Macquarie Bank Limited

(ABN 46 008 583 542)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2019

Dated: November 15, 2019

TABLE OF CONTENTS

CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2019 (this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*2019 Annual U.S. Disclosure Report*" means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2019 and the documents incorporated by reference therein;

- "*2020 Interim Directors' Report and Financial Report*" means our 2020 Interim Directors' Report and Financial Report;

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

- "*2020 Half Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated November 1, 2019, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2019 compared to the half year ended September 30, 2018, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2019, which is incorporated by reference herein and which has been posted on MBL's U.S. Investors' Website; and

- "*2020 interim financial statements*" means our unaudited financial statements for the half year ended September 30, 2019 contained in our 2020 Interim Directors' Report and Financial Report.;

In addition, you should refer to "Certain Definitions" beginning on page ii of our 2019 Annual U.S. Disclosure Report, which is posted on Macquarie Bank Limited's ("*MBL*") U.S. Investors' Website at www.macquarie.com/mgl/com/us/usinvestors/mbl ("*MBL's U.S. Investors' Website*").

Our fiscal year ends on March 31, so references to years such as "*2019*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operations and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operations and financial condition, references such as "*half year*" and like references are to the six months ending on September 30 of the preceding 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 United States Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

- macroeconomic conditions in the global debt and equity markets;
- market uncertainty, volatility and investor confidence;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of the MBL Group;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- increased governmental and regulatory scrutiny and negative publicity;
- changes in and increased volatility in currency exchange rates;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our brand and reputation;
- the performance and financial condition of MBL;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to attract and retain employees;
- losses due to falling prices in equity or other markets;
- defaults by other large financial institutions or counterparties;
- changes in the credit quality of MBL's clients and counterparties;
- credit constraints of potential purchasers of our assets or on our clients;

- changes to the credit ratings assigned to each of MGL and MBL;
- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- the performance and financial condition of Macquarie Group Limited ("*MGL*"), our indirect parent company;
- a lack of control over entities in the MGL Group that are not part of the MBL Group;
- the impact of potential tax liabilities;
- inadequate or failed internal or external operational systems, processes, people, including conduct risk, or external events or external service provider misconduct;
- the impact of cyber attacks, technology failures and other information or security breaches;
- the impact of catastrophic events on MBL and its operations;
- conflicts of interest;
- litigation and regulatory actions against us;
- changes in political, social and economic conditions, including changes in consumer spending and saving and borrowing habits, in any of the major markets in which we conduct our operations or which we may enter in the future;
- environmental and social factors;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians; and
- various other factors beyond our control.

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

When relying on forward-looking statements to make decisions with respect to 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" beginning on page 1 of this Report. Other factors are discussed in our 2020 Half Year Management Discussion and Analysis Report and in our 2019 Fiscal Year Management Discussion and Analysis Report, which is incorporated by reference in our 2019 Annual U.S. Disclosure Report.

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under "Financial Information Presentation" beginning on page ix of our 2019 Annual U.S. Disclosure Report and our 2020 Half Year Management Discussion and Analysis Report.

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 "Recent Developments — Trading conditions and market update", which includes a discussion of operating conditions during the half year ended September 30, 2019 and the impact of such operating conditions on MBL Group;

- 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 Half Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2019 compared to the half year ended September 30, 2018, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2019 and which has been posted on MBL's U.S. Investors' Website;

- our Pillar 3 Disclosure Document dated June 2019, the Pillar 3 Disclosure Document dated March 2019, the Pillar 3 Disclosure Document dated December 2018 and the Pillar 3 Disclosure Document dated September 2018, which describe the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MBL's U.S. Investors' Website; and

- our historical financial statements, which are included in the extracts from our 2020 Half Year Management Discussion and Analysis Report posted on MBL's U.S. Investors' Website.

For further information on our historical financial information for the 2019 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation – Our financial information" included in our 2019 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$0.6746 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 September 30, 2019. The noon buying rate on November 8, 2019 was US$0.6854 per A$1.00.

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

For information on certain differences between Australian Accounting Standards and U.S. GAAP, see "Financial Information Presentation — Certain differences between Australian Accounting Standards and U.S. GAAP" beginning on page xi of our 2019 Annual U.S. Disclosure Report.

Critical accounting policies and significant judgments

For information on our critical accounting policies and significant judgments, see "Financial Information Presentation — Critical accounting policies and significant judgments" beginning on page xi of our 2019 Annual U.S. Disclosure Report.

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 interim 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. For further information on our non-GAAP financial measures, see "Financial Information Presentation — Non-GAAP financial measures" beginning on page xi of our 2019 Annual U.S. Disclosure 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 2019 Annual Report of MGL and in Note 34 to our 2019 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.

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

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

MBL may face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S., Chinese or European economies, the impact of lower and negative interest rates, slowing growth in emerging economies, the departure of the United Kingdom or another member country from the Euro-zone or the market's anticipation of such events, could disrupt global funding markets and the global financial system more generally. MBL may also be impacted indirectly through counterparties that have direct exposure to European sovereigns, European financial institutions and other sovereigns and financial institutions. See "Macquarie Bank Limited — Additional financial disclosures for the half year ended September 30, 2019 — Euro-zone and other exposures" for a description of MBL's exposure in certain European countries as of September 30, 2019.

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

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

Poor economic conditions and other adverse geopolitical conditions and developments, such as growing tensions between the United States and the People's Republic of China and any increase in tariff levels or retaliatory measures, political uncertainty within and the continuing negotiations between the United Kingdom and the European Union to determine the terms of the United Kingdom's departure from the European Union and heightened conflict in various geopolitical regions, can adversely affect and have adversely affected investor and client confidence, resulting in declines in the size and number of underwritings and financial advisory transactions and increased market risk as a result of increased volatility, which could have an adverse effect on our revenues and our profit margins. For example, our brokerage, commission and other fee income, and client facilitation fee income may be, and have been, impacted by transaction volumes.

Our trading income may be adversely affected during times of subdued market conditions and client activity and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our products or their brokerage accounts and result in reduced net revenues. The value and performance of our loan portfolio may also be adversely affected by deteriorating economic conditions. We assess the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales may also decrease if economic conditions deteriorate. In addition, if financial markets decline, revenues from our variable annuity products are likely to decrease. In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than we would otherwise achieve during stable market conditions.

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

Liquidity is essential to our businesses, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired if we are unable to access debt markets or sell assets or if we experience unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects us or our trading clients, or changes in our credit spreads, which are, market-driven and subject at times to unpredictable and highly volatile movements. For a more detailed description of liquidity risk, refer to section 5.0 of our 2020 Half Year Management Discussion and Analysis Report.

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

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The availability of alternative financing will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit capacity. The cost of these alternatives may be more expensive than our current sources of funding or include other unfavorable terms, or we may be unable to raise as much funding as we need to support our business activities. This could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding.

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

We operate various kinds of businesses across multiple jurisdictions and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of MGL Group own or manage assets and businesses that are regulated. Our businesses include an ADI in Australia (regulated by 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. Some of the key regulators and regulatory frameworks applicable to our businesses are described below under "Regulatory and supervision developments" and under the heading "Regulation and Supervision" on page 27 of our 2019 Annual U.S. Disclosure Report.

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.

In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation. See "Regulatory and supervision developments" below and the discussion under the heading "Regulation and Supervision" on page 27 of our 2019 Annual U.S. Disclosure Report for more information on the regulatory developments affecting MBL. The nature and impact of future changes are unpredictable, beyond our control and may result in potentially conflicting requirements, resulting in additional legal and compliance expense and changes to our business practices that adversely affect our profitability.

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.

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

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

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

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

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

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

Any time we make an acquisition, we may over-value the acquisition, we may not achieve expected synergies, we may achieve lower than expected cost savings or otherwise incur losses, we may lose customers and market share, we may face disruptions to our operations resulting from integrating the systems, processes and personnel (including in respect of risk management) of the acquired business into 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.

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, as 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 infrastructure assets, such as roads, airports, utilities and water distribution facilities that people view as community assets, are perceived to be managed inappropriately, those managing entities could be subject to criticism and negative publicity, harming our reputation and the reputation of other entities that use the Macquarie name.

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

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

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position.

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

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

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

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

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

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

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

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

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

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

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 34.1 to our 2019 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

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

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

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

For a further discussion of our risk management policies and procedures, see Note 34 to our 2019 annual financial statements and in the "Risk Management Report" in the 2019 Annual Report of MGL incorporated by reference herein.

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

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

A number of our recent and planned business initiatives and further expansions of existing businesses are likely to bring us into contact with new clients, new asset classes and other new products or new markets. These business activities expose us to new and enhanced risks, including reputational concerns arising from dealing with a range of new counterparties and investors, actual or perceived conflicts of interest, regulatory scrutiny of these activities, potential political pressure, increased credit-related and operational risks, including risks arising from IT systems and reputational concerns with the manner in which these businesses are being operated or conducted.

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

MBL Group recorded A$85 million of credit and other impairment charges for the half year ended September 30, 2019, including A$81 million for credit impairment charges, and A$4 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.

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, settlement services, equity 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 shared 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.

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

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

We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people including conduct by our employees, contractors and external service providers, or systems or external events.

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

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers, including cloud-based outsourced technology platforms, or external events. Such operational risks may include theft and fraud, employment practices and workplace safety, improper business practices, mishandling of client monies or assets, client suitability and servicing risks, product complexity and pricing, and valuation risk or improper recording, evaluating or accounting for transactions or breaches of our internal policies and regulations. There is increasing regulatory and public scrutiny concerning outsourced and off-shore activities and their associated risks, including, for example, the appropriate management and control of confidential data. If we fail to manage these risks appropriately, we may incur financial losses and/or regulatory intervention and penalties, and our reputation and ability to retain and attract clients may be adversely affected.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee, contractor and external service provider misconduct could occur. In addition, risk could occur through the provision of products and services to our customers that do not meet their needs, such as through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, selling products and services outside of customer target markets or a failure to adequately provide the products or services we had agreed to provide a customer. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

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

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

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

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

Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies, develop additional remote connectivity solutions and outsource some of our business operations. We face indirect technology, cybersecurity and operational risks relating to the customers, clients, external service providers and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities, including financial counterparties, financial intermediaries (such as clearing agents, exchanges and clearing houses), vendors, regulators, providers of critical infrastructure (such as internet access and electrical power), retailers for whom we process transactions, as well as other third parties with whom our clients do business, can also be sources of operational risk to us, including with respect to security breaches affecting such parties, breakdowns or failures of the systems or misconduct by the employees, contractors or external service providers of such parties and cyber attacks. Such incidents may require us to take steps to protect the integrity of our own operational systems or to safeguard our confidential information and that of our clients, thereby increasing our operational costs and potentially diminishing customer satisfaction.

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

Although to date we have not experienced any material losses or suffered other material consequences relating to technology failure, cyber attacks or other information or security breaches, whether directed at us or at third parties, there can be no assurance that we will not suffer such losses or other consequences in the future. It is possible that we may not be able to anticipate or to implement effective measures to prevent or minimize damage that may be caused by all information security threats, because the techniques used can be highly sophisticated and can evolve rapidly, and perpetrators can be well resourced. Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for 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. Furthermore, the public perception that a cyber attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business.

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

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

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

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

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

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

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

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

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

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

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and MBL's ability to continue operating or trading in a country, which in turn may adversely affect our business, prospects, results of operations and financial condition.

We could suffer losses due to environmental and social factors

We and our customers operate businesses and hold assets in a diverse range of geographic locations. Any significant environmental change, climate change related impact (including physical or transition risks such as changes to laws and regulations, technology development and disruptions), or external event (including increased frequency and severity of storms, floods and other catastrophic events such as earthquake, pandemic, civil unrest or terrorism events) in any of these locations has the potential to disrupt business activities, impact our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. Any such long-term, adverse environmental consequences could prompt us to exit certain businesses altogether. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

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 (including any cash held on its behalf) as they will rank among the custodian's unsecured creditors in relation to assets which the custodian borrows, lends or otherwise uses. In addition, the 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.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2019.

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

	As at	
	Sep 19	**Sep 19**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	10,081	14,943
Loan capital — due greater than 12 months	2,410	3,573
Total borrowings[3]	**12,491**	**18,516**
Equity		
Contributed equity		
Ordinary share capital	4,916	7,288
Equity contribution from ultimate parent entity	149	221
Macquarie Income Securities	264	391
Reserves	430	637
Retained earnings	2,563	3,799
Other non-controlling interests	1	1
Total equity	**8,323**	**12,337**
TOTAL CAPITALIZATION	**20,814**	**30,853**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2019, which was US$0.6746 per A$1.00.

2 As at September 30, 2019, we had A$1.1 billion of secured indebtedness due in greater than 12 months compared to A$1.0 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$20.5 billion as at September 30, 2019 and securitizations totaled A$8.6 billion as at September 30, 2019 compared to A$17.3 billion and A$7.2 billion, respectively, as at March 31, 2019.

For details on our short-term debt position as at September 30, 2019, see section 5.4 of our 2020 Half Year Management Discussion and Analysis Report.

RECENT DEVELOPMENTS

The following are significant recent developments for MBL Group that have occurred since the release of our 2019 Annual U.S. Disclosure Report on May 20, 2019. In addition to the developments noted below to account for the half year ended September 30, 2019, investors should be aware that certain recent developments were announced post-September 30, 2019. Investors should refer to the section of this Report under the heading "Management's Discussion and Analysis of Interim Results of Operations and Financial Condition — Recent developments post-September 30, 2019" for more information on these developments.

Investors should be aware that the information set forth in this Report is not complete and should be read in conjunction with the discussion under "Risk Factors" beginning on page 1 and under "Macquarie Bank Limited" beginning on page 14 of our 2019 Annual U.S. Disclosure Report and other information posted on MBL's U.S. Investors' Website

Successful completion by MGL of A$1.0 billion institutional placement and A$679 million retail offer under share purchase plan

On August 29, 2019, MGL successfully completed a A$1.0 billion institutional placement, which resulted in the issue of approximately 8.3 million new, fully-paid MGL ordinary shares at a price of A$120.00 per ordinary share.

Following the institutional placement, on September 20, 2019, MGL successfully completed a A$679 million retail offer under a share purchase place, which resulted in the issue of approximately 5.7 million new, fully-paid MGL ordinary shares at a price of A$120.00 per ordinary share.

Operating group update and management changes

Effective 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 half year ended September 30, 2019 are reported under the new group structure with reclassified results for prior periods.

Garry Farrell, Co-Head of Corporate and Asset Finance prior to September 1, 2019, retired from MGL effective September 1, 2019. Mr. Farrell had been with MGL for 33 years and on the Executive Committee for nine years.

Florian Herold, Co-Head of Corporate and Asset Finance prior to September 1, 2019, continues to lead Principal Finance in Macquarie Capital (Non-Banking Group) and will remain on the Executive Committee.

Board changes announced during the half year ended September 30, 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.

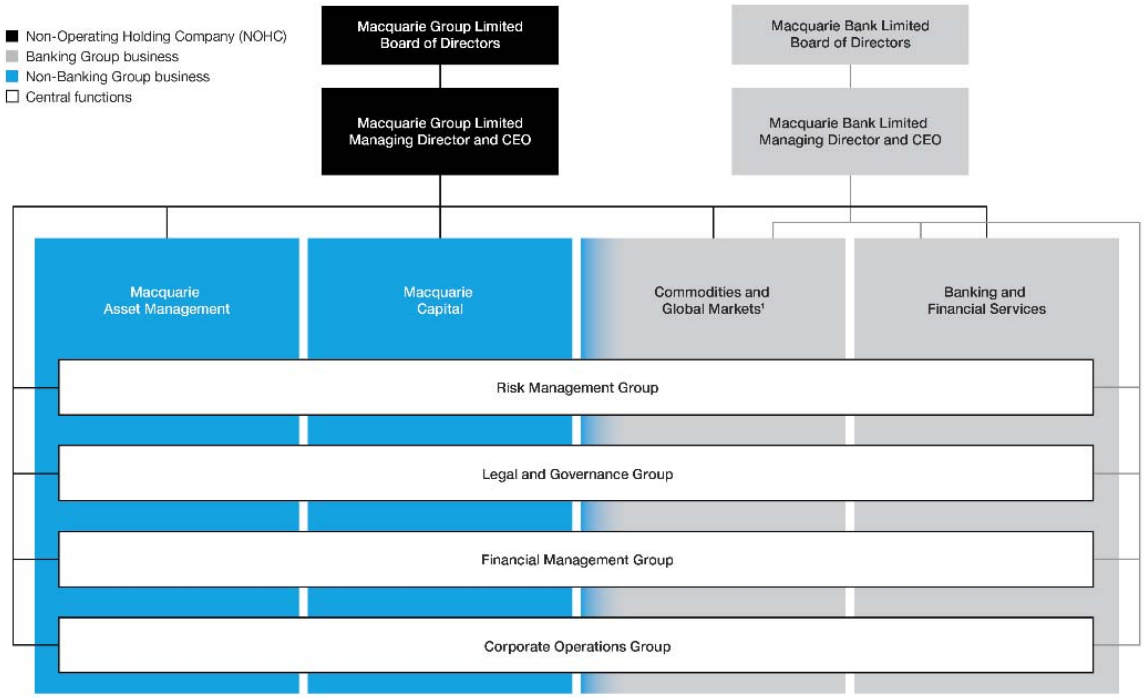
Organizational structure

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, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate Affairs, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time. Items of income and expense within the Corporate segment include earnings from the net impact of managing liquidity for Macquarie 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 Macquarie Income Securities ("*MIS*").

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 Half Year Management Discussion and Analysis Report. Although the Banking Group and the Non-Banking Group operate as separate sub-groups, both are integral to MGL Group's identity and strategy as they assist MGL Group in continuing to pursue value adding and diversified business opportunities while meeting its obligations under APRA rules.

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



As at 1 September 2019.
1. 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 are undertaken from within the Non-Banking group
2. The current Group Head of BFS is also the Deputy Group CEO.

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 key strengths

For a description of our key strengths, see "Macquarie Bank Limited — Our key strengths" on page 15 of our 2019 Annual U.S. Disclosure Report.

MBL has met all of its capital requirements throughout the half year ended September 30, 2019. As at September 30, 2019, the Banking Group had a Harmonized Basel III Common Equity Tier 1 capital ratio of 14.0%, a Tier 1 capital ratio of 16.0% and a total capital ratio of 18.0%. The Banking Group's APRA Basel III Common Equity Tier 1 capital ratio was 11.4%, Tier 1 capital ratio was 13.3% and total capital ratio was 15.2%. MBL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on regulation and supervision, see "Regulatory and supervision developments — Australia — APRA" below and for further information on our regulatory capital position as at September 30, 2019, see section 6.0 of our 2020 Half Year Management Discussion and Analysis Report.

Our strategy

Our strategy is set out under "Macquarie Bank Limited — Our strategy" on page 17 of our 2019 Annual U.S. Disclosure Report. We expect to continue to assess strategic acquisition and merger opportunities and other corporate transactions as they arise, along with exploring opportunities for further organic growth in our existing and related businesses as an avenue of growth and diversification for MBL Group in the medium term.

Across our international operations, the strategy focuses on building a global platform in our key areas of expertise, through both acquisitions and organic growth, which we believe will enable us to offer a comprehensive range of MBL products to clients around the world. See "— Overview of MBL Group — Regional activity" below for further information on MBL's performance across its key geographical regions.

Trading conditions and market update

Banking and Financial Services in MBL contributed a net profit contribution of A$384 million for the half year ended September 30, 2019. Banking and Financial Services experienced growth in BFS deposits[1], the Australian loan portfolio and funds on platform average volumes partially offset by a decrease in Australian vehicle finance portfolio and the impact of realigning the wealth advice business to focus on the high net worth segment.

Commodities and Global Markets in MBL contributed a net profit contribution of A$1,145 million for the half year ended September 30, 2019. Commodities and Global Markets experienced a strong contribution from the commodities platform driven by increased client hedging activity and timing of income recognition on storage and transport agreements, improved foreign exchange, interest rates and credit results, partially offset by higher operating expenses.

For a discussion of the impact of trading and market conditions on our results of operations and financial condition for the half year ended September 30, 2019, see our 2020 Half Year Management Discussion and Analysis Report for further information.

Overview of MBL Group

As at September 30, 2019, MBL had total assets of A$185.6 billion and total equity of A$12.3 billion. For the half year ended September 30, 2019, our net operating income from ordinary activities was A$3,430 million and profit after tax attributable to the ordinary equity holder was A$992 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 half years ended September 30, 2019 and 2018.

Net operating income from ordinary activities of MBL Group by operating group for the half years ended September 30, 2019 and 2018 [1]

	Half Year ended		
	Sep 19	**Sep 18**	**Movement[4]**
	A$m	**A$m**	**%**
Banking and Financial Services	1,020	1,049	(3)
Commodities and Global Markets[2]	2,111	1,756	20
Total net operating income from operating groups	**3,131**	**2,805**	12
Corporate[3]	299	60	*
Total net operating income	**3,430**	**2,865**	20

1 For further information on our segment reporting, see section 3.0 of our 2020 Half Year Management Discussion and Analysis Report and Note 3 to our 2020 interim 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 Macquarie Bank, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay credit and other impairments or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

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

1 Banking and Financial Services deposits exclude corporate/wholesale deposits.

Net profit from ordinary activities of MBL Group by operating group for the half years ended September 30, 2019 and 2018 [1]

	Half Year ended		
	Sep 19	**Sep 18**	**Movement**[4]
	A$m	**A$m**	**%**
Banking and Financial Services	384	376	2
Commodities and Global Markets[2]	1,145	807	42
Total contribution to net profit from operating groups from continuing operations	**1,529**	**1,183**	29
Corporate[3]	(537)	(576)	(7)
Net profit attributable to the ordinary equity holder of MBL from continuing operations	**992**	**607**	63

1 For further information on our segment reporting, see section 3.0 of our 2020 Half Year Management Discussion and Analysis Report and Note 3 to our 2020 interim 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 MBL Group, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay credit and other impairments or valuation of assets, unallocated head office costs and costs of central service groups, performance-related profit share and share-based payments expense and income tax expense.

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 September 30, 2019, MBL Group employed 4,313 staff globally and conducted its operations in 16 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 September 30, 2019, MBL Group employed 2,962 staff in Australia. In the half year ended September 30, 2019, Australia contributed A$2,925 million (53%) of our revenues from external customers as compared to A$2,903 million (60%) in the half year ended September 30, 2018.

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 September 30, 2019, MBL Group employed 451 staff across three markets. In the half year ended September 30, 2019, the Americas contributed A$1,212 million (22%) of our revenues from external customers as compared to A$735 million (15%) in the half year ended September 30, 2018.

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 September 30, 2019, MBL Group employed 222 staff across eight markets. MBL has expanded the regional investment and product platforms of Corporate and Asset Finance as well as 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 half year ended September 30, 2019, Asia contributed A$388 million (7%) of our revenues from external customers as compared to A$350 million (7%) in the half year ended September 30, 2018.

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 September 30, 2019, MBL Group employed 678 staff across four markets. In the half year ended September 30, 2019, Europe, Middle East & Africa contributed A$973 million (18%) of our revenues from external customers as compared to A$840 million (17%) in the half year ended September 30, 2018.

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

Recent developments within MBL Group

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

BFS contributed A$384 million to MBL Group's net profit for the half year ended September 30, 2019, and had 2,643 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 & 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$1,145 million to MBL Group's net profit for the half year ended September 30, 2019, and had over 1,660 staff located in 15 markets in Australia, the Americas, Europe, and Asia.

An internal reorganization of MGL Group resulted in the transfer of Corporate and Asset Finance – 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.

Recent developments within the Corporate segment of MBL Group

The Corporate segment includes 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.

Corporate contributed a net loss of A$537 million in the half year ended September 30, 2019.

For further information on Corporate's results of operations and financial condition for the half year ended September 30, 2019, see section 3.4 of our 2020 Half Year Management Discussion and Analysis Report.

Asset management business

For a description of MBL Group's asset management business, see "Macquarie Bank Limited — Asset management business" beginning on page 23 of our 2018 Annual U.S. Disclosure Report.

Assets under Management

MBL Group had an aggregate of A$1.4 billion of Assets under Management as at September 30, 2019, an 84% decrease from A$8.6 billion as at March 31, 2019.

Legal proceedings and regulatory matters

Germany

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

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

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

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

Other legal proceedings

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

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 19 to our 2020 interim 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

For a description of the competition MBL Group faces in the markets in which it operates, see "Macquarie Bank Limited — Competition" beginning on page 24 of our 2019 Annual U.S. Disclosure Report.

Additional financial disclosures for the half year ended September 30, 2019

Euro-zone and other exposures

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

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.

	As at Sep 30, 2019			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Cyprus				
Loans, receivables & commitments[1]	—	—	0.7	0.7
Derivative assets[2]	—	0.1	—	0.1
Cyprus totals	**—**	**0.1**	**0.7**	**0.8**
Greece				
Derivative assets[2]	—	—	0.8	0.8
Greece totals	**—**	**—**	**0.8**	**0.8**

Ireland				
Loans, receivables & commitments[1]	—	0.3	1.8	2.1
Derivative assets[2]	—	—	13.8	13.8
Traded debt securities	—	5.8	—	5.8
Ireland totals	**—**	**6.1**	**15.6**	**21.7**
Italy				
Loans, receivables & commitments[1]	—	2.1	0.2	2.3
Derivative assets[2]	—	—	33.7	33.7
Traded debt securities	—	15.8	—	15.8
Italy totals	**—**	**17.9**	**33.9**	**51.8**
Portugal				
Loans, receivables & commitments[1]	—	—	0.7	0.7
Portugal totals	**—**	**—**	**0.7**	**0.7**
Spain				
Loans, receivables & commitments[1]	—	3.4	57.5	60.9
Derivative assets[2]	—	519.0	10.5	529.5
Traded debt securities	—	0.8	—	0.8
Spain totals	**—**	**523.2**	**68.0**	**591.2**
Total exposure	**—**	**547.3**	**119.7**	**667.0**

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. See Note 31 "Lease commitments" to our 2019 annual financial statements for further information. Lease commitments are disclosed in our annual financial statements each year and are not required to be disclosed under Australian Accounting Standards in interim financial statements.

As at September 30, 2019, MBL Group had A$11,356 million of contingent liabilities and commitments, including A$3,227 million of contingent liabilities and A$7,206 million of commitments with respect to undrawn credit facilities and securities underwriting. See Note 19 "Contingent liabilities and commitments" to our 2020 interim financial statements which shows MBL Group's contingent liabilities and commitments at September 30, 2019.

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 34 "Financial risk management" to our 2019 annual financial statements for a quantitative and qualitative discussion of these risks.

Regulatory and supervision developments

A description of MBL Group's principal regulators and the regulatory regimes that MBL Group, its businesses and the funds it manages in, and outside of, Australia, are subject to is set out under "Regulation and Supervision" beginning on page 27 of our 2019 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions", "Risk Factors — We may incur losses as a result of ineffective risk management processes and strategies" and "Risk Factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people including conduct by our employees, contractors and external service providers, or systems or external events" elsewhere in this Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia, the United States, the United Kingdom and other jurisdictions for MBL Group that have occurred since the release of our 2019 Annual U.S. Disclosure Report on May 20, 2019 and a summary of certain regulatory developments prior to May 20, 2019.

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 MBL and MGL 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 MBL or MGL is in material breach of applicable banking laws and/or regulations or is in financial distress, including where MBL or MGL has contravened the Australian Banking Act (or any related regulations or other instruments made, or conditions imposed, under that Act), or where MBL has informed APRA that it is unlikely to meet its obligations or is otherwise in financial distress or that it is about to suspend its payments. In these circumstances, APRA is required to have regard to protecting the interests of MBL's depositors and to the stability of the Australian financial system, but not necessarily to the interests of other creditors of MBL and MGL. For more information regarding recent legislative enhancement of APRA's powers in relation to ADIs, see the "— Crisis Management" section below.

In its supervision of ADIs, APRA focuses on capital adequacy, liquidity, market risk, credit risk, operational risk, associations with related entities, large exposures to unrelated entities and funds management, securitization and covered bonds activities. APRA also focuses on the supervision of non-financial risks including outsourcing, business continuity management, information security, governance, accountability, remuneration, culture and conduct. For instance, following APRA's publication of the Prudential Inquiry into the Commonwealth Bank of Australia, APRA requested a number of regulated financial institutions, including MGL Group, to perform a similar assessment of governance, culture and accountability. MGL Group provided its completed assessment to APRA in December 2018. 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. This information is not generally available to investors. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations. In carrying out its supervisory role, APRA supplements its analysis of statistical data collected from each ADI with selective "on site" visits and formal meetings with the ADIs' senior management and external auditors. The external auditors provide additional assurance to APRA that prudential standards applicable to ADIs are being observed, statistical and financial data provided by ADIs to APRA are reliable, and that statutory and other banking requirements are being met. External auditors are also required to undertake targeted reviews of specific risk management areas as requested by APRA. APRA may also exercise certain investigative powers if an ADI fails to provide information about its financial stability or becomes unable to meet its obligations.

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

APRA's prudential supervision – Capital adequacy

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

APRA has stipulated a capital adequacy framework that applies to MBL as an ADI and MGL as a NOHC. In the case of MGL Group, this framework is set out in MGL's NOHC Authority. Pillar 3 Disclosure Documents setting out the qualitative and quantitative disclosures of risk management practices and capital adequacy required to be published by MBL Group in accordance with APRA's Prudential Standard *APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("*APS 330*") are posted on MBL'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 June 30, 2019, which is posted on MBL's U.S. Investors' Website.

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

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment ("*CVA*") risk and operational risk;

- constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based ("*IRB*") approach for credit risk and by removing the use of the internal model approaches for CVA risk and for operational risk;

- introducing a leverage ratio buffer to further limit the leverage of global systemically important banks; and

- replacing the existing Basel II output floor with a more robust risk-sensitive floor based on the Basel Committee's revised Basel III standardized approaches.

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

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

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

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

On October 15, 2019, APRA released a discussion paper, "Revisions to APS 111 Capital Adequacy: Measurement of Capital". In the discussion paper, APRA proposes:

- 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.

APRA intends to finalize changes to APS 111 after the consultation period closes on January 31, 2020. The updated prudential standard is expected to come into force from January 1, 2021.

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

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

- lower risk weights for low LVR mortgage loans, and higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;
- amendments to the treatment of exposures to small- to medium-sized enterprises ("*SME*"), including those secured by residential property under the standardized and IRB approaches;
- changes to the loss given default ("*LGD*") estimates applied by ADIs under the foundation IRB approach, including higher LGD estimates for senior unsecured exposures;
- constraints on IRB ADIs' use of their own parameter estimates for particular exposures, an overall floor on risk weighted assets relative to the standardized approach; and

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

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

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

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

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

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

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

APRA released a further response to the Submission 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.

In summary, this response paper and its accompanying draft Prudential Standards seek to further progress the implementation of Basel III and increase capital requirements to meet the unquestionably strong benchmarks.

APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book

On September 4, 2019, APRA released a response paper and revised draft prudential standard on interest rate risk in the banking book which follows an initial consultation process that commenced in February 2018, as part of APRA’s broader proposed revisions to the capital framework.

APRA also commenced a second consultation calling for submissions on the proposals addressed in the response paper. The key proposals are:

- Implementing an “Expected Shortfall” approach for capital. This would take the average of the largest 2.5% moves in interest rates, rather than the current “VaR” approach which uses a single scenario that represents a 1 in 100 movement;

- Changes to the capital calculation for ADIs accredited under the internal ratings-based (IRB) approach. This includes monthly capital calculations, integrating key risk components into a single calculation, standardization of certain assumptions and segregating the banking book between market related (e.g. liquid asset portfolio) and non-market related exposures (e.g. mortgages, deposits); and

- Enhanced requirements for Board oversight. This includes a requirement for an ADI’s board to approve the assumed maturity profile of shareholders capital, to quantify risk appetite, and to be informed of key modeling assumptions. These requirements will also be extended to non-IRB ADIs.

APRA’s prudential supervision – Liquidity

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

APRA’s prudential supervision – 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.

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

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

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

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

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

APRA's prudential supervision – Management of large exposures

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

APRA's prudential supervision – Associations with Related Entities

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 and substantial shareholders.

- 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 intends for the finalized framework to apply from January 1, 2021.

APRA's prudential supervision – Resolution planning

APRA has highlighted the importance of resolution planning to the industry and broader community. The key themes considered by APRA in its public guidance on resolution planning include:

- *Resolution capability* – In its most recent Corporate Plan (2019-2023), APRA committed to establish a new prudential standard on resolution by end of 2020 and improve its resolution capability by developing more robust resolution strategies through to 2023.

- *Importance of resolution planning* – Consistent with APRA's Statement of Intent (published in September 2018), APRA cannot eliminate the risk that any institution might fail and it recognizes that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA's aim is to identify likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or an orderly exit achieved.

- *Resolution planning powers* – In addition to ensuring that APRA has sufficient resolution powers, it has also called out over time, the importance of working with entities to plan how it can discharge its powers in the event of a crisis. One of the important components of planning is to facilitate the orderly resolution of entities and ensure that it has continued access to critical functions, such as credit provision, is not materially impaired at a time when it is most needed.

- *Loss-absorbing capacity of ADIs* – discussed in further detail below.

MGL Group will continue to work with APRA in relation to resolution planning.

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

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

The key elements of the proposed approach are:

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

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

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.

The July 9, 2019 APRA responses to submission were silent on any further update on APRA's position regarding ADIs other than the D-SIBs, apart from re-stating what the original November discussion paper had outlined – namely, that for small to medium ADIs, extra loss-absorbing capacity would be considered on a case-by-case basis as part of the resolution planning process. MBL expects to be subject to additional loss-absorbing capacity ("*LAC*") requirements in line with the major banks, with the final quantum of LAC to be determined by APRA as part of the resolution planning process.

CPS 511 – 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 key feature of the proposed standard is to promote the use of non-financial performance criteria (including customer outcomes, reputation, conduct and culture) in designing variable remuneration incentives.

APRA enforcement of stable funding 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 funding and liquidity ratios where these had been reported incorrectly 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 showing no impact on the overall financial or capital position of the consolidated MGL Group. MGL Group will continue to work with APRA in relation to intra-group funding arrangements.

APRA's prudential supervision – Information Security

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

RBA

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

ASIC

ASIC is Australia's corporate, markets and financial services regulator, which regulates Australian companies, financial markets, financial services organizations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. ASIC is also responsible for consumer protection, monitoring and promoting market integrity and licensing in relation to the Australian financial system.

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

ACCC

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

AUSTRAC

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

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

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

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

Other Australian regulators

In addition to the foregoing regulators, 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.

The Commission's Final Report published on February 4, 2019 contains 76 recommendations. 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 (the "*Implementation Roadmap*"). The Implementation Roadmap sets out a timeline for how the Federal Government intends to deliver on the Royal Commission's recommendations. The Implementation Roadmap noted that, of the 76 recommendations made by the Royal Commission, over 40 of the recommendations require legislation to facilitate their implementation. The Federal Government anticipates that it will introduce all necessary legislation to implement the recommendations of the Royal Commission by the end of the calendar year 2020. The Implementation Roadmap noted that the Federal Government's response represents a comprehensive package of reforms designed to:

- strengthen and expand protections for consumers, small businesses and those in rural and remote communities;
- ensure that the industry has strong, effective regulators;
- enhance the accountability of financial firms, their senior executives and boards; and
- further improve remediation and redress for consumers and small businesses harmed by misconduct.

The Royal Commission's recommendations are likely to result in a range of further legislative, regulatory and industry practice changes. Such changes may adversely impact Macquarie Group's business, operations, compliance costs, financial performance and prospects.

Banking Executive Accountability Regime

In February 2018, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Act 2018* was passed by the Australian Parliament introducing a new bank executive accountability regime known as "*BEAR*". The intention behind BEAR is to improve the operating culture of all ADIs and their subsidiaries, and introduce transparency and personal accountability into the banking sector. Under BEAR, ADIs 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 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 most senior executives and directors. The information paper outlines APRA’s approach to implementing the accountability regime and clarifies APRA’s expectation of how an ADI can effectively implement the accountability regime on matters including:

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

On June 28, 2019, APRA released a letter detailing how it intends to achieve heightened and clarified product accountability among senior executives. Specifically, APRA proposes requiring ADIs to identify and register an accountable person to hold end-to-end product responsibility for each product the ADI offers to its customers, including retail, business and institutional customers. APRA has notified ADIs that they should nominate as few people as possible as persons with product responsibility but ensure that there is end-to-end coverage of all products. A public consultation on the proposed measures remained open until August 30, 2019, with APRA aiming to release a draft schedule for consultation in October 2019, the legislative instrument expected to be finalized in December 2019 and the new requirements implemented by July 1, 2020.

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 in September 2019 consulted on draft legislation. It is currently difficult to determine what impact any such amendments to the Australian Corporations Act and other laws will have on MBL and the MGL Group.

ASIC consultation on responsible lending conduct

On February 14, 2019, ASIC released a consultation paper to update its Regulatory Guide 209 *Credit licensing: Responsible lending conduct* (“*RG 209*”). RG 209 contains ASIC’s expectations for meeting the responsible lending obligations in Chapter 3 of the NCCP Act. Changes in the regulatory environment, technology and the release of the Royal Commission’s Final Report have led to the review of ASIC’s guidance on responsible lending for consumer credit. ASIC sought feedback on its general approach to guidance in this area, what aspects of the current guidance need updating or clarification and whether additional guidance on specific issues should be provided. In August 2019, ASIC also held public hearings with a number of parties who made submissions to the consultation to provide additional views and perspectives on key issues raised by industry and consumer stakeholders. ASIC intends to publish an updated RG 209 by the end of the year. The MGL Group and MBL will continue to monitor developments in this area.

Competition in the Australian Financial System

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

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

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

In February 2019, the Final Report of the Royal Commission was released by the Federal Government. The report recommended a best interest duty for mortgage brokers, a ban on trail commissions for new loans and the introduction of a borrower-pays mortgage broker remuneration model. The Bank understands that the Federal Government supports the introduction of a best interest duty, but not a ban on trail commissions or a borrower pays remuneration model. The Council of Financial Regulators and the ACCC will review mortgage broker remuneration in 2022.

On August 17, 2019, the Federal Government released the final report on the capability review of APRA. The review recommended APRA should increase its consideration of competition when making decisions through the creation of a competition champion within APRA.

In July 2019, the Council of Financial Regulators added the recognition of the benefits of competition to its charter when supporting effective regulation.

Open Banking

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 data holder to provide their data, in a CDR compliant format, to accredited data recipients including other banks, telecommunications providers, energy companies or companies providing comparison services. The Open Banking regime forms the first component of the Australian federal government's CDR. All Australian deposit taking institutions must comply with Open Banking. The current timing for commencement for non-major banks (including MBL) is July 1, 2020 to provide CDR data on credit and debit card, deposit and transaction accounts.

Australian Banking Association Code of Banking Practice Update

The Code of Banking Practice (or the Banking Code of Practice, as the revised code is called) (the "*Code*") is the banking industry's customer charter on best banking practice standards. 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 has been approved by ASIC, commenced on July 1, 2019. MBL has subscribed to the revised Code.

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.

ASIC will also be continuing its enhanced supervisory approach, including its Close and Continuous Monitoring program, Corporate Governance Taskforce and expanded oversight of financial markets, which involve onsite supervision and reviews of financial services entities.

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. 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. ASIC intends to release the updated RG 165 by the end of 2019, with the exception of the mandatory data reporting changes which has been delayed pending further consultation with stakeholders. ASIC intends to issue a legislative instrument that will have the effect of making the core IDR requirements set out in RG 165 enforceable.

On June 18, 2019, ASIC approved changes to allow the external dispute resolution scheme, the Australian Financial Complaints Authority (“*AFCA*”), to accept complaints that would normally fall outside the scheme’s time limits. From July 1, 2019 to June 30, 2020, consumers and small businesses will be able to lodge eligible legacy complaints with AFCA relating to the conduct of financial firms dating back to January 1, 2008. ASIC approved further changes to the AFCA Rules in August 2019 to allow the scheme to name financial firms in published determinations following a public consultation in May 2019. Consumers who are party to a complaint will continue to be anonymized in all determinations.

United States

Banking regulations

In the United States, MBL operates solely through representative offices, which by law are limited to performing certain representational and administrative functions. 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 by individual states, including the states of New York, Illinois and Texas, and are subject to periodic examination by the applicable state licensing authority and regional Federal Reserve Banks, which are subject to oversight by the Board of Governors of the Federal Reserve System (the “*FRB*”).

Derivatives regulations

The over-the-counter (“*OTC*”) derivatives market continues to undergo sweeping change as regulators across the globe implement rules and regulations to increase transparency and reduce systemic risk in this market. A number of jurisdictions relevant to 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 and recordkeeping.

The enactment of the Dodd-Frank Act has resulted in, and will continue to result in, significant changes in the regulation of the U.S. financial services industry, including reforming the financial supervisory and regulatory framework in the United States. In particular, the Dodd-Frank Act amended the commodities and securities laws to create a regulatory regime for swaps and other derivatives, subject to the jurisdiction and regulations of the applicable U.S. regulatory agency, such as the FRB, the Commodity Futures Trading Commission (“*CFTC*”) and the 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. Analogous regulations governing security-based swaps have been largely finalized by the SEC, but compliance is not yet required.

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, neither MBL nor MELLC have capital obligations in respect of being swap dealers. 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 in September 2020. 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. However, compliance with the SEC's rules applicable to security-based swaps is not yet required and the SEC has not publicly finalized a timetable for compliance. MBL may be required to register as a security-based swap dealer with the SEC at the time that such registration becomes mandatory and that it may be subject to compliance with SEC rules regarding security-based swap transactions. In the event of such requirements, the registration and compliance obligations will likely result in increased costs with respect to MBL's security-based swaps business.

Anti-money laundering regulations

The MBL representative offices as well as 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, including regulations 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 by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001.

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 that include the following components: (i) a system of internal controls to assure ongoing compliance with the applicable AML laws and regulations; (ii) independent testing for compliance to be conducted by the institution's personnel or by a qualified outside party; (iii) the designation of an individual or individuals responsible for coordinating and monitoring day-to-day compliance; (iv) training for appropriate personnel; and (v) the establishment of a risk-based customer due diligence procedure, including procedures designed to identify and verify the identities of the beneficial owners of legal entity customers (the "*Beneficial Ownership Rule*"). Since May 11, 2018, in order to comply with the Beneficial Ownership Rule, financial institutions have been required to establish and maintain written procedures reasonably designed to identify and verify for each legal entity customer (i) the identity of any individual who owns 25 percent or more of the legal entity customer, and (ii) one individual who controls the legal entity customer.

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

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

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

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.

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

United Kingdom

U.K. Regulators

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

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

MGL Group U.K. Regulated Entities

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

As regulated entities, MBIL and MBL LB are required to comply with U.K. legislation and the regulatory requirements set forth by the FCA and PRA in their handbooks of rules and guidance (collectively, the "*Rules*"), as applicable. The Rules include requirements as to capital adequacy, liquidity adequacy, systems and controls, corporate governance, market conduct, conduct of business and the treatment of customers, the application of which varies depending on whether it is a subsidiary or a branch of MBL. MGL also has five subsidiaries in the United Kingdom, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*"), Macquarie Investment Management Europe Limited ("*MIMEL*"), Macquarie Corporate and Asset Finance 1 Limited ("*MCAF*") and Green Investment Group Management Limited ("*GIGML*") authorized and regulated by the FCA. MIRAEL and GIGML are authorized as an alternative investment fund manager ("*AIFM*") pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773), which implements the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom, and is able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom and across Europe. MCEL is authorized and regulated by the FCA as a full-scope investment firm. MIMEL is authorized and regulated by the FCA as a limited-scope investment firm. MCAF is authorized and regulated by the FCA as a consumer credit firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation (575/2013) ("*CRR*") and Capital Requirements Directive (2013/36) ("*CRD IV*"), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014; and Directive 2014/65/EU ("*MiFID II*") and the Markets in Financial Instruments Regulation (600/2014/EU) ("*MiFIR*"), which relate to the carrying on of investment business and took effect on January 3, 2018). Under the Rules, regulated banks and certain investment firms are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MGL and MBL which considers the consolidated requirements of the MGL Group (including but not limited to MBIL, MCEL and MBL LB).

Brexit

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

The Article 50 Withdrawal Agreement has not yet been ratified by the United Kingdom or the European Union. The parties have agreed to an extended timeline which allows for ratification to take place any time prior to January 31, 2020. However, it remains uncertain whether the Article 50 Withdrawal Agreement, or any alternative agreement, will be ratified by the United Kingdom and the European Union ahead of the deadline. If that deadline of January 31, 2020 is not met, unless the negotiation period is further extended or the Article 50 notification revoked, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the United Kingdom and the United Kingdom will lose access to the EU single market.

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

Due to the ongoing political uncertainty as regards the terms of the United Kingdom's withdrawal from the European Union and the structure of the future relationship, the precise impact on the MBL 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 United Kingdom's withdrawal from the European Union 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 to bring the Extended SMCR 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 will be three categories of firms:

1. Enhanced firms;

2. Core firms; and

3. Limited scope firms.

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

- a significant IFPRU firm as defined in the FCA's Prudential Sourcebook for Investment Firms;
- a CASS large firm as defined in the Client Assets chapter of the FCA Handbook;
- a firm which has Assets under Management ("*AUM*") of £50 billion or more (calculated as a three-year rolling average);
- a firm which has revenue from intermediary regulated business activity of £35 million or more per year (calculated as a three-year rolling average);
- a firm which has revenue from regulated consumer credit lending of £100 million or more per year (calculated as a three-year rolling average); or
- mortgage lenders and administrators (that are not banks) with 10,000 or more regulated mortgages outstanding at the latest reporting date.

The Extended SMCR will apply to all MGL Group entities that are regulated solely by the FCA (MCEL, MCAF, MIRAEL, MIMEL and GIGML). Our current understanding is that MCEL falls within the enhanced firm category, and a draft submission was requested and provided in line with this expectation. The remaining entities under Extended SMCR are being treated as core category firms. The proposed regime for Enhanced firms replicates the Existing SMCR in requiring the CFO, CRO, COO, Head of Internal Audit, and business heads (among other functions) for MCEL to be registered as Senior Managers. A Management Responsibilities Map ("*MRM*") showing the whole governance structure of the firm will also need to be produced. The Core category of Extended SMCR is less onerous as individual heads of businesses are not expected to be named as Senior Managers and no MRM is required. As noted above, MBIL and MBL LB are already subject to the Existing SMCR. Substantial changes to the existing governance arrangements of MBIL and MBL LB are not expected as a result of the Extended SMCR.

European Union

Macquarie Bank Europe

MBL has a newly authorized subsidiary, Macquarie Bank Europe, 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. 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.

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 "*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. BRRD 2 entered into force on June 27. 2019 and will largely apply from December 28, 2020.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF INTERIM RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In addition to the information included in this Report, investors should refer to our 2020 Half Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2019 compared to the half year ended September 30, 2018, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2019, which is posted on MBL’s U.S. Investors’ Website. Such information should be read in conjunction with the discussion under “Management’s Discussion and Analysis of Results of Operations and Financial Condition” beginning on page 46 of our 2019 Annual U.S. Disclosure Report.

Half year ended September 30, 2019 compared to half year ended September 30, 2018

See sections 1.0 – 6.0 of our 2020 Half Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the half years ended September 30, 2019 and 2018, which has been incorporated by reference herein.

MACQUARIE
BANK