Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2017

Dated: November 10, 2017

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CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2017 ("*2018 Interim U.S. Disclosure* Report" or this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*2017 Annual U.S. Disclosure Report*" means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2017 and the documents incorporated by reference therein;

- "*2017 Interim Directors' Report and Financial Report*" means our 2017 Interim Directors' Report and Financial Report;

- "*2018 Interim Directors' Report and Financial Report*" means our 2018 Interim Directors' Report and Financial Report;

- "*2018 Half Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated October 27, 2017, which includes a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2017 compared to the half year ended September 30, 2016, along with other balance sheet capital and liquidity disclosures as at or for the half year ended September 30, 2017, has been posted on MGL's U.S. Investors' Website and has been incorporated by reference herein; and

- "*2018 interim financial statements*" means our unaudited financial statements for the half year ended September 30, 2017 contained in our 2018 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain Definitions" beginning on page ii of our 2017 Annual U.S. Disclosure Report, which is posted on Macquarie Group Limited's ("MGL") U.S. Investors' Website at www.macquarie.com/mgl/com/us/usinvestors/mgl ("*MGL's U.S. Investors' Website*").

Our fiscal year ends on March 31, so references to years such as "*2018*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operation 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;
- changes in market liquidity, volatility and investor confidence;
- inflation, and interest rate, exchange rate and other market fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of MGL and the Non-Banking Group;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our reputation;
- the performance and financial condition of MGL;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the ability of MGL to attract and retain employees;
- changes in the credit quality of MGL's clients and counterparties;
- changes to the credit ratings assigned to each of MGL and MBL;
- the effectiveness of our risk management processes and strategies;
- the performance of funds and other assets we manage;

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

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

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

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

Significant risk factors applicable to MGL Group are described under "Risk Factors" beginning on page 1 of our 2017 Annual U.S. Disclosure Report. Other factors are discussed in our 2018 Half Year Management Discussion and Analysis Report and in our 2017 Fiscal Year Management Discussion and Analysis Report, incorporated by reference in our 2017 Annual U.S. Disclosure Report.

EXCHANGE RATES

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

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on September 29, 2017, which was US$0.7840 per A$1.00. The noon buying rate on November 3, 2017 was US$0.7650 per A$1.00.

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

Month	Period End	High	Low
May 2017	0.7437	0.7534	0.7352
June 2017	0.7676	0.7680	0.7387
July 2017	0.7988	0.7991	0.7584
August 2017	0.7932	0.7983	0.7822
September 2017	0.7840	0.8071	0.7831
October 2017	0.7668	0.7885	0.7660
November 2017 (through November 3, 2017)	0.7650	0.7722	0.7650

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

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

FINANCIAL INFORMATION PRESENTATION

Investors should read the following discussion regarding the presentation of our financial information together with the discussion under "Financial Information Presentation" beginning on page x of our 2017 Annual U.S. Disclosure Report and our 2018 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 MGL'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, 2017 and the impact of such operating conditions on MGL Group;

- the section of this Report under the heading "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition", which incorporates by reference our 2018 Half Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2017 compared to the half year ended September 30, 2016, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2017 and which has been posted on MGL's U.S. Investors' Website;

- MBL's Pillar 3 Disclosure Document dated June 2017, which describes the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within this framework and which is posted on MGL's U.S. Investors' Website; and

- our historical financial statements, which are included in the extracts from our 2018 Interim Directors' Report and Financial Report posted on MGL's U.S. Investors' Website.

For further information on our historical financial information for the 2017 fiscal year and prior periods, refer to the discussion under the heading "Financial Information Presentation — Our financial information" included in our 2017 Annual U.S. Disclosure Report.

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 2017 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 xii of our 2017 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 2018 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 MGL Group in respect of our financial results. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and, therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. You are cautioned, therefore, not to place undue reliance on any non-GAAP financial measures and ratios included or incorporated by reference into this Report and in the additional information posted on MGL's U.S. Investors' Website. For further information on our non-GAAP financial measures, see "Financial Information Presentation — Non-GAAP financial measures" beginning on page xii of our 2017 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. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 37 to our 2017 annual financial statements.

The significant risk factors applicable to MGL Group are described under "Risk Factors" beginning on page 1 of our 2017 Annual U.S. Disclosure Report.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2017.

The information relating to MGL Group in the following table is based on our 2018 interim financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Sep 17	**Sep 17**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	25,117	32,038
Subordinated debt— due greater than 12 months	3,768	4,806
Total borrowings[3]	28,885	36,844
Equity		
Contributed equity		
Ordinary share capital	5,868	7,485
Treasury shares	(1,025)	(1,307)
Exchangeable shares	8	10
Reserves	783	999
Retained earnings	6,405	8,170
Macquarie Income Securities	307	391
Other non-controlling interests	1,059	1,351
Total equity	13,405	17,099
TOTAL CAPITALIZATION	42,290	53,943

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 29, 2017, which was US$0.7840 per A$1.00. See "Exchange Rates" for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At September 30, 2017, we had A$3.2 billion of secured indebtedness due in greater than 12 months compared to A$3.1 billion at September 30, 2016.

3 Total borrowings do not include our short-term debt securities, including the current portion of long-term debt, or securitizations. Short-term debt totaled A$22.0 billion as at September 30, 2017 and securitizations totaled A$11.3 billion as at September 30, 2017 compared to A$17.2 billion and A$13.7 billion, respectively, as at September 30, 2016.

For details on our short-term debt position as at September 30, 2017, see section 5.4 of our 2018 Half Year Management Discussion and Analysis Report.

RECENT DEVELOPMENTS

The following are significant recent developments for MGL Group that have occurred since the release of our 2017 Annual U.S. Disclosure Report on May 23, 2017. 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 Group Limited" beginning on page 14 of our 2017 Annual U.S. Disclosure Report and other information posted on MGL's U.S. Investors' Website.

Organizational structure

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

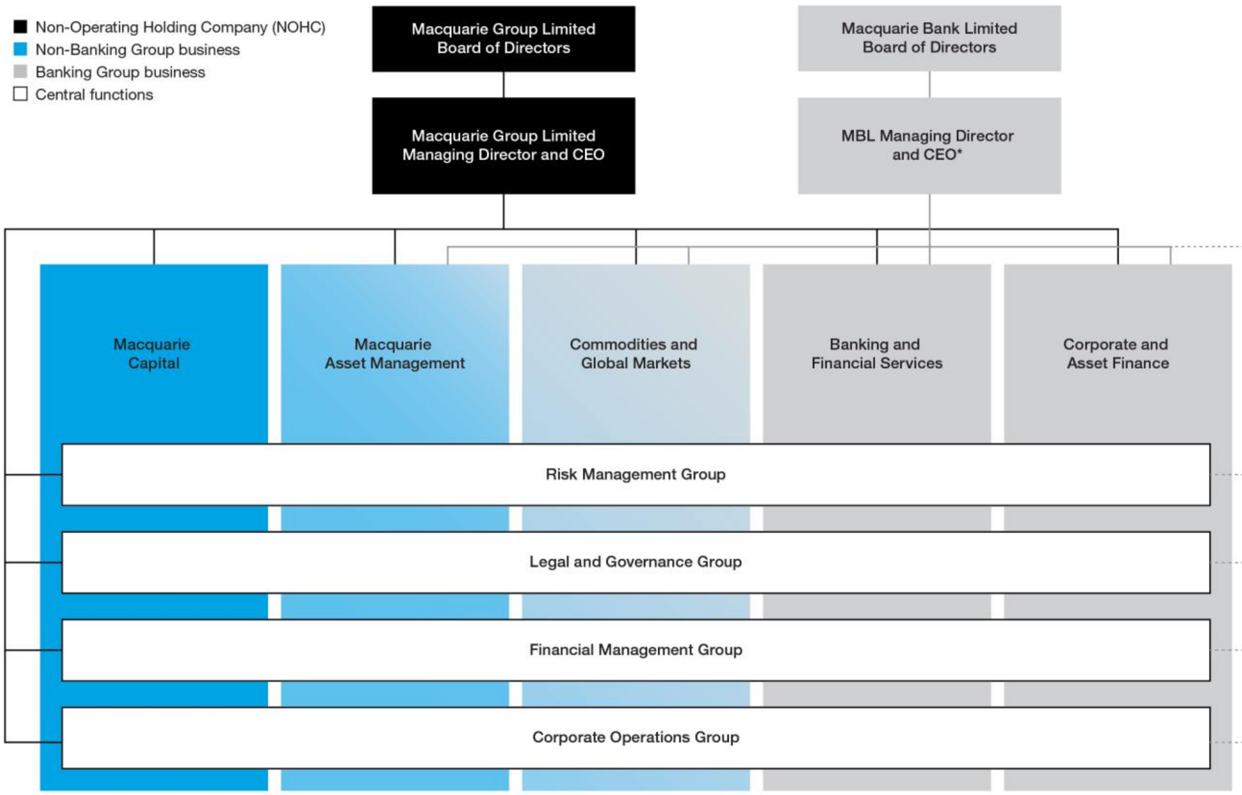
The Banking Group comprises MBL Group and has four operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); Commodities & Global Markets (excluding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

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

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

MBL and MGL have corporate governance and policy frameworks that meet the Australian Prudential Regulation Authority's ("*APRA*") requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5.0 of our 2018 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 30 November 2016
**The current Group Head of BFS is also the Deputy Group CEO.*

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

Our key strengths

For a description of our key strengths, see "Macquarie Group Limited — Our key strengths" on page 16 of our 2017 Annual U.S. Disclosure Report.

At September 30, 2017, MGL Group had total regulatory capital of A$18.1 billion, including A$4.2 billion of capital in excess of MGL Group's minimum APRA regulatory requirement (calculated at 8.5% of the Banking Group's RWA on a Basel III basis). The 8.5% represents the Basel III minimum Tier 1 ratio of 6% plus 2.5% of capital conservation buffer, per the minimum requirements in the APRA Prudential Standard APS110 which has been required by APRA since January 1, 2016. For further information, refer to the discussion under the heading "Regulation and Supervision — APRA" on page 35 of our 2017 Annual U.S. Disclosure Report. MGL Group continues to monitor regulatory and market developments in relation to liquidity and capital management. For further information on our regulatory capital position as at September 30, 2017, see our 2018 Half Year Management Discussion and Analysis Report.

Our strategy

Our strategy is set out under "Macquarie Group Limited — Our strategy" on page 18 of our 2017 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 MGL 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 MGL products to clients around the world. See "— Overview of MGL Group — Regional activity" below for further information on MGL's performance across its key geographical regions.

Trading conditions and market update

MGL's annuity-style businesses generated a combined net profit contribution of A$2,094 million for the half year ended September 30, 2017. Macquarie Asset Management saw continued strong performance compared to the prior corresponding period, benefiting from increased performance fees while base fees and investment related income remained broadly in line with the prior corresponding period. Corporate and Asset Finance benefitted from increased income from prepayments, realizations and investment-related income in the Principal Finance portfolio, albeit reduced income from lower portfolio volumes, and reduced provisions and impairments overall. Banking and Financial Services experienced volume growth in loan and deposit portfolios and improved margins largely offset by the non-recurrence of the net gain on the sale of Macquarie Life's risk insurance business in the prior corresponding period.

MGL's capital markets-facing businesses contributed a combined net profit contribution of A$568 million for the half year ended September 30, 2017. Commodities & Global Markets experienced reduced income from the sale of investments and lower volatility across the commodities platform resulting in reduced client activity and trading opportunities, partially offset by stronger client flows and revenues from interest rates and foreign exchange and improved results across the equities platform. Macquarie Capital experienced increased client activity in DCM, offset by subdued activity in M&A and ECM, as well as lower investment-related income.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the half year ended September 30, 2017, see our 2018 Half Year Management Discussion and Analysis Report for further information.

Overview of MGL Group

At September 30, 2017, MGL had total assets of A$189.8 billion and total equity of A$17.1 billion. For the half year ended September 30, 2017, our net operating income was A$5,397 million and profit after tax attributable to ordinary equity holders was A$1,248 million, with 62% of our net operating income (excluding earnings on capital and other corporate items) derived from international income.

The tables below show the relative net operating income and profit contribution from ordinary activities of each of our operating groups for the half years ended September 30, 2017 and 2016.

Net operating income of MGL Group by operating group for the half years ended September 30, 2017 and 2016[1]

	Half-Year ended		
	Sep 17	Sep 16	Movement
	A$m	A$m	%
Macquarie Asset Management	1,730	1,373	26
Corporate & Asset Finance	931	835	11
Banking & Financial Services	822	879	(6)
Commodities & Global Markets	1,321	1,485	(11)
Macquarie Capital	582	569	2
Total net operating income from operating groups	**5,386**	**5,141**	5
Corporate[2]	11	77	(86)
Total net operating income	**5,397**	**5,218**	3

Net profit contribution of MGL Group by operating group for the half years ended September 30, 2017 and 2016[1]

	Half-Year ended		
	Sep 17	Sep 16	Movement
	A$m	A$m	%
Macquarie Asset Management	1,189	857	39
Corporate & Asset Finance	619	521	19
Banking & Financial Services	286	261	10
Commodities & Global Markets	378	490	(23)
Macquarie Capital	190	205	(7)
Total contribution to net profit by operating group	**2,662**	**2,334**	14
Corporate[2]	(1,414)	(1,284)	(10)
Net profit after tax	**1,248**	**1,050**	19

1 For further information on our segment reporting, see section 3.0 of our 2018 Half Year Management Discussion and Analysis Report and Note 3 to our 2018 interim financial statements.

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

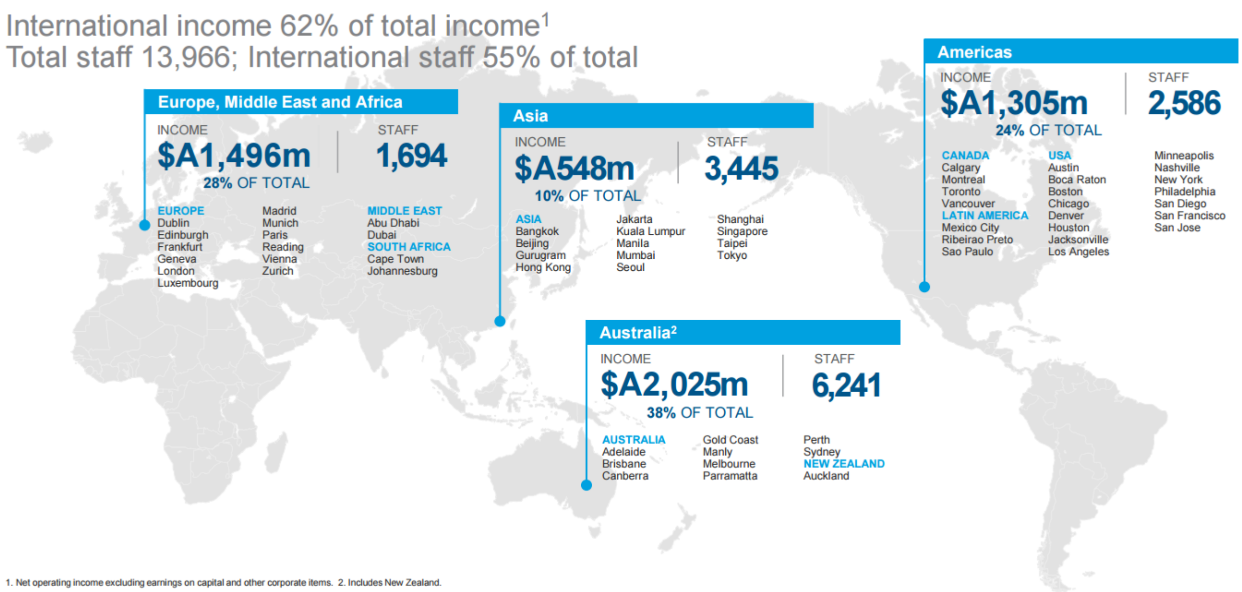
3 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Regional activity

At September 30, 2017, MGL Group employed over 13,900 staff globally and conducted its operations in 27 countries.

The chart below shows MGL Group's international income by region in the half year ended September 30, 2017.

International income of MGL Group[1] by region for the half year ended September 30, 2017



Australia and New Zealand. MBL Group, the predecessor of MGL Group, has its origins as the merchant bank Hill Samuel Australia Limited, created in 1969 as a wholly-owned subsidiary of Hill Samuel & Co. Limited, London, and began operations in Sydney in January 1970 with only three staff. As at September 30, 2017, MGL Group employed over 6,200 staff across Australia and New Zealand. In the half year ended September 30, 2017, Australia and New Zealand contributed A$2.0 billion (38%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$2.1 billion (41%) in the half year ended September 30, 2016.

Americas. MGL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions including Delaware Investments, Tristone and Constellation Energy. As at September 30, 2017, MGL Group employed over 2,500 staff across the United States, Canada, Mexico and Brazil. In the half year ended September 30, 2017, the Americas contributed A$1.3 billion (24%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.2 billion (23%) in the half year ended September 30, 2016.

Asia. MGL Group has been active in Asia for more than 20 years, when we established our first office in Hong Kong in 1995. As at September 30, 2017, MGL Group employed over 3,400 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. MGL has expanded the regional investment and product platforms of Macquarie Asset Management, Corporate & Asset Finance as well as Commodities & Global Markets, which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the half year ended September 30, 2017, Asia contributed A$0.5 billion (10%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$0.6 billion (11%) in the half year ended September 30, 2016.

Europe, Middle East & Africa. MGL Group has been active in Europe since the late 1980s, in Africa since 2000 and the Middle East since 2005. As at September 30, 2017, MGL Group employed over 1,600 staff across the

United Kingdom, Germany, France, Ireland, Luxembourg, Austria, Switzerland, South Africa, Spain and the United Arab Emirates. In the half year ended September 30, 2017, Europe, Middle East & Africa contributed A$1.5 billion (28%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.3 billion (25%) in the half year ended September 30, 2016.

For further information on our segment reporting, see section 3.0 of our 2018 Half Year Management Discussion and Analysis Report and Note 3 to our 2018 interim financial statements.

Recent developments within MGL Group

Macquarie Asset Management

Macquarie Asset Management operates businesses in both the Banking Group and the Non-Banking Group. In the Banking Group, Macquarie Asset Management offers a range of investment solutions with an alternate fixed income focus, for its fiduciary clients within the infrastructure debt sector and balance sheet lending to shipping, export credit agency backed debt, hedge funds and private equity investors. In the Non-Banking Group, Macquarie Asset Management provides clients with access to a diverse range of capabilities and products including infrastructure, real assets, equities, fixed income, liquid alternatives and multi-asset investment management solutions.

Macquarie Asset Management contributed A$1,189 million to MGL Group's net profit for the half year ended September 30, 2017 and, as at September 30, 2017, had headcount of over 1,500 operating across 24 countries across Australia, the Americas, Europe and Asia.

As at September 30, 2017, Macquarie Asset Management had Assets under Management of A$471.9 billion. For further information on Macquarie Asset Management's results of operation and financial condition for the half year ended September 30, 2017, see section 3.2 of our 2018 Half Year Management Discussion and Analysis Report. For further information on Macquarie Asset Management's Assets under Management, see " — Funds management business — Assets under Management" beginning on page 30 of our 2017 Annual U.S. Disclosure Report.

In the Non-Banking Group, Macquarie Infrastructure and Real Assets, continued its focus on investing capital strategically across the globe during the half year ended September 30, 2017, by raising A$6.2 billion in new equity commitments, investing A$5.0 billion in equity across 7 acquisitions and 13 follow-on investments in 8 countries and received equity proceeds from asset divestments of over A$4.8 billion. Macquarie Investment Management's Assets under Management of A$325.2 billion at September 30, 2017 increased 2% from A$320.3 billion at March 31, 2017, largely due to positive market movements, partially offset by unfavourable foreign exchange movements.

In the Banking Group, during the half year ended September 30, 2017, Macquarie Specialised Investment Solutions continued to grow its infrastructure debt management business with total third party investor commitments of over A$7.8 billion.

For further information and a description of the divisions within Macquarie Asset Management, see "Macquarie Group Limited — Operating groups — Macquarie Asset Management" beginning on page 24 of our 2017 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance operates in selected international markets, providing specialist financing, investing and asset management solutions. Corporate & Asset Finance has expertise in flexible primary financing, secondary market investing, and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$619 million to MGL Group's net profit in the half year ended September 30, 2017 and, as at September 30, 2017, had headcount of over 1,200 operating across 18 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance's results of operation and financial condition for the half year ended September 30, 2017, see section 3.3 of our 2018 Half Year Management Discussion and Analysis Report.

At September 30, 2017, Corporate & Asset Finance managed an asset and loan portfolio of A$35.5 billion, which represents a decrease of 3% from A$36.5 billion at March 31, 2017. The Asset Finance portfolio of A$29.9 billion at September 30, 2017 was up 1% from A$29.7 billion at March 31, 2017.

Corporate & Asset Finance's vehicle leasing portfolio continued to grow, with total contracts in excess of 610,000 and securitization activity continued with A$1.3 billion of motor vehicle and equipment leases and loans securitized as at September 30, 2017.

The Principal Finance funded loan portfolio of A$5.6[1] billion at September 30, 2017 decreased 18% from A$6.8 billion at March 31, 2017, due to net repayments and realizations. Portfolio additions of A$0.7 billion comprised A$0.2 billion of new primary financings across corporate and real estate, weighted towards bespoke originations and A$0.5 billion of corporate loans and similar assets acquired in the secondary market. Notable transactions included providing £25 million of financing to a specialist rehabilitation and care services company and completion of the co-acquisition with Macquarie Aviation of a secondary loan portfolio secured by aviation assets. Notable realizations included the early repayment of an investment in one of the UK's largest private owners of residential property.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Group Limited — Operating groups — Corporate & Asset Finance" beginning on page 25 of our 2017 Annual U.S. Disclosure Report.

Banking & Financial Services

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

Banking & Financial Services contributed A$286 million to MGL Group's net profit in the half year ended September 30, 2017 and, as at September 30, 2017, had headcount of over 2,000 operating predominantly in Australia. For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2017, see our 2018 Half Year Management Discussion and Analysis Report.

Banking & Financial Services' Australian mortgage portfolio has grown from A$28.7 billion at March 31, 2017 to A$29.9 billion at September 30, 2017, representing approximately 2% of the Australian mortgage market.

Banking & Financial Services' funds on platform[2] have grown from A$72.2 billion at March 31, 2017 to A$78.9 billion at September 30, 2017, due to strong net inflows and the final migration of full service broking accounts to the Vision platform.

Banking and Financial Services' deposits have grown from A$44.5 billion at March 31, 2017 to A$46.4[3] billion at September 30, 2017. This was primarily due to increased Macquarie Cash Management Account and Business Banking at-Call deposits.

For further information and a description of the divisions within Banking & Financial Services and their respective activities, see "Macquarie Group Limited — Operating groups — Banking & Financial Services" beginning on page 26 of our 2017 Annual U.S. Disclosure Report.

Commodities & Global Markets

Commodities & Global Markets operates in both the Banking Group and the Non-Banking Group, with certain assets of the Credit Markets business, certain activities of the Cash Equities business and some other less financially significant activities in the Non-Banking Group.

[1] Includes Real Estate Structured Finance legacy run-off portfolio and equity portfolio of A$0.4b.
[2] Funds on platform includes Macquarie Wrap and Vision.
[3] BFS deposits exclude corporate/wholesale deposits.

Commodities & Global Markets contributed A$378 million to MGL Group's net profit in the half year ended September 30, 2017 and, as at September 30, 2017, had headcount of over 1,900 operating across 22 countries, with locations in Australia, Asia, the Middle East, North and South America, the United Kingdom and Europe. For further information on Commodities & Global Markets' results of operation and financial condition for the half year ended September 30, 2017, see section 3.5 of our 2018 Half Year Management Discussion and Analysis Report.

During the half year ended September 30, 2017, Commodities & Global Markets completed the acquisitions of Cargill Petroleum and Cargill North America Power and Gas trading businesses. Commodities & Global Markets also announced the merger of the Energy Markets and Metals, Mining and Agriculture divisions to form one commodities division called Commodity Markets and Finance.

There were no other significant developments for Commodities & Global Markets for the half year ended September 30, 2017.

For further information and a description of the divisions within Commodities & Global Markets and their respective activities, see "Macquarie Group Limited — Operating groups — Commodities & Global Markets" beginning on page 27 of our 2017 Annual U.S. Disclosure Report.

Macquarie Capital

Macquarie Capital is in the Non-Banking Group.

Macquarie Capital contributed A$190 million to MGL Group's net profit in the half year ended September 30, 2017 and, as at September 30, 2017, had headcount of over 1,100 operating across 20 countries, including Australia, the United States, the United Kingdom, Germany, Canada, Hong Kong, South Korea and China. For further information on Macquarie Capital's results of operation and financial condition for the half year ended September 30, 2017, see section 3.6 of our 2018 Half Year Management Discussion and Analysis Report.

In the half year ended September 30, 2017, Macquarie Capital was involved in 152 transactions with an aggregate deal value of A$73 billion. Significant transactions that Macquarie Capital was involved in during the half year ended September 30, 2017 included, being defence adviser to DUET Group in response to the A$13.4 billion acquisition by Cheung Kong Infrastructure; acquisition of 100% ownership interest in RES Japan, a Japanese subsidiary of Renewable Energy Systems Group, rebranded as Acacia Renewables and focused on developing a pipeline of onshore wind energy projects; financial advisor and equity investor in the restructuring and acquisition of the 907MW Norte III combined cycle gas plant in Juarez, Mexico; and financial advisor to Bain Capital and Cinven on their €5.4 billion acquisition of STADA.

During the half year ended September 30, 2017, a Macquarie-led consortium comprised of MGL, Macquarie European Infrastructure Fund 5 (MEIF5) and Universities Superannuation Scheme successfully completed the acquisition of the UK Green Investment Bank Limited (Green Investment Bank) from Her Majesty's Government for £2.3 billion. The Green Investment Bank, rebranded to Green Investment Group, is one of Europe's largest teams of green energy investment specialists, with expertise in project finance and development, construction, investment and asset management of green energy infrastructure.

For further information on Macquarie Capital, its divisions and products, see "Macquarie Group Limited — Operating groups — Macquarie Capital" beginning on page 29 of our 2017 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of MGL Group

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

Corporate contributed a net loss of A$1.4 billion in the half year ended September 30, 2017 and, as at September 30, 2017, had over 5,800 staff operating across all countries in which MGL operates.

For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2017, see section 3.7 of our 2018 Half Year Management Discussion and Analysis Report.

Funds management business

For a description of MGL Group's funds management businesses, see "Macquarie Group Limited — Funds management business" beginning on page 30 of our 2017 Annual U.S. Disclosure Report.

Assets under Management

For a description of MGL Group's funds management fee income, see "Macquarie Group Limited — Funds management business — Assets under Management" beginning on page 30 of our 2017 Annual U.S. Disclosure Report. MGL Group's policy is to recognize a performance fee only once the fee can be reliably measured and the risk of not receiving the fee is highly improbable. The timing and quantum of these fees are therefore unpredictable, can require significant judgment and will vary depending on the specific factors relevant for each fund.

For further detail on MGL Group's income from funds management for the half year ended September 30, 2017, see section 2.2 of our 2018 Half Year Management Discussion and Analysis Report and for further information on MGL Group's Assets under Management for the half year ended September 30, 2017, see section 7.1 of our 2018 Half Year Management Discussion and Analysis Report.

Equity under Management

For further information on MGL Group's Equity under Management for the half year ended September 30, 2017, see section 7.2 of our 2018 Half Year Management Discussion and Analysis Report.

Legal proceedings and regulatory matters

Legal proceedings

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

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of our financial statements and specific provisions that we consider appropriate are made, as described in Note 19 to our 2018 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 MGL Group faces in the markets in which it operates, see "Macquarie Group Limited — Competition" beginning on page 31 of our 2017 Annual U.S. Disclosure Report.

Additional financial disclosures for the half year ended September 30, 2017

Euro-zone exposures

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

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

	As at Sep 30, 2017			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Italy				
Loans, receivables & commitments[1]	-	-	52	52
Derivative assets[2]	-	-	14	14
Italy totals	**-**	-	67	67
Russian Federation				
Equity	-	-	15	15
Derivative assets[2]	-	-	-	-
Russian Federation totals	-	-	15	15
Spain				
Loans, receivables & commitments[1]	36	61	138	235
Derivative assets[2]	-	-	25	25
Spain totals	36	61	163	261
Portugal				
Loans, receivables & commitments[1]	-	-	35	35
Portugal totals	**-**	-	35	35
Ireland				
Loans, receivables & commitments[1]	-	25	236	261
Equity	-	-	1	1
Derivative assets[2]	-	-	2	2
Ireland totals	-	25	239	264
Total exposure	**36**	**86**	**519**	**642**

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

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

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

In addition, during the half year ended September 30, 2017, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of September 30, 2017, MGL's total credit and market exposure to Russia and Ukraine was not material.

Regulatory and supervision developments

A description of MGL Group's principal regulators and the regulatory regimes that MGL 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 35 of our 2017 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, in the markets in which we operate", "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 or systems or external events" on pages 2, 7 and 9, respectively, of our 2017 Annual U.S. Disclosure 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 MGL Group that have occurred since the release of our 2017 Annual U.S. Disclosure Report on May 23, 2017 and a summary of certain regulatory developments prior to May 23, 2017.

Australia

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

On July 19, 2017, APRA released an Information Paper on its assessment of the additional capital required for the Australian banking sector to have capital ratios that are considered "unquestionably strong". APRA indicated that it is necessary to raise the Common Equity Tier 1 Capital requirements for certain Authorized Deposit-taking Institutions ("*ADIs*"), including MBL, by approximately 150 basis points from current levels, to achieve capital ratios that would be consistent with making banks "unquestionably strong". While details of how this will be implemented are yet to be finalized, based on the September 30, 2017 capital position, this would increase MBL's minimum capital requirements by approximately A$1.3 billion. APRA has stated that the increased capital requirements will include any changes from the finalization of Basel III. APRA intends to release a discussion paper on proposed revisions to the capital framework later in 2017. Following the release of the discussion paper, APRA expects to consult on draft prudential standards giving effect to the new framework in late 2018 and release final prudential standards in 2019 which are anticipated to take effect in early 2021. However, APRA has indicated that it expects ADIs (including MBL) to meet the new requirements by January 1, 2020.

APRA's prudential supervision – Counterparty credit risk

On August 3, 2017, APRA released a discussion paper setting out both its response to submissions on its 2016 consultation package and a number of revised proposals for further consultation, including a revised draft of Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk* ("*2017 Counterparty Credit Risk Consultation Package*"). In its discussion paper, APRA proposes that an ADI with approval to use an internal ratings-based approach to credit risk (including MBL) must use the "standardised approach for measuring counterparty credit risk exposures" (the "*SA-CCR*") to measure its counterparty credit risk exposures. APRA has indicated that its current intention is for the new requirements to take effect no earlier than January 1, 2019.

Crisis management

On October 19, 2017, the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017* ("*Crisis Management Bill*") was introduced into the Commonwealth Parliament. If passed into law by the Commonwealth Parliament, the Crisis Management Bill would amend the *Banking Act 1959* of Australia (among other statutes applicable to financial institutions in Australia). The Crisis Management Bill is intended to enhance APRA's powers to resolve the entities it regulates (and their subsidiaries). Additional powers which are proposed to be given to APRA under the Crisis Management Bill which could impact the MGL Group, include greater oversight, management and direction powers in relation to the MGL Group entities which are not currently regulated by APRA, increased statutory management powers over regulated entities within the MGL Group and changes which are designed to increase certainty in relation to the conversion or write-off of regulatory capital instruments issued by MBL. The Crisis Management Bill was subjected to a short consultation period, which closed on September 8, 2017. At this stage, the impact of the Crisis Management Bill if passed, is uncertain.

Australian Major Bank Levy

On May 9, 2017, the Australian Government announced its 2017-2018 Federal Budget, introducing the Commonwealth Government Major Bank Levy. The enacting legislation commenced on June 24, 2017. The Commonwealth Government Major Bank Levy applies to ADIs with licensed entity liabilities of at least A$100 billion as of July 1, 2017 (including MBL), calculated quarterly as 0.015% of relevant liabilities as at each APRA mandated quarterly reporting date (for an annualized rate of 0.06%). The amount of liabilities on which the Commonwealth Government Major Bank Levy is payable is the total reported liabilities of the ADI for the quarter, reduced by the sum of the following amounts in relation to each ADI (each calculated for the quarter, in relation to the ADI, and as reported under an "applicable reporting standard" to be determined by APRA): total Additional Tier 1 Capital; total holdings of deposits protected by the Financial Claims Scheme; an amount equal to the lesser of the derivative assets and derivative liabilities; the exchange settlement account balance held with the Reserve Bank of Australia; and any other amounts of a kind determined by the Minister in a legislative instrument. Liabilities subject to the levy will include items such as corporate bonds, commercial paper, certificates of deposit and Tier 2 capital instruments.

Banking Executive Accountability Regime

The 2017-18 Budget announcement by the Australian Government on May, 9 2017 included a proposal to legislate for a new "Banking Executive Accountability Regime" ("BEAR"). On October 19, 2017, the *Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017* was introduced into the Commonwealth Parliament. The BEAR is a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups. If BEAR is passed into law by the Commonwealth Parliament:

- MBL and the MGL Group will be required to register individuals with APRA before appointing them as senior executives and directors;
- where banks and their senior executives and directors do not meet expectations, APRA will be empowered to disqualify individuals as senior executives and directors without a court order (but subject to a right of review);
- MBL will be obliged to set remuneration policies for directors and senior executives consistent with BEAR, including for the deferral of certain components of that remuneration; and
- MBL may be liable for substantial penalties for failing to comply with its BEAR obligations.

Risks to MBL from BEAR include a risk of penalties and a risk to MBL's ability to attract and retain high-quality directors and senior executives.

ASIC power to ban senior officials in the financial sector

ASIC's Enforcement Review Taskforce is consulting on expanding ASIC's existing powers to enable it to ban senior officials in the financial sector from managing a financial services business. Specifically, the proposal would enable ASIC to ban an individual from performing a specific function in a financial services business if ASIC has reason to believe, among other things, that the person: (i) is not fit and proper or adequately trained or competent to provide a financial service, or to perform the role of officer or senior manager in a financial services business; (ii) is subject to a report by the Australian Financial Complaints Authority regarding a failure to comply with a determination, or; (iii) has breached their duty under sections 180, 181, 182 or 183 of the Corporations Act 2001 of Australia. It is currently difficult to determine what impact this will have on MBL and the MGL Group.

ASIC flex-commissions prohibition

Following its announcement in March 2017, ASIC formally enacted a ban on flex commissions in the finance market on September 7, 2017. Lenders and dealerships have until November 2018 to update their business models, and implement new commission arrangements that comply with the new law. Macquarie Leasing continues to enhance its systems to meet ASIC's requirements.

Insolvency reform

On March 28, 2017, the federal government in Australia released draft legislation proposing reforms to Australian insolvency laws, including the introduction of an "ipso facto" moratorium. On September 18, 2017, the draft legislation received royal assent. The legislation proposes that a right under a contract (such as a right to terminate or to accelerate payments - even if self-executing) ("*ipso facto right*"), will not be enforceable, for a certain period of time, if the reason for enforcement is the occurrence of certain insolvency events (such as appointment of an administrator or receiver) or the reason for enforcement is based on the company's financial position. Other reasons which are, in substance, contrary to the legislation may also be captured under the broad anti-avoidance provisions. A stay on such enforcing rights is expected to be subject to specific exclusions including a right contained in a contract, agreement or arrangement prescribed by regulations.

The federal government has released an explanatory document which notes that the government proposes to make regulations setting out the types of contracts and contractual rights which will be excluded from the general stay on the operation of ipso facto right clauses. The government has sought feedback on the appropriateness of the proposed exclusions. However, until the regulations have been released, the scope of the proposed ipso facto moratorium and exclusions remains uncertain. Importantly, the ipso facto moratorium will only apply to rights arising under contracts, agreements or arrangements which are entered into after the commencement of the amendment to the Corporations Act 2001 of Australia. The moratorium will come into effect on the later of July 1, 2018, or the day falling 6 months after Royal Assent is given for the new legislation. However, the Governor-General may make a proclamation that it will commence earlier (this is not presently expected).

Australian Bankers Association

On April 21, 2016, the Australian Bankers Association ("*ABA*") released a six point plan to implement comprehensive new measures designed to protect consumer interests, increase transparency and accountability and build trust and confidence in the banking industry. The industry has implemented a number of the initiatives including by appointing customer advocates to facilitate fair complaint outcomes, adopting guiding principles for improving protections for whistleblowers and implementing background checking protocols to help banks make more informed hiring decisions. Other initiatives such as redrafting the Code of Banking Practice are still progressing.

International

In addition to the following discussion, see "Regulation and Supervision – International" in the 2017 Annual U.S. Disclosure Report for information on (A) U.S. regulation and supervisory matters related to (i) derivatives regulations – cross border jurisdiction, (ii) swap dealer margin and capital rules, (iii) CFTC position limit rules, (iv) derivatives regulations – security-based swaps and (v) securities and commodities regulations, (B) various U.K. regulatory and supervisory matters, and (C) E.U. regulation and supervisory matters related to (i) financial transaction tax and (ii) the markets in financial instruments directive.

United States

Banking regulations

In the United States, MBL operates solely through representative offices, which by law may only perform representational and administrative functions and therefore cannot engage in business or handle customer funds. These offices are limited to soliciting business on behalf of MBL, which must then be approved and booked offshore, and performing administrative tasks as directed by MBL. Our representative offices are licensed by individual states, in our case, the states of New York, Texas and Illinois, and are subject to periodic examination by the applicable state licensing authority and regional Federal Reserve Banks, which are subject to oversight by the

Board of Governors of the Federal Reserve System (the "*FRB*"). These examinations primarily focus on whether the offices are compliant with the limits of representative office activities and on key areas of regulatory concern, such as anti-money laundering ("*AML*") compliance.

On March 1, 2017, the New York Department of Financial Services ("*NYDFS*") imposed minimum information system and data security requirements on certain covered entities subject to NYDFS supervision. This includes MBL's New York representative office. The rules cover (i) sensitive corporate data, and (ii) certain personal information pertaining to natural persons associated with the New York representative office and the electronic systems on which such data is stored. The rules take effect over the course of two years through to March 1, 2019. The NYDFS rule is expected to increase compliance and technology costs for certain MBL businesses that operate in the United States.

Swap dealer registration regulation

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

On October 27, 2017, the CFTC issued an order extending the swap dealer *de minimis* threshold phase-in termination date through December 31, 2019. Under the order, the CFTC will retain the $8 billion *de minimis* threshold (for dealing activity with counterparties other than Special Entities) until December 31, 2019. Absent further action by the CFTC, the phase-in period will terminate on December 31, 2019 and the *de minimis* threshold will automatically drop to $3 billion. The extension of, or potential reduction in, the *de minimis* threshold does not affect a registered swap dealer unless it desires to deregister, in which case it would need to conduct its swap dealing under the threshold. Such a reduction in the *de minimis* threshold also does not affect other members of the MGL Group as no other MGL affiliate currently engages in swap dealing activity subject to these rules. In the event that the *de minimis* threshold is lowered, and unregistered MGL affiliates engage in swap dealing activity subject to CFTC jurisdiction, it is possible that certain such affiliates will be required to register as swap dealers.

Anti-money laundering regulations

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

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

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

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

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

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

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

United Kingdom

Senior Managers and Certification Regimes

In July 2017, the Financial Conduct Authority ("*FCA*") published its long-awaited proposals for extending the Senior Managers and Certification Regimes ("*SMCR*") to solo-FCA regulated firms. Banks and investment firms that are designated by the Prudential Reguation Authority ("*PRA*") became subject to the SMCR in March 2016. Starting in 2018, almost every authorized firm will be subject to the new regime, which the FCA is proposing to tailor to the different types and sizes of firms which will be caught by the new rules. There will be three categories of firms:

1. Limited scope firms;

2. Core firms; and

3. Enhanced firms.

The proposals will apply to all MGL Group entities that are regulated by the FCA (except Macquarie Bank International Ltd ("*MBIL*") and MBL London Branch, which are already subject to the SMCR).

The FCA estimates that the vast majority of firms will fall in the Core firms category. While the Core firms iteration of the regime is similar to the current SMCR in some respects, it is notably less onerous both in scope and its administrative burden. For example, the rules as drafted only require executive directors, a Non-Executive Director Chair (if one is already appointed), the head of compliance, and the Money Laundering Reporting Officer to be senior managers. Individual heads of businesses are not expected to be named as senior managers. In addition, there is no requirement on a Core firm to produce a responsibilities map and the list of prescribed responsibilities that must be assigned is reduced to reflect that there are fewer senior manager functions. It is likely that MCAF1L, Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), and Macquarie Investment Management Europe Limited ("*MIMEL*") will be considered Core firms.

With respect to the Enhanced firms iteration of the proposed regime, a firm falls into the Enhanced firms category if it meets certain criteria. The first of which is whether a firm is either a significant IFPRU firm, as defined in the Investment Firms Prudential Sourcebook released by the FCA ("*Significant IFPRU firm*"), or a CASS large firm, as defined in the Client Assets Sourcebook released by the FCA. If a firm does not fall into one of these two categories, there are four financial tests that are applied. These are:

1. Assets under Management ("*AUM*") of £50 billion;

2. Revenue from intermediary activity of £35 million per year;

3. Revenue from consumer credit lending of £100 million per year; or

4. Currently has 10,000 or more outstanding regulated mortgages.

Given that it is expected that Macquarie Capital (Europe) Limited ("*MCEL*") will be a Significant IFPRU firm by the time that the proposed regime is implemented, it is likely that MCEL will be considered an Enhanced firm.

With respect to the application of the AUM threshold to AIFMs such as MIRAEL, AIFMs are carved out of the Enhanced firms regime unless they have Markets in Financial Instruments Directive ("*MiFID*") top-up permissions (MIRAEL has MiFID top-up permission). However, on the face of the rules as drafted, the AUM threshold is tested against a specific data reporting item (FSA038) completed by asset management firms performing discretionary portfolio management. Therefore, if MIRAEL is not required to complete FSA038, or does not report AUM of £50 billon or more in this data item, it will not be subject to the AUM threshold test.

The proposed regime for Enhanced firms effectively represents the 'as-is' extension of the existing SMCR that dual-regulated firms are already subject to. This means that as well as those captured under the Core firms regime, the CFO, CRO, COO, head of internal audit, and business heads will be senior managers. A responsibilities map showing the whole governance structure of the entity will also need to be produced.

The COO senior manager function, which is included in the proposals, is not currently available under the existing SMCR, however it is expected to be made available starting in November 2017. The only other significant change is that a new prescribed responsibility for notification of and training in the Conduct Rules will likely be introduced. This may be introduced into the existing SMCR prior to the go-live of the extension.

The FCA's consultation closed on November 3, 2017. It is expected that there will be a fairly long period of review and reflection as, given the breadth of the proposals, a large number of responses are expected. The FCA will then likely publish either a further consultation or a policy statement setting out its final rules in the first half of 2018, with a phased implementation expected from the third quarter of 2018.

Market Abuse Regulation

The Market Abuse Regulation ("*MAR*") came into effect on July 3, 2016. It aims to increase market integrity and investor protection and enhance the attractiveness of securities markets for capital raising.

MAR strengthens the previous U.K. market abuse framework by extending its scope to new markets, new platforms and new behaviors.

MAR contains prohibitions of insider dealing, unlawful disclosure of inside information and market manipulation, and provisions to prevent and detect these practices.

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

In addition to the information included in this Report, investors should refer to our 2018 Half Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2017 compared to the half year ended September 30, 2016, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2017, which is posted on MGL's U.S. Investors' Website. Such information should be read in conjunction with the discussion under "Management's Discussion and Analysis of Results of Operation and Financial Condition" beginning on page 53 of our 2017 Annual U.S. Disclosure Report.

Recent developments post September 30, 2017

Board and management changes

Glenn Stevens was appointed to the Boards of MGL and MBL as a Non-Executive Director, effective November 1, 2017. Mr. Stevens was most recently the Governor of the Reserve Bank of Australia (the "*RBA*") between 2006 and 2016 having held senior roles with the RBA for 20 years.

Stephen Allen, MGL Group's Chief Risk Officer and Head of Risk Management Group ("*RMG*"), announced his intention to retire and will step down from MGL Group's Executive Committee on December 31, 2017. Mr. Allen joined MGL Group in 1993 and has led RMG since 2009. MGL Group's Chief Financial Officer and Head of Financial Management Group ("*FMG*"), Patrick Upfold, will succeed Mr. Allen as Chief Risk Officer and Head of RMG, effective January 1, 2018. Alex Harvey will succeed Mr. Upfold as Chief Financial Officer and Head of FMG and will join MGL Group's Executive Committee, effective January 1, 2018. Mr. Harvey joined Macquarie in 1999 and has held numerous senior management roles with MGL Group, most recently as the Global Head of Principal Transactions for Macquarie Capital.

Half year ended September 30, 2017 compared to half year ended September 30, 2016

See sections 1.0 – 7.0 of our 2018 Half Year Management Discussion and Analysis Report for a discussion of our results of operation and financial condition for the half year ended September 30, 2017, which has been incorporated by reference herein.

MACQUARIE