



MACQUARIE
BANK

Macquarie Bank Limited
(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the fiscal year ended March 31, 2020

Dated: May 22, 2020

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2020 (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;
- “*ADP*” means an institution that is an authorized deposit-taking institution under the Australian Banking Act and regulated as such by APRA;
- “*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;
- “*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 “*we*”, “*our*”, “*us*” and “*MBL Group*” each 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;
- “*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 2020 annual financial statements, our 2019 annual financial statements and our 2018 annual financial statements;
- “*IASB*” means the International Accounting Standards Board;
- “*IFRS*” means International Financial Reporting Standards;
- “*Macquarie Capital*” means the Macquarie Capital Advisers division and certain activities of Commodities and Global Markets that form part of the Non-Banking Group;
- “*MBIL*” means Macquarie Bank International Limited;
- “*MBL LB*” means the London branch of MBL;
- “*MBL’s U.S. Investors’ Website*” means MBL’s U.S. investors’ website at <http://www.macquarie.com/au/en/disclosures/us-investors/macquarie-bank-limited.html>;
- “*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*” means MGL and its controlled entities, including MBL Group;
- “*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 Bank Limited — Organizational structure”;
- “*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 MBL’s U.S. Investors’ Website;
- “*2019 annual financial statements*” means our audited consolidated financial statements contained in our 2018 Annual Report;
- “*2019 Annual Report*” means our 2019 annual report, extracts of which are incorporated by reference herein and which have been posted on MBL’s U.S. Investors’ Website;
- “*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, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website;
- “*2020 annual financial statements*” means our audited consolidated financial statements contained in our 2020 Annual Report;
- “*2020 Annual Report*” means our 2020 annual report, extracts of which are incorporated by reference herein and which have been posted on MBL’s U.S. Investors’ Website; and
- “*2020 Fiscal Year Management Discussion and Analysis Report*” means our Management Discussion and Analysis Report dated May 8, 2020, which includes a comparative discussion and analysis of our results of operations and financial condition for the fiscal year ended March 31, 2020 compared to the fiscal year ended March 31, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2020, and which is incorporated by reference herein and has been posted on MBL’s U.S. Investors’ Website.

Our fiscal year ends on March 31, so references to years such as “2020” or “*fiscal year*” and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- macroeconomic conditions in global credit and other market conditions;
- market uncertainty, volatility and investor confidence;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- defaults by other large financial institutions or counterparties;
- changes in and increased volatility in currency exchange rates;
- losses due to falling prices in equity or other markets;
- changes to the credit ratings assigned to each of MBL and Macquarie Group Limited (“*MGL*”), our indirect parent company;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of the MBL Group;
- the impact of the ongoing severe acute respiratory syndrome coronavirus 2 (“*COVID-19*”) pandemic on the global economy, the markets in which we operate and our businesses;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- increased governmental and regulatory scrutiny and negative publicity;
- litigation and regulatory actions against us;
- changes in the credit quality of MBL’s clients and counterparties;
- credit constraints of potential purchasers of our assets or on our clients;
- our ability to attract and retain employees;
- inadequate or failed internal or external operational systems and risk management processes;
- the effectiveness of our risk management processes and strategies;

- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- adverse impact on our brand and reputation;
- the performance and financial condition of MGL;
- the impact of cyber attacks, technology failures and other information or security breaches;
- environmental and social factors and climate change;
- the impact of catastrophic events on MBL and its operations;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians;
- lack of control over entities in the MGL Group that are not part of the MBL Group;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- conflicts of interest;
- the impact of potential tax liabilities;
- changes in accounting standards, policies, interpretations, estimates, assumptions and judgments; and
- various other factors beyond our control.

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

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

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

Significant risk factors applicable to MBL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2020 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 (“*DFAT*”) maintains a list of all persons and entities having a prescribed connection with terrorism and a list of all persons and entities that are subject to autonomous sanctions (which include economic sanctions) which are available to the public at the Department’s website at <http://www.dfat.gov.au/international-relations/security/sanctions/consultation-australian-autonomous-sanctions>.

In addition and as of January 2020, DFAT has established the Australian Sanctions Office, which will oversee the administration of enquiries concerning Australian sanctions regimes and sanctions permits. Further information is available at <http://www.dfat.gov.au/international-relations/security/sanctions/Pages/sanctions>.

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the financial information presented elsewhere in this Report, our 2020 Fiscal Year Management Discussion and Analysis Report, our 2019 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 MBL'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 2020 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, 2020 compared to the fiscal year ended March 31, 2019, along with other balance sheet, capital and liquidity disclosures as at or for the fiscal year ended March 31, 2020 and which has been posted on MBL's U.S. Investors' Website; and
- 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 MBL's U.S. Investors' Website;
- our Pillar 3 Disclosure Document dated December 2019, the Pillar 3 Disclosure Document dated September 2019, the Pillar 3 Disclosure Document dated June 2019 and the Pillar 3 Disclosure Document dated March 2019, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MBL's U.S. Investors' Website; and
- our historical financial statements, which are included in the extracts from our 2020 and 2019 Annual Reports posted on MBL'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\$0.6139 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 31, 2020. The noon buying rate on May 15, 2020 was US\$0.6410 per A\$1.00.

Application of new accounting standards

Please refer to Note 1 of the 2020 annual financial statements for a description of new Australian accounting standards and amendments to accounting standards that are effective in the 2020 fiscal year.

Our historical financial statements

Our 2020 annual financial statements include our audited financial statements as at, and for the fiscal years ended, March 31, 2020 and 2019. Our operating segments, as reported in accordance with Australian Accounting Standards, reflect our current operating groups and divisions. See our 2020 Fiscal Year Management Discussion and Analysis Report for further information.

MBL Group is divided into the following operating groups for internal reporting and risk management purposes: Banking and Financial Services and Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business and the Commodity Markets and Finance business; and some other less financially significant activities). Transfers between segments, and to and from segments in the Non-Banking Group, are determined on an arm's-length basis and are eliminated on consolidation.

Investors should note that on December 10, 2018, MBL sold its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of 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.

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

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

The results for the 2020 fiscal year are reported under the new group structure with reclassified results for prior periods.

We report certain items in the Corporate segment, which includes the Head Office and central service groups costs. Items of income and expense within the Corporate segment include the net result of managing Macquarie Bank's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions where hedge accounting is applied as well as accounting volatility for other economically hedged positions where hedge accounting is not applicable. Other items of income and expenses include earnings from investments, central credit and asset related impairments, including certain additional central overlays on expected credit losses, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to certain non-controlling interests and holders of Macquarie Income Securities ("MIS")¹. 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 the ordinary equity holder.

Impact of acquisitions and disposals on the 2020, 2019 and 2018 fiscal years

During the 2020 fiscal year, certain fiduciary businesses of the MGL Group, such as the infrastructure debt business, moved from Corporate and Asset Finance – Asset Finance in the Banking Group to Macquarie Asset Management in the Non-Banking Group, and each of Corporate and Asset Finance's divisions were aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings.

During the 2019 fiscal year, MBL sold its Corporate and Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of its parent, MGL. Effective December 10, 2018, Corporate and Asset Finance's Principal Finance and Transportation Finance business transferred from the Bank Group to the Non-Bank Group. This transfer simplified the MBL Group's overall structure and better reflects the latest activities of the individual businesses.

During the 2018 fiscal year, Commodities and Global Markets completed the acquisition of the Cargill North America Power and Gas trading businesses and Asset Finance completed the sale of its U.S. commercial vehicles financing business.

In accordance with AASB 3 "Business Combinations", provisional amounts for the initial accounting of acquisitions made during each fiscal year were reported in MBL Group's 2020, 2019 and 2018 annual financial statements, respectively.

¹ We repaid the A\$400 million of MIS in their entirety in accordance with their terms of issue on April 15, 2020.

For further information on how these businesses have been integrated into MBL Group, see “Macquarie Bank Limited — Operating groups” below, and for information on their impact on our results of operations and financial condition for the 2020 and 2019 fiscal years, see our segment analysis in section 3.0 of our 2020 Fiscal Year Management Discussion and Analysis Report and in section 3.0 of our 2019 Fiscal Year Management Discussion and Analysis Report.

For further information on acquisitions and disposals of subsidiaries and businesses during the 2020, 2019 and 2018 fiscal years, see Note 40 “Acquisitions and disposals of subsidiaries and businesses” to MBL Group’s 2020 annual financial statements and Note 41 “Acquisitions and disposals of subsidiaries and businesses” to MBL Group’s 2019 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 MBL’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 MBL’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 MBL Group going forward.

The accounting policies adopted by entities within MBL Group are as reported in Note 1 to our 2020 annual financial statements.

Critical accounting policies and significant judgments

Note 1 to our 2020 annual financial statements provides a list of the critical accounting policies and significant judgments.

Other than as provided in Note 1 to our 2020 annual financial statements, critical accounting policies and significant judgments for the 2020 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 2020 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 MBL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MBL’s U.S. Investors’ Website. These measures include:

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 MBL Group and not the statutory statement of financial position classification. MBL 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 MBL Group. A reconciliation between the reported loan assets and the net funded loan assets as at March 31, 2020 is presented in section 4.0 of our 2020 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 the 2020 Annual Report of MGL and in Note 33 to our 2020 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.

Macro-economic risks

Our business and financial condition has been and may be negatively affected by global credit and other market conditions.

The MBL Group’s businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, constrained access to funding and the decline in equity and capital market activity have adversely affected and may again affect transaction flow in a range of industry sectors.

Our trading income may be adversely affected during times of subdued market conditions and client activity, and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues.

Our returns from asset sales may also decrease if economic conditions deteriorate. In addition, if financial markets decline, revenues from our products are likely to decrease. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than we would otherwise achieve during stable market conditions.

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

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. Concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions, financial instruments losing their value and liquidity, and interruptions to capital markets that may further affect us. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. If any of our counterpart financial institutions fail, our financial exposures to that institution may lose some or all of their value. Any of these events would have a serious adverse effect on our liquidity, profitability and value.

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

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

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

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

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

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees, due to changes in interest rates, exchange rates, equity and commodity prices and credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors.

We trade in foreign exchange, interest rate, commodity, bullion, energy, securities and other markets and are an active price maker in the derivatives market. Certain financial instruments that we hold and contracts to which we are a party are complex and these complex structured products often do not have readily available markets to access in times of liquidity stress. We may incur losses as a result of decreased market prices for products we trade, which decreases the valuation of our trading and investment positions, including our interest rate and credit products, currency, commodity and equity positions. In addition, reductions in equity market prices or increases in interest rates may reduce the value of our clients' portfolios, which in turn may reduce the fees we earn for managing assets in certain parts of our business. Increases in interest rates or attractive prices for other investments could cause our clients to transfer their assets out of our funds or other products.

Interest rate benchmarks around the world (for example, London Interbank Offered Rate or LIBOR) have been subject to regulatory scrutiny and are subject to change. Changes to such benchmarks can result in market disruption and volatility impacting the value of securities, financial returns and potentially impact our ability to effectively hedge market risk.

Interest rate risk arises from a variety of sources including mismatches between the repricing periods of assets and liabilities. As a result of these mismatches, movements in interest rates can affect earnings or the value of the MGL Group, including MBL.

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

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

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

We are subject to global economic, market and business risks with respect to the COVID-19 pandemic

The COVID-19 pandemic has caused, and will likely continue to cause, severe impact on global, regional and national economies and disruptions to international trade and business activity. The COVID-19 pandemic has already caused increased unemployment and the levels of equity and other financial markets to decline sharply and to become more volatile, and such effects may continue or worsen in the future. This may in turn reduce the level of activity in sectors in which certain of our businesses operate and thus have a negative impact on such businesses' ability to generate revenues or profits.

Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates, however it is unclear whether these actions or any future actions taken by governments and central banks will be successful in mitigating the economic disruption. If the COVID-19 pandemic is prolonged and/or the mitigating actions of governments and central banks are unsuccessful, the negative impact on global growth and global financial markets could be amplified, and may lead to recessions in national, regional or global economies.

MGL Group has implemented a range of support measures to provide short term financial assistance to customers who are facing difficulties as a consequence of COVID-19. Various individual and business customers of the MBL Group's Personal and Banking businesses who are experiencing financial difficulties due to COVID-19 are able to immediately defer their loan repayments for up to six months. A range of support measures, including short term deferrals and payment plans have been, and may be, implemented by the MGL Group for some of its other businesses.

The impact of COVID-19 may lead to reduced client activity and demand for our products and services, higher credit and valuation losses in our loan and investment portfolios, impairments of financial assets, trading losses and other negative impacts on our financial position, including possible constraints on capital and liquidity, as well as a higher cost of capital, and possible changes or downgrades to our credit ratings. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and our ability to replace maturing liabilities may be limited, which could adversely affect our ability to fund and grow our business. Please refer to our 2020 annual financial statements for further information on the financial statement impact of COVID-19, including, but not limited to, Note 11 which discusses its impact on our expected credit losses.

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

Legal and regulatory risks

Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in law, regulation and regulatory policy.

We operate various kinds of businesses across multiple jurisdictions or sectors, which are regulated by more than one regulator. Additionally, some members of MGL Group own or manage assets and businesses that are regulated. Our businesses include an authorized deposit-taking institution ("ADP") in Australia (regulated by the Australian Prudential Regulation Authority ("APRA")), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore and Hong Kong and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MBL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation.

Regulatory agencies and governments frequently review and revise banking and financial services laws, security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences or impacts across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the types of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in the markets in which we operate and may lead to further significant changes of this kind.

In some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be

difficult for us to determine the requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally.

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

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

We are also subject in our operations worldwide to 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. See “Regulation and Supervision” for more information on the regulatory developments affecting MBL.

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

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to the financial services sector generally, and our business operations, capital, liquidity and risk management, compensation and other matters, has increased dramatically over the past several years. The financial crisis and the subsequent political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Responding to and addressing such matters, regardless of the ultimate outcome, is time-consuming, expensive, can adversely affect investor confidence and can divert the time and effort of our staff (including senior management) from our business.

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

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

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

Counterparty risk

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

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we may hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 33 to our 2020 annual financial statements for details on the concentration of credit risk by significant geographical locations and counterparty types. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

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

Write-downs

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

MBL Group recorded A\$472 million of credit and other impairment charges for the 2020 fiscal year, including A\$451 million for net credit impairment charges, and A\$21 million for other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline.

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

Operational risks

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

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

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

limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees.

Current and future laws (including laws relating to immigration and outsourcing) may restrict our ability to move responsibilities or personnel from one jurisdiction to another. This may impact our ability to take advantage of business and growth opportunities or potential efficiencies.

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

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances. For a further discussion of our risk management policies and procedures, see Note 33 to our 2020 annual financial statements and in the “Risk Management Report” in the 2020 Annual Report of MGL incorporated by reference herein.

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.

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

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

Our business depends on our brand and reputation.

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in MGL Group and many of the funds

managed by entities owned, in whole or in part, by MBL and MGL use the Macquarie name. We do not control those entities that are not in MBL Group, but their actions may reflect directly on our reputation.

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

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

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

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

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

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

It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and perpetrators can be well resourced. Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for MBL Group, including operational disruption, financial losses, reputational damage, theft of intellectual property and customer data, violations of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures and additional compliance costs, all of which could have a material adverse impact on MBL Group.

We could suffer losses due to environmental and social factors and climate change.

Our businesses are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events (such as persistent winter storms or protracted droughts) leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Any significant environmental change or external event (including increased frequency and severity of storms, floods and other catastrophic events such as earthquake, pandemic (such as COVID-19), other widespread health emergencies, civil unrest or terrorism events) has the potential to disrupt business activities, impact our operations or reputation, increase credit risk and other credit exposures, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us.

Our businesses could also suffer losses due to climate change. Climate change is systemic in nature and is a significant long-term driver of both financial and non-financial risks. Climate change related impacts include physical risks from changing climatic conditions and transition risks such as changes to laws and regulations, technology development and disruptions and consumer preferences. A failure to respond to the potential and expected impacts of climate change may affect MBL Group's performance and could have wide-ranging impacts for the MBL Group. These include, but are not limited to, impacts on the probability of default and losses arising from defaults, asset valuations and collateral. Failure to effectively manage these risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

The occurrence of any such events may prevent us from performing under our agreements with clients, may impair our operations or financial results, and may result in litigation, regulatory action, negative publicity or other reputational harm. We may also not be able to obtain insurance to cover some of these risks and the insurance that we have may be inadequate to cover our losses.

Any such long-term, adverse environmental or social consequences could prompt us to exit certain businesses altogether. Such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

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

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

We are subject to risks in using custodians.

Certain products we manage depend on the services of custodians to carry out certain securities transactions. In the event of the insolvency of a custodian, we might not be able to recover equivalent assets in full as they will rank among the custodian's unsecured creditors. In addition, the cash held with a custodian in connection with these products will not be segregated from the custodian's own cash, and the creditors of these products will therefore rank as unsecured creditors in relation to the cash they have deposited.

MBL Group relies on services provided by MGL.

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

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

Entities in MGL Group that are not part of MBL Group may establish or operate businesses that are different from or compete with the businesses of MBL Group and those other entities are not obligated to support the businesses of MBL Group other than as required by APRA prudential standards. Other than APRA prudential standards and capital adequacy requirements described in “Regulation and Supervision”, there are no regulations or agreements governing the allocation of future business between the Banking Group and the Non-Banking Group, including MBL Group.

Strategic risks

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

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

Future growth, including through acquisitions, mergers and other corporate transactions, may place significant demands on our legal, accounting, IT, risk management and operational infrastructure and result in increased expenses. A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact with new clients, new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from IT systems and reputational concerns with the manner in which these businesses are being operated or conducted.

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

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

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

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power which may enhance the competitive position of MBL Group's competitors. The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins.

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

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

Tax

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

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

Accounting standards

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

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

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at March 31, 2020.

The information relating to MBL Group in the following table is based on our 2020 annual financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Mar 31, 2020	Mar 31, 2020
	US\$m ¹	A\$m
CAPITALIZATION		
Borrowings²		
Debt issued — due greater than 12 months.....	13,489	21,973
Loan capital — due greater than 12 months	2,559	4,169
Total borrowings³.....	16,048	26,142
Equity		
Contributed equity		
Ordinary share capital	5,088	8,288
Equity contribution from ultimate parent entity.....	135	220
Macquarie Income Securities ⁴	240	391
Reserves	608	991
Retained earnings.....	2,662	4,336
Other non-controlling interests.....	1	1
Total equity.....	8,734	14,227
TOTAL CAPITALIZATION.....	24,782	40,369

¹ Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on March 31, 2020, which was US\$0.6139 per A\$1.00.

² As at March 31, 2020, we had A\$1.2 billion of secured indebtedness due in greater than 12 months compared to A\$1.1 billion as at March 31, 2019.

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\$16.1 billion as at March 31, 2020 and securitizations totaled A\$12.8 billion as at March 31, 2020 compared to A\$17.3 billion and A\$7.2 billion, respectively, as at March 31, 2019.

⁴ We subsequently repaid the A\$400 million of MIS in their entirety in accordance with their terms of issue on April 15, 2020.

For details on our short-term debt position as at March 31, 2020, see section 5.4 of our 2020 Fiscal Year Management Discussion and Analysis Report.

MACQUARIE BANK LIMITED

Overview

MBL is an APRA regulated ADI headquartered in Sydney, Australia and is a wholly owned subsidiary of MGL. MBL's expertise covers asset finance, lending, banking, and risk and capital solutions across debt, equity and commodities. MBL acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to clients.

As at March 31, 2020, MBL employed 4,279² staff, had total assets of A\$226.1 billion and total equity of A\$14.2 billion. For the 2020 fiscal year, MBL net operating income was A\$6,172 million and profit after tax attributable to the ordinary equity holder was A\$1,461 million. As at March 31, 2020, MBL conducted its operations in 17 markets, with 47% of MBL Group's revenues from external customers derived from regions outside Australia. See "— Our business — Regional activity" below for further information.

MBL's ordinary shares were listed on the 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 wholly owned subsidiary of MGL, a new ASX-listed company, and MBL Group transferred to the Non-Banking Group 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 and Global Markets) and Treasury and Commodities (now part of Commodities and Global Markets).

MBL's registered office and 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 2020 fiscal year

The following board and management changes occurred since the beginning of the 2020 fiscal year:

- Nicholas O'Kane was appointed Group Head of CGM, effective April 1, 2019, following the retirement of Andrew Downe on March 31, 2019.
- Gary Banks has indicated an intention to retire as an Independent Voting Director of MGL and MBL at the 2020 MGL Annual General Meeting.
- Gordon Cairns has indicated an intention to retire as an Independent Voting Director of MGL and MBL in the latter part of calendar year 2020.

Operating group updates during the 2020 fiscal year

Effective July 1, 2019, certain fiduciary businesses of the MGL Group, such as the infrastructure debt business, moved from Corporate and Asset Finance – Asset Finance in the Banking Group to Macquarie Asset Management in the Non-Banking Group following receipt of required approvals.

Effective September 1, 2019, each of Corporate and Asset Finance's divisions were aligned to other businesses, where they have the greatest opportunities in terms of shared clients and complementary offerings:

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

The results for the fiscal year ended March 31, 2020 are reported under the new group structure with reclassified results for prior periods.

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

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. MBL Group's diverse sources of income include the following:
 - *Fee and commission income, including:*
 - Brokerage and commission income from brokerage fee income, which primary includes brokerage income from the Equities and Futures businesses from Commodities and Global Markets and brokerage fee income from Banking and Financial Services; and
 - Other fee and commission income, which includes fees earned on a range of Banking and Financial Services' products and services, including the wrap platform, provision of wealth services, home loans, vehicle finance, credit cards, business loans and deposits, and includes income from structured, index and retail products from Commodities and Global Markets.
 - *Trading income* generated predominantly through client trading activities and products issued by Commodities and Global Markets;
 - *Net interest income* primarily earned on residential mortgages, loans to Australian businesses, vehicle finance and credit cards in Banking and Financial Services, interest income on trading assets, leasing, lending and asset financing from Commodities and Global Markets partially offset by funding costs by the Bank Group to fund business activity;
 - *Net operating lease income* generated predominately from operating lease portfolios in Commodities and Global Markets;
 - *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, 2020, we employed 4,279 staff in 17 markets. Of those staff, approximately 31% were located in offshore markets. As MBL 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.* MBL is regulated as an ADI by APRA and, as a result, is subject to APRA's capital adequacy requirements. MBL has met all of its capital requirements throughout the 2020 fiscal year. As at March 31, 2020, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 14.9%, a Tier 1 capital ratio of 16.4% and a total capital ratio of 18.2%. The Banking Group's APRA Basel III Common Equity Tier 1 capital ratio was 12.2%, Tier 1 capital ratio was 13.6%, and total capital ratio was 15.2%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management, as discussed below under "Regulation and Supervision" including (but not limited to) APRA's "Unquestionably Strong" benchmarks. For further information on

our regulatory capital position as at March 31, 2020, see section 6.0 of our 2020 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 33 to our 2020 annual financial statements and in the “Risk Management Report” in the 2020 Annual Report of MGL incorporated by reference herein.

Organizational structure

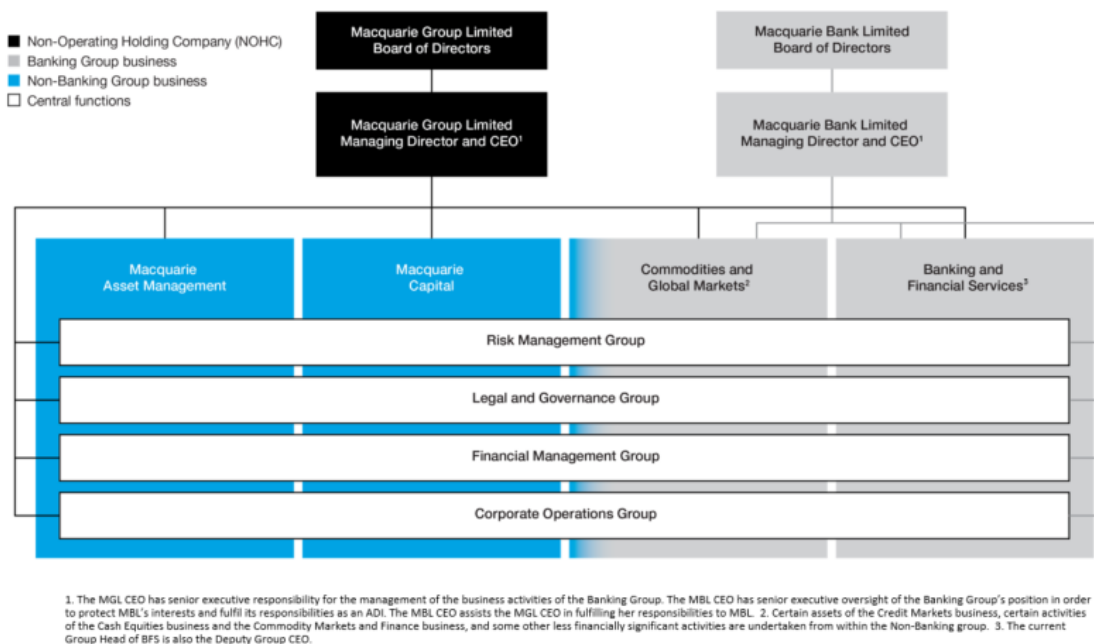
MBL is an indirect wholly owned subsidiary of MGL and forms part of the Banking Group. MBL comprises two operating groups: Banking and Financial Services and Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business and the Commodity Markets and Finance business; and some other less financially significant activities).

MGL Group 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, Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate Affairs, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Business Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.³

MBL and MGL have corporate governance and policy frameworks that meet APRA’s requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL’s liquidity and funding, see the discussion in section 5.0 of our 2020 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.

³ We repaid the A\$400 million of MIS in their entirety in accordance with their terms of issue on April 15, 2020.

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



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

Our strategy

Consistent with the principles of opportunity, accountability and integrity, Macquarie Bank 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 Bank's robust risk management framework and risk culture is embedded across all Bank Group entities.
- *Strong balance sheet.* Maintaining a strong and conservative balance sheet. This is consistent with Macquarie Bank's longstanding policy of holding a level of capital which supports its business and managing its capital base ahead of ordinary business requirements. Macquarie Bank 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 Bank has dynamically developed its annuity-style businesses, providing steady returns to the business and its shareholders, and stability to clients.
- *Diversification.* Operating a diversified set of businesses across different locations and service offerings: asset finance, lending, banking, and risk and capital solutions across debt, equity and commodities. Macquarie Bank offers a range of services to government, institutional, corporate and retail clients. This diversity mitigates concentration risk and provides resilience to Macquarie Bank.
- *Proven expertise.* Utilizing proven deep expertise has allowed Macquarie Bank to establish leading market positions as a global specialist in sectors including resources and commodities, energy and financial institutions.

- *Adjacencies.* Expanding progressively by pursuing adjacencies through organic opportunities and selective acquisitions. These include products and geographies adjacent to Macquarie Bank's established areas of expertise, which results in sustainable evolutionary growth.
- *Pursuit of growth opportunities.* Targeting continued evolution and growth through innovation. Macquarie Bank 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 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 and Global Markets) and Treasury and Commodities (now part of Commodities and 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 and Financial Markets', which now forms part of Commodities and 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 and 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 and 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 MBL Group

As at March 31, 2020, MBL had total assets of A\$226.1 billion and total equity of A\$14.2 billion. For the 2020 fiscal year, our net operating income from ordinary activities was A\$6,172 million and profit after tax attributable to the ordinary equity holder was A\$1,461 million. Of MBL Group's revenues from external customers, 47% were derived from regions outside Australia.

The tables below show the relative net operating income and profit contribution from ordinary activities of each of our operating groups for the 2020 and 2019 fiscal years.

*Net operating income from ordinary activities of MBL Group by operating group
for the 2020 and 2019 fiscal years¹*

	Fiscal Year ended		Movement⁴
	Mar 31, 2020	Mar 31, 2019	
	A\$m	A\$m	%
Banking and Financial Services	2,034	2,099	(3)
Commodities and Global Markets ²	3,811	3,668	4
Total net operating income from operating groups	5,845	5,767	1
Corporate ³	327	144	127
Total net operating income	6,172	5,911	4

¹ For further information on our segment reporting, see section 3.0 of our 2020 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2020 annual financial statements.

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

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

⁴ “*” 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 from ordinary activities of MBL Group by operating group for the 2020 and 2019 fiscal years¹

	Fiscal Year ended		Movement⁴
	Mar 31, 2020	Mar 31, 2019	
	A\$m	A\$m	%
Banking and Financial Services	767	753	2
Commodities and Global Markets ²	1,822	1,685	8
Total contribution to net profit from operating groups from continuing operations	2,589	2,438	6
Corporate ³	(1,292)	(1,372)	(6)
Net profit attributable to the ordinary equity holder of MBL from continuing operations	1,297	1,066	22

¹ For further information on our segment reporting, see section 3.0 of our 2020 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2020 annual financial statements.

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

³ The Corporate segment includes earnings from the net impact of managing liquidity for the MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central credit and asset related impairments including certain additional central overlays on expected credit losses, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.

⁴ “**” 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, 2020, MBL Group employed 4,279 staff globally and conducted its operations in 17 markets.

Australia. MBL Group has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at March 31, 2020, MBL Group employed 2,951 staff in Australia. In the 2020 fiscal year, Australia contributed A\$5,489 million (53%) of our revenues from external customers as compared to A\$5,621 million (55%) in the 2019 fiscal year.

Americas. MBL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions. As at March 31, 2020, MBL Group employed 448 staff across three markets. In the 2020 fiscal year, the Americas contributed A\$2,127million (20%) of our revenues from external customers as compared to A\$2,120 million (21%) in the 2019 fiscal year.

Asia. MBL Group has been active in Asia for more than 20 years, when we established our first office in Hong Kong in 1995. As at March 31, 2020, MBL Group employed 227 staff across seven markets. MBL has expanded the regional investment and product platforms of Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business and the Commodity Markets and Finance business; and some other less financially significant activities), which had established an Asian regional “hub” in Singapore in the 2011 fiscal year. In the 2020 fiscal year, Asia contributed A\$723 million (7%) of our revenues from external customers as compared to A\$512 million (5%) in the 2019 fiscal year.

Europe, Middle East & Africa. MBL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at March 31, 2020, MBL Group employed 653 staff across six markets. In the 2020 fiscal year, Europe, Middle East & Africa contributed A\$2,066 million (20%) of our revenues from external customers as compared to A\$1,920 million (19%) in the 2019 fiscal year.

For further information on our segment reporting, see section 3.0 of our 2020 Fiscal Year Management Discussion and Analysis Report and Note 3 to our 2020 annual financial statements.

Operating groups

Banking and Financial Services

Banking and Financial Services (“BFS”) 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. BFS’ net operating income is primarily sourced from interest income earned from the loan portfolio and fee and commission income on a range of products.

BFS comprises the following businesses:

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

BFS contributed A\$767 million to MBL Group’s net profit in the 2020 fiscal year and, as at March 31, 2020, had over 2,640 staff operating predominately in Australia.

Commodities and Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business and the Commodity Markets and Finance business; and some other less financially significant activities)

Commodities and Global Markets (“CGM”) operates both in the Bank and Non-Bank Group. CGM’s net operating income primarily comprises net interest and trading income and fee and commission income earned from products and services delivered within each of these areas.

CGM 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.
- **Commodity Markets and Finance:** Provides risk management, lending and financing, and physical execution and logistics services across the energy, metals and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.
- **Credit Markets:** Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans.
- **Equity Derivatives and Trading:** Issues retail derivatives in key locations and provides derivatives products and equity finance solutions to its institutional client base, and conducts risk and market making activities. Generally, the Derivatives and Trading division’s activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group.
- **Fixed Income and 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.
- **Specialised and Asset Finance:** Delivers a diverse range of tailored finance solutions globally across a variety of industries and asset classes
- **Central:** Fosters and develops various non-division specific, early stage or cross-divisional initiatives, as well as housing various CGM-wide services including cross-product sales and structured global markets.

CGM contributed A\$1,822 million to MBL Group’s net profit in the 2020 fiscal year and, as at March 31, 2020, had over 1,620 staff located in 17 markets in Australia, the Americas, Europe, Middle East and Asia.

An internal reorganization of MGL Group resulted in the transfer of Corporate & Asset Finance (CAF) Asset Finance to CGM effective September 1, 2019, as a new CGM division called Specialised and Asset Finance. This reflects a longstanding, shared focus on innovative financing solutions for corporates, some of which are already shared clients. Financial results are reported under the new Group structure with reclassified results for prior periods.

Corporate

The Corporate segment includes earnings from the net impact of managing liquidity and funding requirements for Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment provisions or valuation of assets, unallocated head office costs and costs of central service

groups, performance-related profit share and share based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of MIS.⁴

Corporate contributed a net loss of A\$1,292 million in the 2020 fiscal year.

For further information on Corporate's results of operations and financial condition for the 2020 fiscal year, see section 3.4 of our 2020 Fiscal Year Management Discussion and Analysis Report.

Legal proceedings and regulatory matters

Germany

MBL was one of over 100 financial institutions involved in the German dividend trading market. MBL's historical involvement in that market included short selling-related activities and acting as a lender to third parties who undertook dividend trading.

The Cologne Prosecutor's Office is investigating MBL's historical activities. As part of their ongoing industry-wide investigation, the German authorities have designated as suspects approximately 100 current and former MGL Group staff members, including the current MGL Group CEO. Most of these individuals are no longer at MGL Group. MGL Group will continue to respond to the German authorities' requests for information about its historical activities. 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".

In 2018, a civil claim was brought against MBL by investors in a group of independent investment funds financed by MBL to undertake German dividend trading 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 authority. Two of the investors had already sued the Swiss bank that introduced them to the investment. They and other investors sold their claims to a German litigation special purpose vehicle controlled by the same lawyer who acted in the litigation against the Swiss bank. That vehicle brought the claim against MBL seeking €30 million in damages. In January 2020, Munich District Court dismissed the investors' claim on jurisdictional grounds and awarded costs in MBL's favor. The investors have since appealed. 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 total amount at issue is not considered to be material and MGL Group has provided for the matter.

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 30 to our 2020 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.

⁴ We repaid the A\$400 million of MIS in their entirety in accordance with their terms of issue on April 15, 2020.

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 2020 fiscal year

Euro-zone and other exposures

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

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

Financial instrument	As at Mar 31, 2020			
	Sovereign exposure	Non sovereign exposure		Total exposure
		Financial institutions	Corporate	
	A\$m	A\$m	A\$m	A\$m
Greece				
Derivative assets ²	—	—	29.1	29.1
Greece totals	—	—	29.1	29.1

Ireland				
Loans, receivables and commitments ¹	—	6.4	27.1	33.5
Derivative assets ²	—	—	68.9	68.9
Traded debt securities	—	58.8	—	58.8
Equity	—	—	6.7	6.7
Ireland totals	—	65.2	102.7	167.9
Italy				
Loans, receivables and commitments ¹	—	1.8	—	1.8
Derivative assets ²	—	1.6	178.1	179.7
Traded debt securities	—	33.2	—	33.2
Italy totals	—	36.6	178.1	214.7
Portugal				
Derivative assets ²	—	5.7	37.7	43.4
Traded debt securities	—	14.5	—	14.5
Portugal totals	—	20.2	37.7	57.9
Spain				
Loans, receivables and commitments ¹	—	2.7	70.3	73.0
Derivative assets ²	—	8.3	136.0	144.3
Traded debt securities	—	1.3	—	1.3
Spain totals	—	12.3	206.3	218.6
Total exposure	—	134.3	553.9	688.2

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.

Lease commitments, contingent liabilities and assets

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

As at March 31, 2020, MBL Group had A\$8,318 million of contingent liabilities and commitments, including A\$2,762 million of contingent liabilities and A\$5,556 million of commitments including undrawn credit facilities and securities underwriting. See Note 30 “Contingent liabilities and commitments” to our 2020 annual financial statements which shows MBL Group’s contingent liabilities and commitments as at March 31, 2020.

Quantitative and qualitative disclosures about market risk

Each year we prepare a detailed analysis of market risk as it applies to MBL Group and a quantitative analysis of MBL Group’s value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 33 “Financial risk management” to our 2020 annual financial statements for a quantitative and qualitative discussion of these risks.

REGULATION AND SUPERVISION

Australia

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

Set out below is a summary of certain key Australian legislative 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 legislative enhancement of APRA’s powers in relation to ADIs, see the “— Crisis Management and Resolution Planning” section below.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities. APRA also focuses on the supervision of non-financial risks including outsourcing, business continuity management, information security, governance, accountability, remuneration, culture and conduct. 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. APRA has provided feedback on Macquarie’s assessment. Macquarie is addressing the actions identified in the report and providing regular updates to the MGL and MBL boards.

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

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

APRA’s prudential supervision – Capital adequacy

APRA’s approach to the assessment of an ADI’s capital adequacy is based on the risk-based capital adequacy framework set out in the Basel Committee on Banking Supervisions’ (“Basel Committee”) publications, “*International Convergence of Capital Measurement and Capital Standards a Revised Framework*” (“Basel 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.

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.

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 Disclosure Document dated December 2019, which is posted on MGL’s U.S. Investors’ Website.

Subsequent sections of this Report consider various aspects of revisions of the capital adequacy framework and standards.

APRA’s prudential supervision – Capital adequacy – Market risk

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

APRA plans to commence formal consultation on the broader reforms to the market risk framework, known as the fundamental review of the trading book. Due to the COVID-19 outbreak, APRA’s public consultations are expected to recommence from September 30, 2020 onwards, and the revised standard is now expected to take effect from January 1, 2024.

APRA’s prudential supervision – Capital adequacy – IRRBB

In September 2019, APRA issued a response to submissions in respect of interest rate risk in the banking book (“*IRRBB*”). While only IRB ADIs are subject to a capital requirement for IRRBB and therefore will be impacted by changes to the capital calculation, all ADIs will be impacted by changes to the risk management requirements. The key proposals are to:

- standardize aspects of the internal modelling approach including placing constraints on the repricing assumptions an ADI can use for non-maturity deposits according to whether or not it is a core deposit and the calculations for optionality risk;
- remove the basis risk capital add-on; and
- extend the application of risk management requirements to all ADIs.

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

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

Key revisions to the ADI capital framework proposed by the Basel III reforms 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;
- application of standard prescribed calculations for basis risk, optionality risk and duration of core deposits for the calculation of IRRBB; and
- a single replacement methodology for the current advanced and standardized approaches to operational risk.

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

November 2018 Response to Submissions – “Leverage ratio requirement for authorised deposit-taking institutions”

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

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

On November 21, 2019, APRA released for consultation a further on the leverage ratio requirement for ADIs and proposed further amendments to incorporate recent technical changes to the Basel Committee's leverage ratio standard.

APRA proposed the revisions to the Basel III capital framework, were to come into effect from January 1, 2022, the internationally agreed implementation date set by the Basel Committee. However, APRA has now deferred its scheduled implementation of the revisions by one year to January 1, 2023. This is consistent with the Basel Committee's revised implementation date.

APRA intended 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 2023. IRB ADIs will be required to continue publicly disclosing their leverage ratios as calculated under the current exposure measure until the revised framework commences.

June 2019 Response to Submissions – “Revisions to the capital framework for authorised deposit-taking institutions”

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

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

- APS 112 Capital Adequacy: Standardised Approach to Credit Risk: among other changes, APRA is proposing to:
 - narrow the definition of “non-standard” mortgage;
 - amend mortgage risk weights, providing more granularity and higher risk weights for higher LVR exposures compared to the current standard;
 - differentiate between owner-occupied, principal-and-interest mortgages as compared to all other mortgages;
 - apply more granular risk-weightings for SME exposures, as well as recognize that collateral (motor vehicles, commercial property and plant, equipment and machinery) may mitigate losses in the event of default;
 - increase the off-balance sheet credit conversion factor, even where a contractual right exists for the bank to cancel the undrawn credit;

- broaden the definition of “subordinated debt” to capture both contractual and structural subordination; and
- recalibrate certain supervisory haircuts and introduce new exposure formula and minimum haircut floors for securities financing transactions.
- APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk: amending the residential mortgages extract, including to more narrowly define the scope of residential mortgages and to simplify the method for calculating capital requirements for residential mortgages; and
- APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk: revised to replace the Advanced Measurement Approach and reflect the requirements of the Standardised Measurement Approach, excluding the loss component, and released as final in December 2019.

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

APRA’s prudential supervision – Capital adequacy – Measurement of capital

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

- increasing the capital ADIs must hold to offset concentrated exposures to foreign or domestic banking or insurance subsidiaries;
- reducing the capital ADIs must hold to offset smaller exposures to banking or insurance subsidiaries;
- incorporating into the prudential standard various rulings and technical information APRA has published since APS 111 was last substantially updated in 2013;
- promoting simple and transparent capital issuance by removing the allowance for the use of special purpose vehicles (SPVs) and stapled security structures; and
- aligning APS 111 with updated guidance from Basel Committee on Banking Supervision.

Further, as part of the revisions to APS 111, APRA proposed a full deduction of total loss absorbing capital (“TLAC”) exposures and pari passu instruments from Tier 2 Capital. A full deduction is consistent with APRA’s existing approach to an ADI’s holdings of another ADI’s, or their own, regulatory capital instruments. APRA’s proposal adopted the Basel Committee’s framework of requiring a Tier 2 Capital deduction of TLAC instruments but did not adopt a threshold approach.

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

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 the Net Stable Funding Ratio (“NSFR”). The LCR requires unencumbered liquid assets be held to cover expected net cash outflows under a combined “idiosyncratic” and market-wide stress scenario lasting 30 calendar days. The NSFR is a 12-month structural funding metric, requiring that “available stable funding” be sufficient to cover “required stable funding”, where “stable” funding has an actual or assumed maturity of greater than 12 months. MBL currently complies with the requirements of the LCR and NSFR.

APRA enforcement of liquidity requirements

Following a review of funding agreements across the ADI industry, APRA required MGL Group to strengthen its intra-group funding agreements to ensure term funding cannot be withdrawn in a financial stress scenario and to restate the past liquidity coverage ratios. MGL Group has subsequently amended its intra-group funding agreement to ensure there will be no impact on MBL's LCR calculation going forward and has restated the historical LCR for the period July 2017 to March 2019. MGL Group will continue to work with APRA in relation to intra-group funding arrangements.

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 (the "*Final Report*") of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (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.

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

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.

Crisis Management and Resolution Planning

As part of strengthening its crisis preparedness and resolution capabilities, APRA is developing a new Prudential Standard for recovery and resolution planning which will implement reforms from the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (the “*Crisis Management Act*”). The Prudential Standard is expected to set out requirements for the development and execution of recovery and resolution plans. The Prudential Standard will apply to ADIs, general insurers and life insurers. APRA expects to consult on a draft standard in the first half of calendar year 2020, with a view to finalizing the Prudential Standard toward the end of calendar year 2020. However, this timeframe may be delayed due to the suspension by APRA of all substantive public consultations until September 30, 2020, in response to the impact of the COVID-19 outbreak.

APRA is in discussions with the MGL Group on resolution planning and intragroup funding. These discussions are progressing and Macquarie will continue working on these initiatives in consultation with APRA.

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.

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

APRA has confirmed that MBL will be subject to additional loss-absorbing capacity (“*LAC*”) requirements, consistent with the approach for the major banks, with the final quantum of LAC to be determined by APRA as part of the resolution planning process.

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. From January 1, 2020, MBL and all ADIs have adopted the full implementation of the large exposures framework.

APRA’s prudential supervision – Associations with Related Entities

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

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

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

APRA's prudential supervision - Remuneration

On July 23, 2019, APRA released a discussion paper and draft prudential standard ("*CPS 511 – Remuneration*") seeking to better align remuneration practices with non-financial risk and conduct. The proposed reforms address recommendations 5.1 to 5.3 from the Final Report of the Royal Commission. A three-month consultation period closed October 23, 2019 during which Macquarie lodged its submission. APRA is yet to release the final prudential standard.

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. CPS 234 is effective from July 1, 2019, and provides transition arrangements where information assets are managed by third party service providers.

APRA issues guidance to ADIs and insurers on capital management

On April 7, 2020, APRA sent a public letter to all ADIs and insurers setting out its expectation that ADIs and insurers will limit discretionary capital distributions in the months ahead, including prudent reductions in dividends, to ensure that they instead use buffers and maintain capacity to continue to lend and underwrite insurance.

Given the uncertain outlook for the operating environment, APRA expects that ADIs and insurers will:

- take a forward-looking view on the need to conserve capital and use capacity to support the economy;
- uses stress testing to inform its views, giving due consideration to plausible downside scenarios (periodically refreshed and updated as conditions evolve); and
- initiate prudent capital management actions in response, on a pre-emptive basis, to ensure they maintain confidence and capacity to continue to lend and support customers.

APRA expects ADIs and insurers to seriously consider deferring decisions on appropriate dividend levels until the outlook is clearer. Where a board is confident that they are able to approve a dividend before this, based on robust stress testing results that have been discussed with APRA, this should nevertheless be at a materially reduced level. Dividend payments should be offset to the extent possible through the use of dividend reinvestment plans and other capital management initiatives. APRA also expects that boards will appropriately limit executive cash bonuses, mindful of the current challenging environment.

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.

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 MBL Group.

ASX24

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

As an authorized market participant, 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. 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.

MBL Group is also an authorized market participant of ASX Settlement and ASX Clear and is subject to the operating rules which contain comprehensive provisions for preventing conflicts and enforcing compliance with the operating rules. The rules cover all aspects of clearing and settling, including monitoring market conduct, disciplining of participants and suspension or termination of participation rights and market access.

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, onboarding 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, MBL Group and MGL 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. There has been broad bipartisan support on most of the 76 recommendations contained in the Final Report. No findings were made in the Final Report in relation to the MGL Group or MBL.

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. On August 19, 2019, the Federal Government released its Financial Services Royal Commission Implementation Roadmap which noted that over 40 of the Royal Commission's recommendations require legislation to facilitate their implementation.

On February 28, 2020, the Federal Government completed the consultation process for a series of proposed legislative changes to implement 24 of the 76 recommendations from the Final Report. Most of these amendments are proposed to take effect by royal assent or on July 1, 2020. If passed in their current form, these proposals will result in a number of reforms including, but not limited to more onerous breach reporting procedures for Australian financial services licensees and Australian credit licensees, and far-reaching powers for ASIC to make directions if it suspects a contravention of financial services law.

The Royal Commission's recommendations are likely to continue to result in a range of further legislative, regulatory and industry practice changes. Such changes may adversely impact the MGL Group's business, operations, compliance costs, financial performance and prospects. The Federal Government anticipates that it will introduce all necessary legislation to implement the recommendations of the Royal Commission by mid calendar year 2021. The MGL Group is closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

Banking Executive Accountability Regime and Financial 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 banking executive accountability regime known as “*BEAR*”. The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries and introduce enhanced transparency and personal accountability into the banking sector. Under BEAR, ADIs 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 MBL) have been required to be compliant with BEAR since 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 standing or prudential 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 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.

BEAR has presented an opportunity for greater transparency and accountability and reinforced the importance of good governance to drive a strong risk culture from the top down throughout the ADI.

On January 22, 2020, the Australian Treasury released a consultation paper outlining its proposal on the Financial Accountability Regime (“*FAR*”) to replace BEAR and to extend the responsibility and accountability framework established under BEAR to all APRA-regulated entities (relevantly, for the MGL Group this will potentially extend to MGL, MIML and MLL). FAR is intended to strengthen the transparency and accountability of these entities and improve risk culture and governance for both prudential and conduct purposes. FAR will be co-regulated by APRA and ASIC. The FAR proposal aims to address several recommendations from the Royal Commission and introduces additional prescribed responsibilities and other changes to the BEAR obligations. The Federal Government intends to introduce legislation for FAR by June 30, 2021 and will consult on implementation timeframes as part of the consultation on the exposure draft legislation which is anticipated to be released around the end of calendar year 2020. Transitional arrangements will apply to ADIs, such as the Bank, to ensure that obligations which have been met under BEAR, and which will be the same under FAR, will be taken to have been met under the new regime. The MGL Group and MBL have provided feedback in the form of a written submission to the Australian Treasury in February 2020 on how the proposed FAR model can be best implemented. The changes proposed as part of FAR are likely to impact MBL and its “accountable persons”, other APRA-regulated entities within the MGL Group such as MGL, MIML and MLL, the existing obligations and accountabilities under BEAR.

Design and distribution obligations

On April 3, 2019, the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 was passed by Federal Parliament introducing a legislative framework for issuers and distributors to develop and maintain effective product governance processes across the lifecycle of financial products, focused on the design and distribution of products that are consistent with the likely objectives, financial situation and needs of consumers in an identified target market. In December 2019, ASIC consulted on regulatory guidance, the final form of which is yet to be released.

The MGL Group is implementing the new design and distribution obligations which commence on October 5, 2021. This has been deferred for six months from the original commencement date of April 5, 2021 due to the impact of COVID-19 on the economy.

ASIC guidance on fees and costs disclosure

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

The requirements apply to most superannuation products and managed investment products issued to retail clients and are designed to ensure that there is a consistent and transparent approach to fees and costs disclosure. Transition arrangements for the new disclosure regime are expected to commence in 2020.

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

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 control or perform functions as an officer of an entity that carries on a financial services business. The Australian Government has accepted both of these recommendations and the Australian Treasury consulted with the financial services industry in late calendar year 2019, following with the Financial Sector Reform (Hayne Royal Commission Response – Stronger Regulators (2019 Measures) Act 2020) was passed by Federal Parliament on February 17, 2020 which, among other things, has amended the Australian Corporations Act to extend ASIC's banning powers to ban individuals from managing financial services or credit businesses. 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 responsible lending conduct guidance

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 Royal Commission's Final Report have led to the review of ASIC's guidance on responsible lending for consumer credit.

In response to the submissions received during the consultation process, ASIC published an updated RG 209 on December 9, 2019. The updated RG 209 seeks to provide greater clarity to lenders and brokers by providing:

- a stronger focus on the legislative purpose of the obligations and clarity around areas that are not subject to the obligations;
- more guidance and examples to illustrate where a licensee might undertake more, or less, detailed inquiries and verification steps based on different consumer circumstances and the type of credit that is being sought;

- more detailed guidance about the use of benchmarks, the Household Expenditure Method (“HEM”) and how spending reductions may be considered as part of the licensee’s consideration of the consumer’s financial situation, requirements and objectives;
- greater clarity about certain complex situations for some consumers; and
- further guidance around technological developments including Open Banking and digital data capture services.

The MGL Group is reviewing its processes, policies, standards and staff training modules to maintain ongoing compliance with the updated RG 209.

Open Banking

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

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

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

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

Banking Code of Practice

The Banking Code of Practice (the “Code”) is the banking industry’s customer charter on best banking practice standards. It sets out the banking industry’s key commitments and obligations to retail and small business customers on standards of practice, disclosure and principles of conduct for their banking services. The revised Code, which was approved by ASIC, commenced on 1 July 2019. On December 17, 2019, ASIC subsequently approved an updated version of the Code. These amendments implement the recommendations of the Royal Commission and address stakeholder feedback relating to various small business protections, accessibility of banking products and an easing of the financial burden on agricultural borrowers affected by drought and natural disaster.

MGL Group has implemented the necessary changes to enable compliance with the updated Code as of the commencement date of March 1, 2020.

ASIC enhanced supervision and enforcement

In 2018 and 2019, the Australian Government provided additional funding to ASIC to support enforcement and supervision in the Australian financial sector.

ASIC has established the Office of Enforcement to strengthen the governance and effectiveness of ASIC’s enforcement, including by accelerating court-based enforcement matters, and to lead the application of ASIC’s “Why not litigate?” enforcement strategy.

In response to the COVID-19 pandemic, ASIC is deferring onsite supervisory work but will be continuing to monitor and conduct desk-based reviews.

Dispute resolution

On May 15, 2019, ASIC released a consultation paper to update its Regulatory Guide 165 *Internal Dispute Resolution* (“*RG 165*”). The proposed standards, which include new mandatory data reporting, aims to improve the way complaints are dealt with across the financial system and bring about greater transparency in financial firms’ complaint handling procedures. ASIC intends to issue a legislative instrument that will have the effect of making the core IDR requirements set out in RG 165 enforceable. As part of the consultation process, ASIC held stakeholder meetings in September 2019 to further discuss issues raised in the consultation paper as well as those raised in submissions. The release of the updated RG 165 has been deferred in response to the COVID-19 outbreak.

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 law, regulation and regulatory policy” above for further information.

Banking regulations

In the United States, MBL operates solely through representative offices. These representative 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, and subject to periodic examination, by the banking regulatory authorities of individual states in which they are located, including New York, Illinois and Texas. Our representative offices are also subject to periodic examination by the relevant regional Federal Reserve Bank for their region, which are in turn 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 MBL, including the United States, have already implemented regulations, but additional regulations continue to be promulgated. These regulations have effects across the transaction lifecycle and apply to MBL 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, recordkeeping, and position limits.

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 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 may be required to register 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 (other than security-based swaps), have been adopted and are effective.

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 part of its swap dealer obligations, MBL is subject to the FRB’s margin and capital regulations. MELLC, however, is subject to the CFTC margin and capital regulations as a swap dealer. As the CFTC has not yet finalized capital rules, MELLC does not have capital obligations in respect of being a swap dealer. MBL became subject to the FRB’s variation margin requirements for uncleared swaps and security-based swaps in 2017, and MELLC concurrently became subject to the CFTC’s variation margin requirements for uncleared swaps. MBL will further be subject to the FRB’s initial margin requirements and MELLC subject to the CFTC’s initial margin requirements. While MBL is subject to additional margin requirements in other jurisdictions, MELLC must only comply with its CFTC 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. Compliance with regulations governing security-based swaps will begin to be required in the third quarter of calendar year 2021, and registration as a security-based swap dealer may be required as early as November 1, 2021. MBL may be required to register as a security-based swap dealer with the SEC at the time that such registration becomes mandatory. If such requirements apply, 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 and MBL Group’s U.S. futures commission merchant, securities broker-dealers and mutual funds managed or sponsored by MBL Group’s subsidiaries are subject to AML laws and regulations in the United States. Applicable regulations include those issued by the Treasury Department’s Financial Crimes Enforcement Network (“*FinCEN*”) to implement various AML requirements of the Bank Secrecy Act (the “*Bank Secrecy Act*”), as amended.

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

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

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

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

The MBL representative offices and MBL 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.

On September 1, 2015, FinCEN published a notice of proposed rulemaking that would require investment advisers registered, or required to be registered, with the SEC to establish an AML compliance program and file SARs with FinCEN, and subject those advisers to additional Bank Secrecy Act requirements, such as the requirement to file currency transaction reports. If adopted as proposed, MBL’s subsidiaries that are registered, or required to be registered, with the SEC as investment advisers would be required to comply with these new AML requirements, and the SEC would examine such subsidiaries for compliance with these new AML requirements. This rule has been in proposal status for several years and it has not been adopted as of the date of this Report.

Economic sanctions

The MBL representative offices and MBL Group’s other operations that are within or that involve the United States must also comply with the economic sanctions programs administered by the Treasury Department’s Office of Foreign Assets Control (“OFAC”), which enforces economic sanctions against targeted foreign countries, individuals and entities. The MBL representative offices and MBL Group’s U.S. futures commission merchant, securities broker-dealers and other subsidiaries in the United States have adopted and implemented procedures that are reasonably designed to ensure their compliance with the economic sanctions programs administered by OFAC.

Securities, commodities and other regulations

In the United States, we are regulated by the SEC and by the Financial Industry Regulatory Authority (“FINRA”) with respect to 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 ever greater oversight and regulation by the SEC and FINRA as our business grows in the United States.

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

Canada

Derivative Regulations

Canada has harmonized derivatives reporting rules across its provinces and territories. MBL, as well as its subsidiary Macquarie 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 (“MCAFIL”) 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 (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 the European Economic Area. MCEL is authorized and regulated by the FCA as a full-scope investment firm. MIMEL is authorized and regulated by the FCA, pursuant to the Prudential sourcebook for Banks, Building Societies and Investment Firms, 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/EU) (“CRR”) and Capital Requirements Directive (2013/36/EU) (“CRD IV”), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014; and Directive 2014/65/EU (“MiFID II”) and the Markets in Financial Instruments Regulation (600/2014/EU) (“MiFIR”), which relate to the carrying on of investment business and took effect on January 3, 2018). Under the 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 MBL which considers the consolidated requirements of the MGL Group (including but not limited to MBL LB and other subsidiaries). In addition, MBIL and MCEL maintain their own standalone liquidity contingency plans. See section 5.1 of our 2020 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 a 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. On October 17, 2019, following negotiations between the United Kingdom and European Union, a revised withdrawal agreement was agreed on negotiators level, which was subsequently ratified by the U.K. government and the EU Commission. Under the terms of the ratified European Union-United Kingdom Article 50 withdrawal agreement (the “*Article 50 Withdrawal Agreement*”), a transition period has now commenced which will last until December 31, 2020. During this period, most European Union rules and regulations will continue to apply to and in the United Kingdom and negotiations in relation to a free trade agreement will be ongoing. Under the Article 50 Withdrawal Agreement, the transition period may, before July 1, 2020, be extended once by up to two years. However, the U.K. legislation ratifying the Article 50 Withdrawal Agreement (the European Union (Withdrawal) Act 2018 as amended by the European Union (Withdrawal Agreement) Act 2020 (as so amended, the “*EUWA*”) contains a prohibition on a Minister of the Crown agreeing any extension to the transition period. While this does not entirely remove the prospect that the transition period will be extended (as the U.K. Parliament could pass legislation that would override the effect of the prohibition in the EUWA), the likelihood of a further extension is reduced. During the transition period, the United Kingdom and the European Union may not reach agreement on the future relationship between them, or may reach a significantly narrower agreement than that envisaged by the political declaration of the European Commission and the U.K. government.

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

The pan-European Union authorities, such as the European Commission, have not proposed temporary legislative regimes similar to those being put in place by the U.K. authorities to enable continued access, for a time limited period, for U.K. firms in the event of the loss of passporting rights at the end of the transition period. Some (but not all) national legislators and regulators have passed or proposed legislation when preparing for the prospect of a “hard” Brexit, which would have enabled a degree of continuity of access to clients in their jurisdiction. There is, however, little clarity on what the final position will be in many jurisdictions at the end of the transition period. U.K. firms and businesses 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 to the structure of the future relationship between the United Kingdom and the European Union, the precise impact on the MGL Group’s business is difficult to determine. The MGL Group and MBL will continue to monitor developments in relation to Brexit and the impact the structure of the future relationship may have on the MGL Group and MBL.

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 SMCR firms except those in ancillary service functions such as mail room 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 and the Extended SMCR came into effect on December 9, 2019. The FCA published a policy statement setting out the final rules on July 26, 2019. The FCA has noted that the rules may still be amended by subsequent changes to the FCA Handbook, for example those relating to Brexit.

Under Extended SMCR criteria there are 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 Sourcebook of the FCA Handbook;
- a firm which has assets under management 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 now applies to all MGL Group entities that are regulated solely by the FCA (MCEL, MCAF1L, MIRAEL, MIMEL and GIGML). MCEL is being treated as an enhanced category firm, and the remaining entities under Extended SMCR are being treated as core category firms.

European Union

Macquarie Bank Europe

MBL has a newly authorized subsidiary, Macquarie Bank Europe Designated Activity Company, which is authorized and regulated as a credit institution by the Central Bank of Ireland.

CRD V and CRR II

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

The amendments seek to implement some of the remaining aspects of Basel III and reforms which reflect EC findings on the impact of CRD IV on bank financing of the EU economy. Certain of the 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 amendments also seek to require financial holding companies in the European Union to become authorized and subject to direct supervision under CRD IV. This will place formal direct responsibility on holding companies for compliance with consolidated prudential requirements for financial groups. The amendments 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.

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.

Among other measures taken by prudential regulators in response to the COVID-19 pandemic, the Group of Central Bank Governors and Heads of Supervision (GHOS) decided on April 2, 2020 to delay the implementation of these final Basel III standards by one year to January 1, 2023.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates, including the implementation of CRD V / CRR II, and Basel III final rules, and certain potential consequences of Brexit may require members of the MBL Group to raise additional capital. If the MBL 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. The European Commission proposed certain amendments to the BRRD on November 23, 2016 relating to EU implementation of the Financial Stability Board’s total loss-absorbing capacity standard and other reforms (known as the “*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. Amendments to the proposals were published in January 2019 and endorsed by the Council of the EU in February 2019. The BRRD 2 entered into force on June 27, 2019 and will largely apply from December 28, 2020.

Other regulators

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

Outside Australia, the United States 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 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 2020 Fiscal Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the 2020 fiscal year compared to the 2019 fiscal year, along with other balance sheet, capital and liquidity disclosures as at and for the fiscal year ended March 31, 2020, and 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, each of which is posted on MBL's U.S. Investors' Website.

Fiscal year ended March 31, 2020 compared to fiscal year ended March 31, 2019

See sections 1.0 – 7.0 of our 2020 Fiscal Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the 2020 and 2019 fiscal years, which has been incorporated by reference herein.

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.



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