,495**	6,205	6,136	*(11)*	*(10)*
Margin money and settlement liabilities	**25,895**	22,124	20,093	*17*	*29*
Derivative liabilities	**77,980**	17,579	16,467	*	*
Deposits	**91,736**	84,199	77,258	*9*	*19*
Held for sale liabilities	**404**	18	1,267	*	*(68)*
Other liabilities	**8,401**	8,211	6,561	*2*	*28*
Borrowings	**10,109**	9,817	12,288	*3*	*(18)*
Issued debt securities	**80,043**	60,980	56,339	*31*	*42*
Deferred tax liabilities	**320**	204	165	*57*	*94*
Total liabilities excluding loan capital	**314,192**	213,879	201,535	*47*	*56*
Loan capital	**9,961**	9,423	8,411	*6*	*18*
Total liabilities	**324,153**	223,302	209,946	*45*	*54*
Net assets	**24,414**	22,351	20,789	*9*	*17*
Equity					
Contributed equity	**9,394**	8,531	8,434	*10*	*11*
Reserves	**1,613**	1,286	1,378	*25*	*17*
Retained earnings	**13,057**	12,231	10,696	*7*	*22*
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited	**24,064**	22,048	20,508	*9*	*17*
Non-controlling interests	**350**	303	281	*16*	*25*
Total equity	**24,414**	22,351	20,789	*9*	*17*

Statement of Financial Position

The Consolidated Entity's statement of financial position was impacted during the half year ended 30 September 2021 by changes resulting from a combination of business activities, Group Treasury management initiatives and macroeconomic factors including the depreciation of the Australian dollar against major currencies and the elevated levels of volatility and price movements in commodity markets.

Assets

Total assets of $A348.6 billion as at 30 September 2021 increased 42% from $A245.7 billion as at 31 March 2021.

The principal drivers for the increase were as follows:

- derivative assets of $A77.2 billion as at 30 September 2021 increased significantly from $A20.6 billion as at 31 March 2021 primarily due to an increase in CGM in client trade volumes and mark-to-market movements in interest rate and foreign exchange products and, in particular, energy markets and commodities. European gas prices increased significantly during the period due to an increase in global demand alongside low storage and supply levels ahead of the European winter. After taking into account related financial instruments, cash and other collateral, the residual derivative asset is $A12.6 billion (31 March 2021: $A5.2 billion)
- cash and bank balances of $A32.2 billion as at 30 September 2021 increased 75% from $A18.4 billion as at 31 March 2021 primarily due to an increase in surplus cash placed on overnight deposit with the Reserve Bank of Australia (RBA)
- loan assets of $A118.4 billion as at 30 September 2021 increased 13% from $A105.0 billion as at 31 March 2021 primarily due to growth in BFS in its business banking and home loans' portfolios partially offset by net repayments of loans in the vehicle finance portfolio, and an increase in Macquarie Capital's principal loan portfolio
- margin money and settlement assets of $A22.1 billion as at 30 September 2021 increased 54% from $A14.4 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in margin placed with financial institutions and broker settlement balances in CGM
- cash collateralised lending and reverse repurchase agreements of $A39.4 billion as at 30 September 2021 increased 8% from $A36.7 billion as at 31 March 2021 primarily due to an increase in Group Treasury reverse repurchase agreements in the Non-Bank Group partially offset by a decrease in the Bank Group following changes in the Operating Groups' funding requirements.

Liabilities

Total liabilities of $A324.2 billion as at 30 September 2021 increased 45% from $A223.3 billion as at 31 March 2021.

The principal drivers for the increase were as follows:

- derivative liabilities of $A78.0 billion as at 30 September 2021 increased significantly from $A17.6 billion as at 31 March 2021 primarily due to an increase in CGM in client trade volumes and mark-to-market movements in interest rate and foreign exchange products and, in particular, energy markets and commodities. European gas prices increased significantly during the period due to an increase in global demand alongside low storage and supply levels ahead of the European winter. After taking into account related financial instruments, cash and other collateral, the residual derivative liability is $A13.9 billion (31 March 2021: $A3.8 billion)
- issued debt securities of $A80.0 billion as at 30 September 2021 increased 31% from $A61.0 billion as at 31 March 2021 primarily due to the net issuance of short and long-term debt in Group Treasury and net issuance of bondholder notes by securitisation vehicles in BFS
- cash collateralised borrowing and repurchase agreements of $A13.8 billion as at 30 September 2021 increased significantly from $A4.5 billion as at 31 March 2021 primarily due to the additional draw down of the RBA Term Funding Facility by Group Treasury
- deposits of $A91.7 billion as at 30 September 2021 increased 9% from $A84.2 billion as at 31 March 2021 primarily due to an increase in retail and business banking deposits in BFS
- margin money and settlement liabilities of $A25.9 billion as at 30 September 2021 increased 17% from $A22.1 billion as at 31 March 2021 primarily due to higher trade volumes resulting in an increase in broker settlement balances and margin placed by financial institutions with CGM.

Equity

Total equity of $A24.4 billion as at 30 September 2021 increased 9% from $A22.4 billion as at 31 March 2021.

The increase in the Consolidated Entity's equity was predominantly attributable to an increase in retained earnings of $A0.8 billion due to the current year profit of $A2.0 billion partly offset by a dividend of $A1.2 billion, an increase in contributed equity of $A0.9 billion due to vesting of MEREP awards and shares issued pursuant to the Dividend Reinvestment Plan and an increase in the foreign currency translation reserve of $A0.4 billion following the depreciation of the Australian dollar against major currencies.

4.2 Loan Assets

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

	AS AT			MOVEMENT	
	Sep 21[(1)] $Ab	Mar 21[(1)] $Ab	Sep 20[(1)] $Ab	*Mar 21 %*	*Sep 20 %*
Loan assets per the statement of financial position	**118.4**	105.0	93.4	*13*	*27*
Operating lease assets	**2.9**	2.6	2.7	*12*	*7*
Other reclassifications[(2)]	**0.8**	0.2	0.6	*300*	*33*
Less: loans available as security to debt providers	**-**	(0.4)	(0.4)	*(100)*	*(100)*
Total loan assets including operating lease assets per the funded balance sheet[(3)]	**122.1**	107.4	96.3	*14*	*27*

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

		AS AT			MOVEMENT	
	Notes	**Sep 21[(1)] $Ab**	Mar 21[(1)] $Ab	Sep 20[(1)] $Ab	*Mar 21 %*	*Sep 20 %*
BFS						
Home loans	1	**76.8**	66.9	57.3	*15*	*34*
Business banking	2	**11.3**	10.5	9.2	*8*	*23*
Vehicle finance	3	**10.7**	11.3	12.3	*(5)*	*(13)*
Total BFS		**98.8**	88.7	78.8	*11*	*25*
CGM						
Loans and finance lease assets		**6.6**	5.7	4.9	*16*	*35*
Operating lease assets		**1.9**	1.8	1.8	*6*	*6*
Asset finance	4	**8.5**	7.5	6.7	*13*	*27*
Resources and commodities	5	**2.3**	2.1	2.0	*10*	*15*
Foreign exchange, interest rate and credit	6	**2.7**	2.3	2.2	*17*	*23*
Total CGM		**13.5**	11.9	10.9	*13*	*24*
MAM						
Operating lease assets	7	**0.9**	0.8	0.9	*13*	–
Other	8	**–**	–	0.3	–	*(100)*
Total MAM		**0.9**	0.8	1.2	*13*	*(25)*
Macquarie Capital						
Corporate and other lending	9	**8.9**	6.0	5.4	*48*	*65*
Total Macquarie Capital		**8.9**	6.0	5.4	*48*	*65*
Total		**122.1**	107.4	96.3	*14*	*27*

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change. Refer to Section 5.3 for more details.
(2) Reclassification between loan assets and other funded balance sheet categories.
(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. 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. Corporate and other lending
Diversified corporate and real estate lending portfolio, predominantly consisting of loans which are senior, secured, covenanted and with a hold to maturity horizon. Includes diversified secured corporate lending.

4.3 Equity Investments

Equity investments includes:

- interests in associates, joint ventures and other assets classified as held for sale;
- subsidiaries and certain other assets held for investment purposes; and
- financial investments excluding trading equities.

The classification is driven by a combination of the level of influence Macquarie has over the investment and Macquarie's business intention with respect to the holding of the investment.

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 have been revised to include subsidiaries and certain other assets held for investment purposes.

Equity investments reconciliation

	AS AT		MOVEMENT
	Sep 21 $Ab	Mar 21 $Ab	*Mar 21 %*
Equity investments			
Statement of financial position			
Equity investments at fair value	**1.7**	1.4	*21*
Interests in associates and joint ventures[(1)]	**5.0**	4.3	*16*
Total equity investments per statement of financial position	**6.7**	5.7	*18*
Adjustment for funded balance sheet			
Non-controlling interests[(2)]	**(0.1)**	–	*
Total funded equity investments[(3)]	**6.6**	5.7	*16*
Adjustments for equity investments analysis			
Subsidiaries and certain other assets held for investment purposes[(4)]	**2.0**	1.8	*11*
Associates' reserves[(5)]	**0.2**	0.2	–
Total adjusted equity investments[(6)]	**8.8**	7.7	*14*

(1) Includes certain associates classified as held for sale.
(2) These represent the portion of ownership in equity investments 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.
(3) Reported in the Funded Balance Sheet as 'Co-investment in Macquarie-managed funds and other equity investments'.
(4) Subsidiaries and certain other assets held for investment purposes are consolidated entities that are held for the ultimate intention to sell as part of Macquarie's investment activities.
(5) Associates' reserves (gross of tax) that will be released to income upon realisation of the investment.
(6) The adjusted value represents the total net exposure to Macquarie.

Equity investments by category

	AS AT		MOVEMENT
	Sep 21 $Ab	Mar 21 $Ab	*Mar 21 %*
Macquarie-managed funds			
Listed (Private Markets) managed funds	**1.0**	0.7	*43*
Unlisted (Private Markets) managed funds	**0.8**	0.8	–
Other Macquarie-managed funds	**0.4**	0.3	*33*
Total Macquarie-managed funds	**2.2**	1.8	*22*
Other investments			
Transport, industrial and infrastructure	**1.5**	1.4	*7*
Telecommunications, information technology, media and entertainment	**1.3**	1.2	*8*
Green energy	**1.8**	1.3	*38*
Conventional energy, resources and commodities	**0.4**	0.4	–
Real estate investment, property and funds management	**1.1**	1.0	*10*
Finance, wealth management and exchanges	**0.5**	0.6	*(17)*
Total other investments	**6.6**	5.9	*12*
Total equity investments	**8.8**	7.7	*14*

05

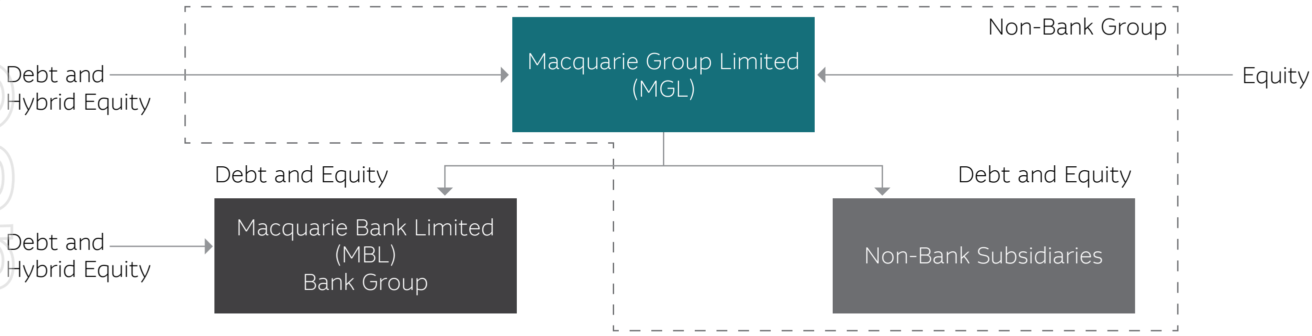
Funding and Liquidity

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 global 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 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.

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 and the Non-Bank Group. 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 $A57.9 billion cash and liquid assets as at 30 September 2021 (31 March 2021: $A42.9 billion[(1)]), of which $A46.6 billion was held by Macquarie Bank (31 March 2021: $A38.3 billion[(1)]).

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 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.

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change. Refer to Section 5.3 for more details.

Credit ratings[1] as at 30 September 2021

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

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 30 September 2021 was 179% (average based on daily observations)[2]. For a detailed breakdown of Macquarie Bank's LCR, please refer to Macquarie's regulatory disclosures (available on Macquarie's website).

As previously foreshadowed, APRA wrote to all LCR ADIs on 10 September 2021 advising that no ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022 and that ADIs should reduce their usage of the CLF to zero by the end of 2022, subject to financial market conditions.

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 30 September 2021 was 122%[3]. 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.
(2) APRA has imposed a 15% add-on to the net cash outflow component of Macquarie Bank's LCR calculation, effective from 1 April 2021.
(3) APRA has imposed a 1% decrease to the available stable funding component of Macquarie Bank's NSFR calculation, effective from 1 April 2021.

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.

Given the substantial growth in Macquarie's home loan portfolio in recent years, the funded balance sheet has been revised to present home loans as its own loan asset category. As a result, external securitisations of home loans (and other relevant assets) which are a source of funding for such assets are no longer netted down on the funded balance sheet. In addition, Australian home loans and other qualifying assets originated by Macquarie that meet the repurchase agreement eligibility criteria are only presented as self-securitised assets if they are held as contingent collateral for RBA facilities (such as the CLF) or to meet proposed APRA minimum requirements. The remaining portion of self-securitised assets are now presented in the relevant Home loan and Other loan asset categories.

The table below reconciles the reported assets of Macquarie to the net funded assets as at 30 September 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.

		AS AT		
	Notes	**Sep 21[1] $Ab**	Mar 21[1] $Ab	Sep 20[1] $Ab
Total assets per Macquarie's statement of financial position		**348.6**	245.7	230.7
Accounting deductions:				
Derivative revaluation accounting gross-ups	1	**(78.0)**	(17.4)	(16.4)
Segregated funds	2	**(9.1)**	(7.7)	(7.4)
Outstanding trade settlement balances	3	**(7.4)**	(7.5)	(5.6)
Working capital assets	4	**(10.8)**	(9.1)	(7.7)
Non-controlling interests	5	**(0.3)**	(0.3)	(0.3)
Self-funded assets:				
Self-funded trading assets	6	**(17.1)**	(15.9)	(17.1)
Non-recourse and security backed funding	7	**(1.0)**	(1.4)	(3.7)
Net funded assets		**224.9**	186.4	172.5

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change.

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. Non-recourse and security backed funding

These include assets funded by third party debt with no recourse to Macquarie beyond the borrowing entity.

5.4 Funding Profile for Macquarie

Funded balance sheet

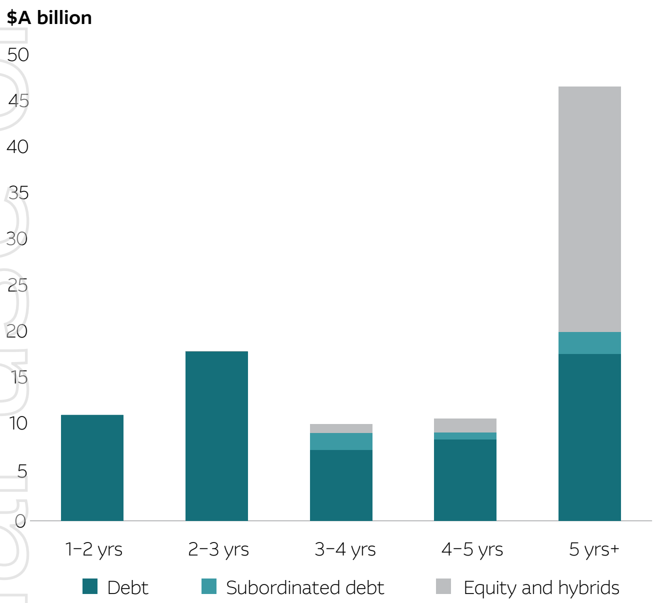
	Notes	AS AT Sep 21(1) $Ab	Mar 21(1) $Ab	Sep 20(1) $Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		**0.4**	0.4	0.4
Commercial paper		**24.3**	12.9	5.7
Net trade creditors	2	**0.3**	1.4	0.4
Structured notes	3	**1.5**	1.1	1.9
Secured funding	4	**25.2**	13.8	16.1
Bonds	5	**39.8**	34.3	33.7
Other loans	6	**1.4**	1.2	1.0
Syndicated loan facilities	7	**6.4**	5.8	7.3
Customer deposits	8	**91.5**	84.0	77.1
Subordinated debt	9	**5.0**	5.1	4.2
Equity and hybrids	10	**29.1**	26.4	24.7
Total		**224.9**	186.4	172.5
Funded assets				
Cash and liquid assets	11	**57.9**	42.9	38.4
Self-securitisation	12	**15.5**	19.9	13.7
Net trading assets	13	**31.6**	25.6	26.9
Other loan assets including operating lease assets less than one year	14	**11.9**	11.4	11.7
Home loans	15	**61.3**	47.0	43.6
Other loan assets including operating lease assets greater than one year	14	**33.4**	29.1	27.3
Debt investments	16	**2.4**	1.9	1.5
Co-investment in Macquarie-managed funds and other equity investments	17	**6.6**	5.7	6.3
Property, plant and equipment and intangibles		**4.3**	2.9	3.1
Total		**224.9**	186.4	172.5

See Section 5.7 for notes 1–17.

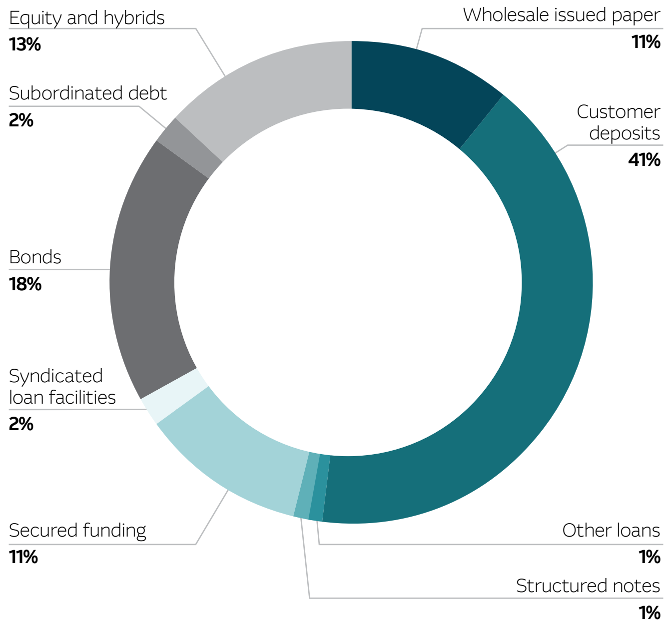
(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change. Refer to Section 5.3 for more details.

Term funding profile

Detail of drawn funding maturing beyond one year



Diversity of funding sources



AS AT SEP 21[1]

	1–2 yrs $Ab	2–3 yrs $Ab	3–4 yrs $Ab	4–5 yrs $Ab	5 yrs+ $Ab	**Total $Ab**
Structured notes[2]	0.1	0.4	0.1	0.2	0.7	**1.5**
Secured funding[2],[3]	4.8	12.1	1.3	1.1	2.0	**21.3**
Bonds	4.8	5.9	5.2	3.8	15.4	**35.1**
Other loans	0.2	–	–	–	–	**0.2**
Syndicated loan facilities	1.6	–	1.1	3.7	–	**6.4**
Total debt	**11.5**	**18.4**	**7.7**	**8.8**	**18.1**	**64.5**
Subordinated debt[4]	–	–	1.8	0.8	2.4	**5.0**
Equity and hybrids[4]	–	–	1.0	1.5	26.6	**29.1**
Total funding sources drawn	**11.5**	**18.4**	**10.5**	**11.1**	**47.1**	**98.6**
Undrawn	1.5	–	–	1.7	–	**3.2**
Total funding sources drawn and undrawn	**13.0**	**18.4**	**10.5**	**12.8**	**47.1**	**101.8**

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

As at 30 September 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 (excluding TFF, equity and securitisations) was 5.1 years and the weighted average term to maturity of term funding maturing beyond one year including TFF (excluding equity and securitisations) was 4.6 years as at 30 September 2021.

As at 30 September 2021, customer deposits represented $A91.5 billion, or 41% of Macquarie's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A24.7 billion, or 11% of total funding, and other debt funding maturing within 12 months and net trade creditors represented $A10.1 billion, or 4% of total funding.

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Refer to Section 5.3 for more details.
(2) Structured notes and securitisations are profiled using a behavioural maturity profile.
(3) Includes RBA Term Funding Facility (TFF) of $A11.3 billion.
(4) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

5.4 Funding Profile for Macquarie

Continued

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 2021, Macquarie has continued to raise term wholesale funding across various products and currencies.

Details of term funding raised between 1 April 2021 and 30 September 2021:

		Bank Group $Ab	Non-Bank Group $Ab	**Total $Ab**
Issued paper	– Senior and subordinated	1.8	5.6	**7.4**
Secured funding	– Term securitisation and other secured finance	6.0	0.8	**6.8**
	– RBA Term Funding Facility(1)	9.5	–	**9.5**
Hybrids	– Hybrid instruments	0.7	–	**0.7**
Total		**18.0**	**6.4**	**24.4**

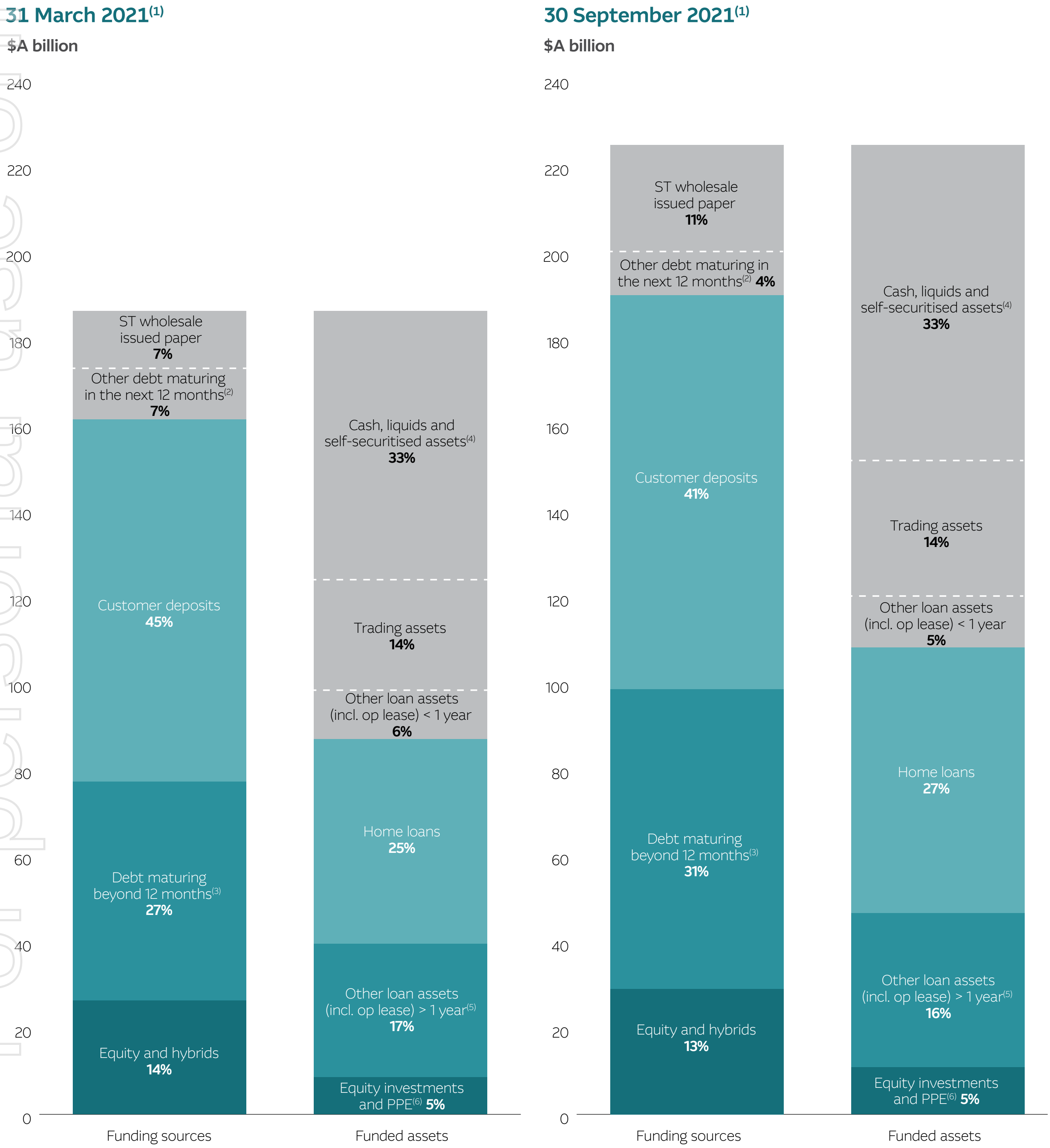
Macquarie has continued to develop its major funding markets and products during the half year ended 30 September 2021.

From 1 April 2021 to 30 September 2021, Macquarie raised $A24.4 billion(2) of term funding including:

- $A9.5 billion draw down of the RBA Term Funding Facility(1)
- $A7.4 billion of term wholesale issued paper comprising of $A6.6 billion of senior unsecured debt and $A0.8 billion of subordinated unsecured debt
- $A3.8 billion of PUMA RMBS securitisation issuance
- $A3.0 billion refinance of secured trade finance facilities; and
- $A0.7 billion of BCN3 Hybrid instrument issuance.

(1) $A9.5 billion of Supplementary and Additional Allowance drawn in June 2021. $A1.7 billion of Initial Allowance was drawn in September 2020.
(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. Includes refinancing of loan facilities.

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



(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change. Refer to Section 5.3 for more details.
(2) Other debt maturing in the next 12 months includes Secured funding, Bonds, Other loans, Subordinated debt and Net trade creditors.
(3) Debt maturing beyond 12 months includes Subordinated debt, Structured notes, Secured funding (including TFF), Bonds, Syndicated loan facilities and Other loans not maturing within next 12 months.
(4) Refer to page 62 for split of Cash and liquid assets and Self-securitisation.
(5) Other 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

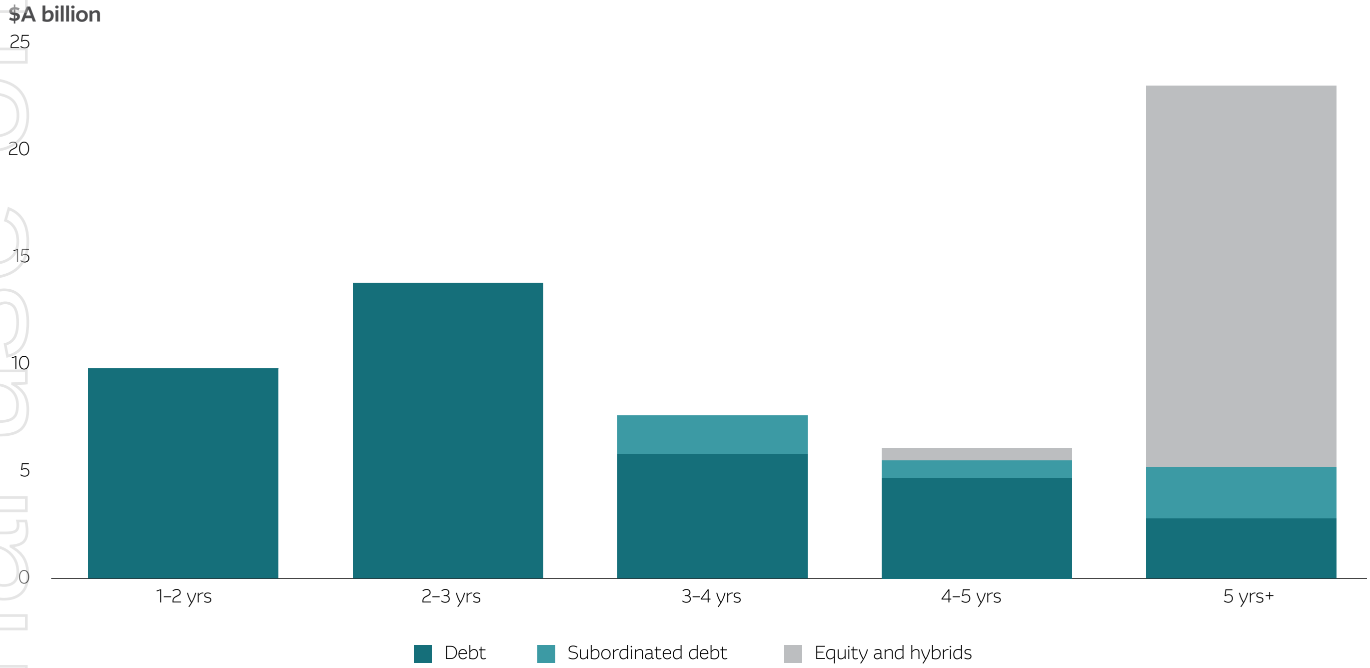
	Notes	AS AT Sep 21[(1)] $Ab	Mar 21[(1)] $Ab	Sep 20[(1)] $Ab
Funding sources				
Wholesale issued paper:	1			
Certificates of deposit		**0.4**	0.4	0.4
Commercial paper		**24.3**	12.9	5.7
Net trade creditors	2	**0.7**	1.3	0.1
Structured notes	3	**0.5**	0.5	1.3
Secured funding	4	**24.8**	13.4	15.6
Bonds	5	**18.5**	19.0	19.3
Other loans	6	**1.2**	1.0	0.9
Customer deposits	8	**91.5**	84.0	77.1
Subordinated debt	9	**5.0**	5.1	4.2
Equity and hybrids	10	**18.4**	15.8	15.7
Total		**185.3**	153.4	140.3
Funded assets				
Cash and liquid assets	11	**46.6**	38.3	32.9
Self-securitisation	12	**15.5**	19.9	13.7
Net trading assets	13	**30.4**	24.4	25.7
Other loan assets including operating lease assets less than one year	14	**11.2**	10.9	11.1
Home loans	15	**61.3**	47.0	43.6
Other loan assets including operating lease assets greater than one year	14	**24.1**	22.7	21.1
Debt investments	16	**1.3**	1.3	1.1
Non-Bank Group deposit with MBL		**(6.4)**	(12.4)	(9.9)
Co-investment in Macquarie-managed funds and other equity investments	17	**0.5**	0.5	0.4
Property, plant and equipment and intangibles		**0.8**	0.8	0.6
Total		**185.3**	153.4	140.3

See Section 5.7 for notes 1–17.

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Comparatives have been restated to reflect this change. Refer to Section 5.3 for more details.

Term funding profile

Detail of drawn funding maturing beyond one year



	AS AT SEP 21[1]					
	1–2 yrs $Ab	2–3 yrs $Ab	3–4 yrs $Ab	4–5 yrs $Ab	5 yrs+ $Ab	**Total $Ab**
Structured notes[2]	0.1	–	–	0.1	0.3	**0.5**
Secured funding[2],[3]	4.7	12.1	1.3	1.1	2.0	**21.2**
Bonds	4.0	1.7	4.5	3.5	0.5	**14.2**
Other loans	0.2	–	–	–	–	**0.2**
Total debt	**9.0**	**13.8**	**5.8**	**4.7**	**2.8**	**36.1**
Subordinated debt[4]	–	–	1.8	0.8	2.4	**5.0**
Equity and hybrids[4]	–	–	–	0.6	17.8	**18.4**
Total funding sources drawn	**9.0**	**13.8**	**7.6**	**6.1**	**23.0**	**59.5**
Undrawn	1.2	–	–	–	–	**1.2**
Total funding sources drawn and undrawn	**10.2**	**13.8**	**7.6**	**6.1**	**23.0**	**60.7**

Macquarie Bank has diversity of funding across a range of tenors, currencies and products. The weighted average term to maturity of term funding maturing beyond one year (excluding TFF, equity and securitisations) was 4.2 years and the weighted average term to maturity of term funding maturing beyond one year including TFF (excluding equity and securitisations) was 3.7 years as at 30 September 2021.

As at 30 September 2021, customer deposits represented $A91.5 billion, or 49% of the Bank Group's total funding, short-term (maturing in less than 12 months) wholesale issued paper represented $A24.7 billion, or 13% of total funding, and other debt funding maturing within 12 months and net trade creditors represented $A9.6 billion, or 5% of total funding.

(1) There has been a change in presentation of certain items on the funded balance sheet in the current period. Refer to Section 5.3 for more details.
(2) Structured notes and securitisations are profiled using a behavioural maturity profile.
(3) Includes RBA TFF of $A11.3 billion.
(4) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using the earlier repricing dates instead of contractual maturity.

5.5 Funding Profile for the Bank Group

Continued

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 notes, and Transferable Deposits. The Debt Instrument Program had $US8.6 billion debt securities outstanding as at 30 September 2021
- $US25 billion Commercial Paper Program under which $US17.1 billion of debt securities were outstanding as at 30 September 2021
- $US20 billion US Rule 144A/Regulation S Medium-Term Note Program, including senior and subordinated notes, under which $US7.8 billion of debt securities were outstanding as at 30 September 2021
- $US5 billion Structured Note Program under which $US0.4 billion of structured notes were outstanding as at 30 September 2021
- $A5 billion Covered Bond Programme under which no debt securities were outstanding as at 30 September 2021
- $US1.7 billion Secured Trade Finance Facility[2] of which $US0.7 billion was drawn as at 30 September 2021
- $A1.5 billion of other subordinated unsecured debt outstanding as at 30 September 2021
- $A12.2 billion of external PUMA RMBS and SMART ABS securitisation was outstanding as at 30 September 2021; and
- $A11.3 billion[3] of RBA Term Funding Facility outstanding as at 30 September 2021.

Macquarie Bank accesses the Australian capital markets through the issuance of Negotiable Certificates of Deposit. As at 30 September 2021, Macquarie Bank had $A0.4 billion of these securities outstanding.

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

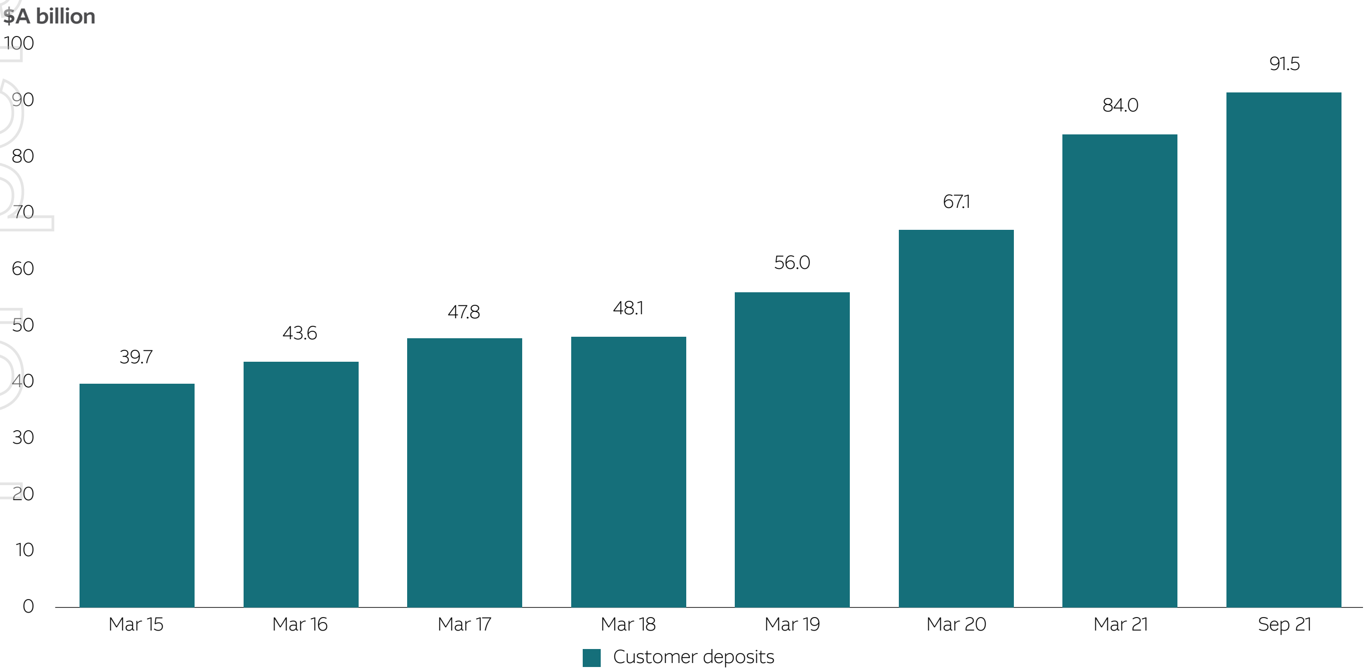
Deposit strategy

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 2015.

Deposit trend



(1) Funding outstanding excludes capitalised costs.
(2) $US1.7 billion Secured Trade Finance Facility can be at either the MBL or MGL level but is currently drawn out of MBL.
(3) Total of $A11.26 billion of RBA TFF outstanding as at 30 September 2021, comprising of $A1.72 billion of Initial Allowance, and $A9.53 billion of Additional and Supplementary Allowances.

5.6 Funding Profile for the Non-Bank Group

Funded balance sheet

	Notes	AS AT Sep 21 $Ab	Mar 21 $Ab	Sep 20 $Ab
Funding sources				
Net trade (debtors)/creditors	2	**(0.4)**	0.1	0.3
Structured notes	3	**1.0**	0.6	0.6
Secured funding	4	**0.4**	0.4	0.5
Bonds	5	**21.3**	15.3	14.4
Other loans	6	**0.2**	0.2	0.1
Syndicated loan facilities	7	**6.4**	5.8	7.3
Equity and hybrids	10	**10.7**	10.6	9.0
Total		**39.6**	33.0	32.2
Funded assets				
Cash and liquid assets	11	**11.3**	4.6	5.5
Non-Bank Group deposit with MBL		**6.4**	12.4	9.9
Net trading assets	13	**1.2**	1.2	1.2
Other loan assets including operating lease assets less than one year	14	**0.7**	0.5	0.6
Other loan assets including operating lease assets greater than one year	14	**9.3**	6.4	6.2
Debt investments	16	**1.1**	0.6	0.4
Co-investment in Macquarie-managed funds and other equity investments	17	**6.1**	5.2	5.9
Property, plant and equipment and intangibles		**3.5**	2.1	2.5
Total		**39.6**	33.0	32.2

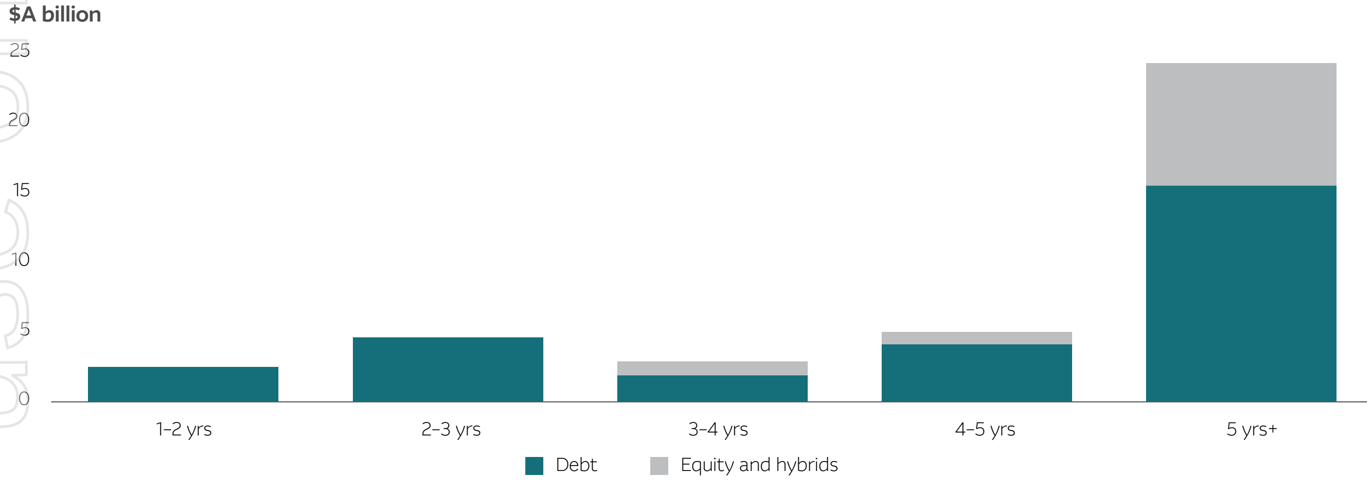
See Section 5.7 for notes 2–17.

5.6 Funding Profile for the Non-Bank Group

Continued

Term funding profile

Detail of drawn funding maturing beyond one year



	AS AT SEP 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	0.4	**1.0**
Secured funding	0.1	–	–	–	–	**0.1**
Bonds	0.8	4.2	0.7	0.3	14.9	**20.9**
Other loans	–	–	–	–	–	**–**
Syndicated loan facilities	1.6	–	1.1	3.7	–	**6.4**
Total debt	**2.5**	**4.6**	**1.9**	**4.1**	**15.3**	**28.4**
Equity and hybrids[2]	–	–	1.0	0.9	8.8	**10.7**
Total funding sources drawn	**2.5**	**4.6**	**2.9**	**5.0**	**24.1**	**39.1**
Undrawn	0.3	–	–	1.7	–	**2.0**
Total funding sources drawn and undrawn	**2.8**	**4.6**	**2.9**	**6.7**	**24.1**	**41.1**

The weighted average term to maturity of term funding maturing beyond one year (excluding equity) was 5.7 years as at 30 September 2021.

As at 30 September 2021, other debt funding maturing within 12 months net of net trade debtors represented $A0.5 billion, or 1.3% of total funding.

The key tools used for raising debt funding of MGL, which primarily funds the Non-Bank Group, are as follows[3]:

- $US20 billion US Rule 144A/Regulation S Medium-Term Note Program, under which $US8.8 billion of debt securities were outstanding as at 30 September 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 $US4.7 billion debt securities outstanding as at 30 September 2021
- $A8.2 billion[4] of Syndicated Loan Facilities of which $A6.5 billion[4] was drawn as at 30 September 2021
- $US5 billion Structured Note Program under which $US0.7 billion of structured notes were outstanding as at 30 September 2021
- $US2.0 billion of Muni-gas Prepayment funding outstanding as at 30 September 2021; and
- $US0.6 billion Secured Trade Finance Facility of which $US0.3 billion was drawn as at 30 September 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) Funding outstanding excludes capitalised costs.
(4) Values are Australian dollar equivalents as at 30 September 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 30 September 2021 include MACS, BCN 2 and 3 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 and held as contingent collateral for RBA facilities (such as the CLF) or to meet proposed APRA minimum requirements.

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. Other loan assets including operating lease assets

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

See section 4.2 for further information.

15. Home loans

Secured by Australian residential property.

16. Debt investments

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

17. 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.

06

Capital

6.1 Overview

As an Australian Prudential Regulation Authority (APRA) authorised and regulated Non-Operating Holding Company, MGL is required to hold adequate regulatory capital to cover the risks for Macquarie, 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 30 September 2021 include the Macquarie Additional Capital Securities (MACS), Macquarie Bank Capital Notes 2 (BCN2), Macquarie Bank Capital Notes 3 (BCN3), Macquarie Group Capital Notes 3 (MCN3), Macquarie Group Capital Notes 4 (MCN4) and Macquarie Group Capital Notes 5 (MCN5).

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. On 22 October 2021, Macquarie published restated historical MBL Pillar 3 disclosures for the period March 2018 to June 2021.

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

Pillar 3

The APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (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 SEP 21		AS AT MAR 21		*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	**18,401**	**18,401**	15,707	15,707	*17*	*17*
Non-Bank Group eligible capital	**10,704**	**10,704**	10,588	10,588	*1*	*1*
Eligible capital	**29,105**	**29,105**	26,295	26,295	*11*	*11*
Macquarie capital requirement:						
Bank Group capital requirement						
Risk-Weighted Assets (RWA)[1]	**106,030**	**115,009**	85,024	93,376	*25*	*23*
Capital required to cover RWA at 8.5%[2]	**9,013**	**9,776**	7,227	7,937	*25*	*23*
Tier 1 deductions	**258**	**2,480**	190	2,239	*36*	*11*
Total Bank Group capital requirement	**9,271**	**12,256**	7,417	10,176	*25*	*20*
Total Non-Bank Group capital requirement	**8,435**	**8,435**	7,318	7,318	*15*	*15*
Total Macquarie capital requirement (at 8.5%[2],[3] of the Bank Group RWA)	**17,706**	**20,691**	14,735	17,494	*20*	*18*
Macquarie regulatory capital surplus (at 8.5%[2],[3] of Bank Group RWA)	**11,399**	**8,414**	11,560	8,801	*(1)*	*(4)*

(1) In calculating the Bank Group's contribution to Macquarie's capital requirement, RWA internal to Macquarie are eliminated (30 September 2021: $A874 million; 31 March 2021: $A624 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 30 September 2021 consists of MACS, BCN2 and BCN3. 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).

BCN3 were issued by MBL in August 2021 and are quoted on the Australian Securities Exchange. The BCN3 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 2.90% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 September 2028, 7 March 2029, or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 8 September 2031; 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 SEP 21		AS AT MAR 21		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	**9,040**	**9,040**	8,521	8,521	*6*	*6*
Retained earnings	**6,513**	**6,513**	5,253	5,253	*24*	*24*
Reserves	**515**	**515**	305	305	*69*	*69*
Gross Common Equity Tier 1 capital	**16,068**	**16,068**	14,079	14,079	*14*	*14*
Regulatory adjustments to Common Equity Tier 1 capital:						
Goodwill	**41**	**41**	39	39	*5*	*5*
Deferred tax assets	**31**	**748**	32	793	*(3)*	*(6)*
Net other fair value adjustments	**(84)**	**(84)**	(110)	(110)	*(24)*	*(24)*
Intangible component of investments in subsidiaries and other entities	**34**	**34**	35	35	*(3)*	*(3)*
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**–**	**534**	–	497	*–*	*7*
Shortfall in provisions for credit losses	**89**	**141**	17	63	***	*124*
Equity exposures	**–**	**859**	–	695	*–*	*24*
Capitalised software	**51**	**51**	55	55	*(7)*	*(7)*
Other Common Equity Tier 1 capital deductions	**96**	**156**	122	172	*(21)*	*(9)*
Total Common Equity Tier 1 capital deductions	**258**	**2,480**	190	2,239	*36*	*11*
Net Common Equity Tier 1 capital	**15,810**	**13,588**	13,889	11,840	*14*	*15*
Additional Tier 1 Capital						
Additional Tier 1 capital instruments	**2,333**	**2,333**	1,628	1,628	*43*	*43*
Gross Additional Tier 1 capital	**2,333**	**2,333**	1,628	1,628	*43*	*43*
Deduction from Additional Tier 1 capital	**–**	**–**	–	–	*–*	*–*
Net Additional Tier 1 capital	**2,333**	**2,333**	1,628	1,628	*43*	*43*
Total Net Tier 1 capital	**18,143**	**15,921**	15,517	13,468	*17*	*18*

6.2 Bank Group Capital

Continued

Bank Group Basel III Risk-Weighted Assets (RWA)

	AS AT SEP 21		AS AT MAR 21		*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	**35,880**	**35,880**	25,444	25,444	*41*	*41*
SME Corporate	**4,506**	**4,506**	4,629	4,629	*(3)*	*(3)*
Sovereign	**2,517**	**2,517**	1,199	1,199	*110*	*110*
Bank	**1,762**	**1,762**	1,423	1,423	*24*	*24*
Residential mortgage	**9,635**	**23,436**	8,907	21,461	*8*	*9*
Other retail	**3,168**	**3,168**	3,501	3,501	*(10)*	*(10)*
Retail SME	**2,829**	**2,832**	2,940	2,952	*(4)*	*(4)*
Total RWA subject to IRB approach	**60,297**	**74,101**	48,043	60,609	*26*	*22*
Specialised lending exposures subject to slotting criteria(1)	**8,628**	**8,628**	6,847	6,847	*26*	*26*
Subject to Standardised approach:						
Corporate	**86**	**86**	92	92	*(7)*	*(7)*
Residential mortgage	**638**	**638**	690	690	*(8)*	*(8)*
Other Retail	**1,200**	**1,200**	1,513	1,513	*(21)*	*(21)*
Total RWA subject to Standardised approach	**1,924**	**1,924**	2,295	2,295	*(16)*	*(16)*
Credit risk RWA for securitisation exposures	**877**	**877**	759	759	*16*	*16*
Credit Valuation Adjustment RWA	**7,778**	**7,778**	3,931	3,931	*98*	*98*
Exposures to Central Counterparties RWA	**522**	**522**	736	736	*(29)*	*(29)*
RWA for Other Assets	**5,013**	**2,626**	4,811	2,412	*4*	*9*
Total Credit risk RWA	**85,039**	**96,456**	67,422	77,589	*26*	*24*
Equity risk exposures RWA	**2,892**	**–**	2,229	–	*30*	–
Market risk RWA	**8,607**	**8,607**	5,660	5,660	*52*	*52*
Operational risk RWA	**10,366**	**10,366**	10,337	10,337	*<1*	*<1*
Interest rate risk in banking book RWA	**–**	**454**	–	414	–	*10*
Total Bank Group RWA	**106,904**	**115,883**	85,648	94,000	*25*	*23*
Capital ratios						
Bank Group Level 2 Common Equity Tier 1 capital ratio (%)	**14.8**	**11.7**	16.2	12.6		
Bank Group Level 2 Tier 1 capital ratio (%)	**17.0**	**13.7**	18.1	14.3		

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

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 85% of face value; average 53%.
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 and 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 SEP 21		
	Assets $Ab	Capital requirement $Am	Equivalent risk weight
Funded assets			
Cash and liquid assets	11.3	143	16%
Loan assets[1]	10.0	967	121%
Debt investments	1.1	137	156%
Co-investments in Macquarie-managed funds and other equity investments	5.5	2,498	568%
Co-investments in Macquarie-managed funds and other equity investments (relating to investments that hedge DPS plan liabilities)	0.6		
Property, plant and equipment and intangibles	3.5	1,835	655%
Non-Bank Group deposit with MBL	6.4		
Net trading assets	1.2		
Total funded assets	**39.6**	**5,580**	
Accounting Deductions			
Derivative revaluation accounting gross-ups	0.2		
Segregated funds	0.8		
Outstanding trade settlement balances	4.8		
Working capital assets	7.9		
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	**15.5**		
Total Non-Bank Group assets	**55.1**		
Equity commitments		1,192	
Off balance sheet exposures, operational, market and other risks and diversification offset[2]		1,663	
Non-Bank Group capital requirement		**8,435**	

(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

7.1 Assets Under Management

	AS AT			*MOVEMENT*	
	Sep 21 $Ab	Mar 21 $Ab	Sep 20 $Ab	*Mar 21 %*	*Sep 20 %*
Assets under Management by type					
Public Investments (PI)					
Fixed income	**246.6**	197.5	201.0	*25*	*23*
Equities	**243.9**	159.9	140.0	*53*	*74*
Alternatives and Multi-asset	**24.1**	9.7	9.9	*148*	*143*
Total Public Investments (PI)	**514.6**	367.1	350.9	*40*	*47*
Private Markets (PM)					
Infrastructure Equity	**183.6**	157.8	162.0	*16*	*13*
Infrastructure Debt	**13.9**	12.8	11.4	*9*	*22*
Real Estate	**17.2**	18.8	25.2	*(9)*	*(32)*
Agriculture	**3.7**	3.3	2.7	*12*	*37*
Transport Finance	**2.5**	2.4	2.7	*4*	*(7)*
Total Private Markets (PM)	**220.9**	195.1	204.0	*13*	*8*
Total MAM	**735.5**	562.2	554.9	*31*	*33*
Other Operating Groups	**1.5**	1.3	1.4	*15*	*7*
Total Assets under Management	**737.0**	563.5	556.3	*31*	*32*
Assets under Management by region					
Americas	**403.5**	279.1	277.2	*45*	*46*
Europe, Middle East and Africa	**129.3**	115.1	115.5	*12*	*12*
Australia	**167.6**	133.8	125.2	*25*	*34*
Asia	**36.6**	35.5	38.4	*3*	*(5)*
Total Assets under Management	**737.0**	563.5	556.3	*31*	*32*

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 to reflect Macquarie's proportional ownership interest of the fund manager. AUM excludes uninvested equity in Private Markets.

AUM of $A737.0 billion as at 30 September 2021 increased 31% from $A563.5 billion as at 31 March 2021. The increase in AUM during the period was largely due to the acquisition of Waddell & Reed, favourable impacts from foreign exchange, investment by Private Markets-managed funds and net flows and market movements in Public Investments. This was partially offset by asset realisations made by Private Markets-managed funds and Public Investments divestments. (see section 7.2 *Equity Under Management* for further details).

7.2 Equity Under Management

The Private Markets 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	
	Sep 21 $Ab	Mar 21 $Ab	Sep 20 $Ab	*Mar 21 %*	*Sep 20 %*
Equity under Management by type					
Listed equity	**12.3**	10.0	9.2	*23*	*34*
Unlisted equity	**146.5**	132.0	130.6	*11*	*12*
Total EUM	**158.8**	142.0	139.8	*12*	*14*
Equity under Management by region(4)					
Australia	**12.6**	12.3	14.3	*3*	*(12)*
Europe, Middle East and Africa	**84.6**	78.0	77.3	*8*	*9*
Americas	**32.0**	26.6	25.9	*20*	*23*
Asia	**29.6**	25.1	22.3	*18*	*33*
Total EUM	**158.8**	142.0	139.8	*12*	*14*

EUM of $A158.8 billion as at 30 September 2021 increased 12% from $A142.0 billion as at 31 March 2021. The increase was primarily due to capital raised for listed funds, unlisted funds and co-investments, share price movements for listed funds and foreign exchange movements. These were partially offset by equity returned by unlisted funds and co-investments due to divestment of underlying assets.

(1) Managed businesses includes third party equity invested in Private Markets managed businesses where management arrangements exist with Macquarie.
(2) Excludes equity invested by Macquarie directly into businesses managed by Private Markets.
(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

8.1 Glossary

Defined term	Definition
1H21	The six months ended 30 September 2020.
2H21	The six months ended 31 March 2021.
1H22	The six months ended 30 September 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: • 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 *Capital Adequacy: Measurement of Capital*.
ALCO	The Asset and Liability Committee.
AMA	Advanced Measurement Approach (for determining operational risk).
ANZ	Australia and New Zealand.
APRA	Australian Prudential Regulation Authority.
Asset Finance	Asset Finance 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.
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 Public Investments.
Assets under Management by region	AUM by region is defined by the location of the underlying assets for funds managed by Public Investments, 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 includes BFS and certain activities of CGM.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 Capital Adequacy: *Internal Ratings-based Approach to Credit Risk*.
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
BCN3	On 27 August 2021, MBL issued 6.5 million Macquarie Bank Capital Notes 3 (BCN3) at a face value of $A100 each. BCN3 are unsecured, subordinated notes that pay discretionary, quarterly floating rate cash distributions and may be redeemed at face value on 7 September 2028, 7 March 2029 or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions) on these redemption dates; mandatorily exchanged on 8 September 2031; exchanged earlier upon an acquisition event (with the acquirer gaining control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BBSW	Bank Bill Swap Rate.
BFS	Banking and Financial Services.
BFS deposits	BFS deposits are those placed with Banking and Financial Services and include products such as the Cash Management Account, Transaction and Savings 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: • 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 *Capital Adequacy: Measurement of Capital*.
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 other 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 other corporate income items is net operating income less the net operating income generated by Macquarie's Operating Groups.

8.1 Glossary

Continued

Defined term	Definition
Earnings per share	A performance measure that measures earnings attributable to each ordinary share, defined in AASB 133 *Earnings Per Share*.
ECAM	Economic Capital Adequacy Model.
ECL	Expected Credit Losses as defined and measured in terms of AASB 9 *Financial Instruments*.
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.
F	
Financial Report	Macquarie Group Limited Interim 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.
FY2021	The year ended 31 March 2021.
FY2022	The year ended 31 March 2022.
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	On 8 March 2017, MBL, acting through its London Branch, issued $US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's Common Equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAM	Macquarie Asset Management.
MAMHPL	Macquarie Asset Management Holdings Pty Ltd.
MBL	Macquarie Bank Limited ABN 46 008 583 542.

Defined term	Definition
MCN2	On 18 December 2015, MGL issued 5.3 million Macquarie Group Capital Notes 2 (MCN2) at a face value of $A100 each. MCN2 were subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions. MCN2 were redeemed on 17 March 2021.
MCN3	On 7 June 2018, MGL issued 10 million Macquarie Group Capital Notes 3 (MCN3) at a face value of $A100 each. MCN3 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 16 December 2024, 16 June 2025 or 15 December 2025 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 15 December 2027; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN4	On 27 March 2019, MGL issued 9.1 million Macquarie Group Capital Notes 4 (MCN4) at a face value of $A100 each. MCN4 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 10 September 2026, 10 March 2027 or 10 September 2027 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN4 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 10 September 2029; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MCN5	On 17 March 2021, MGL issued 7.25 million Macquarie Group Capital Notes 5 (MCN5) at a face value of $A100 each. MCN5 are subordinated, non-cumulative, unsecured notes that pay discretionary, non-cumulative, quarterly floating rate cash distributions and may be redeemed at face value on 18 September 2027, 18 March 2028 or 18 September 2028 (subject to certain conditions being satisfied) or earlier in specified circumstances. MCN5 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 18 September 2030; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL); or where APRA determines MGL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL, the Company	Macquarie Group Limited ABN 94 122 169 279.
N	
Net loan losses	The impact on the income statement of loan amounts provided for or written-off during the period, net of the recovery of any such amounts which were previously written-off or provided for in the income statement.
Net tangible assets per ordinary share	(Total equity less Macquarie Income Securities less Non-controlling interest less the Future Income Tax Benefit plus the Deferred Tax Liability less Intangible assets) divided by the number of ordinary shares on issue at the end of the period.
Net trading income	Income that comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes and foreign exchange differences.
Non-Bank Group	MGL, MFHPL and its subsidiaries, and MAMHPL and its subsidiaries.
Non-Banking Group	The Non-Banking Group includes Macquarie Capital, MAM and some business activities of CGM.
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.
P	
Private Markets	MAM Private Markets.
Public Investments	MAM Public Investments.

8.1 Glossary

Continued

Defined term	Definition
R	
RBA	Reserve Bank of Australia.
Return on equity	The profit after income tax attributable to Macquarie's ordinary shareholders expressed as an annualised percentage of the average ordinary equity over the relevant period, less the average balances of FVOCI, share of associate and cash flow hedging reserves.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RMBS	Residential Mortgage-Backed Securities.
S	
Senior Management	Members of Macquarie's Executive Committee and Executive Directors who have a significant management or risk responsibility in the organisation.
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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09

Ten Year History

9.1 Ten Year History

	FIRST HALF	YEAR ENDED 31 MARCH(1)								
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Income statement ($Am)										
Net operating income	**7,804**	12,774	12,325	12,754	10,920	10,364	10,158	9,262	8,132	6,657
Total operating expenses	**(5,069)**	(8,867)	(8,871)	(8,887)	(7,456)	(7,260)	(7,143)	(6,740)	(6,026)	(5,252)
Operating profit before income tax	**2,735**	3,907	3,454	3,867	3,464	3,104	3,015	2,522	2,106	1,405
Income tax expense	**(603)**	(899)	(728)	(879)	(883)	(868)	(927)	(899)	(827)	(533)
Profit after income tax	**2,132**	3,008	2,726	2,988	2,581	2,236	2,088	1,623	1,279	872
Loss/(profit) attributable to non-controlling interests	**(89)**	7	5	(6)	(24)	(19)	(25)	(19)	(14)	(21)
Profit attributable to ordinary equity holders of Macquarie Group Limited	**2,043**	3,015	2,731	2,982	2,557	2,217	2,063	1,604	1,265	851
Statement of financial position ($Am)										
Total assets	**348,567**	245,653	255,802	197,757	191,325	182,877	196,755	187,976	153,904	144,748
Total liabilities	**(324,153)**	(223,302)	(234,018)	(179,393)	(173,145)	(165,607)	(181,091)	(173,580)	(141,990)	(132,793)
Net assets	**24,414**	22,351	21,784	18,364	18,180	17,270	15,664	14,396	11,914	11,955
Total loan assets	**118,359**	105,026	94,117	77,811	73,509	69,288	72,393	67,663	49,965	47,449
Impaired loan assets (net of provisions)(2)	**1,247**	1,544	1,528	1,674	351	547	418	594	365	368
Share information										
Dividends per share (cents per share)										
Interim	**272**	135	250	215	205	190	160	130	100	75
Final	**n/a**	335	180	360	320	280	240	200	160	125
Special(3)	**–**	–	–	–	–	–	–	–	116	–
Total	**272**	470	430	575	525	470	400	330	376	200
Basic earnings per share (cents per share)	**562.5**	842.9	791.0	883.3	758.2	657.6	619.2	502.3	383.6	251.2
Share price at reporting date ($A)	**182.0**	152.83	85.75	129.42	102.90	90.20	66.09	76.67	57.93	37.15
Ordinary shares (million shares)	**368.8**	361.8	354.4	340.4	340.4	340.4	340.3	333.5	321.1	339.5
Market capitalisation at reporting date (fully paid ordinary shares) ($Am)	**67,126**	55,297	30,388	44,052	35,024	30,700	22,491	25,569	18,601	12,613
Net tangible assets per ordinary share ($A)	**55.76**	53.91	50.21	46.21	45.12	42.74	41.23	38.19	31.71	29.94
Ratios										
Return on average ordinary shareholders' funds (%)	**17.8**	14.3	14.5	18.0	16.8	15.2	14.7	14.0	11.1	7.8
Ordinary dividend payout ratio (%)(4)	**50**	56	56	66	70	72	66	68	67	79
Expense/income ratio (%)	**65.0**	69.4	72.0	69.7	68.3	70.1	70.3	72.8	74.1	78.9
Net loan loss as % of loan assets (excluding securitisation SPVs)	**0.1**	0.4	0.8	0.4	0.3	0.5	1.0	0.7	0.4	0.4
Assets under management ($Ab)	**737.0**	563.5	598.9	551.3	496.7	481.7	478.6	486.3	426.9	347.4
Staff numbers	**17,209**	16,459	15,849	15,602	14,810	13,925	14,660	14,373	14,180	13,905

(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 2013–2018, 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.
(4) The ordinary dividend payout ratio for the half year ended 30 September 2021 is calculated as the estimated number of eligible shares on the record date multiplied by the dividend per share, divided by the profit attributable to MGL shareholders.

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