Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2019

Dated: May 20, 2019

TABLE OF CONTENTS

CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2019 (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;
- "*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 2019 annual financial statements, our 2018 annual financial statements and our 2017 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;
- "*MCN*" means the Macquarie Group Capital Notes 2, the Macquarie Group Capital Notes 3 and the Macquarie Group Capital Notes 4;
- "*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";

- "*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 herein and which have been posted on MGL's U.S. Investors' Website;

- "*2018 annual financial statements*" means our audited consolidated financial statements contained in our 2018 Annual Report;

- "*2018 Annual Report*" means our 2018 annual report, extracts of which are incorporated by reference herein and which have been posted on MGL's U.S. Investors' Website;

- "*2018 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 4, 2018, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2018, which is incorporated by reference herein and which has been posted on MGL's U.S. Investors' Website;

- "*2019 annual financial statements*" means our audited consolidated financial statements contained in our 2019 Annual Report;

- "*2019 Annual Report*" means our 2019 annual report, extracts of which are incorporated by reference herein and which have been posted on MGL's U.S. Investors' Website; and

- "*2019 Fiscal Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated May 3, 2019, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2019 compared to the fiscal year ended March 31, 2018, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2019, which is incorporated by reference herein and which has been posted on MGL's U.S. Investors' Website.

Our fiscal year ends on March 31, so references to years such as "*2019*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year.

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: 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;
- market uncertainty, volatility and investor confidence;
- 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 the MGL 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 and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- increased governmental and regulatory scrutiny and negative publicity;
- changes in and increased volatility in currency exchange rates;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our brand and reputation;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to attract and retain employees;
- losses due to falling prices in equity or other markets;
- defaults by other large financial institutions or counterparties;
- changes in the credit quality of MGL's clients and counterparties;
- credit constraints of potential purchasers of our assets or on our clients;
- changes to the credit ratings assigned to each of MGL and MBL;

- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- the performance of funds and other assets we manage;
- the impact of potential tax liabilities;
- inadequate or failed internal or external operational systems, processes, people, including conduct risk, or external events or external service provider misconduct;
- the impact of cyber attacks, technology failures and other information or security breaches;
- the impact of catastrophic events on MGL and its operations;
- conflicts of interest;
- litigation and regulatory actions against us;
- 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;
- environmental and social factors;
- restrictions on the ability of our subsidiaries, such as MBL, to make payments to MGL;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians; 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. Other factors are discussed in our 2019 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference herein.

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/international-relations/security/sanctions/pages/sanctions.aspx.

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 2019 Fiscal Year Management Discussion and Analysis Report, our 2018 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 "Management's Discussion and Analysis of Results of Operations and Financial Condition", which incorporates by reference:
    - our 2019 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2019 compared to the fiscal year ended March 31, 2018, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2019 and which has been posted on MGL's U.S. Investors' Website; and
    - our 2018 Fiscal Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2018 compared to the fiscal year ended March 31, 2017, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2018 and which has been posted on MGL's U.S. Investors' Website;
- MBL's Pillar 3 Disclosure Document dated March 2019, the Pillar 3 Disclosure Document dated December 2018, the Pillar 3 Disclosure Document dated September 2018 and the Pillar 3 Disclosure Document dated June 2018, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MGL's U.S. Investors' Website; and
- our historical financial statements, which are included in the extracts from our 2019 and 2018 Annual Reports posted on MGL's U.S. Investors' Website.

For further information on our historical financial information for the 2018 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation – Our financial information" included in our 2018 Annual U.S. Disclosure Report.

Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the exchange rate of US$0.7104 per A$1.00, which was the noon buying rate in New York City for cable transfers of Australian dollars as certified for customs purposes for the Federal Reserve Bank of New York on March 29, 2019. The noon buying rate on May 10, 2019 was US$0.6998 per A$1.00.

Application of new accounting standards

Please refer to Note 1 of the 2019 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2019 fiscal year.

Our historical financial statements

Our 2019 annual financial statements include our audited financial statements as at, and for the fiscal years ended, March 31, 2019 and 2018. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See our 2019 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 its 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. Investors should also note that on December 10, 2018, MBL sold its Corporate & Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of its parent, MGL. After December 10, 2018, results from the Macquarie Principal Finance and Transportation Finance businesses have been merged with the Non-Bank Group results and are presented as the Non-Bank Group results.

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 and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of Macquarie Income Securities ("*MIS*"). 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 2019, 2018 and 2017 fiscal years

During the 2019 fiscal year, MBL sold its Corporate & Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of its parent, MGL. Effective December 10, 2018, Corporate & Asset Finance's Principal Finance and Transportation Finance businesses transferred from the Bank Group to the Non-Bank Group following a meeting of MBL shareholders which approved the transaction. This transfer was internal to MGL Group and, accordingly, did not have any impact on the consolidated operating results of MGL.

During the 2018 fiscal year, a Macquarie-led consortium comprised of MGL, Macquarie European Infrastructure Fund 5 ("*MEIF5*") and Universities Superannuation Scheme successfully completed the acquisition of the UK Green Investment Bank Limited ("*Green Investment Bank*") from Her Majesty's Government for £2.3 billion. The Green Investment Bank was subsequently rebranded to Green Investment Group ("*GIG*"). Commodities & Global Markets completed the acquisitions of Cargill Petroleum and Cargill North America Power and Gas trading businesses and Asset Finance completed the sale of its U.S. commercial vehicles financing business.

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

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 2019, 2018 and 2017 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 operations and financial condition for the 2019 and 2018 fiscal years, see our segment analysis in section 3.0 of our 2019 Fiscal Year Management Discussion and Analysis Report and in section 3.0 of our 2018 Fiscal Year Management Discussion and Analysis Report.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2019, 2018 and 2017 fiscal years, see Note 41 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2019 annual financial statements and Note 42 "Acquisitions and disposals of subsidiaries and businesses" to MGL Group's 2018 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 2019 annual financial statements.

Critical accounting policies and significant judgments

Note 1 to our 2019 annual financial statements provides a list of the critical accounting policies and significant judgments.

Other than as provided in Note 1 to our 2019 annual financial statements, critical accounting policies and significant judgments for the 2019 fiscal year have remained 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 2019 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 asset 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.

Substantially all of MGL's Assets under Management are reported by Macquarie Asset Management with approximately 1.6% (as at March 31, 2019) 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 as at March 31, 2019 is presented in section 4.0 of our 2019 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, many of which are not within our control. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in the "Risk Management Report" in our 2019 Annual Report and in Note 35 to our 2019 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.

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

The Macquarie Group's businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, past uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, constrained access to funding and the decline in equity and capital market activity have adversely affected and may again affect transaction flow in a range of industry sectors. If repeated, such factors could adversely impact our financial performance.

MGL may 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., Chinese or European economies, slowing growth in emerging economies, the departure of the United Kingdom or another member country from the Euro zone or the market's anticipation of such events, could disrupt global funding markets and the global financial system more generally. MGL may also be impacted indirectly through counterparties that have direct exposure to European sovereigns and financial institutions. See "Macquarie Group Limited — Additional financial disclosures for the fiscal year ended March 31, 2019 — Euro-zone and other exposures" for a description of MGL's exposure in certain European countries as of March 31, 2019.

In the aftermath of the global financial crisis that began in 2007, governments, regulators and central banks took a number of steps to increase liquidity and to restore investor and public confidence, including reducing official interest rates, increasing government spending and budget deficits and "quantitative easing" programs. As the global economic environment improved, a number of the extraordinary measures have been curtailed or withdrawn. The withdrawal of such measures may create or contribute to uncertainty and volatility in global credit markets and reduce economic growth.

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 growing tensions between the United States and China relating to tariff levels and reciprocal trade and the ongoing negotiations between the United Kingdom and the European Union to determine the terms of the United Kingdom's departure from the European Union, can adversely affect and have adversely affected investor and client confidence, resulting in declines in the size and number of underwritings and financial advisory transactions and increased market risk as a result of increased volatility, which could have an adverse effect on our revenues and our profit margins. For example, our brokerage, commission and other fee income, mergers and acquisitions advisory and underwriting fee income and client facilitation fee income may be, and have been, impacted by transaction volumes.

Our trading income may be adversely affected during times of subdued market conditions and client activity and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our funds management business. Our funds management fee income, including base and performance fees, may be adversely affected by volatility in equity values and returns from our managed funds. The value and performance of our loan portfolio may also be adversely affected 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 may also decrease if economic conditions deteriorate. 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.

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 businesses, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired if we are unable to access debt markets or sell assets or if we experience 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 us or our trading clients, or changes in our credit spreads, which are, 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 2019 Fiscal Year Management Discussion and Analysis Report.

General business and economic conditions significantly affect our access to credit and equity capital markets, cost of funding and ability to meet our liquidity needs. Factors such as changes in short-term and long-term interest rates, inflation, monetary supply, volatility in commodity prices, fluctuations in 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 can all affect our ability to raise capital. Renewed turbulence or a worsening general economic climate could adversely impact any or all of these factors. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and may limit our ability to replace maturing liabilities, which could adversely affect our ability to fund and grow our business.

If 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.

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.

We operate various 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), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea[1] 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. 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 and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in the markets in which we operate, and may lead to further significant changes of this kind. In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

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1 Note that MGL Group is in the process of closing its South Korean banking branch and the relevant regulators have been notified of this intention.

(the "*Royal Commission*") was established in December 2017 and concluded on February 1, 2019. The Royal Commission inquired into the causes of and responses to misconduct by financial services entities and conduct falling below community standards and expectations and held rounds of public hearings on a wide range of matters, including consumer and SME lending, financial advice, superannuation, insurance, culture, governance, remuneration, and the remits of regulators. The Royal Commission's final report was published on February 4, 2019 and contains 76 recommendations. No findings were made by the Royal Commission in relation to the MGL Group. There is broad bipartisan support on most of the recommendations contained in the final report. The Royal Commission's recommendations are likely to result in a range of significant legislative, regulatory and industry practice changes. Such changes may adversely impact Macquarie Group's business, operations, compliance costs, financial performance and prospects. We are closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

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

In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. See "Regulation and Supervision" for more information on the regulatory developments affecting MGL Group, including MBL. The nature and impact of future changes are unpredictable, beyond our control and may result in potentially conflicting requirements, resulting in additional legal and compliance expense and changes to our business practices that adversely affect our profitability.

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 MGL Group.

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering ("*AML*"), as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. The geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, increases the risk that we may be found in violation of such rules or regulations and any such violation could subject us to significant penalties, revocation, suspension, restriction or variation of conditions of operating licenses, adverse reputational consequences, litigation by third parties (including potentially class actions) or limitations on our ability to do business. Emerging technologies, such as cryptocurrencies, could limit our ability to track the movement of funds. Our ability to comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

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

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

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

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

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

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

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

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

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

Our business depends on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds managed by entities owned, in whole or in part, by MGL use the Macquarie name.

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

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

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

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. 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.

We also depend on our ability to offer products and services that match evolving customer preferences. If we are not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, we may lose customers to our competitors. The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins and could adversely impact our businesses, prospects, results of operations or financial condition.

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

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

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

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

Increases in interest rates or attractive prices for other investments could cause our clients to transfer their assets out of our funds or other products.

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. 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. If any of our counterpart financial institutions fail, our financial exposures to that institution may lose some or all of their value. The failure of one financial institution may also affect the soundness of other financial institutions with which we transact, resulting in additional failures, financial instruments losing their value and liquidity, and interruptions to capital markets. Any of these events would have a serious adverse effect on our liquidity, profitability and value.

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 as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 35 to our 2019 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. Our inability to enforce our rights may result in losses.

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

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

In addition, we have historically derived a portion of our income from mergers and acquisitions advisory fees, which are typically paid upon completion of a transaction. Our clients that engage in mergers and acquisitions often rely on access to 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 range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

For a further discussion of our risk management policies and procedures, see our "Risk Management Report" in our 2019 Annual Report and Note 35 to our 2019 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 with new clients, new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from IT systems and reputational concerns with the manner in which these businesses are being operated or conducted.

Our dependence on the revenue we generate from managing funds and transacting with the assets we manage exposes us to risk.

As at March 31, 2019, we had A$551.3 billion in Assets under Management, and for the 2019 fiscal year, we derived A$1,815 million of base fee income from the funds that we managed. Our financial condition and results of operations are directly and indirectly affected by the results of the funds or the assets we manage. 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 any of our funds perform poorly due to market conditions or our underperformance, our revenue and results of operations may decline. If the return of a fund is negative in any period, this may also have a long-term effect on incentive income. This is because a deficit against a performance benchmark will usually be carried forward until the deficit has been eliminated. In addition, in some cases investors may withdraw their investments in our funds or may decline to invest in future funds we establish.

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, our funds model exposes it to such risks as:

- *Equity at risk:* we maintain an equity interest in a number of the funds that we manage. The market value of our assets is directly affected by the value of the funds we manage to the extent of our equity interest in those funds.

- *Reputation risk:* The Macquarie name is attached to many of the funds we manage. 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, we have sold assets to funds we manage, mostly in circumstances when we are seeding a newly-formed fund with assets, or have sold our 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*: we manage and advise 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 write-downs of our funds management assets, investments, loans and other assets.

MGL Group recorded A$552 million of credit and other impairment charges for the 2019 fiscal year, including A$320 million for credit impairment charges, and A$232 million for other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline.

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. 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 write-downs 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 businesses, prospects, 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 operations and our reputation.

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. In addition, as a result of increased funding needs by governments employing fiscal stimulus measures, revenue authorities in many of the jurisdictions in which we operate have become more active in their tax collection activities. 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 including conduct by our employees, contractors and external service providers, or systems or external events.

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

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers, including cloud-based outsourced technology platforms, or external events. Such operational risks may include theft and fraud, employment practices and workplace safety, improper business practices, mishandling of client 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. If we fail to manage these risks appropriately, we may incur financial losses and/or regulatory intervention and penalties, and our reputation and ability to retain and attract clients may be adversely affected.

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. In addition, risk could occur through the provision of products and services to our customers that do not meet their needs, such as through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, selling products and services outside of customer target markets or a failure to adequately provide the products or services we had agreed to provide a customer. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

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

A cyber attack, information or security breach, or a technology failure of ours or of a third party could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, and increase our costs to maintain and update our operational and security systems and infrastructure.

Our businesses depend on the security and efficacy of our information technology systems, as well as those of third parties with whom we interact or on whom we rely. Our businesses rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks. We implement measures designed to protect the security, confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security.

Information security risks for financial institutions have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of attackers (including hackers, organized criminals, terrorist organizations, hostile foreign governments, disgruntled employees or vendors, activists and other external parties, including those involved in corporate espionage). Targeted social engineering attacks are becoming more sophisticated and are extremely difficult to prevent. The techniques used by hackers change frequently, may not be recognized until launched and may not be recognized until well after a breach has occurred. Additionally, the existence of cyber attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner. We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyber attacks. Our computer systems, software and networks may be vulnerable to unauthorized access, misuse, denial-of-service or information attacks, phishing attacks, computer viruses or other malicious code and other events that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of ours, our employees, our customers or of third parties, damages to systems, or otherwise material disruption to our or our customers' or other third parties' network access or business operations. As cyber threats continue to evolve, we may have to significantly increase the resources we allocate to enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to protect the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches or implement preventive measures against such security breaches. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks.

Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies, develop additional remote connectivity solutions and outsource some of our business operations. We face indirect technology, cybersecurity and operational risks relating to the customers, clients, external service providers and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including financial counterparties, financial intermediaries (such as clearing agents, exchanges and clearing houses), vendors, regulators, providers of critical infrastructure (such as internet access and electrical power), retailers for whom we process transactions, as well as other third parties with whom our clients do business, 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.

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

Although to date we have not experienced any material losses or suffered other material consequences relating to technology failure, cyber attacks or other information or security breaches, whether directed at us or at third parties, there can be no assurance that we will not suffer such losses or other consequences in the future. It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and perpetrators can be well resourced. Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for MGL Group, including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures and additional compliance costs, all of which could have a material adverse impact on MGL Group. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business.

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. If they are affected by such events, they may be unable to perform their 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 or counterparties to enter into transactions may be adversely affected if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to claims by and liabilities to clients, litigation or enforcement actions.

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

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

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

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization and/or confiscation of assets, expropriation, price controls, capital controls, redenomination risk, exchange controls, protectionist trade policies, economic sanctions and other restrictive governmental actions, unfavorable political and diplomatic developments and changes in legislation. These risks are particularly elevated in emerging markets. We could also be affected by disease outbreaks, which may adversely affect local or regional economies and inhibit international trade and travel. A number of jurisdictions in which we do business have been negatively affected by slow growth rates or recessionary conditions, market volatility and/or political unrest. The political and economic environment in Europe has improved but remains challenging and the current degree of political and economic uncertainty could increase. In the United Kingdom, the ongoing negotiation of the terms of, and uncertainty surrounding, the exit of the United Kingdom from the European Union is affecting many aspects of financial regulation and may, in some instances, contribute to decreased liquidity and increased volatility in the financial markets, including the market value of securities in the secondary market.

Potential risks of default on sovereign debt in some jurisdictions could expose us to substantial losses. Risks in one nation can limit our opportunities for portfolio growth and negatively affect our operations in other nations. Market and economic disruptions of all types may affect consumer confidence levels and spending, corporate investment and job creation, bankruptcy rates, levels of incurrence and default on consumer and corporate debt, economic growth rates and asset values, among other factors. Any such unfavorable conditions or developments could have an adverse impact on our business.

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 our business, prospects, results of operations and financial condition.

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, climate change related impact (including physical or transition risks such as changes to laws and regulations, technology development and disruptions), or external event (including increased frequency and severity of storms, floods and other catastrophic events such as 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. Any such long-term, adverse environmental consequences could prompt us to exit certain businesses altogether. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

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 and bank 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, 2019.

The information relating to MGL Group in the following table is based on our 2019 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Mar 19	Mar 19
	US$m[1]	A$m
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	27,169	38,245
Loan capital — due greater than 12 months	4,624	6,509
Total borrowings[3]	**31,793**	**44,754**
Equity		
Contributed equity		
Ordinary share capital	5,361	7,546
Treasury shares	(975)	(1,372)
Exchangeable shares	5	7
Reserves	1,260	1,773
Retained earnings	6,967	9,807
Macquarie Income Securities	278	391
Other non-controlling interests	151	212
Total equity	**13,047**	**18,364**
TOTAL CAPITALIZATION	**44,840**	**63,118**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 29, 2019, which was US$0.7104 per A$1.00.

2 As at March 31, 2019, we had had A$4.8 billion of secured indebtedness due in greater than 12 months compared to A$3.1 billion as at March 31, 2018.

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$21.6 billion as at March 31, 2019 and securitizations totaled A$7.2 billion as at March 31, 2019 compared to A$22.2 billion and A$9.0 billion, respectively, as at March 31, 2018.

For details on our short-term debt position as at March 31, 2019, see section 5.4 of our 2019 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. As a provider of asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities, MGL Group is primarily a client-driven business which generates income by providing a diversified range of products and services to its clients. MGL Group acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world. MGL operates through a Banking Group, comprising MBL and its operating groups, and a Non-Banking Group. See "— Organizational structure" for more information. MGL's market capitalization as at the close of business on May 10, 2019 was A$42.4297 billion (approximately US$29.6923 billion based on the noon buying rate on May 10, 2019 of US$0.6998 per A$1.00).

As at March 31, 2019, MGL employed 15,715 staff,[2] had total assets of A$203.2 billion and total equity of A$18.4 billion. For the 2019 fiscal year, MGL net operating income was A$12.8 billion and profit after tax attributable to ordinary equity holders was A$2,982 million. As at March 31, 2019, MGL conducted its operations in 30 markets, with 66% of our net operating income (excluding earnings on capital and other corporate items) being derived from international income. See "— Regional activity" below for further information. MGL was incorporated in Australia and registered 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 +61 2-8232-3333.

Board and management changes during the 2019 fiscal year

The following board and management changes occurred since the beginning of the 2019 fiscal year:

- Patricia Cross retired as an Independent Voting Director of MGL and MBL effective on July 26, 2018.
- Shemara Wikramanayake was appointed to the Boards of MGL and MBL as an Executive Voting Director effective from August 28, 2018, and was appointed Managing Director and Chief Executive Officer of MGL, replacing Nicholas Moore, effective from December 1, 2018.
- Nicholas Moore retired as an Executive Voting Director of MGL and MBL effective on November 30, 2018.
- Philip Coffey was appointed to the Boards of MGL and MBL as an Independent Voting Director effective from August 28, 2018.
- Jillian Broadbent AC was appointed to the Boards of MGL and MBL as an Independent Voting Director effective from November 5, 2018.

Effective December 1, 2018:

- Martin Stanley, formerly Global Head of Macquarie Infrastructure and Real Assets, was appointed Group Head of Macquarie Asset Management and joined the Executive Committee. Macquarie Asset Management comprises Macquarie Infrastructure and Real Assets and Macquarie Investment Management and Mr. Stanley, based in London, continues to lead Macquarie Infrastructure and Real Assets globally.
- Ben Brazil stepped down as Group Head, Corporate & Asset Finance – Principal Finance, and from the Executive Committee. He became Chairman, Corporate & Asset Finance – Principal Finance, and will continue in that role until mid-2019.
- Florian Herold, formerly Co-Head of Corporate & Asset Finance – Principal Finance in Europe, the Middle East and Africa, was appointed Group Head, Corporate & Asset Finance – Principal Finance. Mr. Herold also joined the Executive Committee.

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[2] This figure includes staff employed in certain operationally segregated subsidiaries. Further references to staff numbers are calculated on this basis.

Following these changes, the MGL Executive Committee included representatives based in all regions.

Effective March 31, 2019, Andrew Downe stepped down as Group Head of Commodities & Global Markets and from the MGL Executive Committee. Mr. Downe continues to lead the Cash Equities business globally and retain regional leadership for Commodities & Global Markets in Asia. Concurrently, Nicholas O'Kane became Group Head of Commodities & Global Markets, following two years of transition in anticipation of this change. Mr. O'Kane formerly lead Commodity Markets and Finance within Commodities & Global Markets and has been a member of the MGL Executive Committee since 2017.

Operating group updates during the 2019 fiscal year

Some teams in Macquarie Asset Management and Corporate & Asset Finance were reorganized between operating groups to better align businesses with a shared focus on particular customer segments or geographies:

Effective December 1, 2018:

- Macquarie's Australian vehicle finance business moved from Corporate & Asset Finance – Asset Finance into Banking & Financial Services given shared opportunities between the two businesses.
- Macquarie Asset Management's Macquarie Specialised Investment Solutions business moved into Corporate & Asset Finance – Asset Finance in the Bank Group. Macquarie Specialised Investment Solutions' fiduciary businesses, such as the infrastructure debt business, Macquarie Infrastructure Debt Investment Solutions, will move to Macquarie Asset Management in the Non-Bank Group, on receipt of the required approvals.

Effective February 15, 2019:

- Macquarie Capital's global real estate principal investment and private capital markets business moved into Macquarie Asset Management and merged with Macquarie Infrastructure and Real Assets Real Estate.

Transfer of Corporate & Asset Finance's Principal Finance and Transportation Finance businesses and Macquarie Bank Capital Return

Effective December 10, 2018, Corporate & Asset Finance's Principal Finance and Transportation Finance businesses transferred from the Bank Group to the Non-Bank Group following a meeting of MBL shareholders which approved the transaction. This simplified the Group's overall structure and better reflects the latest activities of the individual businesses.

As a consequence of the transfer, MBL deconsolidated the net assets of these Corporate & Asset Finance businesses, resulting in an increase in equity of approximately A$0.3 billion, which MBL paid as a dividend to MGL. Additionally, MBL returned A$2.04 billion in capital to MGL.

Our key strengths

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

- *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;

- Asset management fee income (including base fees, which are ongoing fees generated from asset 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; and

- Other fee and commission income from vehicle leases, the wrap and other administration fee income from Banking & Financial Services, and structuring fee income from Macquarie Asset Management's structured financial products.

- *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, vehicle leases, 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, 2019, we employed 15,715 staff in 30 markets. Of those staff, approximately 58% 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.

- *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.

- *Strong capital position*. As at March 31, 2019, MGL Group had total regulatory capital of A$21.9 billion, including A$6.1 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, 2019, see section 6.0 of our 2019 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 35 to our 2019 annual financial statements and in the "Risk Management Report" in our 2019 Annual Report incorporated by reference herein.

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.

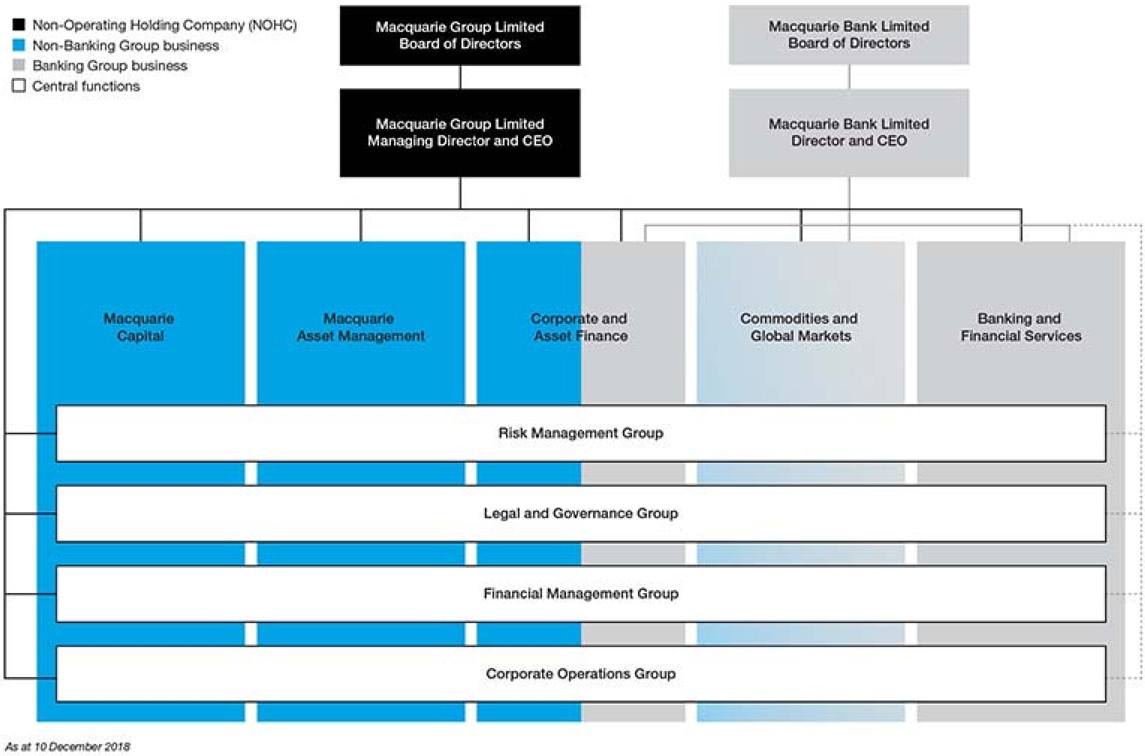
The Banking Group comprises MBL Group and has three operating groups: Corporate & Asset Finance (excluding Corporate & Asset Finance – Principal Finance and certain other activities performed by Corporate & Asset Finance – Asset Finance); Banking & Financial Services; Commodities & Global Markets (excluding 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 — Operating groups".

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; Corporate & Asset Finance – Principal Finance and certain activities of Corporate & Asset Finance – Asset Finance; certain assets of the Credit Markets business, certain activities of the Cash Equities business 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, Corporate Governance, Corporate Affairs, 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 and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.

MBL and MGL have corporate governance and policy frameworks that meet the Australian Prudential Regulation Authority's ("*APRA*") 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 2019 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.



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 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 underpinned by a sound risk culture. Macquarie's robust risk management framework and risk culture is embedded across all Operating and Central Service Groups.

- *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 including deposits, and 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 markets-facing businesses that deliver solid returns in a range of market conditions. Macquarie has progressively developed its annuity-style businesses, providing steady returns to the business and our shareholders, and stability to clients.

- *Diversification.* Operating a diversified set of businesses across different locations and service offerings: 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 the impact of any concentration risk and provides resilience to Macquarie.

- *Proven expertise.* Utilizing proven deep expertise has allowed Macquarie to establish leading market positions as a global specialist in sectors including renewables, 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 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 the 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 operations 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 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.

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.

Our business

Overview of MGL Group

As at March 31, 2019, MGL had total assets of A$203.2 billion and total equity of A$18.4 billion. For the 2019 fiscal year, our net operating income was A$12,754 million and profit after tax attributable to ordinary equity holders was A$2,982 million, with 66% 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 from ordinary activities of each of our operating groups for the 2019 and 2018 fiscal years.

Net operating income of MGL Group by operating group for the 2019 and 2018 fiscal years [1]

	Fiscal Year ended		
	Mar 19	**Mar 18**	**Movement**[3]
	A$m	**A$m**	**%**
Macquarie Asset Management	2,844	2,562	11
Corporate & Asset Finance	1,631	1,770	(8)
Banking & Financial Services	2,103	2,026	4
Commodities & Global Markets	3,883	2,907	34
Macquarie Capital	2,237	1,460	53
Total net operating income from operating groups	**12,698**	**10,725**	18
Corporate[2]	56	195	(71)
Total net operating income	**12,754**	**10,920**	17

1 For further information on our segment reporting, see section 3.0 of our 2019 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2019 annual financial statements. Note Mar 18 comparative numbers have been restated to reflect the organizational restructure between Operating Groups.

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 and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.

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

Net profit contribution of MGL Group by operating group for the 2019 and 2018 fiscal years [1]

	Fiscal Year ended		
	Mar 19	**Mar 18**	**Movement[3]**
	A$m	**A$m**	**%**
Macquarie Asset Management	1,503	1,558	(4)
Corporate & Asset Finance	1,028	1,140	(10)
Banking & Financial Services	756	737	3
Commodities & Global Markets	1,505	910	65
Macquarie Capital	1,353	716	89
Total contribution to net profit by operating group	**6,145**	**5,061**	21
Corporate[2]	(3,163)	(2,504)	26
Profit attributable to ordinary equity holders of MGL	**2,982**	**2,557**	17

1 For further information on our segment reporting, see section 3.0 of our 2019 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2019 annual financial statements. Note Mar 18 comparative numbers have been restated to reflect the organizational restructure between Operating Groups.

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 and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.

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

As at March 31, 2019, MGL Group employed 15,715 staff globally and conducted its operations in 30 markets.

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, 2019, MGL Group employed 6,673 staff across Australia and New Zealand. In the 2019 fiscal year, Australia and New Zealand contributed A$4.2 billion (34%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$3.5 billion (33%) in the 2018 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. As at March 31, 2019, MGL Group employed 2,889 staff across 5 markets. In the 2019 fiscal year, the Americas contributed A$3.7 billion (29%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.8 billion (27%) in the 2018 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 1994. As at March 31, 2019, MGL Group employed 3,746 staff across 11 markets. 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 2019 fiscal year, Asia contributed A$1.1 billion (9%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.2 billion (11%) in the 2018 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, 2019, MGL Group employed 2,407 staff across 12 markets. In the 2019 fiscal year, Europe, Middle East & Africa contributed A$3.5 billion (28%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$3.1 billion (29%) in the 2018 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2019 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2019 annual financial statements. For further information on our international income for the 2019 and 2018 fiscal years, see section 3.8 of our 2019 Fiscal Year Management Discussion and Analysis Report.

Operating groups

Macquarie Asset Management

Macquarie Asset Management is in the Non-Bank Group and is Macquarie's asset management business. The majority of Macquarie Asset Management's net operating income are fees earned from clients in relation to managing their capital. Macquarie Asset Management had A$542.7 billion in Assets under Management as at March 31, 2019.

Macquarie Asset Management comprises the following businesses:

- Macquarie Infrastructure and Real Assets ("*MIRA*") is a leader in alternative asset management worldwide, specializing in infrastructure, real estate, agriculture and energy via public and private funds, co-investments, partnerships and separately managed accounts.

- Macquarie Investment Management offers securities investment management capabilities across a number of asset classes including fixed income, currencies, equities, hedge funds and multi-asset solutions.

Macquarie Asset Management contributed A$1,503 million to MGL Group's net profit in the 2019 fiscal year and, as at March 31, 2019, had over 1,700 staff operating across 18 markets across Australia, the Americas, Europe and Asia.

During the 2019 fiscal year, Macquarie Asset Management completed the acquisition of GLL Real Estate Partners, an approximately €7b German-based manager of real estate assets in Europe and the United States. Macquarie Asset Management also acquired ValueInvest Asset Management S.A., a value oriented investment manager focused on global equities with approximately €4b in Asset under Management.

An internal reorganization of MGL Group resulted in the transfer of Macquarie Specialised Investment Solutions ("*MSIS*") from Macquarie Asset Management to Corporate & Asset Finance. Macquarie Capital's global real estate principal investment and private capital markets business also moved into Macquarie Asset Management to merge with MIRA Real Estate.

Corporate & Asset Finance

Corporate & Asset Finance operates businesses in both the Bank and Non-Bank Groups and is a global provider of specialist finance and asset management solutions. Corporate & Asset Finance's net operating income is primarily from interest and trading income earned from the loan and finance lease portfolios and operating lease income.

Corporate & Asset Finance comprises the following businesses:

- Asset Finance (Bank Group): Delivers a range of tailored finance solutions globally across a variety of industries and asset classes. Certain activities in Asset Finance are performed in the Non-Banking Group in certain jurisdictions due to local regulation. The Asset Finance portfolio was A$8.0 billion as at March 31, 2019.

- Principal Finance (Non-Bank Group): Provides flexible primary financing solutions and engages in secondary market investing across the capital structure. It operates globally in the corporate, transportation and real estate sectors. The Principal Finance funded portfolio was A$4.1 billion as at March 31, 2019 and Transportation Finance's portfolio was A$9.2 billion as at March 31, 2019.

Corporate & Asset Finance contributed A$1,028 million to MGL Group's net profit in the 2019 fiscal year and, as at March 31, 2019, had over 860 staff located in 14 markets in Australia, North America, Europe and Asia.

During the 2019 fiscal year, the Principal Finance business acquired a portfolio of 120 rotorcraft from Waypoint Leasing (Ireland) Ltd. This increases the operating lease portfolio to 141 rotorcraft.

During the 2019 fiscal year, an internal reorganization of MGL Group resulted in the transfer of Macquarie Specialised Investment Solutions from Macquarie Asset Management to Corporate & Asset Finance and the transfer of the Australian vehicle finance business from Corporate & Asset Finance to Banking & Financial Services. Within Corporate & Asset Finance, the Transportation Finance business transferred from Corporate & Asset Finance - Asset

Finance to Corporate & Asset Finance - Principal Finance and Corporate & Asset Finance - Principal Finance transferred from the Bank Group to the Non-Bank Group.

Banking & Financial Services

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

Banking & Financial Services comprises the following businesses:

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

Banking & Financial Services contributed A$756 million to MGL Group's net profit in the 2019 fiscal year and, as at March 31, 2019, had over 2,770 staff operating predominately in Australia.

During the 2019 fiscal year, an internal reorganization of MGL Group (see page 15 of this Report) resulted in the transfer of the Australian vehicles finance business from Corporate and Asset Finance to Banking & Financial Services.

Commodities & Global Markets

Commodities and Global Markets operates both in the Bank and Non-Bank Group. Commodities & Global Markets' net operating income primarily comprises net interest and trading income and fee and commission income earned from products and services delivered within each of these areas.

Commodities & Global Markets comprises the following businesses in the Bank Group:

- Cash Equities: Operates a global cash equities distribution platform which provides clients with access to research, sales, sales trading, corporate access and Equity Capital Markets, combined with a leading execution platform. The Cash division's activities, which include cash equities broking and equity capital markets services, in respect of the Cash division's activities in Hong Kong and clearing and settlement services in Australia, operate in the Banking Group, however, certain activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Commodities Markets and Finance: Provides risk management, lending and financing, and physical execution and logistics services across the energy, metals and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.
- Credit Markets: Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans. Certain activities in Credit Markets form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Equity Derivatives and Trading: 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. Generally, the Derivatives and Trading division's activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Fixed Income & Currencies: Provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally.

- Futures: Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of all major markets globally.

- 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 cross-product sales and structured global markets.

Commodities and Global Markets contributed A$1,505 million to MGL Group's net profit in the 2019 fiscal year and, as at March 31, 2019, had over 2,300 staff located in 22 markets in Australia[3], the Americas, EMEA[4] and Asia.

Macquarie Capital

Macquarie Capital is in the Non-Bank Group and has global capability in advisory, capital raising services, and investing activities. Macquarie Capital's net operating income is primarily generated by fees earned from clients in relation to advisory services and investment income from investing activities.

Macquarie Capital has global capability in:

- Advisory and capital raising services, providing clients with specialist expertise, innovative advice and flexible capital solutions across a range of sectors and products including investing alongside partners and clients

- Infrastructure, green and conventional energy, focusing on utilizing balance sheet to construct assets, build businesses and create platforms across development, construction and operational phases

Macquarie Capital contributed A$1,353 million to MGL Group's net profit in the 2019 fiscal year and, as at March 31, 2019, had over 1,370 staff operating across 16 markets in Australia and New Zealand, the United States, Europe, the Middle East and Asia.

During the 2019 fiscal year, Macquarie Capital completed the acquisition of a significant solar development portfolio from Conergy Asia & Middle East. The portfolio included solar development assets in the Asia Pacific region, commercial, technical and energy storage capabilities, and an asset monitoring center as well as 88 professionals across Singapore, Australia, Japan, Germany and the Philippines. The acquisition provides significant additional scale and capabilities to the green energy business.

An internal reorganization of MGL Group resulted in Macquarie Capital's global real estate principal investment business moving into Macquarie Asset Management to merge with MIRA Real Estate.

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 and costs of central service groups, performance-related profit share and share based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.

Corporate contributed a net loss of A$3,163 million in the 2019 fiscal year and, as at March 31, 2019, had 6,695 staff operating across all countries in which MGL operates.

For further information on Corporate's results of operations and financial condition for the 2019 fiscal year, see section 3.7 of our 2019 Fiscal Year Management Discussion and Analysis Report.

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[3] Including New Zealand
[4] Includes Europe, Middle East and South Africa

Asset management business

MGL Group’s asset management businesses are conducted by both the Non-Banking Group and the Banking Group.

In the Banking Group, Corporate & Asset Finance, through Macquarie Specialised Investment Solutions, offers a range of investment solutions for its fiduciary clients within the infrastructure debt sector. In addition, it provides financing solutions for ship owners, hedge funds, private equity and private credit funds as well as real estate funds along with a market leading capability in arranging and underwriting Export Credit Agency backed facilities. See “— Operating groups — Corporate & Asset Finance” 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 and Mexico and unlisted funds in Australia, South Korea, the Philippines, China, India, Asia-Pacific, the United States, Mexico, Europe and Russia. See “— Operating groups — Macquarie Asset Management” 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 income, 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” for further information.

Assets under Management provides a consistent measure of the scale of MGL Group’s asset 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 2019 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 2019 fiscal year, see section 7.1 of our 2019 Fiscal Year Management Discussion and Analysis Report.

MGL Group’s income from asset management is mainly derived from management fees. Management fee income includes base fees, which are ongoing fees generated from assets under management (or equity under management in the case of Macquarie Infrastructure and Real Assets), and performance fees, which are typically earned when the strategies outperform pre-determined benchmarks.

For Macquarie Infrastructure and Real Assets’ funds, the incentive income is typically 20% of any outperformance. In general, if the return of a Macquarie Infrastructure and Real Assets 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 pre-determined internal rate of return. Unlisted performance fees are generally payable upon the occurrence of a “liquidity event”, such as when capital is returned to investors following the 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 for the 2019 fiscal year, see section 2.2 of our 2019 Fiscal Year Management Discussion and Analysis Report and for further information on MGL Group’s Assets under Management for the 2019 fiscal year, see section 7.1 of our 2019 Fiscal Year Management Discussion and Analysis Report.

Equity under Management

For further information on MGL Group’s Equity under Management for the 2019 fiscal year, see section 7.2 of our 2019 Fiscal Year Management Discussion and Analysis Report.

Legal proceedings and regulatory matters

Germany

MBL was a lender to a group of independent investment funds in 2011. The funds were trading shares around the dividend payment dates where investors were seeking to obtain the benefit of dividend withholding tax credits. The investors' credit claims were refused and there was no loss to the German revenue in relation to this matter.

With respect to the civil case, two of the investors have already sued the Swiss bank that introduced them to the investment. They and other investors have now sold their claims to a German litigation special purpose vehicle controlled by the same lawyer who acted in the litigation against the Swiss bank. In 2018, that vehicle brought a claim against MBL seeking €30 million in damages. MBL strongly disputes this claim noting that it did not arrange, advise or otherwise engage with the investors, who were high net-worth individuals with their own advisers. Many, if not all, had previously participated in similar transactions.

The Cologne Prosecutor's Office ("*CPO*") is investigating the transaction. Although no current staff members have been interviewed to date, as expected as part of their ongoing investigation, the German authorities have formally classified 22 current and former staff members as persons of interest or suspects under German law, including the current MGL Group CEO and the former MGL Group CEO.

MGL Group will continue to cooperate fully with the German authorities. MGL Group notes that it has already resolved its two other matters involving German dividend trading that took place between 2006 and 2009, where the authorities noted Macquarie's "unreserved cooperation". The industry-wide investigation relating to dividend trading continues and MGL Group continues to respond to requests for information about its activities in this market. MGL Group's profits from these activities were not material.

Other legal proceedings

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

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 31 to our 2019 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". 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".

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 2019 fiscal year

Euro-zone and other exposures

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

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, 2019			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Greece				
Derivative assets[2]	-	-	0.4	0.4
Greece totals	**-**	**-**	**0.4**	**0.4**
Ireland				
Loans, receivables & commitments[1]	-	3.9	1.0	4.9
Derivative assets[2]	-	-	1.5	1.5
Equity	-	-	215.6	215.6
Ireland totals	**-**	**3.9**	**218.1**	**222.0**
Italy				
Loans, receivables & commitments[1]	-	2.1	25.2	27.3
Derivative assets[2]	-	0.2	27.1	27.3
Italy totals	**-**	**2.3**	**52.3**	**54.6**

Portugal				
Loans, receivables & commitments[1]	-	-	7.8	7.8
Derivative assets[2]	-	-	0.2	0.2
Portugal totals	**-**	**-**	**8.0**	**8.0**
Spain				
Loans, receivables & commitments[1]	-	-	26.0	26.0
Derivative assets[2]	-	-	30.1	30.1
Equity	-	-	7.9	7.9
Spain totals	**-**	**-**	**64.0**	**64.0**
Russian Federation				
Loans, receivables & commitments[1]	-	0.3	-	0.3
Equity	-	-	3.3	3.3
Russian Federation totals	**-**	**0.3**	**3.3**	**3.6**
Total exposure	**-**	**6.5**	**346.1**	**352.6**

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.

Lease commitments, contingent liabilities and assets

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 32 "Lease commitments" to our 2019 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, 2019, MGL Group had A$16,048 million of contingent liabilities and commitments, including A$2,058 million of contingent liabilities and A$13,990 million of commitments with respect to undrawn credit facilities and securities underwriting. See Note 31 "Contingent liabilities and commitments" to our 2019 annual financial statements which shows MGL Group's contingent liabilities and commitments at March 31, 2019.

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 MBL Group's value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 35 "Financial risk management" to our 2019 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 MGL and MBL and, in certain circumstances, to appoint a Banking Act statutory manager to take control of MBL's business. In addition, APRA may, in certain circumstances, require MBL to transfer all or part of its business to another entity under the Australian Financial Sector (Transfer and Restructure) Act 1999 (the "*Australian FSTR Act*"). A transfer under the Australian FSTR Act overrides anything in any contract or agreement to which MBL is a party to, including the terms of its debt securities. APRA's powers under the Australian Banking Act and Australian FSTR Act are discretionary and may be more likely to be exercised by it in circumstances where MGL or MBL is in material breach of applicable banking laws and/or regulations or is in financial distress, including where MGL or MBL has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions imposed, under that Act), or where MBL has informed APRA that it is unlikely to meet its obligations or is otherwise in financial distress or that it is about to suspend its payments. In these circumstances, APRA is required to have regard to protecting the interests of MBL's depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of MGL and MBL. For more information regarding recent legislative enhancement of APRA's powers in relation to ADIs, see the "— Crisis Management" section below.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities. APRA also focuses on the supervision of non-financial risks including outsourcing, business continuity management, information security, governance, accountability, remuneration, culture and conduct. For instance, following APRA's publication of the Prudential Inquiry into the Commonwealth Bank of Australia, APRA requested a number of regulated financial institutions, including MGL Group, to perform a similar assessment of governance, culture and accountability. MGL Group provided its completed assessment to APRA in December 2018. Actions arising from the assessment are underway. APRA is expected to provide feedback on Macquarie's assessment at the end of May 2019.

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 each ADI with selective "on site" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

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

APRA's prudential supervision – Capital adequacy

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

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("*APS 330*") are posted on MGL's U.S. Investors' Website. Measurement of capital adequacy and MBL's economic capital model is more fully described in Section 2 of the MBL Pillar 3 Disclosures Document dated December 31, 2018, which is posted on MGL's U.S. Investors' Website.

On December 7, 2017, the Basel Committee published its final revisions to the Basel III framework ("*Basel III: Finalising post-crisis reforms*"). The Basel Committee was seeking to achieve a better balance between simplicity and risk sensitivity, and to promote greater comparability in the risk-based capital approaches by reducing variability in risk-weighted assets across banks and jurisdictions by:

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment ("*CVA*") risk and operational risk;
- constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based ("*IRB*") approach for credit risk and by removing the use of the internal model approaches for CVA risk and for operational risk;
- introducing a leverage ratio buffer to further limit the leverage of global systemically important banks; and
- replacing the existing Basel II output floor with a more robust risk-sensitive floor based on the Basel Committee's revised Basel III standardized approaches.

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

- a simplified standardized approach for use by banks that have small or non-complex trading portfolios;
- clarifications on the scope of exposures that are subject to market risk capital requirements;
- refined standardized approach treatments of foreign exchange risk and index instruments;
- revised standardized approach risk weights applicable to general interest rate risk, foreign exchange and certain exposures subject to credit spread risk;
- revisions to the assessment process to determine whether a bank's internal risk management models appropriately reflect the risks of individual trading desks; and
- revisions to the requirements for identification of risk factors that are eligible for internal modeling.

The revised market risk framework will come into effect on January 1, 2022, concurrent with the implementation of the Basel III reforms published on December 7, 2017.

APRA's prudential supervision – Capital adequacy – "unquestionably strong"

Following the Basel Committee's Basel III announcement on December 7, 2017, on February 14, 2018, APRA published two discussion papers on proposed changes to the ADI capital framework and leverage requirements for Australian ADIs. APRA's capital framework discussion paper considered the Basel III reforms and provided insights on how it intends to implement "Unquestionably Strong" benchmarks. Key revisions proposed included:

- lower risk weights for low LVR mortgage loans, and higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;

- amendments to the treatment of exposures to small- to medium-sized enterprises ("*SME*"), including those secured by residential property under the standardized and IRB approaches;

- changes to the loss given default (*"LGD"*) estimates applied by ADIs under the foundation IRB approach, including higher LGD estimates for senior unsecured exposures;

- constraints on IRB ADIs' use of their own parameter estimates for particular exposures, an overall floor on risk weighted assets relative to the standardized approach; and

- a single replacement methodology for the current advanced and standardized approaches to operational risk.

The two discussion papers reinforced APRA's previous guidance. It is uncertain how the ultimate revisions to the capital framework will affect ADIs, and there is a broad range of potential outcomes for each individual bank. Based on existing guidance, Macquarie's surplus capital position remains sufficient to accommodate likely additional requirements.

The APRA discussion papers also outlined potential revisions to the leverage ratio requirements for ADIs, including APRA's intention to apply a minimum leverage ratio for ADIs, expressed as the ratio of Tier 1 Capital to total exposures. On November 27, 2018, APRA released its Response to Submissions Paper in relation to the introduction of the leverage ratio requirement for ADIs, and draft revised APS 110. In summary, in response to the submissions APRA proposes to:

- set the minimum leverage ratio requirement for IRB ADIs at 3.5%;

- set the minimum leverage ratio requirement for standardized ADIs at 3%;

- allow standardized ADIs to use AASB, rather than the more complex Basel III methodology, to calculate certain parts of the ratio; and

- require IRB ADIs to largely follow the Basel III methodology to calculate their leverage ratios.

APRA intends for the revised APS 110 to commence at the same time as the broader revisions to the risk-based capital framework, with a proposed implementation date of January 1, 2022. This also aligns with the Basel Committee's implementation date for these standards. IRB ADIs will be required to continue publically disclosing their leverage ratios as calculated under the current exposure measure until the revised framework commences.

APRA released a third discussion paper on August 14, 2018, which sets out the potential options to improve transparency, international comparability and flexibility of the capital framework but are not intended to change the amount of capital that ADIs are required to hold beyond the "Unquestionably Strong" capital benchmarks announced in July 2017.

In its Response to Submissions released on November 27, 2018, APRA proposed the revisions to the Basel III capital framework, initially outlined in February 2018, will come into effect from January 1, 2022, the internationally agreed implementation date set by the Basel Committee. APRA had originally proposed an earlier implementation date of January 1, 2021.

APRA's prudential supervision – Liquidity

APRA's liquidity standard (APS 210) details the local implementation of the Basel III liquidity framework (issued by the Basel Committee) for Australian banks. In addition to a range of qualitative requirements, APS 210 incorporates the Liquidity Coverage Ratio ("*LCR*") and as of January 1, 2018, the Net Stable Funding Ratio ("*NSFR*"). The LCR requires sufficient levels of unencumbered high-quality liquid assets to be held to meet expected net cash outflows under a combined "idiosyncratic" and market-wide stress scenario lasting 30 calendar days. The NSFR is a 12-month structural funding metric, requiring that "available stable funding" be sufficient to cover "required stable funding", where "stable" funding has an actual or assumed maturity of greater than 12 months. MBL currently complies with the requirements of the LCR and NSFR.

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. 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 *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 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 proposed 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 did 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 August 3, 2017, APRA released a discussion paper setting out both its response to submissions on its 2016 Credit Risk for ADIs consultation package and a number of revised proposals for further consultation, including a revised draft of Prudential Standard *APS 112 Capital Adequacy: Standardized Approach to Credit Risk*. In its discussion paper, APRA proposed that an ADI with approval to use an IRB approach to credit risk (including MBL) must use the standardized approach for measuring counterparty credit risk exposures to measure its counterparty credit risk exposures, while all other ADIs may continue to use the current exposure method, the Basel Committee's method for measuring the counterparty credit risk associated with OTC derivatives, exchange-traded derivatives, and long settlement transactions, subject to appropriate recalibration.

In April 2018, APRA released final prudential standards for SA-CCR with implementation beginning on July 1, 2019. APRA noted in a letter to all ADIs that the final prudential standards incorporate the simplified approach to measuring counterparty credit risk exposures for ADIs with immaterial counterparty credit risk outlined in the 2017 discussion paper, and also include changes to reflect certain operational and interpretation issues in relation to the SA-CCR clarified by the Basel Committee in responses to a number of frequently asked questions.

APRA's prudential supervision – credit risk management

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

The discussion paper outlines APRA's proposals in the following areas:

- *Credit risk management* – The revised APS 220 broadens its coverage to include credit standards and the ongoing monitoring and management of an ADI's credit portfolio in more detail. It also incorporates enhanced Board oversight of credit risk and the need for ADIs to maintain prudent credit risk practices over the entire credit life-cycle.

- *Credit standards* – The revised APS 220 incorporate outcomes from APRA's recent supervisory focus on credit standards and also addresses recommendation 1.12 from the final report of the Royal Commission in relation to the valuation of land taken as collateral by ADIs.

- *Asset classification and provisioning* – The revised APS 220 provides a more consistent classification of credit exposures, by aligning recent accounting standard changes on loan provisioning requirements, as well as other guidance on credit related matters of the Basel Committee on Banking Supervision.

To better describe the purpose of the revised standard, APRA also proposes to rename it Prudential Standard *APS 220 Credit Risk Management.* The proposed reforms are due to be implemented from July 1, 2020, and APRA intends to release for consultation an accompanying prudential practice guide (PPG) and revised reporting standards later in 2019.

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 are considered instruments that no longer qualify and were phased out from January 1, 2013.

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

APRA's prudential supervision – Management of large exposures

On December 7, 2017, APRA released a response paper setting out the revisions to its prudential framework on large exposures for ADIs as set out in Prudential Standard *APS 221: Large Exposures* ("*APS 221*"). APRA's large exposure framework aims to limit the impact of losses when a large counterparty defaults, and to restrict contagion risk spreading across the financial system. The core components of APRA's new large exposures framework are: (i) a reference to Tier 1 Capital as a basis for determining large exposures (ii) a recalibration of existing large exposure limits and the introduction of a lower limit on certain exposures; and (iii) a stronger set of requirements for measuring exposure values and for assessing groups of connected counterparties. As of January 1, 2019, APRA required ADIs to implement most aspects of APS 221. A transition period is provided for provisions relating to groups of connected counterparties and structured vehicles, which will allow ADIs to adopt full implementation of the large exposures framework by no later than January 1, 2020.

APRA's prudential supervision – Associations with Related Entities

On July 2, 2018, APRA released a discussion paper, "Revisions to the related entities framework for ADIs", in which it outlined proposed revisions to APS 222 – Associations with Related Entities. Among other things, APRA intends to attempt to further mitigate the flow of contagion risk to an ADI, particularly from related entities, and incorporate changes to the revised large exposures framework published in December 2017. The proposed revisions to the regulatory framework for related entities of ADIs include (i) broadening the definition of related entities to include, among other things, substantial shareholders, individual board directors and other related individuals; (ii) explicitly addressing "step-in risk" by incorporating guidance from the Basel Committee; (iii) tightening certain limits on exposure to related entities in line with limits on exposures to unrelated entities in the revised APS 221; (iv) removing the ability for certain overseas subsidiaries to be consolidated with the standalone ADI for prudential purposes; and (v) updating existing reporting requirements to align with the changes to the framework. These changes are intended to strengthen the ability of ADIs to monitor, limit and control risks arising from transactions and other associations with their related entities. The consultation period was open until September 28, 2018, and APRA intends for the finalized framework to apply from January 1, 2020, and, in certain circumstances, be subject to a transitional period.

APRA – Proposal for increasing the loss-absorbing capacity of ADIs for resolution purposes

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

The key elements of the proposed approach are:

- a new requirement for ADIs to maintain additional loss absorbency for resolution purposes. The requirement would be implemented by adjusting the amount of total capital that ADIs must maintain (estimated to be an additional 4 to 5% of capital), therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments (expected to be in the form of Tier 2 Capital); and

- for ADIs that are not domestic systemically important banks ("*D-SIBs*") (such as MBL), the need for additional loss absorbency would be considered as part of resolution planning on an institution-by-institution basis. In addition to the proposals outlined in the discussion paper, APRA intends to consult with such ADIs during 2019 on creating a framework for recovery and resolution in 2019, which will include further details on resolution planning. APRA expects ADIs that can be resolved without the need for additional financial resources will not be required to meet a higher total capital requirement. However, APRA anticipates that a small number of non-D-SIB ADIs may require additional loss absorbency to facilitate resolution, due to their complexity or the nature of their functions.

APRA expects to notify ADIs of changes to total capital requirements from 2019 onwards. ADIs would have four years in the first instance to meet the adjusted requirements. MBL expects to be subject to additional loss-absorbing capacity requirements with the final quantum to be determined by APRA as part of the resolution planning process. Submissions on the proposals were due to APRA by February 2019. The effect of the proposed changes on MBL and the MGL Group is not yet known.

Crisis management

The *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* ("*Crisis Management Act*"), passed by the Australian Parliament in 2018, amended the Australian Banking Act (among other statutes applicable to financial institutions in Australia) with effect from March 5, 2018. The Crisis Management Act enhances APRA's powers in relation to the entities it regulates (and their subsidiaries). Additional powers which could impact the MGL Group and potentially the position of holders of the Notes, include greater oversight, management and direction powers in relation to MGL Group entities which were not previously regulated by APRA, increased statutory management powers over regulated entities within the MGL Group and changes which are designed to increase certainty in relation to the conversion or write-off of regulatory capital instruments issued by MBL. The Crisis Management Act further provides APRA with powers to set requirements on resolution planning and ensure that banks and insurers are better prepared for a crisis and grants APRA an expanded set of crisis resolution powers, which allow APRA to act decisively to facilitate the orderly resolution of a distressed bank or insurer.

APRA's prudential supervision – Information Security

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

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 and sets the target cash rate.

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 is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system, the provision of financial services and the payment system.

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 ("*NCCP Act*").

ASIC is also 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, MCN 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's 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 money laundering, terrorism financing, organized and financial crime, tax evasion and to 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 financial products, 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, on-boarding and ongoing customer risk assessments, 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

Royal Commission into misconduct in the banking, superannuation and financial services industry

The Royal Commission was announced in December 2017 and concluded on February 1, 2019. The Royal Commission inquired into the causes of, and responses to, misconduct by financial services entities and conduct falling below community standards and expectations, and held rounds of public hearings on a wide range of matters, including consumer and SME lending, financial advice, superannuation, insurance, culture, governance, remuneration, and the remits of regulators.

The Commission's Final Report published on February 4, 2019 (the "*Final Report*") contains 76 recommendations, including:

- establishment of a new system for professional discipline for financial advisers and financial services licensees featuring registration, a disciplinary body and conduct reporting requirements;
- introduction of statutory best interest duty on mortgage brokers and a phased prohibition on commissions being paid by lenders to mortgage brokers;
- the removal of grandfathered arrangements which allow for commissions to continue to be paid to financial advisors who sold financial products prior to the Future of Financial Advice reforms and further review of conflicted remuneration exceptions;
- the removal of point of sale exemption in the National Consumer Credit Protection Regulations 2010 which currently allows suppliers of goods or services to establish arrangements with an ACL holder and act as loan intermediaries and offer credit products of the ACL holder to purchase those goods or services, without themselves holding an ACL or being appointed as a credit representative of the ACL holder;
- joint administration of the Bank Executive Accountability Regime ("*BEAR*") by APRA and ASIC, extension of BEAR to all APRA regulated entities, and assignment of accountability for end-to-end management of product design, delivery, maintenance and, where necessary, remediation;
- regular ongoing culture reviews by financial services entities into their culture and governance policies and practices, including management of non-financial risks and conduct risks;
- a new statutory scheme for sharing information between APRA and ASIC; and
- a number of measures to enhance APRA and ASIC's oversight of entities' governance, culture and remuneration frameworks and practices and to improve the effectiveness to deter, investigate and penalize misconduct, including a focus in changing the enforcement culture of regulators, with a presumption of more litigation and pursuit of criminal liabilities.

There is broad bipartisan support on most of the 76 recommendations contained in the Final Report. On February 14, 2019, the Commonwealth Parliament passed a law significantly increasing penalties for corporate and financial sector misconduct and contravention of various corporate legislation. In its response to the Final Report, the Australian federal government has proposed extending BEAR to Australian Financial Services Licence holders and ACL holders, market operators and clearing and settling facilities, as well as to all APRA regulated entities, as recommended. The Royal Commission's recommendations are likely to result in a range of further legislative, regulatory and industry practice changes. Such changes may adversely impact Macquarie Group's business, operations, compliance costs, financial performance and prospects. Macquarie is closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

No findings were made in the Final Report in relation to the MGL Group.

Banking Executive Accountability Regime

In February 2018, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* was passed by the Australian Parliament introducing a new bank executive accountability regime known as "BEAR". The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries, and introduce transparency and personal accountability into the banking sector. Under BEAR, ADIs will have legal obligations to conduct their business with honesty and integrity and to defer the variable remuneration (bonuses) of certain senior executives. With increased powers under BEAR, APRA is able to investigate potential breaches, penalize ADIs and accountable persons, and disqualify persons from the industry for breaching their obligations under the regime. BEAR has applied to large ADIs since July 1, 2018, while smaller and medium sized institutions (including Macquarie) must be compliant with BEAR by July 1, 2019.

Obligations that apply to both ADIs and "accountable persons" under BEAR are to:

- Act with honesty, integrity, due skill, care and diligence;
- Deal with APRA in an open, cooperative and constructive way; and
- Take reasonable steps in conducting business to prevent matters from arising that would adversely affect the ADI's prudential standard or reputation.

On October 17, 2018, APRA released an information paper to assist ADIs to meet their obligations under the BEAR. The BEAR establishes heightened standards of accountability among ADIs and their most senior executives and directors. The information paper outlines APRA's approach to implementing the accountability regime and clarifies APRA's expectation of how an ADI can effectively implement the accountability regime on matters including:

- identifying and registering accountable persons;
- creating and submitting an accountability statement for each accountable person, and an accountability map for the ADI;
- establishing a remuneration policy requiring that a portion of accountable persons' variable remuneration be deferred for a minimum of four years, and reduced commensurate with any failure to meet their obligations; and
- notifying APRA of any accountability-related changes or breaches of accountability obligations.

Enhanced criminal and civil penalties for corporate misconduct

In 2017, the ASIC Enforcement Review Taskforce released its Report on ASIC's enforcement regime (the "Taskforce Report"). On April 20, 2018, in response to this report, the Australian Government announced that it will increase and harmonize penalties for the most serious criminal offences under the Australian Corporations Act.

On February 18, 2019, the *Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019* was passed by the Australian Parliament to strengthen criminal and civil penalties for corporate and financial sector misconduct. Among other things, the legislation introduced a range of new ordinary criminal offenses and significantly increased terms of imprisonment, with maximum prison penalties for the most serious offenses increasing to 15 years. These new offenses include breaches of directors' duties, false or misleading disclosure and dishonest conduct. Civil penalties are also increased for both individuals and corporations. The financial penalty for individuals for civil contraventions is increased from A$200,000 to A$1.05 million, or three times the benefit gained/loss avoided from the contravention, whichever amount is greater. For corporations, the maximum pecuniary penalty for civil contraventions is increased to the greater of A$10.5 million, or three times the benefit gained/detriment avoided, or 10% of annual turnover (capped at A$525 million).

ASIC power to ban senior officials in the financial sector

ASIC's Enforcement Review Taskforce consulted on expanding ASIC's existing powers to enable it to ban senior officials in the financial sector from managing a financial services business. The Taskforce Report recommended that ASIC be able to ban a person from performing a specific function, or any function, in a financial services or credit business upon the triggering of an administrative banning power. Further, the Taskforce Report recommended expanding the grounds on which ASIC may ban people from performing roles in financial services and credit businesses to include, among others, situations where ASIC has reason to believe that the person is not fit and proper, not adequately trained, or not competent to provide a financial service or financial services, or to perform the role of officer or senior manager in a financial services business. The Australian Government has accepted both of these recommendations, however, it is unclear when any such changes will be incorporated into law. It is currently difficult to determine what impact any such amendments to the Australian Corporations Act and other laws will have on MBL and the MGL Group.

ASIC consultation on responsible lending conduct

On February 14, 2019, ASIC released a consultation paper to update its Regulatory Guide 209 *Credit licensing: Responsible lending conduct* ("*RG 209*"). RG 209 contains ASIC's expectations for meeting the responsible lending obligations in Chapter 3 of the NCCP Act. Changes in the regulatory environment, technology and the release of the Commission's Final Report have led to the review of ASIC's guidance on responsible lending for consumer credit. ASIC is aiming to receive feedback on its general approach to guidance in this area, what aspects of the current guidance need updating or clarification and whether additional guidance on specific issues should be provided. A response to the submissions is intended to be released in August or September 2019. The MGL Group and MBL will continue to monitor developments in this area.

Australian Productivity Commission Inquiry into Competition in the Australian Financial System

On August 3, 2018, the Australian Productivity Commission publicly released its inquiry report entitled *"Competition in the Australian Financial System"*. The Australian Productivity Commission's report broadly concluded that the Australian financial system may be exposed to use of entrenched market power, resulting in unnecessary fees and low-value products for Australians. The report set out a number of recommendations which include among others:

- a ban on trail commissions and a restriction on the clawback of commissions from brokers; and
- all banks should appoint a Principal Integrity Officer to report to the board on how payments made by the institution align with the institution's best interests duty.

In addition, on March 19, 2018, the Federal Minister for Revenue and Financial Services announced that the Australian federal government's new Statement of Expectations for ASIC will add "consideration of competition" in the financial system to ASIC's mandate. Greater public and official scrutiny of the financial sector and a more restrictive regulatory environment may require the MGL Group and MBL to modify the way in which they do business and may necessitate further review of their policies and processes.

Residential Mortgage Product Pricing Inquiry

The ACCC has completed an examination of the processes and procedures around pricing decisions and have previously requested under notice a large amount of information from the MGL Group including, quantitative portfolio data covering the last three financial years, qualitative information such as factors and considerations concerning pricing decisions, the MGL Group's view on the impact of the Major Bank Levy on the competitive environment and a significant amount of internal documentation including senior management emails and committee papers.

The final report was published on December 11, 2018 and found, among other things, that: (a) there were no changes in residential mortgage prices offered by major Australian banks, specifically to recover the costs of the Major Bank Levy; (b) the mortgage market was characterized by opaque discretionary pricing practices that cause inefficiency and stifle price competition; (c) compared to the similarities of the big four banks, the other sample banks had diverse approaches to pricing; and (d) some regulatory requirements exacerbated challenges faced by other (non-major) banks as a result of their smaller scale, including their smaller residential mortgage portfolios. The MGL Group and MBL will continue to monitor the impact that the inquiry’s final report and any corresponding legislative or regulatory changes may have on the MGL Group.

Open Banking

On February 9, 2018, the Australian Government released a review into open banking entitled “Open Banking: customers, choice, convenience, confidence”, which provides guidance on the Australian Government’s preferred approach to implementing an open data regime. From July 1, 2019, all major banks will be required to make data available on credit and debit card, deposit and transaction accounts, and must do the same in respect of mortgages by February 1, 2020. All non-major banks (including MBL) will be subject to a 12-month delay on timelines. The Open Banking regime forms the first component of the Australian federal government’s Consumer Data Right (“*CDR*”) policy, which intends to give consumers the right to safely access certain data concerning their personal circumstances held by businesses.

On February 13, 2019, the *Treasury Laws Amendment (Consumer Data Right) Bill 2018* (“*CDR Bill*”) was introduced into Parliament. The CDR framework gives consumers control over their consumer data, enabling them to (among other things) direct the data holder to provide their data, in a CDR compliant format, to accredited data recipients including other banks, telecommunications providers, energy companies or companies providing comparison services. The MGL Group and MBL will continue to monitor developments in relation to the Open Banking regime and the CDR Bill, and the impact that the regime and new legislation may have on the MGL Group and MBL.

ASIC review of selected financial services groups’ compliance with the breach reporting obligation

On September 25, 2018, ASIC released a report which examined the breach reporting processes of 12 financial services groups, including the “big four” Australian banks (ANZ, CBA, NAB and Westpac), AMP and the Macquarie Group. The review considered the institutions’ compliance with reporting requirements under section 912D of the Australian Corporations Act, which requires that all Australian Financial Services licensees report to ASIC a “significant breach” within 10 business days of becoming aware of it. ASIC announced that it has identified serious, unacceptable delays by financial institutions in reporting, addressing and remediating significant breaches of the law.

ASIC has concluded that all ADIs could improve their breach reporting processes, although ASIC acknowledges the issues and inadequacies in the current framework. It is worth noting that ASIC states that the “the findings do not affect all the reviewed banking groups to the same extent; in general, the major financial groups took longer to identify, investigate, report and remediate significant breaches”.

ASIC consultation on proposed changes to the capital requirements for market participants

On July 4, 2018, ASIC released a consultation paper proposing changes to the capital requirements for market participants, which prescribe the minimum amount of capital a participant must hold. Market participants (other than principal traders or clearing participants) of the ASX, ASX 24, Chi-X, NSXA and FEX markets are subject to the financial requirements of the ASIC capital market integrity rules. The consultation paper set out the proposals to improve and simplify the capital requirements, including further consolidation of the two market integrity capital rulebooks into a single capital rulebook (the ASIC Market Integrity Rules (Capital) 2018). ASIC proposed to increase the minimum core capital requirement for securities market participants to $500,000, as well as introducing new rules such as an underwriting risk requirement. ASIC intended to release the feedback report and finalize the ASIC capital market integrity rules in February 2019, with the ASIC capital market integrity rules intended to commence in 2019. ASIC also intended for the regulatory guide to be released in 2019. The MGL Group and MBL will continue to monitor developments in relation to the proposed changes.

Australian Bankers’ Association Code of Banking Practice Update

The Code of Banking Practice (or the Banking Code of Practice, as the revised code is called) (the “*Code*”) is the banking industry's customer charter on best banking practice standards. On July 31, 2018, ASIC approved the Code. Each ABA member that has adopted the Code is required to implement its provisions by July 1, 2019. Until July 1, 2019, the current edition of the Code, published in 2013, continues to apply. The Code brings many improvements to the way in which banks deliver services and products to customers. For the first time, small business customers are also given protections under the new Code. The Code sets out the banking industry’s key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for their banking services.

MBL has advised the Australian Bankers’ Association of its intention to subscribe to the revised Code. MBL has established working groups in its retail businesses to review and update, as applicable, policies, processes, procedures and system changes to align with the revised Code as the banking industry agreed best practice standard, and work is underway to amend relevant policies, processes, documentation and systems.

ASIC enforcement personnel in banks

On August 7, 2018, the Australian Government announced that ASIC shall receive additional funding to support its enforcement capabilities and enable it to undertake new regulatory activities and investigations. Part of this funding is intended to be used to implement a new supervisory approach in respect of Australia's five largest financial institutions, which will involve ASIC embedding its own staff within these institutions to monitor governance and compliance actions. While there are no immediate plans for ASIC employees to be embedded within MBL, it is possible that this, or other similar regulatory measures, may be implemented in future.

Additional funding and resources for ASIC and APRA

In March 2019, the Australian Government announced that ASIC would be provided with more than A$400 million and APRA more than A$150 million in additional funding to support enforcement, regulation and supervision in the Australian financial sector. This is likely to result in an increase in supervision activities conducted by ASIC and APRA across the Australian financial sector.

International

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

United States

Since 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" 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 banking business beyond such representational and administrative functions. These offices are generally 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, Illinois and Texas, and are subject to periodic examination by the applicable state licensing authority and regional Federal Reserve Banks, which are subject to oversight by the Board of Governors of the Federal Reserve System (the "*FRB*").

Derivatives regulations

The over-the-counter ("*OTC*") derivatives market continues to undergo sweeping change as regulators across the globe implement rules and regulations to increase transparency and reduce systemic risk in this market. A number of jurisdictions relevant to MGL, including the United States, have already implemented regulations, but additional regulations continue to be promulgated. These regulations have impacts across the transaction lifecycle and apply to MGL and its subsidiaries. The key areas covered by these regulations include, but are not limited to, business conduct and market manipulation, mandatory clearing and trade execution, transaction reporting, margin requirements and recordkeeping.

The enactment of 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. In particular, the Dodd-Frank Act amended the commodities and securities laws to create a regulatory regime for swaps and other derivatives, subject to the jurisdiction and regulations of the applicable U.S. regulatory agency, such as the FRB, the Commodity Futures Trading Commission ("*CFTC*") and the U.S.

Securities and Exchange Commission ("*SEC*"). MBL and its U.S. subsidiary Macquarie Energy LLC ("*MELLC*") are provisionally registered as swap dealers with the CFTC and MBL anticipates registering as a security-based swap dealer with the SEC once registration is required. Most of the rules to be adopted by the CFTC, which has jurisdiction over swaps, have been adopted and are effective. To date, the SEC has not implemented many of the Dodd-Frank Act reforms relating to security-based swaps.

Pursuant to the CFTC's Comparability Determinations for Australia, MBL's compliance with certain provisions and requirements under the applicable Australian regulatory regimes is sufficient to meet certain CFTC swap dealer requirements to which MBL would otherwise be subject. As a swap dealer that is an entity prudentially regulated by the FRB, MBL became subject to the FRB's variation margin requirements for uncleared swaps and security-based swaps in 2017 and expects to be subject to the FRB's phased compliance for initial margin requirements in September 2019 or September 2020. As a swap dealer regulated by the FRB, MBL is subject to the FRB's capital requirements. MELLC is subject to only CFTC regulations in this regard and not the Australian regulations or the FRB margin and capital requirements.

MBL and MELLC's businesses have been or will be affected by a variety of regulations under the Dodd-Frank Act including, but not limited to, stricter capital and margin requirements, mandatory execution pursuant to the rules of trading platforms and clearing through derivatives clearing organizations of certain designated types of standardized derivatives, reporting obligations, business conduct requirements, registration and heightened supervision of MBL and MELLC as swap dealers, and more stringent and extensive position limits and aggregation requirements on derivatives on certain physical commodities.

The SEC has jurisdiction over transactions in security-based swaps, which generally include swaps on a single security or a narrow-based index of securities or on a single loan and credit default swaps on a single issuer or issuers of securities in a narrow-based security index. The SEC has 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 finalized a timetable for compliance. 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. futures commission merchant, securities broker-dealers and mutual funds managed or sponsored by MGL Group's subsidiaries are subject to AML 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 certain types of financial institutions, including U.S. representative offices of foreign banks and U.S. futures commission merchants, securities broker-dealers and mutual funds to establish and maintain written AML compliance programs 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; (iv) training for appropriate personnel; and (v) the establishment of a risk-based customer due diligence procedure, including procedures designed to identify and verify the identities of the beneficial owners of legal entity customers (the "*Beneficial Ownership Rule*"). Since May 11, 2018, in order to comply with the Beneficial Ownership Rule, financial institutions have been required to establish and maintain written procedures reasonably designed to identify and verify the identity of any individual who owns 25 percent or more of any legal entity customer, and an individual who controls each legal entity customer.

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

The MBL representative offices and MGL Group's other operations that are within or that involve the United States must also comply with the economic sanctions programs administered by the U.S. Treasury Department's Office of Foreign Assets Control ("*OFAC*"), which enforces economic sanctions against targeted foreign countries, individuals and entities.

The MBL representative offices and MGL Group's U.S. futures commission merchant, securities broker-dealers and other subsidiaries in the United States have adopted 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. This rule has been in proposal status for several years and it has not been adopted as of the date of this Report.

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 advisers or investment companies registered under the U.S. Investment Advisers Act of 1940, as amended, or the U.S. Investment Company Act of 1940, as amended. We will be subject to 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 National Futures Association 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 also regulates the wholesale natural gas and electricity markets in which we operate. As we continue to expand our U.S. energy trading business, our compliance with energy trading regulations will become increasingly important.

Other 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.

Canada

Derivative Regulations

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

United Kingdom

U.K. Regulators

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

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

MGL Group U.K. Regulated Entities

MBL operates a branch, MBL LB, 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. MBIL, a U.K. 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 in their handbooks of rules and guidance (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 five subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*"), Macquarie Investment Management Europe Limited ("*MIMEL*"), Macquarie Corporate and Asset Finance 1 Limited ("*MCAF*") and Green Investment Group Management Limited ("*GIGML*") authorized and regulated by the FCA. MIRAEL and GIGML are 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 and across Europe. 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. MCAF is authorized and regulated by the FCA as a consumer credit firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation (575/2013) ("*CRR*") and Capital Requirements Directive (2013/36) ("*CRD IV*"), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014; and Directive 2014/65/EU ("*MiFID II*") and the Markets in Financial Instruments Regulation (600/2014/EU) ("*MiFIR*"), which relate to the carrying on of investment business and took effect on January 3, 2018). Under the 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 2019 Fiscal Year Management Discussion and Analysis Report.

Brexit

On March 29, 2017, the United Kingdom invoked Article 50 of the Lisbon Treaty and officially notified the European Union of its decision to withdraw from the European Union (known as "*Brexit*"). This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the United Kingdom and the European Union (the "*Article 50 Withdrawal Agreement*"). As part of those negotiations, the United Kingdom and the European Union have reached an agreement in principle on a transitional period which would extend the application of EU law and provide for continuing access to the European Union single market until the end of 2020 and possibly longer. However, this agreement will not be binding until the Article 50 Withdrawal Agreement is formally agreed and ratified.

The Article 50 Withdrawal Agreement has not yet been ratified by the United Kingdom or the European Union. The parties have agreed to an extended timeline which allows for ratification to take place any time prior to October 31, 2019 (unless the elections to the European Parliament do not take place in the United Kingdom, in which case the extension should cease on May 31, 2019). To the extent ratification does take place ahead of October 31, 2019, the United Kingdom would leave on the first day of the month following ratification. However, it remains uncertain whether the Article 50 Withdrawal Agreement, or any alternative agreement, will be finalized and ratified by the United Kingdom and the European Union ahead of the deadline. If that deadline of October 31, 2019 is not met, unless the negotiation period is further extended or the Article 50 notification revoked, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the United Kingdom and the United Kingdom will lose access to the EU single market.

While continuing to discuss the Article 50 Withdrawal Agreement and political declaration, the U.K. Government has commenced preparations for a "hard" Brexit (or a "no-deal" Brexit) to minimize the risks for firms and businesses associated with an exit with no transitional period. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book after any exit from the European Union without a transitional period. The pan-European Union authorities, such as the European Commission, have not proposed temporary legislative regimes similar to those being put in place by the U.K. authorities to enable continued access, for a time limited period, for U.K. firms in the event of a "hard" Brexit and the loss of passporting rights. Some (but not all) national legislators and regulators have passed or proposed legislation which would enable a degree of continuity of access to clients in their jurisdiction. There is, however, little uniformity as to the scope and approach of such legislation, and the final position in many jurisdictions remains unclear. U.K. firms and businesses are being warned to prepare on the basis that access rights into the European Union will be curtailed as of the expiration of the extended timeline described above.

Due to the ongoing political uncertainty as regards the terms of the United Kingdom's withdrawal from the European Union and the structure of the future relationship, the precise impact on the MGL's business is difficult to determine. The MGL Group will continue to monitor developments in relation to Brexit and the impact the United Kingdom's withdrawal from the European Union may have on the MGL Group.

U.K. Senior Managers and Certification Regime

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

The FCA published a consultation in July 2017 on extending the Existing SMCR to all FCA regulated firms ("*Extended SMCR*") followed by a related consultation on individual accountability in December 2017. Near final rules were published in July 2018 to bring the Extended SMCR into effect on 9 December 2019. The FCA released a consultation paper proposing several amendments to the near-final rules in January 2019. Further rules may be introduced as a result of these proposals in the third quarter of 2019.

Under Extended SMCR criteria there will be three categories of firms:

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

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

- a significant IFPRU firm as defined in the FCA's Prudential Sourcebook for Investment Firms;
- a CASS large firm as defined in the Client Assets chapter of the FCA Handbook;
- a firm which has Assets under Management ("*AUM*") of £50 billion or more (calculated as a three-year rolling average);

- a firm which has revenue from intermediary regulated business activity of £35 million or more per year (calculated as a three-year rolling average);
- a firm which has revenue from regulated consumer credit lending of £100 million or more per year (calculated as a three-year rolling average); or
- mortgage lenders and administrators (that are not banks) with 10,000 or more regulated mortgages outstanding at the latest reporting date.

The Extended SMCR will apply to all MGL Group entities that are regulated solely by the FCA (MCEL, MCAF1, MIRAEL, MIMEL and GIGML). The FCA will issue communications in the latter part of 2019 to confirm which category they believe each entity falls into. On initial assessment against Extended SMCR criteria it is likely that MCEL and MIRAEL will be considered Enhanced firms, with MCAF, MIMEL and GIGML considered as Core firms.

The proposed regime for Enhanced firms replicates the Existing SMCR in requiring the CFO, CRO, COO, Head of Internal Audit, and business heads (among other functions) for both MCEL and MIRAEL to be registered as Senior Managers. A Management Responsibilities Map ("*MRM*") showing the whole governance structure of each Enhanced firm will also need to be produced. The Core category of Extended SMCR is less onerous as individual heads of businesses are not expected to be named as Senior Managers and no MRM is required. Substantial changes to the existing governance arrangements of MBIL and MBL LB are not expected as a result of the Extended SMCR.

European Union

CRD V and CRR II

In November 2016, the European Commission (the "*EC*") published a package of proposed amendments to CRD IV / CRR ("*CRD V*" and "*CRR II*", respectively). The proposals seek to implement some of the remaining aspects of Basel III and reforms which reflect EC findings on the impact of CRD IV on bank financing of the EU economy. Certain of the proposed changes such as new market risk rules, standardized approach to counterparty risk, details on the leverage ratio and net stable funding requirements and the tightening of the large exposures limit will particularly impact capital requirements. The proposals also seek to require financial holding companies in the European Union to become authorized and subject to direct supervision under the CRD IV. This will place formal direct responsibility on holding companies for compliance with consolidated prudential requirements for financial groups. The proposals also require third-country groups above a certain threshold with two or more credit institutions or investment firms in the European Union to establish an intermediate EU holding company. The minimum requirement for own funds and eligible liabilities provisions in the CRR are also amended to bring the requirement in line with the Financial Stability Board's final total loss absorbing capacity term sheet standards for globally significant institutions.

Following the EC's legislative proposals published in November 2016, the Council of the European Union has agreed its negotiating position, set out in compromise proposals published in May 2018. In December 2018, the European Parliament announced that it and the Council of the EU had reached provisional political agreement, and in February 2019, the Council of the EU published a press release announcing that its Permanent Representatives Committee had endorsed the texts of CRD V and CRR II. Adoption of the proposals and publication in the Official Journal is currently anticipated during June 2019, after which a transition period of 18 months and two years for CRD V and CRR II, respectively, applies.

The final capital framework to be established in the European Union under CRD V / CRR II differs from Basel III in certain areas. In December 2017, the Basel Committee finalized further changes to the Basel III framework which include amendments to the standardized approaches to credit risk and operational risk and the introduction of a capital floor. In January 2019, the Basel Committee published revised final standards on minimum capital requirements for market risk. These proposals will need to be transposed into EU law before coming into force. The Basel Committee has recommended implementation commencing in 2022, however timing of implementation in the European Union is uncertain.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates, including the implementation of CRDV / CRRII, and Basel III final rules, and certain potential consequences of Brexit may require members of the MGL Group to raise additional capital. If the MGL Group is unable to raise the requisite capital, it may be required to reduce the amount of its risk-weighted assets, which may not occur on a timely basis or achieve prices which would otherwise be attractive to it.

BRRD and BRRD 2

As a result of the EU Bank Recovery and Resolution Directive 2014/59/EU (the "*BRRD*") providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms and any relevant national implementing measures, it is possible that certain EU entities or branches of the MBL Group (such as MBIL and MBL LB) and/or certain other EU group companies could be subject to certain resolution actions under relevant national implementations of the BRRD. Certain amendments to the BRRD may be made as a result of proposals published by the European Commission on November 23, 2016 relating to EU implementation of the Financial Stability Board's total loss-absorbing capacity standard and other reforms (known as "*BRRD 2*"), including extending the "write down and conversion power" to cover non-own funds MREL-eligible liabilities of entities in a banking group other than the resolution entity. The Council of the EU and the European Parliament have reached political agreement on the European Commission's proposals. Amendments to the proposals were published in January 2019 and endorsed by the Council of the EU in February 2019. The European Parliament and Council of the EU are expected to adopt the proposals at first reading during the course of 2019.

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 Regulation Pte Ltd; and
- the Financial Sector Conduct Authority of South Africa.

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

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

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

In addition to the information included in this Report, investors should refer to our 2019 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2019 fiscal year compared to the 2018 fiscal year, along with other balance sheet, capital and liquidity disclosures as at and for the fiscal year ended March 31, 2019, and our 2018 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2018 fiscal year compared to the 2017 fiscal year, each of which is posted on MGL's U.S. Investors' Website.

Recent developments post-March 31, 2019

Management changes

Effective May 31, 2019, Tim Bishop will step down as Group Head of Macquarie Capital and from the Executive Committee. He will become Chairman of Macquarie Capital to assist with transition. Mr. Bishop has been with Macquarie for 20 years, on the Executive Committee for nine years and Head of Macquarie Capital for seven years.

Effective June 1, 2019, Daniel Wong, currently Global Co-Head of the Infrastructure and Energy Group based in London, and Michael Silverton, currently Head of the Americas, Europe and Asia Group based in New York, will become Group Co-Heads of Macquarie Capital and join the Executive Committee. Both have been with Macquarie for 20 years, the majority of which has been spent building the Macquarie Capital business in international markets.

Operating group updates - Corporate and Asset Finance

In April 2019, Macquarie entered into a sales agreement with a third-party investor for 25% of Macquarie Air Finance ("*MAF*") which is part of Principal Finance. MAF will be deconsolidated and become a Macquarie managed entity for which Macquarie will earn fees for management support and origination services.

Fiscal year ended March 31, 2019 compared to fiscal year ended March 31, 2018

See sections 1.0 – 7.0 of our 2019 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2019 and 2018 fiscal years, which has been incorporated by reference herein.

Fiscal year ended March 31, 2018 compared to fiscal year ended March 31, 2017

See sections 1.0 – 7.0 of our 2018 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2018 and 2017 fiscal years, which has been incorporated by reference herein.

MACQUARIE