Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2017

Dated: May 23, 2017

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2017 (this "*Report*"), unless otherwise specified or the context otherwise requires:

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

- “*Commonwealth*” and “*Australia*” each means the Commonwealth of Australia;
- “*controlled entities*” means those entities (including special purpose entities) over which another party has the power to govern, directly or indirectly, decision making in relation to financial and operating policies, so as to require that entity to conform with such controlling party’s objectives;
- “*ECS*” means Exchangeable Capital Securities;
- *“ELE”* means an Extended Licensed Entity (as defined in APRA prudential regulation) which is an ADI, such as the Bank, and any subsidiaries considered by APRA to be operating as a division of the ADI itself. In order to be part of the ELE, a subsidiary must, among other things: (i) not have liabilities to entities outside the ELE, including to third parties, where those liabilities exceed 5% of the subsidiary’s assets; (ii) not undertake business that is not permitted by ADIs; (iii) be wholly-owned by the ADI itself or another ELE subsidiary; (iv) be entirely funded by the ADI; (v) face no regulatory or legal barriers to transferring assets back to the ADI; and (vi) have only the ADI’s directors or senior managers on its board of directors;
- “*Equity under Management*” is a non-GAAP financial measure we use that aggregates the market capitalization of listed funds managed by entities in the Non-Banking Group, committed capital from investors in unlisted funds, the face value of hybrid instruments and invested capital in managed assets, see “Financial information presentation — Non-GAAP financial measures”;
- “*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended;
- “*Executive Committee*” means the committee established and chaired by the managing director of MGL focusing on a variety of business issues, including key risks faced across the organization;
- “*FCA*” means the United Kingdom Financial Conduct Authority;
- “*financial statements*” means our historical financial statements;
- “*GAAP*” means generally accepted accounting principles;
- “*historical financial statements*” means our 2017 annual financial statements, our 2016 annual financial statements and our 2015 annual financial statements;
- “*IASB*” means the International Accounting Standards Board;
- “*IFRS*” means International Financial Reporting Standards;
- “*international income*” is a non-GAAP financial measure we use that means net operating income (excluding earnings on capital and other corporate items) derived from our operations outside Australia, or in Australia for non-Australian clients and counterparties, see “Financial information presentation — Non-GAAP financial measures — International income”;
- “*Macquarie Capital*” means the Macquarie Capital Advisers division and certain activities of Commodities & Global Markets that form part of the Non-Banking Group;
- “*managed assets*” means third party equity invested in assets managed by Macquarie Infrastructure and Real Assets where management fees may be payable to us and assets held directly by us acquired with a view that they may be sold into new or existing funds managed by Macquarie Infrastructure and Real Assets;
- “*MBIL*” means Macquarie Bank International Limited;
- “*MBL LB*” means the London branch of MBL;
- “*MCEL*” means Macquarie Capital (Europe) Limited;

- "*MEREP*" means Macquarie Group Employee Retained Equity Plan;
- "*MGL*" means Macquarie Group Limited (ABN 94 122 169 279), the authorized NOHC for the Banking Group and the Non-Banking Group, and includes its predecessors and its successors, as more fully described herein;
- "*MGL Group*", "*we*", "*our*" and "*us*" means MGL and its controlled entities, including MBL Group;
- "*MGL's U.S. Investors' Website*" means MGL's U.S. investors' website at http://www.macquarie.com/mgl/com/us/usinvestors/mgl;
- "*MIS*" means Macquarie Income Securities;
- "*net operating income*", an Australian Accounting Standards financial measure, includes net interest income (interest income less interest expense), trading income, fee and commission income, share of net profits of associates and joint ventures, net gains and losses from the sale of investments or the deconsolidation of controlled entities, dividends and distributions received/receivable, and other sundry income items, and is net of impairment charges and is reported in the income statement in our financial statements;
- "*NOHC*" means an authorized non-operating holding company of an ADI;
- "*NOHC Authority*" means the authority to be a non-operating holding company of an ADI granted to MGL by APRA on September 5, 2007 (as amended);
- "*Non-Banking Group*" or "*Non-Bank Group*" means Non-Banking Holdco and the group of existing and future subsidiaries of that intermediate subsidiary that constitute the Non-Banking Group as described herein;
- "*Non-Banking Holdco*" means Macquarie Financial Holdings Pty Limited (ABN 63 124 071 398), the intermediate holding company established as a subsidiary of MGL and the parent of the Non-Banking Group as part of the Restructure;
- "*OFAC*" means the United States Office of Foreign Assets Control;
- "*operating expenses*", an Australian Accounting Standards financial measure, include employment expenses (including staff profit sharing expense), brokerage and commission expense, occupancy expenses (including premises rental expense), non-salary technology expenses, professional fees, travel and communication expense, and other sundry expenses and are reported in the income statement in our financial statements;
- "*PRA*" means the United Kingdom Prudential Regulation Authority;
- "*RBA*" means the Reserve Bank of Australia;
- "*Restructure*" means the reorganization of MBL Group that was completed on November 19, 2007 that resulted in the establishment of MGL as the ultimate holding company of MBL and the transfer by MBL Group of certain businesses, subsidiaries and assets, primarily the Macquarie Capital operating group, to the Non-Banking Group;
- "*Services Agreements*" means the Outsourcing Master Services Agreements between MBL and MGL dated November 15, 2007, and between the Non-Banking Holdco and MGL dated December 10, 2007, and any supplements or amendments thereto;
- "*shared services*" means the services to be performed by MGL or its subsidiaries for the Banking and Non-Banking Groups pursuant to the Services Agreements described under "Macquarie Group Limited — Organizational structure";

- "*2015 annual financial statements*" means our audited consolidated financial statements contained in our 2015 Annual Report;

- "*2015 Annual Report*" means our 2015 annual report, extracts of which are incorporated by reference and which have been posted on MGL's U.S. Investors' Website;

- "*2016 annual financial statements*" means our audited consolidated financial statements contained in our 2016 Annual Report;

- "*2016 Annual Report*" means our 2016 annual report, extracts of which are incorporated by reference and which have been posted on MGL's U.S. Investors' Website;

- "*2017 annual financial statements*" means our audited consolidated financial statements contained in our 2017 Annual Report;

- "*2017 Annual Report*" means our 2017 annual report, extracts of which are incorporated by reference and which have been posted on MGL's U.S. Investors' Website;

- "*2016 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 6, 2016, which includes a comparative discussion and analysis of our results of operation and financial condition for the year ended March 31, 2016 compared to the year ended March 31, 2015, along with other balance sheet capital and liquidity disclosures as at or for the year ended March 31, 2016, has been posted on MGL's U.S. Investors' Website and has been incorporated by reference herein;

- "*2017 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 5, 2017, which includes a comparative discussion and analysis of our results of operation and financial condition for the year ended March 31, 2017 compared to the year ended March 31, 2016, along with other balance sheet, capital and liquidity disclosures as at or for the year ended March 31, 2017, has been posted on MGL's U.S. Investors' Website and has been incorporated by reference herein; and

- "*2017 Fiscal Year"* means the fiscal year ended March 31, 2017.

Our fiscal year ends on March 31, so references to years such as "*2017*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- macroeconomic conditions in the global debt and equity markets;
- changes in market liquidity, volatility and investor confidence;
- inflation, and interest rate, exchange rate and other market fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of MGL and the Non-Banking Group;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our reputation;
- the performance and financial condition of MGL;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the ability of MGL to attract and retain employees;
- changes in the credit quality of MGL's clients and counterparties;
- changes to the credit ratings assigned to each of MGL and MBL;
- the effectiveness of our risk management processes and strategies;
- the performance of funds and other assets we manage;

- the impact of asset sales on our long-term business prospects;
- the impact of catastrophic events on MGL and its operations;
- changes in political, social and economic conditions, including changes in consumer spending and saving and borrowing habits, in any of the major markets in which we conduct our operations or which we may enter in the future; and
- various other factors beyond our control.

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

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

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

Significant risk factors applicable to MGL Group are described under “Risk Factors” and elsewhere in this Report.

EXCHANGE RATES

MGL Group publishes its consolidated financial statements in Australian dollars and its fiscal year ends on March 31 of each year. For your convenience, the following table sets forth, for MGL Group's fiscal years and months indicated, the period-end, average (fiscal year only), high and low noon buying rates in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York, expressed in U.S. dollars per A$1.00.

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on March 31, 2017, which was US$0.7638 per A$1.00. The noon buying rate on May 19, 2017 was US$0.7449 per A$1.00.

Fiscal year	Period End	Average Rate[1]	High	Low
2013	1.0409	1.0317	1.0591	0.9688
2014	0.9275	0.9339	1.0564	0.8715
2015	0.7625	0.8673	0.9488	0.7582
2016	0.7677	0.7353	0.8118	0.6855
2017	0.7638	0.7517	0.7817	0.7184

Month	Period End		High	Low
November 2016	0.7387		0.7733	0.7345
December 2016	0.7230		0.7512	0.7174
January 2017	0.7582		0.7584	0.7231
February 2017	0.7686		0.7716	0.7564
March 2017	0.7638		0.7733	0.7517
April 2017	0.7475		0.7604	0.7452
May 2017 (through May 19, 2017)	0.7449		0.7534	0.7352

1 The average of the noon buying rates on the last day of each month during the period.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

The Australian Department of Foreign Affairs and Trade maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the department's website at http://www.dfat.gov.au/icat/UNSC_financial_sanctions.html.

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the financial information presented elsewhere in this Report, our 2017 Fiscal Year Management Discussion and Analysis Report, sections 1.0 to 7.0 of our 2016 Fiscal Year Management Discussion and Analysis Report and our historical financial statements.

Our financial information

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

- the section of this Report under the heading "Macquarie Group Limited — Our business — Trading conditions and market update", which includes a discussion of operating conditions during the 2017 fiscal year and the impact of such operating conditions on MGL Group;

- the section of this Report under the heading "Management's Discussion and Analysis of Results of Operation and Financial Condition" in this Report, which incorporates by reference:

    - our 2017 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the year ended March 31, 2017 compared to the year ended March 31, 2016, and which has been posted on MGL's U.S. Investors' Website; and

    - sections 1.0 to 7.0 of our 2016 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the year ended March 31, 2016 compared to the year ended March 31, 2015, and which has been posted on MGL's U.S. Investors' Website;

- MBL's Pillar 3 Disclosure Document dated March 2016, the Pillar 3 Disclosure Document dated September 2016, the Pillar 3 Disclosure Document dated December 2016 and the Pillar 3 Disclosure Document dated March 2017, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which have been posted on MGL's U.S. Investors' Website; and

- our historical financial statements, which are included in the extracts from our 2017 and 2016 Annual Reports posted on MGL's U.S. Investors' Website.

Application of new accounting standards

Please refer to Note 1 of the 2017 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2017 fiscal year.

Our historical financial statements

Our 2017 annual financial statements include our audited financial statements as at, and for the years ended, March 31, 2017 and 2016. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See our 2017 Fiscal Year Management Discussion and Analysis Report for further information.

MGL Group is divided into the following operating groups for internal reporting and risk management purposes: Macquarie Asset Management; Corporate & Asset Finance; Banking & Financial Services; Commodities & Global Markets and Macquarie Capital. Transfers between segments are determined on an arm's-length basis and are eliminated on consolidation. Investors should note that on November 29, 2016, MGL announced the merger of two of it's three capital markets facing businesses: Macquarie Securities and Commodities & Financial Markets. These two operating groups were merged into a newly created Commodities & Global Markets operating group in order to provide clients with an integrated, end to end service across global markets. After November 29, 2016, results from the Macquarie Securities group have been merged with the Commodities & Financial Markets group results and are presented as the Commodities & Global Markets group results. See “Macquarie Group Limited—Overview—Recent developments” for a more detailed discussion of this transaction.

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

Impact of acquisitions and disposals on the 2017, 2016 and 2015 fiscal years

During the 2017 fiscal year, the Banking & Financial Services division completed the sale of its Macquarie Life insurance business to Zurich Australia Limited.

During the 2016 fiscal year, the Macquarie Investment Management division was transferred from the Banking Group to the Non-Banking Group. This transfer is internal to MGL Group and, accordingly, is not expected to have any material impact on the operating results of MGL. In addition, MGL announced that it had entered into an agreement to acquire the Esanda dealer finance portfolio (“*Esanda Portfolio*”) from Australia and New Zealand Banking Group Limited (“*ANZ*”) for A$8.2 billion. The Esanda Portfolio became part of Macquarie Leasing, the automotive and equipment finance division of the Corporate & Asset Finance Group.

During the 2015 fiscal year, MGL Group entered into an agreement to acquire an aircraft operating lease portfolio from AWAS Aviation Capital Limited for US$4 billion (subject to adjustments). The portfolio comprises 83 modern, current-generation commercial passenger aircraft leased to 40 airlines. The portfolio will be part of Macquarie AirFinance, the aircraft operating lease division of Corporate & Asset Finance. In addition, Corporate & Asset Finance sold its U.S.-based information technology equipment leasing business, consisting of US$0.9 billion in assets, to Huntington National Bank. Corporate & Asset Finance also sold its North American railcar operating lease portfolio, comprising of approximately US$0.4 billion in assets.

In accordance with AASB 3 “*Business Combinations*”, provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MGL Group’s 2017, 2016 and 2015 annual financial statements, respectively.

For further information on how these businesses have been integrated into MGL Group, see “Macquarie Group Limited — Operating groups” below, and for information on their impact on our results of operation and financial condition for the 2017 and 2016 fiscal years, see our segment analysis in section 3.0 of our 2017 Fiscal Year Management Discussion and Analysis Report and in section 3.0 of our 2016 Fiscal Year Management Discussion and Analysis Report.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2017, 2016 and 2015 fiscal years, see Note 42 “Acquisitions and disposals of subsidiaries and businesses” to MGL Group’s 2017 annual financial statements and Note 42 “Acquisitions and disposals of subsidiaries and businesses” to MGL Group’s 2016 annual financial statements, respectively.

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

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

The accounting policies adopted by entities within MGL Group are as reported in Note 1 to our 2016 annual financial statements.

Critical accounting policies and significant judgments

Note 1 to our 2017 annual financial statements provides a list of the critical accounting policies and significant judgments. Critical accounting policies and significant judgments for the 2017 fiscal year are otherwise consistent with those in the prior fiscal year.

Pending accounting standards changes

For a description of standards, interpretations and amendments to Australian Accounting Standards that are not yet effective but could have a significant impact on our accounting policies, see Note 1 to our 2017 annual financial statements.

Non-GAAP financial measures

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

Assets under Management

Assets under Management provides a consistent basis for measuring the scale of the funds management activities across our operating groups. Assets under Management is calculated as the proportional ownership interest in the underlying assets of funds and other assets managed by entities in MBL Group or the Non-Banking Group, as applicable, on behalf of third parties that are not funds managed by any MGL Group entity. This calculation is adjusted to exclude cross-holdings between funds managed by entities in MBL Group or the Non-Banking Group, as applicable, and is further adjusted to reflect the proportional ownership interest in the relevant fund manager.

Historically, substantially all of MGL's Assets under Management were reported by Macquarie Asset Management with approximately 0.4% (as at March 31, 2017) reported by other operating groups.

Equity under Management

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

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

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

International income

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

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

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

Earnings on capital and other corporate items

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

Funded loan assets and funded statutory statement of financial position

Funded loan assets is a non-GAAP financial measure. Funded loan assets is determined based on the funded statements of financial position of MGL Group and not the statutory statement of financial position classification. MGL Group's statutory statement of financial position is prepared based on Australian Accounting Standards and includes certain accounting gross-ups and non-recourse self-funded assets that do not represent a funding requirement of MGL Group. A reconciliation between the reported assets and the net funded loan assets at March 31, 2017 is presented in section 4.0 of our 2017 Fiscal Year Management Discussion and Analysis Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 37 to our 2017 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, results of operation or financial condition.

Our business and financial condition has been and may be negatively impacted by adverse global credit and other market conditions. Economic conditions, particularly in the United States, Australia, Europe and Asia, may have a negative impact on MGL's financial condition and liquidity.

In recent years, global credit and equity markets have been characterized by uncertainty and volatility, with such markets continuing to demonstrate reduced liquidity, widened credit spreads and decreased price transparency. More recently, these challenging market conditions have resulted primarily from the ongoing sovereign debt concerns in Europe, concerns about Chinese and global economic growth and systemic reviews of the banking sector by rating agencies and regulators, which have resulted in the imposition of additional capital and other regulatory requirements. Our businesses operate in or depend on the operation of global markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty in global credit markets, increased funding costs, constrained access to funding, and the decline in equity and capital market activity have impacted transaction flow in a range of industry sectors, all of which have adversely impacted our financial performance.

MGL may continue to endure similar or heightened adverse impacts from such conditions in the future. MGL may also face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. or Chinese economies, slowing growth in emerging economies or departure of a member country from the Euro zone or the market perception of such events could disrupt global funding markets and the global financial system more generally. MGL may also be impacted indirectly through its counterparties that may have direct exposure to European sovereigns and financial institutions. See "Macquarie Group Limited — Additional financial disclosures for the 2017 fiscal year — Euro-zone exposures" for a description of MGL's exposure in certain European countries as of March 31, 2017.

Since 2008, governments, regulators and central banks globally have taken numerous steps to increase liquidity and to restore investor and public confidence. There can be no assurance that the relief measures implemented by governments and central banks around the globe to restore confidence in financial systems and bolster economic growth will result in a sustained long-term stabilization of financial markets, or what impact the withdrawal of such relief measures or the consequential impacts of substantial fiscal stimulus on the budgets of sovereigns will have on global economic conditions or MGL's financial condition or prospects.

Our businesses including our advisory, transaction execution, funds management and lending businesses have been and may be adversely affected by market uncertainty, volatility or lack of confidence due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions or by the impact of changes in foreign exchange rates.

Poor economic conditions and other adverse geopolitical conditions and developments, such as the vote by the United Kingdom in June 2016 to leave the European Union in a referendum (known as the 'Brexit') can adversely affect and have adversely affected investor and client confidence, resulting in significant industry-wide declines in the size and number of underwritings and of financial advisory transactions and increased market risk as a result of increased volatility, which could have and have had an adverse effect on our revenues and our profit margins. For example, our brokerage and commission and other fee income, M&A advisory and underwriting fee income and our client facilitation fee income may be, and have been, impacted by transaction volumes. In addition, in certain circumstances, market uncertainty or general declines in market or economic activity may affect our client execution businesses by decreasing levels of overall activity or by decreasing volatility, but at other times market uncertainty and even declining economic activity may result in higher trading volumes or higher spreads or both. Our trading income may be adversely impacted during times of subdued market conditions and client activity and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our funds management business. Our funds management fee income, including base and performance fees, may be impacted by volatility in equity values and returns from our managed funds. Our loan portfolio may also be impacted by deteriorating economic conditions. We assess the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales are also subject to the current economic climate. In addition, if financial markets decline, revenues from our variable annuity products are likely to decrease. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than we would otherwise achieve during stable market conditions. If this occurs, then this may have an impact on our financial performance.

Our liquidity, profitability and businesses may be adversely affected by an inability to access international capital markets or by an increase in our cost of funding.

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired by an inability to access secured or unsecured debt markets, an inability to sell assets or unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects our trading clients or ourselves, or changes in our credit spreads, which are continuous, market-driven, and subject at times to unpredictable and highly volatile movements. For a more detailed description of liquidity risk, refer to section 5.0 of our 2017 Fiscal Year Management Discussion and Analysis Report.

General business and economic conditions are key considerations in determining our access to credit and equity capital markets, cost of funding and ability to meet our liquidity needs. The impact of these include, but are not limited to, changes in short-term and long-term interest rates, inflation, monetary supply, commodities volatility and results, fluctuations in both debt and equity capital markets, relative changes in foreign exchange rates, consumer confidence and changes in the strength of the economies in which we operate. Renewed turbulence or a worsening general economic climate could adversely impact any or all of these factors. Should conditions remain uncertain for a prolonged period, or deteriorate further, our funding costs may increase and may limit our ability to replace, in a timely manner, maturing liabilities, which could adversely affect our ability to fund and grow our business or otherwise have a material impact on us.

In the event that our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The availability of alternative financing will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit capacity. The cost of these alternatives may be more expensive than our current sources of funding or include other unfavorable terms, or we may be unable to raise as much funding as we need to support our business activities. This could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding, all of which could reduce our profitability. In the event that we are required to sell assets, there is no assurance that we will be able to obtain favorable prices on some or all of the assets we offer for sale or that we will be able to successfully complete asset sales at an acceptable price or in an acceptable timeframe. In addition, the sale of income earning assets may adversely impact our income in future periods.

Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate.

Many of our businesses are highly regulated in most jurisdictions in which we do business. We have businesses in multiple sectors, including as licensed brokers, investment advisers or other regulated financial services providers. We operate similar kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of MGL Group own or manage assets and businesses that are regulated. Our businesses include an ADI in Australia (regulated by APRA) and branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MGL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation in most jurisdictions in which we operate, including in the United States in respect of our broker-dealer, over-the-counter ("*OTC*") derivatives and funds management businesses. Certain regulatory developments will significantly alter the regulatory framework and may adversely affect our competitive position and profitability. Some of the key regulators and regulatory frameworks applicable to our businesses are described below under "Regulation and Supervision".

Regulatory agencies and governments frequently review banking and financial services laws, regulations and policies, including fiscal policies, for possible changes. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences or impacts across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally and on financial transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Future changes in laws, regulations or policies as described above can be unpredictable, and beyond our control and may result in potentially conflicting requirements and such changes could adversely affect our business, prospects, financial performance or financial condition. In addition, while the change in administration in the United States may ultimately roll back or modify certain of the regulations adopted in recent years, including regulations adopted or proposed pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*"), uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime, may negatively impact our businesses, at least in the short term, even if the long-term impact of any such changes are positive for our businesses.

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

Global economic conditions have led to increased supervision and regulation, as well as changes in regulation in markets in which we operate, particularly for financial institutions, and will lead to further significant changes of this kind. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. Furthermore, the nature and impact of future changes are not predictable and beyond our control and there is operational and compliance risk associated with the implementation of any new laws and regulations that apply to us as a financial institution. In particular, changes in applicable laws, regulations or other governmental policies could adversely affect one or more of our businesses and could require us to incur substantial costs. In addition, such changes may be inconsistently introduced across jurisdictions.

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards, where applicable, as well as rules and regulations relating to corrupt and illegal payments and money laundering) and industry codes of practice, as well as meeting our ethical standards. The failure to comply with applicable regulations could result in revocation, suspension, restriction or variation of conditions of operating licenses, litigation, fines and penalties or limitations on our ability to do business. They could also have adverse reputational consequences. These costs, expenses and limitations could have an adverse effect on our business, results of operations, financial performance or financial condition. The legal and regulatory requirements described above could also adversely affect the profitability and prospects of us or our businesses to the extent that they limit our operations and flexibility of our businesses. The nature and impact of future changes in such policies are not predictable and are beyond our control.

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

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to the financial services sector generally and our business operations, capital, liquidity and risk management, compensation and other matters, has increased dramatically over the past several years. The financial crisis and the subsequent political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Responding to and addressing such matters, regardless of the ultimate outcome, is time-consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and regulators have become aggressive in commencing enforcement actions or with advancing or supporting legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation with clients and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

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

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

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

Investors should be aware that exchange rate movements may adversely impact our future financial results. MGL Group's regulatory capital position may be adversely impacted by a depreciating Australian dollar, which increases the capital requirement for assets denominated in currencies other than Australian dollars.

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

From time to time we may evaluate strategic opportunities and undertake acquisitions of businesses, some of which may be material to our operations. Certain acquisition opportunities may arise, for example, as competitors choose to exit what they consider non-core activities. Our completed and prospective acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

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

In addition, there are current and prospective strategic risks associated with timely business decisions, proper implementation of decisions or responsiveness to changes in our current operating environment. From time to time, we may evaluate other strategic opportunities, the outcome of which is dependent upon the quality of our strategic planning process, the implications of the strategy on risk appetite and our ability to evaluate and, if determined to be worthwhile, implement such strategic opportunities.

Our business is substantially dependent on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MGL use the Macquarie name. Our reputation and, as a result, our business and business prospects could be adversely affected if any of the entities using the Macquarie name take actions, or are publically accused of such actions, that bring negative publicity on MGL Group.

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

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

We face significant competition from local and international competitors, which compete vigorously for participation in the various markets and sectors across which we operate, including the financial services industry. We compete on the basis of a number of factors, including our products and services, depth of client relationships, innovation, reputation and price. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to obtain or increase market share. We compete, both in Australia and internationally, with asset managers, retail and commercial banks, private banking firms, investment banking firms, brokerage firms, internet based firms, commodity trading firms and other investment and service firms as well as businesses in adjacent industries in connection with the various funds and assets we manage and services we provide. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently.

In addition, any trend toward consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position. The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins and adversely impact our business and results of operation.

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

Our employees are our most important resource, and our performance is largely dependent on the talents and efforts of highly skilled individuals. As such, our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry, such as professional service firms, hedge funds, private equity funds and venture capital funds, for qualified employees has historically been intense and is expected to increase during periods of economic growth.

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. Typically, those levels have caused employee remuneration to be our greatest expense as our performance-based remuneration has historically been cash based and highly variable. Recent market events have resulted in increased regulatory and public scrutiny of corporate remuneration policies and the establishment of criteria against which industry remuneration policies may be assessed. As a NOHC regulated by APRA, we may be subject to limitations on remuneration practices (which may or may not affect our competitors). These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees. If we are unable to continue to attract and retain qualified employees, as a result of such changes or otherwise, or are required to pay higher remuneration in order to attract and retain qualified employees to maintain our competitive position, or if increased regulation requires us to further change our remuneration policies, our performance, including our competitive position, could be materially adversely affected.

In addition, current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business and growth opportunities or potential efficiencies, which could adversely affect our profitability.

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

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees due to changes in interest rates (including the potential for negative interest rates), exchange rates, equity and commodity prices, credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors. We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are increasingly complex, as we employ structured products to benefit our clients and ourselves, and these complex structured products often do not have readily available markets to access in times of liquidity stress. We may incur losses as a result of decreased market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in the level of prices in the equity markets or increases in interest rates may reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive conditions in other investments could cause our clients to transfer their assets out of our funds or other products.

Defaults by one or more other large financial institutions or counterparties could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. As a result of, and in light of, recent significant volatility in the financial sector and the capital markets, concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions globally that may further affect us. This is sometimes referred to as "*systemic risk*" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. These risks may impact the value of financial instruments and other financial assets that are carried at fair market value by MGL and MGL's ability to deal in those assets. If these risks eventuate, they may have an impact on our results, financial condition and prospects.

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

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of a third party to satisfy its financial obligations to us on a timely basis. The resulting credit exposure will depend on a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 37 to our 2017 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances, which may also adversely impact our business and profitability.

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

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

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

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

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

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

We may incur losses as a result of ineffective risk management processes and strategies.

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

For a further discussion of our risk management policies and procedures, see our "Risk Management Report" in our 2017 Annual Report and Note 37 to our 2017 annual financial statements.

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our managerial, legal, accounting, IT, risk management, operational and financial resources and may expose us to additional risks.

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our legal, accounting, IT, risk management and operational infrastructure and result in increased expenses. Our future growth will depend, among other things, on our ability to integrate new businesses, maintain an operating platform and management system sufficient to address our growth, attract employees and other factors described herein. If we do not manage our expanding operations effectively, our ability to generate revenue and control our expenses could be adversely affected.

A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact, directly or indirectly, with individuals and entities that are new clients, with new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which these businesses are being operated or conducted. If these risks eventuate, they may have a negative impact on our results, financial condition or operations.

Poor performance of our funds would cause a decline in our revenue and results of operations and may adversely affect our ability to raise capital for future funds.

Our financial condition and results of operation are directly and indirectly affected by the results of the funds and the assets we manage, particularly our Macquarie-managed funds. Our revenue from Assets under Management is derived principally from three sources: (i) management fees, based on the size of our funds; (ii) incentive income, based on the performance of our funds; and (iii) investment income based on our investments in the funds, which we refer to as our "*principal investments*". If the value of the funds we manage declines, our Assets under Management would also decline, which would result in a decrease in our management fees from our funds. In the event that any of our funds perform poorly due to market conditions or our underperformance, our revenue and results of operations may decline. In addition, investors may withdraw their investments in our funds or may decline to invest in future funds we establish as a result of poor performance of our funds or otherwise.

Long-term underperformance can have negative implications for incentive income. If the return of a fund is negative in any period (quarterly, semi-annually or annually, depending on the fund), then the amount of the performance deficit must be carried forward until eliminated.

The business model of MGL Group includes revenue it generates from management of funds and transactions with the assets it manages.

As at March 31, 2017, MGL Group had A$481.7 billion in Assets under Management, and for the year ended March 31, 2017 derived A$1,580 million of base fee income from the funds that it managed. In addition to risks relating to fee income (as described above) and any credit exposure we may have to funds or assets owned by funds, MGL Group's funds model exposes it to such risks as:

- *Equity at risk*: MGL Group maintains an equity interest in a number of the funds that it manages. The market value of MGL Group's assets is directly affected by the value of the funds managed by MGL Group to the extent of its equity interest in those funds.

- *Reputation risk*: The Macquarie name is attached to many of the funds managed by MGL Group. Any adverse developments at any of the funds we manage or the assets managed by those funds could have an adverse impact on our reputation and public image which could adversely affect our business and financial condition.

- *Contingent liabilities*: In some instances entities in MGL Group have sold assets to funds managed by MGL Group mostly in circumstances when MGL Group is seeding a newly-formed fund with assets, or MGL Group has sold its interest in such assets to third parties. Under the terms of some of the agreements pursuant to which those assets have been sold we may have contingent liabilities as a result of the representations and warranties, covenants, indemnities or other provisions of those agreements.

- *Conflicts of interest*: MGL Group manages and advises a large number of funds, many of which compete for assets and investors. We have policies in place designed to manage conflicts of interest within MGL Group, but no assurance can be given that those policies will be adequate to prevent actual or perceived conflicts of interest.

If we are unable to effectively manage these risks, our funds management business and reputation could be materially harmed or we could be exposed to claims or other liabilities to investors in the funds.

We may experience writedowns of our funds management assets, investments, loans and other assets related to volatile market conditions.

MGL Group recorded A$444 million of impairment charges for the year ended March 31, 2017, including A$173 million of impairment charges on investment securities available-for-sale, investments in associates and joint ventures, and other non-financial assets, and A$271 million of loan impairments and provisions. Further impairments and provisions may be required in future periods if the market value of assets similar to those held were to decline.

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

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

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

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

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events.

Our businesses are highly dependent on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. As our client base, business activities and geographical reach expands, developing and maintaining our operational systems and infrastructure becomes increasingly challenging. We must continuously update these systems to support our operations and growth, which may entail significant costs and risks of successful integration. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume or disruption in internet services provided by third parties, adversely affecting our ability to process these transactions or provide these services.

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers or external events. Such operational risks may include theft and fraud, improper business practices, mishandling of client monies or assets, client suitability and servicing risks, product complexity and pricing, and valuation risk or improper recording, evaluating or accounting for transactions or breaches of our internal policies and regulations. There is increasing regulatory and public scrutiny concerning outsourced and off-shore activities and their associated risks, including, for example, the appropriate management and control of confidential data. The failure to appropriately manage this risk, including where external service providers are used, may adversely impact our reputation, financial performance and position.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee, contractor and external service provider misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, we increasingly face the risk of operational failure with respect to our clients' and counterparties' systems. Any such failure, termination or constraint could adversely affect our ability to effect or settle transactions, service our clients, manage our exposure to risk, meet our obligations to counterparties or expand our businesses or result in financial loss or liability to our clients and counterparties, impairment of our liquidity, disruption of our businesses, regulatory intervention or reputational damage.

We may face information security risks.

Our businesses are highly dependent on our information technology systems. We implement measures to protect the security, confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security. Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of attackers (including organized criminals and state-sponsored actors) and hackers. Our computer systems, software and networks may be vulnerable to unauthorized access, misuse, denial-of-service attacks, phishing attacks, computer viruses or other malicious code and other events that could have a security impact. Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies and develop additional remote connectivity solutions, the outsourcing of some of our business operations and the threat of cyber terrorism. Our external service providers, third parties with which we do business with (such as vendors, clearing agents, exchanges, clearing houses, central depositaries and financial intermediaries), as well as other third parties with which our clients do business with, can also be sources of operational risk to us, including with respect to security breaches affecting such parties, breakdowns or failures of the systems or misconduct by the employees, contractors or external service providers of such parties and cyber attacks. Such incidents may require us to take steps to protect the integrity of our own operational systems or to safeguard our confidential information and that of our clients, thereby increasing our operational costs and potentially diminishing customer satisfaction. It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and those that would perpetrate attacks can be well resourced. An information security failure could have serious consequences for MGL Group including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, and could result in violations of applicable privacy laws, all of which could have a material impact on MGL Group.

Our businesses, including our commodities activities and particularly our physical commodities trading businesses, are subject to the risk of unforeseen, hostile or potential catastrophic events, and environmental, reputational and other risks that may expose us to significant liabilities and costs.

Our businesses are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events (such as persistent winter storms or protracted droughts) leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Additionally, rising climate change concerns may lead to additional regulation that could increase the operating costs and/or reduce the profitability of our investments. In addition, we rely on third party suppliers or service providers to perform their contractual obligations, and any failure on their part could adversely affect our business. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm.

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

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

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

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

In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks.

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization, expropriation, price controls, capital controls, exchange controls, economic sanctions and other restrictive governmental actions. We could also be affected by the occurrence of diseases. Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and MGL's ability to continue operating or trading in a country, which in turn may adversely affect MGL's business, operations and financial condition.

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

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. While we have invested and continue to invest in our anti-money laundering ("*AML*"), sanctions, and anti-bribery and anti-corruption compliance programs, the geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, increases the risk that we may be found in violation of such rules or regulations and any such violation could subject us to significant penalties or adversely affect our reputation.

We are also subject to the risk that our agreements do not reflect the commercial intent of the parties, especially for complex transactions including those which involve derivatives.

We could suffer losses due to environmental and social factors

We and our customers operate businesses and hold assets in a diverse range of geographic locations. Any significant environmental change or external event (including fire, storm, flood, earthquake, pandemic, civil unrest or terrorism events) in any of these locations has the potential to disrupt business activities, impact our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us.

There are restrictions on the ability of subsidiaries, such as MBL, to make payments to MGL.

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

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

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

We are subject to risks in using custodians.

Certain funds we manage depend on the services of custodians to carry out certain securities transactions. In the event of the insolvency of a custodian, the funds might not be able to recover equivalent assets in full (including any cash held on its behalf) as they will rank among the custodian's unsecured creditors in relation to assets which the custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a custodian will not be segregated from the custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2017.

The information relating to MGL Group in the following table is based on our 2017 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Mar 17	**Mar 17**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	26,209	34,313
Subordinated debt — due greater than 12 months	4,133	5,411
Total borrowings[3]	30,342	39,724
Equity		
Contributed equity		
Ordinary share capital	5,703	7,467
Treasury shares	(907)	(1,187)
Exchangeable shares	8	10
Reserves	1,066	1,396
Retained earnings	6,017	7,877
Macquarie Income Securities	299	391
Other non-controlling interests	1,005	1,316
Total equity	13,191	17,270
TOTAL CAPITALIZATION	43,533	56,994

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 31, 2017, which was US$0.7638 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At March 31, 2017, we had A$3.6 billion of secured indebtedness due in greater than 12 months compared to A$3.0 billion at March 31, 2016.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$10.7 billion as at March 31, 2017 and securitizations totaled A$13.5 billion as at March 31, 2017 compared to A$20.9 billion and A$15.0 billion, respectively, as at March 31, 2016.

For details on our short-term debt position as at March 31, 2017, see section 5.4 of our 2017 Fiscal Year Management Discussion and Analysis Report.

MACQUARIE GROUP LIMITED

Overview

MGL is an ASX-listed diversified financial services holding company headquartered in Sydney, Australia and regulated as a NOHC by APRA. MGL's expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. MGL acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to clients. MGL's market capitalization as at the close of business on May 19, 2017 was A$29.9 billion (approximately US$22.3 billion based on the noon buying rate on May 19, 2017 of US$0.7449 per A$1.00).

At March 31, 2017, MGL employed over 13,500 staff, had total assets of A$182.9 billion and total equity of A$17.3 billion. For the 2017 fiscal year, MGL net operating income was A$10.4 billion and profit after tax attributable to ordinary equity holders was A$2,217 million. As at March 31, 2017, MGL conducted its operations in 27 countries, with 63% of our net operating income (excluding earnings on capital and other corporate items) being derived from international income. See "Macquarie Group Limited — Our business — Regional activity" below for further information. MGL was incorporated in the State of Victoria on October 12, 2006. Its principal place of business is Level 6, 50 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612-8232-3333.

Recent developments

On November 29, 2016, MGL announced the merger of two of it's three capital markets facing businesses: Macquarie Securities and Commodities & Financial Markets. The two operating groups were merged into a newly created Commodities & Global Markets operating group in order to provide clients with an integrated, end to end service across global markets. For further information on this newly formed operating group, see "— Operating groups — Commodities & Global Markets".

On March 16, 2017, Cargill, Inc. announced it had entered into an agreement with MGL under which MGL will acquire Cargill's petroleum business to expand physical oil and oil products capabilities. The transaction is expected to close in 2017.

On April 20, 2017, a Macquarie-led consortium comprised of MGL, Macquarie European Infrastructure Fund 5 (MEIF5) and Universities Superannuation Scheme, agreed to acquire the UK Green Investment Bank plc from HM Government for £2.3 billion. The transaction is expected to close in the first half of 2017, subject to regulatory approvals.

Board and management changes during the 2017 fiscal year

The following board and management changes occurred since the beginning of the 2017 fiscal year:

On November 29, 2016, Commodities & Financial Markets Group Head, Mr. Andrew Downe, became Group Head of the newly formed Commodities & Global Markets Group. Former Macquarie Securities Group Head, Mr. Stevan Vrcelj, stepped down from his role and from the Executive Committee.

Organizational structure

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

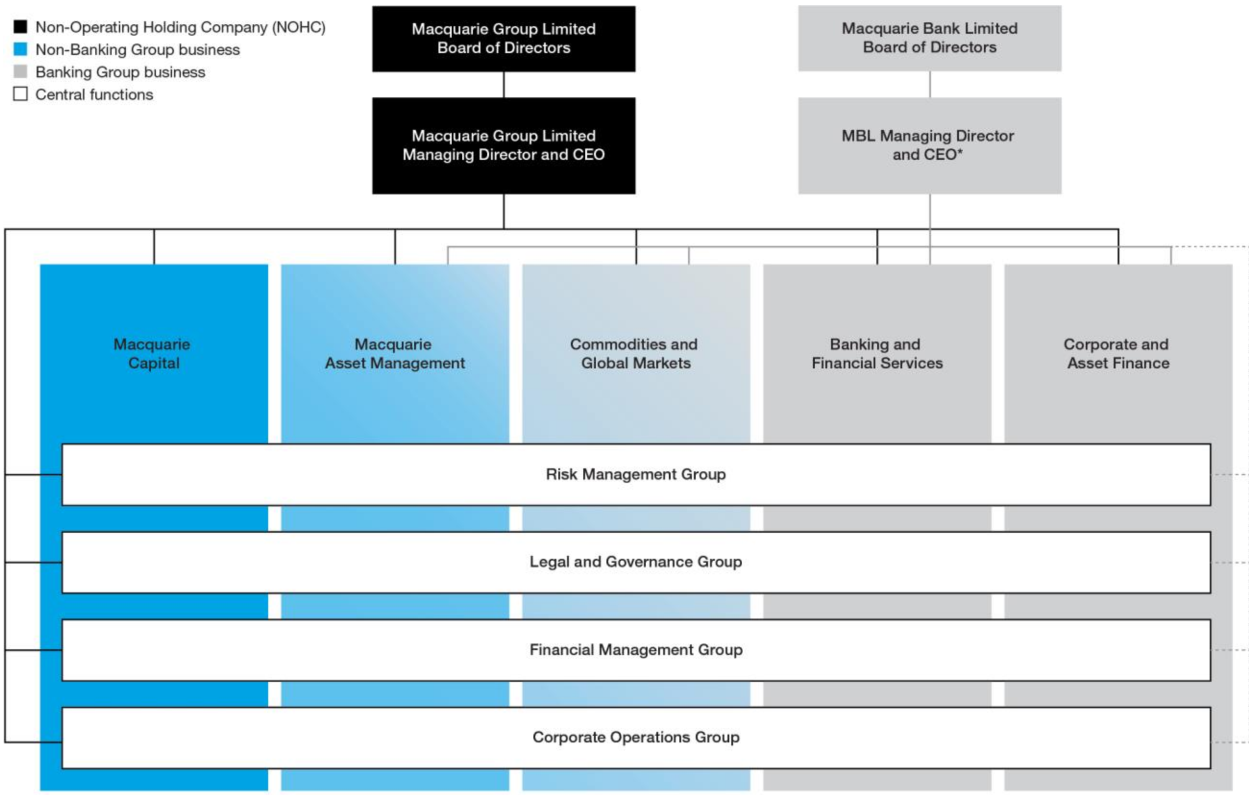
The Banking Group comprises MBL Group and has four operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); Commodities & Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business; and some other less financially significant activities). See "Macquarie Group Limited—Overview—Recent developments".

The Non-Banking Group consists of Macquarie Capital; the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division of Macquarie Asset Management; certain assets of the Credit Markets business, certain activities of the Cash Equities business, certain activities of the Equities Derivatives and Trading division, in each case, in certain jurisdictions and some other less financially significant activities of Commodities & Global Markets.

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

MBL and MGL have corporate governance and policy frameworks that meet APRA's requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5.0 of our 2017 Fiscal Year Management Discussion and Analysis Report. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

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



As at 30 November 2016
**The current Group Head of BFS is also the Deputy Group CEO.*

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

Our key strengths

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

- *Leading Australian and strong international franchise*. We are a leading Australian financial services firm that provides diverse financial services in Australia, with particular strengths in funds management, M&A, infrastructure advisory and management, securities origination, project advisory work and securities, foreign exchange and energy and commodities trading. This has created a strong base for our domestic and international growth and diversification. Over the last 10 years, we have significantly increased the amount of business we conduct outside of Australia and have transformed from a leading Australian financial services firm growing internationally into a global provider of diversified financial services headquartered in Australia. See "— Our history and evolution" below for further information.

- *Strong brand and reputation*. We believe our business successes have resulted in us achieving a level of recognition for quality, integrity and innovative products and services that has been an important element in our ability to maintain, grow and diversify our businesses.

- *Diversified earnings*. Our diversified earnings base has been an important factor in our successful growth. MGL Group's diverse sources of income include the following:
  - Fee and commission income, including:
    - Brokerage and commission income from institutional cash equities services provided to retail and institutional clients as well as brokerage revenues in futures execution and clearing markets from Commodities & Global Markets and brokerage fee income from Banking & Financial Services;
    - Funds management fee income (including base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform predetermined benchmarks) from Macquarie Asset Management;
    - Fee income from M&A, advisory and underwriting services provided by Macquarie Capital and Commodities & Global Markets as well as fee income from mortgage securitization vehicles, lending activities and transaction fees;
    - Other fee and commission income from the wrap and other administration fee income from Banking & Financial Services, and structuring fee income from Macquarie Asset Management's structured financial products; and
    - Income from life investment contracts and other unitholder investment assets from the provision of life insurance by Macquarie Life and True Index income earned on funds managed by Macquarie Asset Management.
  - *Trading income* generated predominantly through client trading activities and products issued by Commodities & Global Markets;
  - *Interest income* earned on residential mortgages, loans to Australian businesses, insurance premium funding and credit cards in Banking & Financial Services, interest income on trading assets from Commodities & Global Markets, and leasing, corporate lending and asset financing activities of Corporate & Asset Finance;
  - *Net operating lease income* generated predominately from the operating lease portfolio in Corporate & Asset Finance;
  - *Other income* from the sale of asset and equity investments, gains on the deconsolidation of controlled entities, dividends and distributions; and
  - *Equity accounted income* from principal investments in assets and businesses where significant influence is present.
- *Geographic diversity.* As at March 31, 2017, we employed over 13,500 people in 27 countries. Of those staff, approximately 55% were located in offshore markets. As MGL Group has expanded, we have applied the resources and experience of a global organization to our understanding of the local environment in the countries in which we operate.
- *Ability to adapt to change.* Over time, we have demonstrated an ability to adapt to changing market conditions. We have sought to take advantage of new opportunities for acquisitions and organic growth in our areas of expertise and have also demonstrated a preparedness to exit businesses once profit opportunities have been exhausted. We believe our acquisitions have complemented our existing expertise in areas such as lending and leasing, energy, financial institutions and funds management and demonstrated our track record of successfully integrating new businesses. For further details of significant acquisitions, see "— Our history and evolution" below.
- *Selective approach to growth and diversification*. In addition to adapting our existing businesses and expanding organically, we actively seek to diversify and grow our businesses in selective areas of expertise.

We believe that our strategy of expanding selectively, seeking only to enter markets where our particular skills or expertise deliver added value to clients, maximizes our potential for success and is intended to minimize unexpected losses or reputational impacts as we seek to grow and diversify.

- *Experience managing growth and diversity.* The experience of our management team in managing our growth and diversification has been important to our success in realizing the benefits and controlling the risks associated with undertaking varying businesses, developing scale and growing in new and existing geographic regions.

- *Business focus on fee income.* Our main business focus is on providing services to our clients rather than engaging in principal activities. While several of our businesses have and expect to continue to undertake principal investments as part of their M&A and funds management strategies, respectively, our main focus is on generating management and advisory fees, not assuming significant principal exposure.

- *Strong capital position.* As at March 31, 2017, MGL Group had total regulatory capital of A$18.7 billion, including A$5.5 billion of capital in excess of MGL Group's minimum APRA regulatory requirement (calculated at 8.5% of the Banking Group's RWA on a Basel III basis). The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer, per the minimum requirements in the APRA Prudential Standard APS110 which has been required by APRA since January 1, 2016. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under "Regulation and Supervision". For further information on our regulatory capital position as at March 31, 2017, see section 6.0 of our 2017 Fiscal Year Management Discussion and Analysis Report.

- *Risk management*. Managing risk is an integral part of our business, and we believe strong prudential management has been key to our success. Where we assume risk, we do so in what we believe to be a calculated and controlled framework. Our risk management framework is described in Note 37 to our 2017 annual financial statements and in the "Risk Management Report" in our 2017 Annual Report incorporated by reference herein. While our approach to risk is embedded across all business units, Risk Management manages the key risks applicable to the entire MGL Group along the following principles:

  - *Independence.* Risk Management is independent of Macquarie's operating and other central service groups. The Head of Risk Management, as Macquarie's Chief Risk Officer, reports directly to the Chief Executive Officer with a secondary reporting line to the Board Risk Committee. Risk Management approval is required for all material risk acceptance decisions.

  - *Centralized prudential management.* Risk Management's responsibility covers all of Macquarie. It assesses risks from a Macquarie-wide perspective and provides a consistent approach across all operating areas.

  - *Approval of new business activities.* Operating groups cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting Risk Management. Risk Management reviews and assesses the risks, and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

  - *Continuous assessment.* Risk Management continually reviews risks to account for changes in market circumstances and developments within Macquarie's operating groups.

  - *Frequent monitoring*. Centralized systems exist to allow Risk Management to monitor credit and market risks daily. Risk Management staff liaise closely with operating and central service groups.

Our strategy

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

- *Risk management approach.* Adopting a conservative approach to risk management. Macquarie's robust risk management framework is embedded across all operating and central service groups. This equips the business for unanticipated disruptions and ensures that both the relevant business and Macquarie as a whole can survive a worst case outcome from any new or existing activity.

- *Strong balance sheet.* Maintaining a strong and conservative balance sheet. This is consistent with Macquarie's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie remains well funded, with diversified funding sources. It continues to pursue its strategy of diversifying funding sources by growing its deposit base and accessing different funding markets.

- *Business mix.* Conducting a mix of annuity-style and capital markets facing businesses that deliver solid returns in a range of market conditions. Macquarie has dynamically developed its annuity-style businesses, providing steady returns to the business and Macquarie shareholders, and certainty to clients.

- *Diversification.* Operating a diversified set of businesses across different locations and service offerings such as asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Macquarie offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie, as highlighted in the challenging global markets of recent years.

- *Proven expertise.* Utilizing proven deep expertise has allowed Macquarie to establish leading market positions as a global specialist in sectors including infrastructure, resources and commodities, energy, financial institutions and real estate. This is coupled with a deep knowledge of Asia-Pacific financial markets.

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

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

Our history and evolution

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

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

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

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

- the acquisition of Constellation Energy in the 2009 fiscal year, which enhanced Commodities & Financial Markets', which now forms part of Commodities & Global Markets, position within the North American natural gas market;

- the acquisition of Tristone in the 2010 fiscal year, which enhanced Macquarie Securities', which now forms part of Commodities & Global Markets, and Macquarie Capital's global energy offering;

- the acquisition of Delaware Investments in the 2010 fiscal year, which enhanced Macquarie Asset Management's global asset management capability;

- the acquisition of the Ford Credit and GMAC portfolios in the 2010 and 2011 fiscal years, respectively, which enhanced Corporate & Asset Finance's motor vehicle leasing portfolio; and

- the acquisition of the ILFC aircraft operating lease portfolio in the 2011 fiscal year, which enhanced Corporate & Asset Finance's portfolio and the Macquarie Aviation Finance business.

For further information on the integration of these businesses into our existing operating groups, see the discussion below under "— Operating groups" and for further information on the impact of these acquisitions on our results of operation and financial performance in the 2017 and 2016 fiscal years, see "Financial Information Presentation — Impact of acquisitions and disposals on the 2017 and 2016 fiscal years" above.

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

Evolution has played an important role in the growth of MGL Group's businesses and the development of global expertise in key areas. MGL Group intends to continue to evolve its products and services to ensure that it has the appropriate business mix to suit prevailing market conditions and client needs.

Our business

Trading conditions and market update

During the year ended March 31, 2017, MGL's businesses have continued to grow in the challenging market conditions, highlighting the diversity of its business offerings and its ability to adapt to changing conditions.

MGL's annuity-style businesses contributed A$3,249 million to MGL's net profit in the 2017 fiscal year. Macquarie Asset Management continued to perform well compared to the prior year, which benefitted from significant performance fees. Corporate & Asset Finance benefitted from the full year contribution from the AWAS aircraft operating lease portfolio and the Esanda dealer finance portfolio that were acquired during the prior year, with solid performance across most portfolios. Banking & Financial Services experienced growth in Australian mortgage, business banking and deposit books as well as a gain on the sale of Macquarie Life's risk insurance business.

MGL's capital markets-facing businesses contributed A$1,454 million to MGL's net profit in the 2017 fiscal year. On November 29, 2016, two of MGL's three capital markets facing businesses, Macquarie Securities and Commodities & Financial Markets, were merged into a new operating group, Commodities & Global Markets, in order to provide clients with an integrated, end to end service across global markets. Commodities and Global Markets benefitted from higher investment-related income and lower impairments; the prior year benefitted from strong Chinese equity markets conditions and heightened volatility across a number of commodities. Macquarie Capital benefitted from improved fee income in M&A and DCM, and lower impairments, partially offset by reduced ECM income.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the 2017 fiscal year, see our 2017 Fiscal Year Management Discussion and Analysis Report for further information.

Overview of MGL Group

At March 31, 2017, MGL had total assets of A$182.9 billion and total equity of A$17.3 billion. For the 2017 fiscal year, our net operating income was A$10.4 billion and profit after tax attributable to ordinary equity holders was A$2,217 million, with 63% of our net operating income (excluding earnings on capital and other corporate items) derived from international income.

The tables below show the relative net operating income and profit contribution of each of our operating groups in the years ended March 31, 2017 and 2016.

Net operating income of MGL Group by operating group for the years ended March 31, 2017 and 2016[1]

	Year ended		
	Mar 17	**Mar 16**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	2,596	2,710	(4)
Corporate & Asset Finance	1,831	1,723	6
Banking & Financial Services	1,648	1,464	13
Commodities & Global Markets	2,948	2,915	1
Macquarie Capital	1,206	1,178	2
Total net operating income from operating groups	**10,229**	**9,990**	2
Corporate[2]	135	168	(20)
Total net operating income	**10,364**	**10,158**	2

Profit contribution of MGL Group by operating group for the years ended March 31, 2017 and 2016[1]

	Year ended		
	Mar 17	**Mar 16**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	1,538	1,644	(6)
Corporate & Asset Finance	1,198	1,130	6
Banking & Financial Services	513	350	47
Commodities & Global Markets	971	844	15
Macquarie Capital	483	451	7
Total contribution to profit by operating group	**4,703**	**4,419**	6
Corporate[2]	(2,486)	(2,356)	6
Net profit after tax	**2,217**	**2,063**	7

1 For further information on our segment reporting, see section 3.0 of our 2017 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2017 annual financial statements.

2 The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

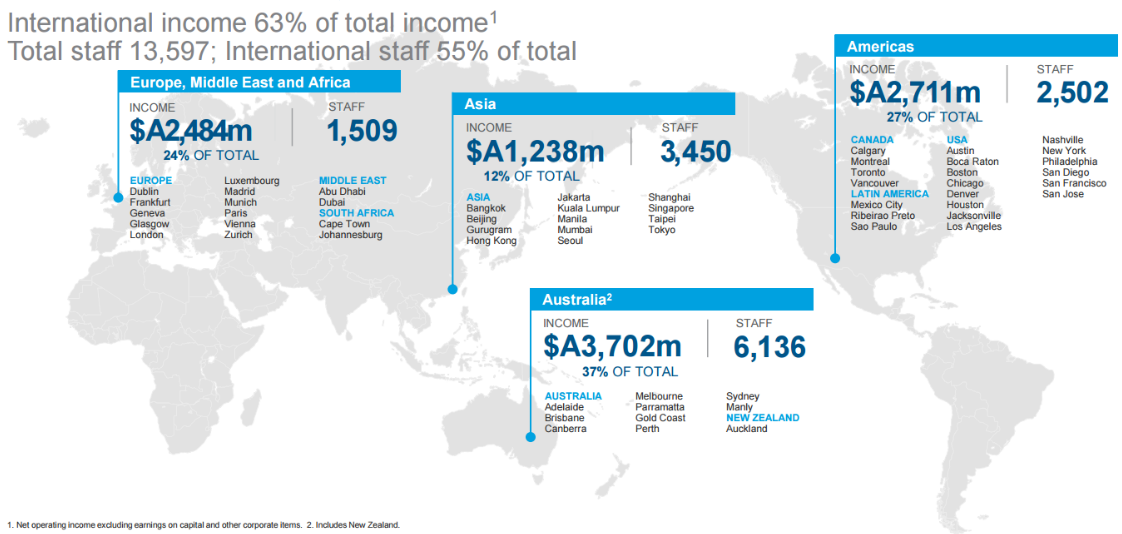
3 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Regional activity

At March 31, 2017, MGL Group employed over 13,500 staff globally and conducted its operations in 27 countries.

The chart below shows MGL Group's international income by region in the 2017 fiscal year.

International income of MGL Group[1] by region for the 2017 fiscal year



Australia and New Zealand. MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2017, MGL Group employed over 6,100 staff across Australia and New Zealand. In the 2017 fiscal year, Australia and New Zealand contributed A$3.7 billion (37%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$3.2 billion (32%) in the 2016 fiscal year.

Americas. MGL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions including Delaware Investments, Tristone and Constellation Energy. As at March 31, 2017, MGL Group employed over 2,500 staff across the United States, Canada, Mexico and Brazil. In the 2017 fiscal year, the Americas contributed A$2.7 billion (27%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.9 billion (30%) in the 2016 fiscal year.

Asia. MGL Group has been active in Asia for more than 20 years, when we established our first office in Hong Kong in 1995. As at March 31, 2017, MGL Group employed over 3,400 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. MGL has expanded the regional investment and product platforms of Macquarie Asset Management, Corporate & Asset Finance as well as Commodities & Global Markets, which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the 2017 fiscal year, Asia contributed A$1.2 billion (12%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.4 billion (14%) in the 2016 fiscal year.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2017, MGL Group employed over 1,500 staff across the United Kingdom, Germany, France, Ireland, Luxembourg, Austria, Switzerland, South Africa, Spain and the United Arab Emirates. In the 2017 fiscal year, Europe, Middle East & Africa contributed A$2.5 billion (24%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.4 billion (24%) in the 2016 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2016 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2017 annual financial statements. For further information on our international income for the 2017 and 2016 fiscal years, see section 3.8 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Operating groups

Macquarie Asset Management

Macquarie Asset Management operates businesses in both the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Asset Management offers a diverse range of tailored investment solutions over funds and listed equities. In the Non-Banking Group, Macquarie Asset Management offers a diverse range of securities investment management products and capabilities and manages alternative assets, specializing in infrastructure, energy, real estate and agriculture via public and private funds, co-investments, partnerships and separately managed accounts.

Macquarie Asset Management contributed A$1,538 million to MGL Group's profit for the 2017 fiscal year and, as at March 31, 2017, had over 1,500 staff operating across 24 countries across Australia, the Americas, Europe and Asia.

As at March 31, 2017, Macquarie Asset Management had Assets under Management of A$480.0 billion. For further information on Macquarie Asset Management's results of operation and financial condition for the year ended March 31, 2017, see section 3.2 of our 2017 Fiscal Year Management Discussion and Analysis Report. For further information on Macquarie Asset Management's Assets under Management, see " — Funds management business — Assets under Management" in this Report.

For the year ended March 31, 2017, Macquarie Asset Management operated across the same three divisions: Macquarie Specialised Investment Solutions, which formed part of the Banking Group, and Macquarie Investment Management and Macquarie Infrastructure and Real Assets, which formed part of the Non-Banking Group.

Further details of each division are contained below:

Macquarie Investment Management. Macquarie Investment Management offers securities investment management capabilities across a number of asset classes including fixed interest, currencies, equities, infrastructure securities, hedge funds and multi-asset allocation solutions. It delivers a full-service offering to both retail and institutional clients in Australia and the United States, with selective offerings in other regions. Macquarie Investment Management also partners with select specialist investment managers through its Macquarie Professional Series funds.

Macquarie Specialised Investment Solutions. Macquarie Specialised Investment Solutions manufactures and distributes a range of tailored investment solutions over funds and listed equities including fund-linked products, principal protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agricultural investment solutions.

Macquarie Infrastructure and Real Assets. Macquarie Infrastructure and Real Assets manages alternative assets, specializing in infrastructure, real estate, agriculture and energy. Its client base is primarily institutional investors, including global pension and superannuation funds, other institutions and governments.

Recent developments

In the Non-Banking Group, Macquarie Infrastructure and Real Assets, continued its focus on investing capital strategically across the globe, finishing the year ended March 31, 2017 with A$77.2 billion in equity under management. MIRA raised A$15.6 billion in new equity commitments, invested A$13.7 billion in equity across 24 acquisitions and 12 follow-on investments in 13 countries and divested managed assets of over A$3.4 billion. In addition, the Macquarie Investment Management division had Assets under Management of A$320.3 billion as at March 31, 2017. This represents a decrease of 5% from A$337.1 billion at March 31, 2016, largely due to a reduction in lower fee earning insurance assets partially offset by positive market movements.

In the Banking Group during the year ended March 31, 2017, Macquarie Specialised Investment Solutions continued to grow its infrastructure debt management business with total third party investor commitments of over A$6.5 billion and raised over A$1.0 billion for Australian retail principal protected investments and specialist funds.

Corporate & Asset Finance

Corporate & Asset Finance provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in corporate debt and asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$1,198 million to MGL Group's profit in the 2017 fiscal year and, as at March 31, 2017, had over 1,200 staff operating across 18 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance's results of operation and financial condition for the year ended March 31, 2017, see section 3.3 of our 2017 Fiscal Year Management Discussion and Analysis Report.

At March 31, 2017, Corporate & Asset Finance managed an asset and loan portfolio of A$36.5 billion, which represents a decrease of 7% from A$39.4 billion at March 31, 2016. The asset finance portfolio of A$29.7 billion at March 31, 2017 was broadly in line with the asset finance portfolio of A$29.9 billion at March 31, 2016.

The funded loan portfolio of A$6.8 billion at March 31, 2017 decreased 28% from A$9.5 billion at March 31, 2016, due to net repayments and realizations and the impact of foreign currency movements. Portfolio additions of A$1.9 billion comprised A$1.1 billion of new primary financings across corporate and real estate, weighted towards bespoke originations and A$0.8 billion of corporate loans and similar assets acquired in the secondary market.

During the 2017 fiscal year, securitization activity continued with A$3.4 billion of motor vehicle and equipment leases and loans securitized.

Corporate & Asset Finance comprises the following eight businesses:

Macquarie Aviation. Macquarie Aviation provides operating leases of commercial jet aircraft to airlines, helps clients increase fleet management capability and minimizes market and equipment obsolescence risk.

Macquarie Equipment Finance. Macquarie Equipment Finance provides specialist equipment finance and services solutions in healthcare, technology, communications, materials handling, manufacturing and related equipment. Macquarie Equipment Finance provides these services directly to large customers through vendor finance solutions developed for equipment manufacturers and resellers, and with other financial services partners.

Macquarie Leasing. Macquarie Leasing provides finance leases and loans to small to medium enterprises, corporate, government and retail clients in Australia. Macquarie Leasing offers products including finance leases, novated lease agreements, loans and commercial hire purchases for motor vehicles and other income producing plant and equipment. The business provides floor plan finance to Australian motor vehicle manufacturers and also has a presence in the United Kingdom.

Macquarie Lending. Macquarie Lending is a corporate and real estate credit investing and lending business that provides customized capital solutions and financing certainty to its clients through primary and secondary transactions. It is a leading market participant in bespoke primary lending and is a niche acquirer of loans and other assets in the secondary market. The team has experience across a variety of industry groups including real estate, infrastructure, telecommunications, media, entertainment and technology, leisure and healthcare.

Macquarie Energy Leasing. Macquarie Energy Leasing owns an electricity and gas metering portfolio in the United Kingdom. The portfolio comprises 'traditional' meters and newer 'smart' meters. Clients are major United Kingdom energy providers. Macquarie Energy Leasing also finances solar energy assets in Australia.

Macquarie European Rail. Macquarie European Rail offers operating lease financing for customers requiring passenger, locomotive and freight assets in Europe. In addition, Macquarie Rail offers portfolio sale and leaseback, and portfolio acquisition services.

Macquarie CAF Resources. Macquarie CAF Resources provides finance for large mining, construction and drilling equipment through finance and operating leases and secured lending products. The team operates globally and its clients come from a variety of industries including natural resources, civil contracting, aggregate supply and heavy construction. The business complements Macquarie's existing capabilities in Resources including mergers and acquisitions, project lending, commodity hedging and trading.

Macquarie Rotorcraft Leasing. Macquarie Rotorcraft Leasing is a full service helicopter leasing business focused on industries including offshore oil and gas, medical transport, search and rescue, utility and executive transport.

Recent developments

The acquisition of aircraft from AWAS and the motor vehicle portfolio from Esanda completed in prior periods continue to perform in line with expectations.

In the Lending business, notable transactions included the co-acquisition with Macquarie Aviation of a secondary loan portfolio secured by aviation assets, acquisition of a residential mortgage portfolio in the United Kingdom and the realization of the debt and equity of an 8.8 mile toll road in Virginia in the United States. Asset quality of the portfolio remains sound and the portfolio continues to generate strong overall returns.

Banking & Financial Services

Banking & Financial Services is in the Banking Group and comprises MGL Group's retail banking and financial services businesses, providing a diverse range of personal banking, wealth management and business banking products and services to retail customers, advisers, brokers and business clients.

Banking & Financial Services contributed A$513 million to MGL Group's net profit in the 2017 fiscal year and, as at March 31, 2017, had over 1,900 staff operating predominantly in Australia.

Banking & Financial Services comprises the following three divisions:

Personal Banking. Personal Banking provides a full retail banking product suite with mortgages, credit cards, transaction and savings accounts. It serves customers through direct Macquarie offerings, a white-label personal banking platform, strong intermediary relationships and a leading digital banking experience.

Wealth Management. Wealth Management provides a wide range of wrap platform and cash management services, investment and superannuation products, financial advice, private banking and stockbroking. It delivers products and services through institutional relationships, adviser networks and dedicated direct relationships with its clients.

Business Banking. Business Banking provides a full range of deposit, lending and payment solutions, as well as tailored services to business clients, ranging from sole practitioners to corporate professional firms, who we engage with through a variety of channels including dedicated relationship managers.

Banking & Financial Services' Australian mortgage portfolio has grown from A$28.5 billion at March 31, 2016 to A$28.7 billion at March 31, 2017, representing approximately 2% of the Australian mortgage market.

Banking & Financial Services' funds on platform have grown strongly from A$58.4 billion at March 31, 2016 to A$72.2 billion at March 31, 2017, largely due to the successful migration of the ANZ Oasis wrap superannuation and investment assets onto Macquarie's platforms.

Banking & Financial Services' cash deposits have grown from A$40.4 billion at March 31, 2016 to A$44.5 billion at March 31, 2017. This was primarily due to increased Macquarie Cash Management Account and Business Banking At-Call deposits.

For further information on Banking & Financial Services' results of operation and financial condition for the year ended March 31, 2017, see section 3.4 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Recent developments

During the year ended March 31, 2017, Banking & Financial Services continued to support innovative digital banking solutions for customers, including launching Apple Pay in February 2017.

Banking & Financial Services has continued its investment in technology projects to improve client experience and the scalability of its operating model, and is currently in year four of its five year program to deliver a banking platform with real time capability.

Banking & Financial Services completed the implementation of a new administration offering for ANZ Banking Group's wrap platform.

Banking & Financial Services also completed the sale of Macquarie Life to Zurich Australia Limited in October 2016.

Commodities & Global Markets

Commodities & Global Markets is primarily in the Banking Group, however, certain assets of the Credit Markets business, certain activities of the Cash Equities business, certain activities of the Equities Derivatives and Trading division, in each case, in certain jurisdictions and some other less financially significant activities are in the Non-Banking Group.

Commodities & Global Markets contributed A$971 million to MGL Group's net profit for the 2017 fiscal year and, as at March 31, 2017, had over 1,800 staff operating across 22 countries, with locations in Australia, Asia, the Middle East, North and South America, the United Kingdom and Europe. For further information on Commodities & Global Markets' results of operation and financial condition for the year ended March 31, 2017, see section 3.5 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Commodities & Global Markets provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities. The platform covers more than 25 markets and over 160 products, and has evolved over more than three decades to provide clients with access to markets, financing, financial hedging and physical execution.

Commodities & Global Markets services its clients via regional hub offices located in New York, Houston, London, Singapore and Sydney. As a primarily client and counterparty driven business, Commodities & Global Markets undertakes market making activities and in doing so, acts as principal in accordance with predetermined limits.

Commodities & Global Markets comprises the following eight divisions:

Cash Equities. Commodities & Global Markets operates as a full-service institutional cash equities broker in the Asia-Pacific region, South Africa and Canada. In the rest of the world it operates as a specialized institutional cash equities broker. It provides an ECM service through a joint venture with Macquarie Capital.

Credit Markets. Credit Markets operates in the United States via its team based in New York. Credit Markets provides specialty lending and balance sheet solutions for middle market borrowers, owners of portfolios of financial assets in the commercial, corporate, consumer and mortgage space, and holders of liabilities in distressed companies. The division has assisted both borrowers and lenders across sectors including healthcare, consumer/retail, energy/utilities, gaming/leisure, commodities/metals, infrastructure/transportation, real estate and media/telecommunications.

Energy Markets. Energy Markets provides a full spectrum offering to clients with exposure to the energy sector. The division provides risk management, lending and financing, and physical execution and logistics services across Global Oil, North American Gas and Power, EMEA Gas, Power and Emissions, Australian Power, and Coal. The division's deep market insights have been developed over more than 10 years, and are supported by in-house technical experts with backgrounds in scheduling, logistics, meteorology, structuring, geology and petroleum engineering. Macquarie Energy was ranked by Platts as the fourth largest physical gas marketer in North America, the highest ranked non-producer, in the fourth quarter of 2016.

Equity Derivatives and Trading. Commodities & Global Markets issues retail derivatives in key locations, and provides delta 1 products, derivative and equity finance solutions to its institutional client base, and conducts risk and market making activities.

Fixed Income & Currencies. Fixed Income & Currencies provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally. The division provides 24-hour price making in all major currency pairs as well as offers structured solutions and risk management hedging services. Additionally, the division offers retail and wholesale currency delivery and technology platforms. In fixed income markets, Fixed Income & Currencies arranges and places primary debt for clients and provides secondary market liquidity in Australian government, semi-government fixed income and inflation linked bond markets, as well as issuance activities and interest rate risk management services via structured solutions and derivative based products.

Futures. Futures provides a full range of execution, clearing and financing solutions to corporate and institutional clients, including continuous 24-hour coverage of all major markets globally. Futures also provides services to other divisions within Commodities & Global Markets and affiliates within MGL. The division has specialist expertise in energy, freight, grains and soft commodities as well as a market leading position in Australian interest rate products. It also makes use of leading-edge proprietary technology to provide clients with customized solutions for electronic market access, trade management, consolidated clearing and enhanced customer-specific reporting. The division is a leading provider of these services in Australia and a growing participant in North America, Europe and Asia.

Metals, Mining & Agriculture. Metals, Mining & Agriculture provides risk management, lending and financing, and physical execution and logistics services to producers and consumers across the metals, industrial minerals, bulk commodities and agricultural sectors globally. The division also offers commodity-based index products to institutional investors. MGL has been active in metals markets for more than 30 years and in agricultural markets for more than 20 years. It has also provided finance to junior miners for more than 25 years. This specialist knowledge is supported by in-house industry experts such as geologists and mining engineers. MBL is an Associate Broker Clearing Member of the London Metal Exchange, a Clearing Member of the London Clearing House and an Ordinary Member of the London Bullion Market Association.

Central. Central fosters and develops various non-division specific, early stage or cross-divisional initiatives as well as housing various Commodities & Global Markets-wide services including:

- Structured Commodity Finance, which offers services across agriculture, energy and metals including revolving, working capital facilities secured by exchange traded commodities and also provides repurchase-style physical transactions. Additionally, Structured Commodity Finance provides mezzanine debt, structured facilities or transactions in conjunction with other Commodities & Global Markets divisions;

- Cross-product sales teams, which cover Brazil and Latin America, Eastern Europe and the Commonwealth of Independent States, the Middle East, North Africa and South Korea. The teams specialize in a particular country or region and support all Commodities & Global Markets product lines in that specific geography;

- Structured Global Markets, which covers cross-border activity, local market structuring, trade solutions and global secured financing;

- Private & Structured Finance in Asia and Australia;

- New jurisdictions and branch initiatives; and

- Joint-venture and alliances.

Recent developments

On November 29, 2016, two of MGL’s three capital markets facing businesses, Macquarie Securities and Commodities & Financial Markets, were merged into a new operating group, Commodities & Global Markets, in order to provide clients with an integrated, end to end service across global markets. See “Financial Information Presentation—Our historical financial statements.”

On March 16, 2017, Cargill, Inc. announced it had entered into an agreement with MGL under which MGL will acquire Cargill’s petroleum business to expand physical oil and oil products capabilities. The transaction is expected to close in 2017.

Macquarie Capital

Macquarie Capital is in the Non-Banking Group.

Macquarie Capital contributed A$483 million to MGL Group’s net profit in the 2017 fiscal year and, as at March 31, 2017, had over 1,100 staff operating across 19 countries, including Australia, the United States, the United Kingdom, Germany, Canada, Hong Kong, South Korea and China. For further information on Macquarie Capital’s results of operation and financial condition for the year ended March 31, 2017, see section 3.6 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Macquarie Capital provides corporate finance advisory and capital markets services to corporate and government clients involved in public and private M&A, debt and equity fund raisings, private equity raisings and corporate restructuring. It also undertakes principal investing activities globally to support clients.

Its activities are aligned across six sectors of expertise:

- Infrastructure, Utilities and Renewables
- Real Estate
- Telecommunications, Media, Entertainment & Technology
- Resources
- Industrials
- Financial Institutions.

Macquarie Capital also undertakes principal investments, including a range of controlling and non-controlling equity stakes, and debt investments. The Principal Transactions Group within Macquarie Capital works with Risk Management Group to review the legal and commercial aspects of all principal transactions to ensure that the business’ commercial and strategic objectives are satisfied. This team is also responsible for managing the ongoing performance of principal assets on Macquarie Capital’s balance sheet.

In the 2017 fiscal year, Macquarie Capital was involved in 417 transactions with an aggregate deal value of A$159 billion. Significant transactions that Macquarie Capital was involved in during the 2017 fiscal year are described on page 21 of our 2017 Annual Report.

Recent developments

On April 20, 2017, a Macquarie-led consortium comprised of MGL, Macquarie European Infrastructure Fund 5 (MEIF5) and Universities Superannuation Scheme, agreed to acquire the UK Green Investment Bank plc from HM Government for £2.3 billion. The transaction is expected to close in the first half of 2017, subject to regulatory approvals.

Corporate

The Corporate segment includes earnings from the net impact of managing liquidity for Macquarie Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs, performance-related profit share and share based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of loan capital.

Corporate contributed a net loss of A$2.5 billion in the 2017 fiscal year and, as at March 31, 2017, had over 5,700 staff operating across all countries in which MGL operates.

For further information on Corporate's results of operation and financial condition for the year ended March 31, 2017, see section 3.7 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Funds management business

MGL Group's funds management businesses are conducted by both the Non-Banking Group and the Banking Group.

In the Banking Group, Macquarie Asset Management, through Macquarie Specialised Investment Solutions, will continue to manufacture and distribute a range of tailored investment solutions over funds and listed equities, including fund-linked products, capital protected investments, a hedge fund incubation platform, infrastructure debt funds management, restructuring solutions and agricultural investment solutions. See "— Operating groups — Macquarie Asset Management" above for further information.

In the Non-Banking Group, Macquarie Infrastructure and Real Assets is a manager of listed and unlisted funds and managed accounts specializing in infrastructure, real estate, agriculture, energy and other real asset classes. Macquarie Infrastructure and Real Assets has listed funds in Australia, the United States, South Korea, Mexico and Singapore[1] and unlisted funds in Australia, South Korea, the Philippines, Hong Kong, China, India, the United States, Mexico, Europe and Russia. See "— Operating groups — Macquarie Asset Management — Macquarie Infrastructure and Real Assets" for further information.

Also in the Non-Banking Group, Macquarie Investment Management manages a range of funds across a number of asset classes including fixed interest, currencies, equities, infrastructure securities, hedge funds and multi-asset allocation solutions. It delivers a full-service offering to both retail and institutional clients in Australia and the United States, with selective offerings in other regions. Macquarie Investment Management also partners with select specialist investment managers through its Macquarie Professional Series funds. See "— Operating groups — Macquarie Asset Management — Macquarie Investment Management" for further information.

Assets under Management provides a consistent measure of the scale of MGL Group's funds management activities across our operating groups in the Banking Group and Non-Banking Group, which is discussed in "— Assets under Management" section below. The earning of base management fees is closely aligned with the Equity under Management measure for Macquarie Infrastructure and Real Assets, which is discussed in section 7.2 of our 2017 Fiscal Year Management Discussion and Analysis Report. For a further explanation of the distinction between Assets under Management and Equity under Management, see "Financial Information Presentation — Non-GAAP financial measures" in this Report.

Assets under Management

For further information on MGL Group's Assets under Management for the 2017 fiscal year, see section 7.1 of our 2017 Fiscal Year Management Discussion and Analysis Report.

MGL Group's income from funds management is mainly derived from funds management fees. Funds management fee income includes base fees, which are ongoing fees generated from funds management activities, and performance fees, which are earned when the funds outperform pre-determined benchmarks. For listed funds, incentive income is earned for outperformance of a benchmark rate of return. For Macquarie Infrastructure and Real Assets' funds, the incentive income is typically 20% of any outperformance. In general, if the return of a listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of the performance fee for subsequent periods. For unlisted funds, incentive income is earned for outperformance of a

[1] On April 13, 2017, Macquarie Infrastructure and Real Assets sold its interest in the Trustee-Manager of the Singapore listed Asian Pay Television Trust.

pre-determined internal rate of return. Unlisted performance fees are generally payable upon the occurrence of a "*liquidity event*", such as the conclusion of an unlisted fund's investment term where capital is returned to investors following completion of an asset sale or with a fund listing. The timing and quantum of these fees are therefore unpredictable.

For further detail on MGL Group's income from funds management, see section 2.2 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Equity under Management

For further information on MGL Group's Equity under Management for the 2017 fiscal year, see section 7.2 of our 2017 Fiscal Year Management Discussion and Analysis Report.

Senior credit facility

MGL maintains a multi-currency senior credit facility with a syndicate of lenders, under which MGL and its wholly-owned subsidiaries may borrow funds from time to time. As at March 31, 2017, the facility limit was drawn to US$0.91 billion. The senior credit facility now comprises term facilities totaling US$0.91 billion and revolving credit facilities totaling US$1.04 billion with each maturing in January 2019.

MGL is the guarantor of principal, interest and any other payments due under the senior credit facility in respect of its subsidiaries that are borrowers under the facility.

The senior credit facility includes a negative pledge that restricts MGL or any subsidiary from incurring, issuing or assuming any financial indebtedness if it is secured by a security interest over (i) any voting shares of Banking Holdco or Non-Banking Holdco or any other subsidiary that is a borrower, whether such voting shares are owned now or acquired in the future; or (ii) any right, entitlement or claim of MGL to be paid, repaid or reimbursed for any amount by a subsidiary in relation to any loan or other facility provided by MGL utilizing all or part of the proceeds of the senior credit facility; in each case, without providing that the lenders shall be secured equally and ratably with such financial indebtedness. The facility agreement also includes an undertaking that the consolidated net worth of MGL and its subsidiaries shall not at any time be less than A$7.0 billion.

Interest on outstanding amounts drawn under the senior credit facility is payable at the base rate plus a margin. For drawings in Australian dollars, the base rate is BBSY; for drawings in Euro, the base rate is EURIBOR; and for drawings in U.S. dollars, pounds sterling or Japanese yen, the base rate is LIBOR in the relevant currency. Funds drawn under the senior credit facility are used for MGL's general corporate purposes.

Legal proceedings and regulatory matters

Legal proceedings

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

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 33 to our 2017 annual financial statements. We do not believe that the outcome of any such liabilities, either individually or in the aggregate, are likely to have a material effect on our operations or financial condition.

Competition

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

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

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

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

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

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

Additional financial disclosures for the 2017 fiscal year

Euro-zone exposures

This table includes MGL Group's exposures to Euro-zone countries that are currently experiencing significant economic, fiscal and/or political strains, due to which the likelihood of default by sovereign governments and non-sovereign entities based in those countries is higher than would be anticipated in the absence of such factors. The exposures below are represented gross unless cash collateral has been pledged, which is the case for certain derivative exposures. The total exposure to these countries is predominantly fully funded with minimal unfunded committed exposures.

MGL continues to monitor these exposures but notes that due to their size and associated security, they are not considered to be material in relation to overall balance sheet size.

	As at Mar 31, 2017			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Italy				
Loans, receivables & commitments[1]	-	-	76	76
Traded debt securities	-	0	-	0
Derivative assets[2]	-	-	1	1
Italy totals	**-**	0	77	77
Greece				
Derivative assets[2]	-	-	1	1
Greece totals	-	-	1	1
Russian Federation				
Equity	-	-	15	15
Derivative assets[2]	-	-	3	3
Russian Federation totals	-	-	18	18
Spain				
Loans, receivables & commitments[1]	-	70	205	275
Derivative assets[2]	-	-	24	24
Spain totals	-	70	229	299
Portugal				
Loans, receivables & commitments[1]	-	-	37	37
Portugal totals	**-**	-	37	37
Ireland				
Loans, receivables & commitments[1]	0	29	317	346
Derivative assets[2]	-	-	2	2
Ireland totals	0	29	319	348
Total exposure	**0**	**99**	**681**	**780**

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

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

3 Figures do not include our exposures to aircraft-related businesses due to the transient nature of these assets.

In addition, during the year ended March 31, 2017, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of March 31, 2017, MGL's total credit and market exposure to Russia and Ukraine was not material.

Credit ratings

During the year ended March 31, 2017, credit ratings agency S&P Global Ratings revised their outlook on MGL Group's long-term credit rating, along with a number of other Australian banks and financial institutions, from 'stable' to 'negative' in a system-wide action as a result of macroeconomic factors. In May 2017, S&P Global Ratings affirmed the ratings for MGL and returned the outlook to 'stable'.

Lease commitments, contingent liabilities and assets

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 34 "Lease commitments" to our 2017 annual financial statements for further information. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at March 31, 2017, MGL Group had A$11,465 million of contingent liabilities and commitments, including A$1,493 million of contingent liabilities and A$9,156 million of commitments in respect of undrawn credit facilities and securities underwriting. See Note 33 "Contingent liabilities and commitments" to our 2017 annual financial statements which shows MGL Group's contingent liabilities and commitments at March 31, 2017.

Quantitative and qualitative disclosures about market risk

Each year we prepare a detailed analysis of market risk as it applies to MGL Group and a quantitative analysis of MGL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 37 "Financial risk management" to MGL Group's 2017 annual financial statements for a quantitative and qualitative discussion of these risks.

REGULATION AND SUPERVISION

Australia

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

Set out below is a summary of certain key Australian legislative provisions that are applicable to our operations, and a summary of the functions of each of the principal regulators.

APRA

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

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

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities and governance. APRA discharges its responsibilities by requiring ADIs to regularly provide it with reports which set forth a broad range of information, including financial and statistical information relating to their financial position and information in respect of prudential and other matters. This information is not generally available to investors. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations. In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from ADIs with selective "*on site*" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

APRA is also responsible for the prudential regulation and supervision of life and general insurance companies and superannuation funds ultimately for the benefit of policyholders and superannuation fund beneficiaries. MGL Group's life insurance and funds management businesses are subject to and impacted by those regulations which, among other things, regulate the operation and capital adequacy standards of statutory funds for the life insurance business and provide for the licensing of trustees of superannuation funds.

APRA's prudential supervision – Capital adequacy

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

Consistent with Basel III, APRA's present approach provides for a quantitative measure of an ADI's capital adequacy and focuses on matters including: (i) the credit risk associated with an ADI's on-balance sheet and off-balance sheet exposures; (ii) the operational risk associated with an ADI's banking activities; (iii) the market risk arising from an ADI's trading activities where applicable, the interest rate risk arising from nominal financial intermediation, as distinct from trading activities; (iv) the risk associated with securitization; and (v) the amount, form and quality of capital held by an ADI to act as a buffer against these and other exposures.

Under its Prudential Standard *APS 111 – Capital Adequacy: Measurement of Capital* ("*APS 111*"), APRA requires that an ADI maintains a certain amount of regulatory capital. An ADI's regulatory capital is assessed by APRA in two tiers: (1) Tier 1 Capital (going concern capital), which comprises an ADI's Common Equity Tier 1 Capital and Additional Tier 1 Capital; and (2) Tier 2 Capital (gone concern capital), in each case, less any prescribed regulatory adjustments (where applicable). Common Equity Tier 1 Capital comprises the highest quality components of capital that: (i) provide a permanent and unrestricted commitment of funds; (ii) are freely available to absorb losses; (iii) do not impose any unavoidable servicing charge against earnings; and (iv) rank behind the claims of depositors and other creditors in the event of a winding-up of the ADI. Additional Tier 1 Capital comprises high quality components of capital that meet the requirements described in (i), (ii) and (iv) above, and also provide for fully discretionary capital distributions. Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses. An ADI's regulatory capital base (the numerator of the capital ratio) is defined for the purposes of APS 111 as the sum of eligible Tier 1 Capital and Tier 2 Capital ("*total capital*").

Under its Prudential Standard *APS 110 – Capital Adequacy* ("*APS 110*"), APRA requires all ADIs to, at all times, maintain the following minimum prudential capital ratios (as measured against total risk-weighted assets): (i) a Common Equity Tier 1 Capital ratio of 4.5%; (ii) a Tier 1 Capital ratio of 6.0%; and (iii) a Total Capital (being the sum of all Tier 1 Capital and Tier 2 Capital) ratio of 8.0%. APRA may also require an ADI to hold prudential capital above these levels if it so determines and may change these levels at any time. As at March 31, 2017, MBL and MGL are fully compliant with all prudential capital requirements that are applicable to them.

Pursuant to APS 110, APRA also requires ADIs to, as of January 1, 2016, hold a capital conservation buffer above the prudential capital requirement for the Common Equity Tier 1 Capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets unless determined otherwise by APRA in writing. APRA determined in December 2013 that an additional capital buffer of 1% of risk weighted assets should be held in Common Equity Tier 1 Capital as an extension to the capital conservation buffer for domestic systemically important banks, effective as of January 1, 2016. Macquarie is not affected by this change. APS 110 provides that the Common Equity Tier 1 Capital plus the capital conservation buffer determined by APRA should be no less than 7.0% of the ADI's total risk-weighted assets. It is not possible to predict with absolute certainty whether MBL will meet this requirement at all times. As at March 31, 2017, the Common Equity Tier 1 Capital ratio for MBL Group (on a Level 2 basis) was 11.1%, which is in compliance with the levels required by APS 110.

As of January 1, 2016, APRA may require ADIs to hold additional Common Equity Tier 1 Capital of between zero and 2.5% of total risk-weighted assets, as a countercyclical capital buffer. This rate may, by notice in writing to all ADIs, be adjusted by APRA over time in response to changes in market conditions. On December 17, 2015, APRA announced that the countercyclical capital buffer applying as of January 1, 2016 to Australian exposures of ADIs is set at zero. On January 16, 2017, APRA reconfirmed its position and is maintaining the countercyclical capital buffer at zero. It is currently not possible to predict whether APRA will require ADIs to hold a countercyclical capital buffer but any such decision of APRA to do so must be notified by APRA to all ADIs up to 12 months prior to coming into effect.

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("*APS 330*") are posted on MGL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in Section 4 of the MBL Pillar 3 Disclosure Document for the year ended March 31, 2017, Section 2 of the MBL Pillar 3 Disclosure Document dated December 31, 2016 and Section 4 of the MBL Pillar 3 Disclosure Document for the half year ended September 30, 2016, each posted on MGL's U.S. Investors' Website. APRA has advised that it will monitor the overall MGL Group and may increase the prudential requirements it applies to MBL if the activities of MGL Group place financial strain on MBL.

APRA's approach to capital frameworks

APRA requires ADIs to manage and maintain an adequate Internal Capital Adequacy Process ("*ICAAP*"), which has been approved by the ADI's Board of Directors. The ICAAP ensures that the ADI has an integrated approach to risk and capital management and includes: (i) processes for assessing the risks arising from an ADI's activities and ensuring that capital held is adequate for the level of risk and (ii) a strategy for maintaining adequate capital overtime, including the setting of capital targets consistent with the risk profile of the ADI, the risk appetite and regulatory capital requirements.

APRA's prudential supervision – Liquidity

Under APRA's Prudential Standard *APS 210: Liquidity* ("*APS 210*"), APRA requires ADIs to at all times maintain sufficient liquidity to meet their obligations as they fall due and hold a minimum level of high-quality liquidity assets ("*HQLA*") to survive a severe liquidity stress. APRA also requires ADIs to have a robust liquidity risk management framework to manage their liquidity risk. The ADI's liquidity risk management framework must include, at a minimum: a statement of the ADI's liquidity risk tolerance, a liquidity management strategy, policy statement and funding strategy which, in each case, must be approved by the ADI's board of directors. It must also include a system for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance and a formal contingency plan for dealing with a liquidity crisis.

MGL models twelve month liquidity stress scenarios for the MGL Group, the MBL Group and the Non-Banking Group to ensure that sufficient liquidity is available in each part of its business. See section 5.1 of our 2017 Fiscal Year Management Discussion and Analysis Report for further information on our liquidity policies and principles.

APRA's final prudential standards and practice guides implementing the global liquidity standards issued by the Basel Committee in the Basel III framework came into effect on January 1, 2014 (and were last amended in November 2014). In line with the liquidity standards contained within the Basel III framework, APRA introduced the Liquidity Coverage Ratio ("*LCR*") as part of its liquidity framework, which became a minimum prudential requirement for ADIs on January 1, 2015.

The LCR requires HQLA to be held to cover net cash outflows and provide an adequate buffer under a combined 'idiosyncratic' and market-wide stress scenario lasting 30 calendar days and applies specifically to the MBL Group. In its implementation of the LCR, APRA adopted the Basel III rules text in full, with the exception of certain items where APRA has made use of the national discretion allowed by the rules or where APRA has departed from the rules text to reflect circumstances particular to Australia. Items under the first category include not expanding the definition of HQLA to include any 'level 2' HQLA, an additional cash outflow rate for high run off less stable retail deposits, certain contingent funding obligations and the method of calculating collateral flows related to the valuation of derivatives. Items under the second category include the treatment of self-managed superannuation fund deposits and recognition of head office liquidity to support Australian branches of foreign banks.

The only domestic assets that qualify as 'level one' HQLA for the purposes of satisfying the LCR requirement are cash balances held with the RBA and Australian Government and semi-government securities. APRA has acknowledged that the supply of Australian Commonwealth Government and semi-government securities in

Australia is relatively limited. To assist ADIs with meeting their LCR requirements, APRA and the RBA have agreed on an approach to allow ADIs, if approved by APRA, to establish a secured committed liquidity facility ("*CLF*") with the RBA (which is an Alternative Liquidity Approach ("*ALA*") (defined in the Basel III liquidity rules) that expands the regulatory definition of assets that can be used to meet the LCR in jurisdictions where there is a structural shortfall of otherwise Basel III-qualifying HQLA, as is the case in Australia). The commitment of the RBA under the CLF to each relevant participating ADI ("*CLF participant*") has been available since January 1, 2015. APRA has approved MBL's use of a CLF with the RBA.

In September, 2014, the RBA released legal documentation for the CLF, including the terms and conditions of the CLF ("*CLF Terms and Conditions*"). Under the CLF Terms and Conditions, if there is any failure of, or breach by, the RBA in respect of a CLF, the liability of the RBA to the relevant CLF participant in respect of claims the CLF is expressly limited and, notwithstanding such limitations, is capped at A$50 million in aggregate. Amounts owing to the RBA in respect of a CLF by the relevant CLF participant (which may include, without limitation, fees due but unpaid and amounts owing under an indemnity provided by the CLF participant under the CLF Terms and Conditions) may, in a winding-up of the CLF Participant, be mandatorily preferred over other debts of the CLF participant (including, pursuant to section 13A(3)(d) of the Australian Banking Act and section 86 of the Reserve Bank Act 1959 of Australia).

APRA prudential supervision - Net Stable Funding Ratio

In addition to implementing the LCR, APRA will implement the Net Stable Funding Ratio ("*NSFR*") into its liquidity framework beginning on January 1, 2018. The NSFR is a 12 month structural funding metric, which requires that 'available stable funding' is sufficient to cover 'required stable funding', where 'stable funding' has an actual or assumed maturity of greater than 12 months. On December 20, 2016, APRA released its final revised prudential standard on liquidity which incorporates, among other things, the NSFR requirements. The new standard will come into effect on January 1, 2018, consistent with the international timetable agreed to by the Basel Committee. As with the earlier introduction of LCR, APRA is proposing that the NSFR only be applied to the 15 locally incorporated, larger, more complex ADIs (including MBL) that are also subject to the LCR requirements ("*LCR ADIs*"). Under APRA's NSFR requirements, LCR ADIs must maintain a NSFR of at least 100% at all times. MGL currently expects that MBL will meet the requirements of the NSFR.

APRA's prudential supervision – Counterparty credit risk

APRA's prudential standards implementing the Basel III reforms to the capital framework for counterparty credit risk and other credit exposures came into effect on January 1, 2013. Under its prudential standard, APRA extended its existing capital framework for counterparty credit risk in bilateral transactions to be the sum of the existing counterparty credit default component that applies under its existing prudential standards and a risk capital Credit Value Adjustment ("*CVA*") risk capital charge introduced as part of the Basel III reforms. The CVA risk capital charge is intended to cover the risk of mark-to-market losses on the expected counterparty credit risk arising from bilateral OTC derivatives. In January 2013, APRA also adopted Basel III reforms on capital charges for exposure to central counterparties arising from over the counter derivatives, exchange traded derivatives and securities financing transactions. These prudential standards require MBL to hold more capital for its counterparty credit risk exposures and other credit exposures.

On September 15, 2016, APRA released for consultation (i) its proposed revisions to its counterparty credit risk framework for ADIs; (ii) draft new prudential standard, Prudential Standard *APS 180 Capital Adequacy: Counterparty Credit Risk*, and (iii) draft revised Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. The revisions in large part reflect changes made by the Basel Committee on Banking Supervision ("*Basel Committee*") to its framework for counterparty credit risk as set out in *The standardised approach for measuring counterparty credit risk* ("*SA-CCR*"), released in March 2014, and *Capital requirements for bank exposures to central counterparties - final standard*, released in April 2014.

In particular, the September 2016 Counterparty credit risk for ADIs consultation package proposes to require ADIs to use the SA-CCR methodology to measure counterparty credit risk exposures arising from over-the-counter derivatives, exchange traded derivatives and long settlement transactions. APRA announced that it does not propose to introduce the Basel Committee's internal model method for counterparty credit risk into its framework. It also proposed that all ADIs will be required to hold capital for exposures to central counterparties in a manner consistent with Basel Committee's final standard.

On March 6, 2017, in a letter to all ADIs, APRA announced that it proposes to apply its revised counterparty credit risk framework beginning on January 1, 2019 (as opposed to January 1, 2017, as set out in the Basel Committee's framework). Under the current proposal, MBL will be required to comply with the SA-CCR beginning on January 1, 2019.

APRA's prudential supervision – Capital and non-capital requirements for the supervision of conglomerates

On August 15, 2014, APRA issued its planned framework for the supervision of conglomerate groups ("*Level 3 groups*"), which includes the MGL Group.

The proposed overarching requirements of the framework are as follows: (i) a Level 3 group must have a robust governance framework that is applied appropriately throughout the group; (ii) the intra-group exposures and external aggregate exposures of a Level 3 group must be transparent and prudently managed; (iii) a Level 3 group must have an effective group-wide risk management framework in place; and (iv) a Level 3 group must have sufficient capital to support the risks of the entire group, including material risks that arise from non-APRA-regulated activities.

Initially, APRA had deferred its final implementation of the capital requirements component of the framework until the Australian Government's response to the recommendations of the Financial System Inquiry ("*FSI*") had been announced. (see further "— Other Australian regulators — Financial System Inquiry" below).

On March 29, 2016, APRA announced that it was deferring the capital components of the Level 3 framework in order to allow the final form of these requirements to be determined following the finalization of related domestic and international policy initiatives. These policy initiatives include:

- APRA's implementation of the FSI recommendation on unquestionably strong capital ratios for ADIs ("*FSI recommendation 1*");

- consideration of proposals in relation to loss absorption and recapitalization capacity ("*FSI recommendation 3*"); and

- proposed legislative changes to strengthen APRA's crisis management powers ("*FSI recommendation 5*").

It is expected that these initiatives will influence APRA's final views on the appropriate requirements with respect to the strength, resilience, recovery and resolution capacity of conglomerate groups.

On August 8, 2016, APRA released final prudential standards and practice guides for the implementation of the non-capital components of the Level 3 framework. The package commences on July 1, 2017 and includes a requirement for a Level 3 Head to:

- have a policy for the Level 3 group that deals with the measurement, management and monitoring of, and reporting on, intra-group transactions and exposures between members of the group and the aggregate risk exposures associated with all risk types within the group;

- develop and implement effective systems and processes to manage, monitor and report on those intra-group transactions and exposures;

- meet certain minimum requirements with respect to aggregate risk exposures and dealings between institutions in the Level 3 group; and

- appoint an auditor to undertake certain functions set out in the prudential standards and make available to APRA that auditor's independent advice in this regard.

APRA will formally determine the Level 3 Head and members of each Level 3 Group between the date of the announcement and July, 1 2017, with the determination coming into effect on July 1, 2017.

On August 8, 2016, APRA also announced that it will continue its consultation on the capital requirements in the Level 3 framework, but does not anticipate that this consultation will commence earlier than mid-2017, with implementation of any new requirements expected no earlier than 2019. APRA has indicated that, as currently proposed, the conglomerate groups to which APRA intends to apply the Level 3 framework (which currently includes the MGL group) will not need additional capital to meet the planned new requirements.

APRA's prudential supervision – Loss absorbency at the point of non-viability

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

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

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

Crisis management

On September 28, 2012, the Australian Government released a consultation paper titled "*Strengthening APRA's Crisis Management Powers*" seeking comments on a range of options to enhance Australia's financial sector, particularly prudential regulation. The options canvassed in the paper aim to strengthen APRA's crisis management powers in relation to NOHCs, ADIs, superannuation entities and general and life insurers. Implementation of these options is intended to bring Australia's regulatory framework more closely into line with the G20 endorsed international standard for crisis management arrangements published by the Financial Stability Board in its paper "*Key Attributes of Effective Resolution Regimes for Financial Institutions*" dated October 2011. Strengthening crisis management powers was also one of the recommendations contained in the final FSI report published on December 7, 2014 (see "— Other Australian regulators — Financial System Inquiry" below). If implemented, the key implications for MGL and MBL are likely to be an increase in APRA's powers to intervene in the affairs of MGL and MBL during periods of stress.

RBA

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

ASIC

ASIC is Australia's corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

ASIC regulates each of the entities we operate in Australia as the corporate regulator and is responsible for enforcing appropriate standards of corporate governance and conduct by directors and officers. A number of MGL

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

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

ASX24

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

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

ASX

ASX is Australia's primary securities market. The MIS, MCN2 and MGL's ordinary shares are listed on ASX. MBL and MGL each have a contractual obligation to comply with ASX's listing rules, which have the statutory backing of the Australian Corporations Act. The ASX listing rules govern requirements for listing on ASX and include provisions in relation to issues of securities, disclosure to the market, executive remuneration and related-party transactions. ASX and ASIC oversee our compliance with ASX's listing rules, including any funds we manage that are listed on the ASX.

ACCC

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

AUSTRAC

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

The AML-CTF Act places obligations on providers of financial services and gaming services, and on bullion dealers. The AML-CTF Act affects entities who offer specific services which may be exploited to launder money or finance terrorism, for example, those relating to electronic fund transfers, designated remittance arrangements and correspondent banking relationships. The AML-CTF Act also has broad extra territorial application to overseas entities of Australian companies.

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

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

Other Australian regulators

In addition to the foregoing regulators, MGL Group and MBL Group and the businesses and funds they manage are subject to supervision by various other regulators in Australia, including the Australian Energy Regulator, the Essential Services Commission, Economic Regulation Authority and the Department of Energy and Water in connection with activities and the management of funds in the utilities and energy sectors.

Other Australian regulatory activity

Australian Government 2017-2018 Budget

On May 9, 2017, the Australian Government announced its 2017-2018 Federal Budget. This included a proposal to introduce a major bank levy for ADIs with licensed entity liabilities of at least $100 billion as of July 1, 2017, calculated quarterly as 0.015% of relevant liabilities as at each APRA mandated quarterly reporting date (for an annualized rate of 0.06%). Liabilities subject to the levy will include items such as corporate bonds, commercial paper, certificates of deposit and Tier 2 capital instruments. The levy will not apply to the following liabilities: additional Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme, which is the Australian Government scheme that protects depositors of ADIs from potential loss due to failure of these institutions. In addition, the Australian Government also announced a proposal to introduce a new "Banking Executive Accountability Regime" that is expected to make senior bank executives more accountable and subject to additional oversight by APRA. It is currently difficult to determine what impact these proposed measures will have on MBL and the MGL Group, and without further detail from the Australian Government. MGL will continue to monitor its position on a regular basis.

ASIC flex-commissions prohibition

In March 2017, ASIC announced that it would prohibit flex commissions in the consumer car finance market in Australia with effect as of September 2018. Flex commissions are an industry-wide component of introducer remuneration in the car finance market in Australia. Under this arrangement, car dealers are provided with a base interest rate by a financier. The dealer is paid a commission linked to the difference between the financier's base rate and the interest rate agreed to be paid by the customer.

ASIC is currently conducting a final consultation on the form of the instrument to implement this prohibition. Macquarie Leasing has commenced a project to enhance its systems to meet ASIC's requirements.

ASIC review of Mortgage Broker Remuneration

At the request of the Australian Government, in 2017 ASIC conducted a review of the mortgage broking market to determine the effect of current remuneration structures on the quality of consumer outcomes. The report identified six proposals which are currently with the industry for consultation. MGL is currently reviewing these proposals against current practice.

Financial System Inquiry

Over the course of 2014, the Australian Government undertook a review of the Australian financial system, called the FSI. The FSI released its final report on December 7, 2014, which included 44 recommendations. On October 20, 2015, the Australian Federal Treasury responded to each of the recommendations made by the FSI, endorsing the majority of them, referring certain matters to key regulators and proposing a timetable for further public and industry consultation and, in certain cases, for implementation of reform measures. On April 20, 2016, the Australian Government announced that it would accelerate the implementation of certain of the FSI's recommendations, including the recommendation that ASIC be granted a product intervention power, discussed below. It is not currently possible to have any further certainty on the impact on the capital structure or businesses of MGL from any future policy changes resulting from the regulatory and supervisory responses to the FSI or broader international regulatory developments. See "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate".

On December 13, 2016, the Australian Government released a consultation paper entitled, "Design and Distribution Obligations and Product Intervention Power Proposals Paper" ("*Proposals*"), seeking comments on its proposal to reform regulation of the design and distribution of financial products and new intervention powers for ASIC. This follows the endorsement by the Australian Government of the FSI's recommendations to create new accountability obligations for entities that issue or distribute financial products and to strengthen consumer protection by introducing financial product intervention powers.

Under the Proposals, issuers and distributors of financial products made available to retail clients (other than ordinary shares) will be subject to certain design and distribution obligations and ASIC will be given certain product intervention powers including the power to remove a financial product made available to a retail client from the market, require mandatory warning statements, impose additional disclosure requirements and limit the channels under which the product can be distributed where ASIC has identified there is "significant consumer detriment". If there is a breach of the design and distribution obligations or a breach of a requirement in an intervention, the Proposals set out a range of redresses that may be made available to the customer including that a contract entered into in breach of certain obligations or certain ASIC interventions may be voided at the option of the customer, the customer may be able to seek a refund or replacement product at no additional cost and the customer may be able to seek orders declaring the whole or part of the contract void, or a variation to the terms of the contract. It is unclear whether the Proposals apply only to financial products issued and distributed after the Proposals come into effect or whether the Proposals will also be applied retroactively.

Central clearing of OTC derivatives

In April 2014, ASIC, the RBA and APRA recommended that the Australian Government consider a central clearing mandate for over-the-counter interest rate derivatives denominated in Australian dollars. This followed their recommendation in July 2013 for the Australian Government to consider a central clearing mandate for interest rate derivatives denominated in United States Dollars, Euro, Pounds Sterling or Japanese Yen. In September 2015, the Australian Government implemented the mandate in Australia for the central clearing of interest rate derivatives denominated in Australian Dollars, United States Dollars, Euros, Pounds Sterling, Japanese Yen between internationally active dealers. In December 2015, the ASIC Derivative Transaction Rules (Clearing) 2015 were released. The rules are applicable to Australian and foreign financial institutions that meet the clearing threshold specified in the rules and commenced in April 2016. The rules apply to over-the-counter ("*OTC*") interest rate derivatives denominated in Australian Dollars, US Dollars, Euros, Pounds Sterling and Japanese Yen.

Sound residential mortgage lending practices

On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by certain ADIs accredited to use the IRB approach to credit risk. For those ADIs using the IRB approach, the average risk weight on Australian residential mortgage exposures increased from approximately 16% to at least 25%, effective July 1, 2016. The affected ADIs are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, MBL, National Australia Bank Limited and Westpac Banking Corporation.

On August 5, 2016, APRA reaffirmed its objective to increase the average risk weight on Australian mortgages measured across all IRB ADIs to an average of at least 25%. APRA acknowledged that the impact of certain modelling adjustments it had required certain IRB ADIs to make, when combined with the adjustment proposed in July 2015, resulted in an average risk weight well in excess of the 25% risk weight targeted by APRA in its original announcement. APRA has advised the relevant ADIs of a recalibration of the adjustments advised in July 2015 with a view to ensure that its original target of an average risk weight for Australian residential mortgages of at least 25% is achieved, while not significantly exceeding this target. The recalibration and modelling changes will be implemented by APRA in the upcoming quarters and this may lead to some volatility in mortgage risk weights as those changes are finalized.

On March 31, 2017, APRA initiated additional supervisory measures to reinforce sound residential mortgage lending practices. The latest measures are aimed at improving the quality of new mortgage lending generally and moderating the growth of investor lending. APRA expects all ADIs to immediately adopt the new measures and may adjust or impose further measures which restrict MBL's ability to lend to residential property investors.

APRA's prudential supervision - margining and risk mitigation for non-centrally cleared derivatives

In February 2016, APRA released a consultation package for APRA-regulated institutions on margining and risk mitigation requirements for non-centrally cleared derivatives – draft Prudential Standard *CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* ("*CPS 226*"). This consultation generally follows the internationally-agreed standards, including those published by the Basel Committee and the International Organization of Securities Commissions ("*IOSCO*") in March 2015 with some modifications to avoid placing undue cost on regulated entities with relatively small levels of non-centrally cleared derivative activity. APRA proposes to apply margin and risk mitigation requirements to all APRA-regulated entities (excluding private health insurers but including ADIs such as MBL) that transact in non-centrally cleared derivatives over certain qualifying thresholds.

On October 17, 2016, APRA released the final version of CPS 226 and a response to the submissions paper addressing issues raised in the February 2016 consultation. Under the requirements, MBL and Level 2 affiliates will be required to exchange initial margin and variation margin when transacting uncleared OTC derivatives with certain financial institutions, as well as being subject to risk mitigation obligations including documentation standards, dispute resolution, portfolio reconciliation and portfolio compression requirements.

On December 6, 2016, APRA announced a timetable for CPS 226 to come into effect. The variation margin requirements will apply to new transactions entered into as of March 1, 2017. Transactions entered into in the six month period after that date may be eligible for six-month transitional relief. The risk mitigation requirements commence March 1, 2018 and the requirements for the posting and collection of initial margins will be phased-in on dates which reflect the internationally agreed timetable.

Australian Bankers Association Plan

On April 21, 2016, the Australian Bankers Association ("*ABA*") released a six point plan to implement comprehensive new measures designed to protect consumer interests, increase transparency and accountability and build trust and confidence in the banking industry. The ABA's proposed framework is expected to be finalized in stages, and any measures adopted under the plan could adversely affect the profitability of the Banking Group's business to the extent that they limit its operations or increase its cost of compliance.

APRA's prudential supervision – management of large exposures

On April 12, 2017, APRA released a consultation package seeking comments on its proposal to reform its prudential framework on large exposures for ADIs by July 5, 2017. APRA's large exposure framework aims to limit the impact of losses when a counterparty defaults, and restrict contagion risk from spreading across the financial system. APRA proposes to update its existing large exposure framework to align with the Basel Committee's large exposures framework released in April 2014, with several adjustments. These adjustments include: (i) a large exposure limit of 15% of Tier 1 Capital for an ADI's exposures to a bank designated as a global systemically important bank; (ii) a large exposure limit of 15% of Tier 1 Capital for exposures between banks designated by APRA as domestic systemically important banks; (iii) a large exposure limit of 50% of Tier 1 Capital for exposures to certain foreign governments; (iv) maintaining the current Australian approach for measuring off-balance sheet commitments; and (v) not adopting the Basel Committee's concessionary recognition of covered bond exposure values. APRA is expected to release a response paper and final revised prudential standards in the second half of 2017 with the requirements commencing January 1, 2019, in accordance with the intentional agreed time table.

International

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

United States

As a result of the global economic crisis, the United States government has enacted legislation, and the applicable regulatory authorities have adopted or proposed regulations that make significant changes in the regulation of the financial services industry including reforming the financial supervisory and regulatory framework in the United States, which could have a material impact on financial institutions and their activities, including the activities of MGL and its subsidiaries in the United States. Certain aspects of the reform process have been implemented, with the balance being implemented over a number of years. The final effects are not yet certain. See "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate" above for further information.

Banking regulations

In the United States, MBL operates solely through representative offices, which by law may only perform representational and administrative functions and therefore cannot engage in business or handle customer funds. These offices are limited to soliciting business on behalf of MBL, which must then be approved and booked offshore, and performing administrative tasks as directed by MBL. Our representative offices are licensed by individual states, in our case, the states of New York, Texas and Illinois, and are subject to periodic examination by the applicable state licensing authority and the Board of Governors of the Federal Reserve System (the "*FRB*"). These examinations primarily focus on whether the offices are compliant with the limits of representative office activities and on key areas of regulatory concern, such as anti-money laundering compliance.

Swap dealer registration regulation

Many of the provisions of the Dodd-Frank Act require rulemaking by the applicable U.S. regulatory agency, such as the FRB, the U.S. Securities and Exchange Commission ("*SEC*") and the Commodity Futures Trading Commission ("*CFTC*"), before the related provisions of the Dodd-Frank Act become effective. Most of the CFTC's rules have been adopted and have become effective. The Dodd-Frank Act has resulted in, and will continue to result in, significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. MGL's businesses have been or will be affected by a variety of new regulations under the Dodd-Frank Act including, but not limited to: (i) greater regulation of over-the-counter derivatives, including stricter capital and margin requirements, the centralized execution and clearing of standardized over-the-counter derivatives, and registration and heightened supervision of all over-the-counter swap dealers and major swap participants; (ii) more stringent and extensive position limits on derivatives on physical commodities; and (iii) increased regulation of investment advisers. In addition, if MGL is determined by U.S. regulators to be a "*systemically important*" nonbank financial company, U.S. regulators may have increased regulatory authority over MGL and may impose stricter capital, leverage and risk management requirements. The Dodd-Frank Act will increase compliance and execution costs for derivative trading in the United States and have an impact on certain MGL Group businesses, such as on its U.S. derivatives business. For instance, two MGL affiliates have registered as swap dealers.

On October 13, 2016, the CFTC unanimously approved an order establishing December 31, 2018 as the swap dealer *de minimis* threshold phase-in termination date. Under the order, the CFTC will retain the $8 billion *de minimis* threshold (for dealing activity with counterparties other than Special Entities) until December 31, 2018. The original phase-in termination date in which the swap dealer *de minimis* threshold was scheduled to automatically drop to $3 billion was December 31, 2017. Absent further action by the CFTC, the phase-in period will terminate on December 31, 2018 and the *de minimis* threshold will automatically drop to $3 billion. The extension of, or potential reduction in, the *de minimis* threshold does not affect a registered swap dealer unless it desires to deregister, in which case it would need to conduct its swap dealing under the threshold. Such a reduction in the *de minimis* threshold also does not affect other members of the MGL Group as no other MGL affiliate currently engages in swap dealing activity subject to these rules.

Derivatives regulations – cross-border jurisdiction

On July 26, 2013, the CFTC issued Cross-Border Guidance addressing the extent to which, and the manner in which, its rules governing swap dealers would be applied to non-U.S. swap dealers in connection with their transactions with non-U.S. counterparties. Among other things, the Cross-Border Guidance provided a framework for the CFTC to grant "*substituted compliance*" to swap dealers located in non-U.S. jurisdictions, pursuant to which such swap dealers would be permitted to comply with local law and regulations when transacting with non-U.S. counterparties, in lieu of compliance with CFTC rules. On December 20, 2013, the CFTC, pursuant to its previously issued Cross-Border Guidance, approved a series of substituted compliance determinations covering certain swap entity-level and transaction-level requirements in six jurisdictions, including entity-level requirements under Australian law, which permits non-U.S. swap dealers to rely on substituted compliance with approved local laws and regulations when dealing with non-U.S. counterparties, in place of certain of the CFTC's rules. Therefore, one of MGL's affiliates, MBL is able to comply only with Australian regulatory requirements in certain respects in connection with its swap dealing business with non-U.S. counterparties. It is possible that further cross-border relief will be granted in the future. However, MBL remains subject to many of the CFTC's requirements – and to all such requirements when transacting with U.S. counterparties – and the other MGL affiliate that is registered as a swap dealer is fully subject to CFTC rules.

It is also possible that the CFTC will adopt further regulations expanding the applicability of its swap dealer rules in certain respects. For example, on November 14, 2013, the CFTC issued a staff advisory (the "*Advisory*") relating to the cross-border application of transaction-level swap requirements. However, through a series of no-action letters, the CFTC delayed the effectiveness of the Advisory, and has most recently issued an extension of that delay until September 30, 2017, and proposed rules to address the cross-border application of certain requirements and replace its Advisory. Further actions by the CFTC may affect swap transactions of certain members of the MGL Group. In October, 2016, the CFTC proposed rules and interpretations that, if adopted, would provide further guidance and impose additional restrictions, on cross-border swap transactions. Among other things, the proposed rules would determine the applicability of the CFTC's transaction-level rules to transactions involving non-U.S. persons that are arranged, negotiated or executed in the United States. It is unclear whether the proposed rules will be adopted or what the timing and final form of such rules will be .

Swap dealer margin and capital rules

The CFTC has promulgated margin rules for swap dealers subject to its jurisdiction and will adopt capital requirements for such dealers. An MGL affiliate that is a U.S. swap dealer is subject to the CFTC's margin rules and will be subject to the CFTC's capital requirements for swap dealers when those requirements are finalized. The FRB, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration and the Federal Housing Finance Agency (the "*Prudential Regulators*") have adopted capital and margin rules for entities subject to their supervision. The CFTC and the Prudential Regulators finalized their respective regulations on initial and variation margin for uncleared swaps in late 2015 and early 2016. As a non-U.S. swap dealer registered with the CFTC, MBL is subject to new initial and variation margin rules of the FRB, and such rules will also apply to MBL's swaps with its affiliates. The phase-in period for compliance began in September 2016 with additional staged compliance dates until September 2020, including a general compliance date of March 1, 2017, for the variation margin requirements. In addition, the Prudential Regulators have adopted a rule with respect to the capital requirements applicable to registered swap dealers that are subject to their supervision. Under those rules, MBL will be subject to APRA capital rules. See "Regulation and Supervision—International—United States" in our 2016 Annual U.S. Disclosure Report for further information.

CFTC position limit rules

The CFTC has not yet finalized its proposed regulations on position limits on swaps and listed futures and commodity options, although it is expected to do so at some point in the future. The imposition of these requirements may limit trading activities by MBL. The CFTC has also adopted final rules requiring the aggregation of positions held by entities under common ownership or control, subject to certain exemptions, for purpose of determining compliance with the position limit requirements. It is possible that certain of these exemptions will be available to certain MGL entities or businesses. However, the aggregation requirements could require MGL entities to limit their trading activities in order to comply with the position limit rules.

Derivatives regulations – security-based swaps

The SEC has jurisdiction over transactions in security-based swaps, which are swaps on single securities or narrow-based indices of securities, and has proposed or adopted regulations requiring, among other things, registration of security-based swap dealers and compliance with regulations on business conduct, recordkeeping and reporting and other matters. However, compliance with the SEC's rules applicable to security-based swaps is not yet required and the SEC has not publicly announced a timetable for compliance. In addition, the Prudential Regulators' capital and margin rules will apply to those security-based swap dealers that are subject to their supervision at such time as the SEC requires registration of such entities. However, such registration is not required until the SEC finalizes and mandates compliance with its rules on security-based swaps. MBL expects that it will be required to register as a security-based swap dealer with the SEC at the time that such registration becomes mandatory and that it will thereafter be subject to compliance with SEC rules regarding security-based swap transactions. The registration and compliance obligations will likely result in increased costs with respect to MBL's security-based swaps business.

Anti-money laundering regulations

The MBL representative offices as well as MGL Group's U.S. broker-dealer subsidiaries and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to anti-money laundering laws and regulations, including regulations issued by the U.S. Treasury Department's Financial Crimes Enforcement Network ("*FinCEN*") to implement various AML requirements of the Bank Secrecy Act (the "*Bank Secrecy Act*"), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "*USA PATRIOT Act*").

The Bank Secrecy Act, as amended by the USA PATRIOT Act, requires U.S. representative offices of foreign banks and U.S. broker-dealers and mutual funds to establish and maintain written AML compliance programs that include the following components: (i) a system of internal controls to assure ongoing compliance with the applicable AML laws and regulations; (ii) independent testing for compliance to be conducted by the institution's personnel or by a qualified outside party; (iii) the designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance; and (iv) training for appropriate personnel.

On May 11, 2016, the U.S. Treasury Department's FinCEN published its final rule on customer due diligence requirements for financial institutions, which requires financial institutions subject to the customer identification program requirement, such as U.S. representative offices of foreign banks and U.S. broker-dealers and mutual funds, to develop and implement a written AML compliance program that also includes, at a minimum, the implementation of appropriate risk-based procedures for conducting ongoing customer due diligence, to include, but not be limited to: (i) understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and (ii) conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information. The final rule also introduces a beneficial ownership requirement, which requires that these financial institutions establish and maintain written procedures reasonably designed to identify and verify the identities of the "beneficial owners" of "legal entity customers," and to include such procedures in their AML compliance program. While these requirements became effective on July 11, 2016, institutions have until May 11, 2018 to comply with them.

The AML compliance program must be approved in writing by the board of directors, board of trustees or senior management depending on the institution. United States representative offices of foreign banks and U.S. broker-dealers and mutual funds are also required to establish and maintain a customer identification program and, as necessary, to file suspicious activity reports ("*SARs*") with appropriate federal regulatory agencies and the U.S. Treasury Department's FinCEN.

The MBL representative offices and MGL Group's other operations within the United States must also comply with the economic sanctions programs administered by OFAC, which enforces economic sanctions against targeted foreign countries, individuals and entities.

The MBL representative offices and MGL's U.S. broker-dealer subsidiaries and other subsidiaries in the United States have adopted written AML compliance programs that are reasonably designed to comply with the Bank Secrecy Act, as amended by the USA PATRIOT Act, and have implemented procedures that are reasonably designed to ensure their compliance with the economic sanctions programs administered by OFAC.

On September 1, 2015, the U.S. Treasury Department's FinCEN published a notice of proposed rulemaking that would require investment advisers registered, or required to be registered, with the SEC to establish an AML compliance program and file SARs with FinCEN, and subject those advisers to additional Bank Secrecy Act requirements, such as the requirement to file currency transaction reports. If adopted as proposed, MGL's subsidiaries that are registered, or required to be registered, with the SEC as investment advisers would be required to comply with these new AML requirements, and the SEC would examine such subsidiaries for compliance with these new AML requirements.

Securities and commodities regulations

In the United States, certain members of MGL Group are regulated by the SEC and by the Financial Industry Regulatory Authority ("*FINRA*") with respect to certain securities and corporate finance related activities conducted through broker-dealers, or through investment advisors or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or the U.S. Investment Company Act of 1940, as amended (the "*ICA*"). We will be subject to greater oversight and regulation by the SEC and FINRA as our business grows in the United States.

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

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

Other regulations

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

United Kingdom

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

MBL operates a branch, MBL LB, and a subsidiary, Macquarie Bank International Ltd ("*MBIL*"), in the United Kingdom. APRA remains the lead prudential regulator for MBL LB, with regulatory oversight by the FCA and PRA in their handbooks of rules and guidance in the United Kingdom. MBIL, a United Kingdom incorporated subsidiary is authorized and regulated by the FCA and PRA as a bank.

As regulated entities, MBIL and MBL LB are required to comply with U.K. legislation and the regulatory requirements set forth by the FCA and PRA (collectively, the "*Rules*"), as applicable. The Rules include requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers, the application of which varies depending on whether it is a subsidiary or a branch of MBL. MGL also has three subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*") and Macquarie Investment Management Europe Limited ("*MIMEL*"), authorized and regulated by the FCA. MIRAEL is authorized as an alternative investment fund manager ("*AIFM*") pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773), which implements the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom, and is able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom. MCEL is authorized and regulated by the FCA as a full scope investment firm. MIMEL is authorized and regulated by the FCA as a limited scope investment firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation and Capital Requirements Directive IV, which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014 and the Markets in Financial Instruments Directive, which relates to the carrying on of investment business). Under the Rules, regulated banks and certain investment firms, are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MGL and this covers the requirements for MBIL, MCEL and MBL LB. See section 5.1 of our 2017 Fiscal Year Management Discussion and Analysis Report.

On April 1, 2014, responsibility for the regulation of consumer credit business transferred from the Office of Fair Trading ("*OFT*") to the FCA. To ensure a smooth transition to the FCA's consumer credit regime, an interim permission regime was introduced. Macquarie Asset Leasing (UK) Ltd ("*MALL*"), an incorporated subsidiary of MBL in the United Kingdom, held an interim permission for certain consumer credit activities. A full license to continue our consumer credit activities was granted on June 17, 2016.

The PRA and the FCA have made major changes to be made to the way individuals working for PRA supervised firms, including MBIL and MBL LB, are assessed and held accountable for the roles they perform. The changes were in response to perceived shortcomings in behavior and culture within firms following the financial crisis and recent conduct scandals. The changes were significant and introduced (i) a new Senior Managers Regime which is designed to clarify the lines of responsibility at the top of banks, enhance the regulator's ability to hold senior individuals accountable and require banks to regularly evaluate their senior managers for fitness and propriety; (ii) a Certification Regime requiring firms to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers; and (iii) a new set of "*conduct*" rules setting out high level principles and standards of behavior that will apply to all bank employees except those in ancillary service functions such as IT and catering. The new Senior Managers regime took effect from March 2016. In the second quarter of 2017, the FCA plans to consult on extending the scope of the regime to all authorized firms and anticipates that the extended regime will come into effect in 2018.

Effective January 1, 2011, the United Kingdom introduced a bank levy which provides for an annual charge on certain equity and liabilities of banks and certain other financial institutions. In respect of foreign banking groups with banking operations in the United Kingdom, the bank levy is calculated, broadly speaking, by reference to the aggregated equity and liabilities of the group's relevant U.K. sub-groups, U.K. subsidiaries, non-U.K. resident subsidiaries with a U.K. parent and U.K. branches (in each case as shown in appropriate balance sheets). The bank levy is charged at different rates for short-term chargeable liabilities on the one hand and long-term chargeable equity and liabilities on the other hand. From January 1, 2017, the applicable bank levy rates are 0.17% for short-term chargeable liabilities and 0.085% for long-term chargeable equity and liabilities. The bank levy is not applicable to the first £20 billion of chargeable equity and liabilities. Based on the March 31, 2017 balance sheet position, it is not anticipated that MGL Group will be impacted by the bank levy on the basis that its chargeable equity and liabilities are expected to be below £20 billion for each full period of account. MGL Group will continue to monitor its position on a regular basis.

The U.K. Government has announced its intention to implement a gradual reduction in the bank levy rates ultimately reaching 0.10% for short term chargeable liabilities and 0.05% for long term chargeable equity and liabilities as of January 1, 2021. The U.K. Government has also proposed that the bank levy will be chargeable only on U.K. balance sheet liabilities as of January 1, 2021. The gradual reduction in U.K. bank levy rates is combined with the introduction of a corporation tax surcharge (at 8%) on bank profits which became effective January 1, 2016, which applies to MBL LB, MBIL and MCEL.

On June 23, 2016, the United Kingdom voted to leave the European Union in a referendum. Over the next two to three years, the MGL Group expects there will be increased uncertainty and volatility in the global financial markets while the details of this departure (known as the 'Brexit') are negotiated. In late March 2017, the U.K. Prime Minister, Theresa May, triggered Article 50, which is the process for informing the European Union of the U.K's intention to leave the European Union and, unless both the European Union and the U.K. agree to an extension, the notification will start a two year period to negotiate and agree to a departure deal before the European Union's treaties will cease to apply to the United Kingdom. It is likely, however, that the United Kingdom will introduce legislation by which the majority, if not all, of the European Union's treaties, regulations and provisions applicable to the United Kingdom will continue to apply for a transitional period. There is also potential for further consequences of the Brexit to impact the markets as details of the terms of this departure emerge. At this point in time it is not possible to definitely determine what the impact of the Brexit will be on the MGL Group.

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

European Union

Financial Transaction Tax

On February 14, 2013, the European Commission published a proposal for a Council Directive (the "*Draft Directive*") for a common financial transaction tax (the "*FTT*") in eleven Member States (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Spain, Slovakia and Slovenia). However, Estonia has since stated it will not participate.

Pursuant to the Draft Directive, the FTT would be payable on "*financial transactions*" within its scope. Those transactions would broadly include derivatives and the purchase and sale of financial assets (bonds, equities, repos and stock lending) as well as material modifications of such transactions. It would exclude spot transactions in currency, commodities, etc., and insurance contracts, loan originations, credit cards, cash payments and the issuance of debt and equity instruments.

Under the Draft Directive, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would be payable on a financial transaction where at least one party is a financial institution (acting as agent or principal) and at least one party is established in a participating Member State. A party may be, or be deemed to be, "*established*" in a participating Member State in a broad range of circumstances, including where it is (a) a party which has a branch in a participating Member State, in respect of a financial transaction being carried out by that branch; (b) a financial institution that is a party (whether as agent or principal) to, or acting in the name of a party to, a financial transaction with a party deemed to be established in a participating Member State; (c) a financial institution that is a party (whether as agent or principal) to, or acting in the name of a party to, a financial transaction in relevant financial instruments issued in a participating Member State; or (d) a natural or legal person who is a party to a financial transaction in relevant financial instruments issued in a participating Member State.

Implementation of the Draft Directive in its present form in any of the participating Member States could result in increased transaction costs for:

(a) MBL in relation to certain transactions entered into by it (as principal or agent) in certain circumstances; and

(b) investors in the secondary market who in certain circumstances sell or purchase notes issued by MBL.

However, the Draft Directive remains subject to negotiation between participating Member States: the scope, legality and coming into force of any such tax remains uncertain. Additional EU Member States may decide to participate and/or other participating Member States may decide to withdraw.

Although the European Union member states proposing to participate in a financial transaction tax issued a joint statement in December 2015 indicating their intention to make decisions on the remaining open issues by the end of June 2016, the proposal has not yet been finalized. The Council of the European Union most recently discussed the progress of work on these open issues on December 6, 2016. The scope, legality and coming into force of any such tax remains uncertain.

Markets in Financial Instruments Directive

The Markets in Financial Instruments Directive ("*MiFID*") is the European Union ("*EU*") legislation that regulates firms who provide services to clients linked to financial instruments (such as shares, bonds, units in collective investment schemes and derivatives) and the venues where those financial instruments are traded. As such, MiFID is the framework of EU legislation for investment intermediaries that provide services to clients relating to financial instruments; and the organized trading of financial instruments.

MiFID was implemented by the United Kingdom in November 2007, but is now being revised to improve the functioning of financial markets in light of the financial crisis. MiFID shall be replaced by new legislation, which comprises Regulation (EU) No 600/2014 ("*MiFIR*") and Directive 2014/65/EU ("*MiFID II*").

MiFID II amends existing MiFID provisions on authorization, including the update of rules governing how business is conducted and changes to how firms are required to organize themselves. These rules aim to strengthen the protection of investors, through:

- the introduction of new requirements on product governance, independent investment advice, commodity position limits and cross-selling;

- the extension of existing rules to structured deposits; and

- the improvement of requirements in several areas, including on the responsibility of management bodies, inducements, additional information and data reporting to clients, remuneration of staff and best execution.

MiFIR establishes, inter alia, uniform requirements in relation to disclosure of trade data to the public, reporting of transactions to the competent authorities, trading of derivatives on organized venues, benchmarks and intervention powers of competent authorities, such as the European Securities and Markets Authority ("*ESMA*") and the European Banking Authority.

Most of the provisions of MiFID II and MiFIR shall apply as of January 3, 2018, except for certain minor provisions which shall apply as of September 3, 2018. In addition, many of the provisions of MiFID II and MiFIR will be implemented by means of technical standards that will be drafted by ESMA.

The regulatory changes arising from MiFID II and MiFIR are wide ranging and will impact many aspects of MBL's operations in the European Union and also outside of the European Union in certain circumstances. However, it is difficult to predict the full impact of these regulatory requirements on MGL.

Other regulators

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

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

- the Securities and Futures Commission of Hong Kong, the Hong Kong Monetary Authority and the Hong Kong Exchanges and Clearing Limited;

- the Investment Industry Regulation Organization of Canada, the TMX and the various provincial and territorial securities regulatory authorities in Canada;

- the Financial Supervisory Service of Korea and the Korea Exchange;

- the Monetary Authority of Singapore and the Singapore Exchange Securities Trading Limited; and

- the Financial Services Board of South Africa.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

In addition to the information included in this Report, investors should refer to our 2017 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operation and financial condition for the 2017 fiscal year compared to the 2016 fiscal year, along with other balance sheet, capital and liquidity disclosures as at and for the year ended March 31, 2017, and sections 1.0 to 7.0 of our 2016 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operation and financial condition for the 2016 fiscal year compared to the 2015 fiscal year, each of which is posted on MGL's U.S. Investors' Website.

Year ended March 31, 2017 compared to year ended March 31, 2016

See sections 1.0 – 7.0 of our 2017 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operation and financial condition for the 2017 and 2016 fiscal years, which has been incorporated by reference herein.

Year ended March 31, 2016 compared to year ended March 31, 2015

See sections 1.0 – 7.0 of our 2016 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operation and financial condition for the 2016 and 2015 fiscal years, which has been incorporated by reference herein.

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