Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2018

Dated: November 15, 2018

TABLE OF CONTENTS

CERTAIN DEFINITIONS ii

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS iii

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS v

FINANCIAL INFORMATION PRESENTATION vi

RISK FACTORS 1

CAPITALIZATION AND INDEBTEDNESS 13

RECENT DEVELOPMENTS 14

MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM RESULTS OF OPERATIONS AND FINANCIAL CONDITION 34

CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2018 ("*2019 Interim U.S. Disclosure Report*" or this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*2018 Annual U.S. Disclosure Report*" means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2018 and the documents incorporated by reference therein;

- "*2019 Interim Directors' Report and Financial Report*" means our 2019 Interim Directors' Report and Financial Report;

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

- "*2019 Half Year Management Discussion and Analysis Report*" means our Management Discussion and Analysis Report dated November 2, 2018, which includes a comparative discussion and analysis of our results of operations and financial condition for the half year ended September 30, 2018 compared to the half year ended September 30, 2017, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2018, has been posted on MGL's U.S. Investors' Website and has been incorporated by reference herein; and

- "*2019 interim financial statements*" means our unaudited financial statements for the half year ended September 30, 2018 contained in our 2019 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain Definitions" beginning on page ii of our 2018 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 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: statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

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

- the effectiveness of our risk management processes and strategies;
- increased demands on our managerial, legal, accounting, IT, risk management, operational and financial resources;
- the performance of funds and other assets we manage;
- the impact of potential tax liabilities;
- inadequate or failed internal or external operational systems, processes, people, including conduct risk, or external events or external service provider misconduct;
- the impact of cyber attacks, technology failures and other information or security breaches;
- the impact of catastrophic events on MGL and its operations;
- conflicts of interest;
- litigation and regulatory actions against us;
- changes in political, social and economic conditions, including changes in consumer spending and saving and borrowing habits, in any of the major markets in which we conduct our operations or which we may enter in the future;
- environmental and social factors;
- restrictions on the ability of our subsidiaries, such as MBL, to make payments to MGL;
- failure of our insurance carriers or our failure to maintain adequate insurance cover;
- risks in using custodians; and
- various other factors beyond our control.

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

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

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

Significant risk factors applicable to MGL Group are described under “Risk Factors” and elsewhere in this Report. Other factors are discussed in our 2019 Half Year Management Discussion and Analysis Report and in our 2018 Fiscal Year Management Discussion and Analysis Report, incorporated by reference in our 2018 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 x of our 2018 Annual U.S. Disclosure Report and our 2019 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, 2018 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 Operations and Financial Condition", which incorporates by reference our 2019 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, 2018 compared to the half year ended September 30, 2017, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2018 and which has been posted on MGL's U.S. Investors' Website;
- MBL's Pillar 3 Disclosure Document dated June 2018, 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 2019 Half Year Management Discussion and Analysis Report posted on MGL's U.S. Investors' Website.

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

Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the exchange rate of US$0.7238 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 28, 2018. The noon buying rate on November 2, 2018 was US$0.7199 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 2018 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 2018 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 2019 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 2018 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 our 2018 Annual Report and Note 37 to our 2018 annual financial statements. The following are some of the more significant risk factors that could affect our businesses, prospects, results of operations or financial condition.

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

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

MGL may face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. or Chinese economies, slowing growth in emerging economies, the departure of the United Kingdom or another member country from the Euro zone or the market's anticipation of such events, could disrupt global funding markets and the global financial system more generally. MGL may also be impacted indirectly through counterparties that have direct exposure to European sovereigns and financial institutions. See "Macquarie Group Limited — Additional financial disclosures for the half year ended September 30, 2018 — Euro-zone exposures" for a description of MGL's exposure in certain European countries as of September 30, 2018.

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

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

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

Our trading income may be adversely affected during times of subdued market conditions and client activity and increased market risk can lead to trading losses or cause us to reduce the size of our trading businesses in order to limit our risk exposure. Market conditions, as well as declines in asset values, may cause our clients to transfer their assets out of our funds or other products or their brokerage accounts and result in reduced net revenues, principally in our funds management business. Our funds management fee income, including base and performance fees, may be adversely affected by volatility in equity values and returns from our managed funds. The value and performance of our loan portfolio may also be adversely affected by deteriorating economic conditions. We assess the credit quality of our loan portfolio and the value of our proprietary investments, including our investments in managed funds, for impairment at each reporting date. Our returns from asset sales may also decrease if economic conditions deteriorate. In addition, if financial markets decline, revenues from our variable annuity products are likely to decrease.

In addition, increases in volatility increase the level of our risk weighted assets and increase our capital requirements. Increased capital requirements may require us to raise additional capital at a time, and on terms, which may be less favorable than we would otherwise achieve during stable market conditions.

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

Liquidity is essential to our businesses, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired if we are unable to access debt markets or sell assets or if we experience unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may occur suddenly and dramatically, an operational problem that affects us or our trading clients, or changes in our credit spreads, which are, market-driven and subject at times to unpredictable and highly volatile movements. For a more detailed description of liquidity risk, refer to section 5.2 of our 2019 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 APRA), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea[1] and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of MGL's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation. Some of the key regulators and regulatory frameworks applicable to our businesses are described below under "Regulatory and supervision developments" and under the heading "Regulation and Supervision" on page 34 of our 2018 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 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.

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

In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "*Royal Commission*") was established in December 2017. In September 2018, the Royal Commission released an interim report. It is expected to release the final report in February 2019. The Royal Commission may result in adverse findings against the MGL Group, and is likely to result in the imposition of further regulatory measures on the banking industry and changes to industry practices. Those findings and changes may adversely affect the reputation and the profitability of the MGL Group.

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 34 of our 2018 Annual U.S. Disclosure Report for more information on the regulatory developments affecting MGL Group, including MBL. The nature and impact of future changes are unpredictable, beyond our control and may result in potentially conflicting requirements, resulting in additional legal and compliance expense and changes to our business practices that adversely affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

Our business depends on our brand and reputation.

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

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

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

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

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

competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position.

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

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

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

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

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

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

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

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

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. Concerns about, or a default by, one or more

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

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

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Our recovery of the value of the resulting credit exposure may be adversely affected by a number of factors, including declines in the financial condition of the counterparty, the value of property we hold as collateral and the market value of the counterparty instruments and obligations we hold. See Note 37 to our 2018 annual financial statements for a description of the most significant regional, business segment and individual credit exposures where we believe there is a significant risk of loss. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Our inability to enforce our rights may result in losses.

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

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

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

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

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

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

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

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

For a further discussion of our risk management policies and procedures, see our "Risk Management Report" in our 2018 Annual Report and Note 37 to our 2018 annual financial statements.

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

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

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

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

As at September 30, 2018, we had A$551 billion in Assets under Management, and for the half year ended September 30, 2018, we derived A$899 million of base fee income from the funds that we managed. Our financial condition and results of operations are directly and indirectly affected by the results of the funds or the assets we manage. Our revenue from Assets under Management is derived principally from three sources: (i) management fees, based on the size of our funds; (ii) incentive income, based on the performance of our funds; and (iii) investment income based on our investments in the funds, which we refer to as our "*principal investments*". If any of our funds perform poorly due to market conditions or our underperformance, our revenue and results of operations may decline. If the return of a fund is negative in any period, this may also have a long-term effect on incentive income. This is because a deficit against a performance benchmark will usually be carried forward until the deficit has been eliminated. In addition, in some cases investors may withdraw their investments in our funds or may decline to invest in future funds we establish.

In addition to risks relating to fee income (as described above) and any credit exposure we may have to funds or assets owned by funds, our funds model exposes it to such risks as:

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

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

- *Contingent liabilities*: In some instances, we have sold assets to funds we manage, mostly in circumstances when we are seeding a newly-formed fund with assets, or have sold our interest in such assets to third parties. Under the terms of some of the agreements pursuant to which those assets have been sold we

may have contingent liabilities as a result of the representations and warranties, covenants, indemnities or other provisions of those agreements.

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

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

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

MGL Group recorded A$76 million of credit and other impairment charges for the half year ended September 30, 2018, including A$44 million for credit impairment charges, and A$32 million for other impairment charges on interests in associates and joint ventures, intangible assets and other non-financial assets. Further credit and other impairments may be required in future periods if the market value of assets similar to those held were to decline.

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

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

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

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

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

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

We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers,

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

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

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

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

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

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

to anticipate all security breaches or implement preventive measures against such security breaches. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks.

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

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

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

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

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

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

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

As we expand our businesses and our client base, we increasingly have to address potential or perceived conflicts of interest, including situations where our services to a particular client conflict with, or are perceived to conflict with,

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

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

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

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

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

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

Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and MGL's ability to continue operating or trading in a country, which in turn may adversely affect our business, prospects, results of operation 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, or external event (including fire, storm, flood, earthquake, pandemic, civil unrest or terrorism events) in any of these locations has the potential to disrupt business activities, impact our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

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

MGL is a holding company and many of its subsidiaries, including its broker-dealer and bank subsidiaries, such as MBL, are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries

to MGL. Restrictions or regulatory action of that kind could impede access to funds that MGL needs to make payments on its obligations, including debt obligations, or dividend payments. In particular, the availability of MBL's funding to meet the obligations of MGL or the Non-Banking Group is subject to regulatory restrictions.

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

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

We are subject to risks in using custodians.

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

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2018.

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

	As at	
	Sep 18	**Sep 18**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	28,264	39,049
Loan capital — due greater than 12 months	4,258	5,883
Total borrowings[3]	**32,522**	**44,932**
Equity		
Contributed equity		
Ordinary share capital	5,465	7,550
Treasury shares	(1,023)	(1,413)
Exchangeable shares	5	7
Reserves	1,134	1,567
Retained earnings	6,405	8,849
Macquarie Income Securities	283	391
Other non-controlling interests	151	208
Total equity	**12,420**	**17,159**
TOTAL CAPITALIZATION	**44,942**	**62,091**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 28, 2018, which was US$0.7238 per A$1.00.

2 At September 30, 2018, we had A$4.8 billion of secured indebtedness due in greater than 12 months compared to A$3.2 billion at September 30, 2017.

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$20.3 billion as at September 30, 2018 and securitizations totaled A$7.5 billion as at September 30, 2018 compared to A$22.0 billion and A$11.3 billion, respectively, as at September 30, 2017.

For details on our short-term debt position as at September 30, 2018, see section 5.4 of our 2019 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 2018 Annual U.S. Disclosure Report on May 18, 2018. In addition to the developments noted below to account for the half year ended September 30, 2018, investors should be aware that certain recent developments were announced post-September 30, 2018. 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, 2018" 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 Group Limited" beginning on page 15 of our 2018 Annual U.S. Disclosure Report and other information posted on MGL's U.S. Investors' Website.

Recent board and management changes

In July 2018, MGL announced that Nicholas Moore indicated his intention to retire as Managing Director and CEO effective November 30, 2018, and Shemara Wikramanayake, currently Group Head of Macquarie Asset Management, will replace him as CEO and Managing Director, effective December 1, 2018. Ms. Wikramanayake has subsequently been appointed to the Boards of MGL and MBL, effective August 28, 2018. Ms. Wikramanayake joined Macquarie in 1987 and was appointed Head of Macquarie Asset Management in 2008. In her time at Macquarie, Ms. Wikramanayake has worked in nine cities in six countries and across several business lines. This has included establishing and leading Macquarie's corporate advisory offices in New Zealand, Hong Kong and Malaysia, and the infrastructure funds management business in the U.S. and Canada.

In July 2018, Patricia Cross retired as a Non-Executive Director of MGL and MBL after five years on the Boards.

On August 28, 2018, the Boards of MGL and MBL appointed Philip Coffey as a non-executive director. Mr. Coffey served as the Deputy Chief Executive Officer of Westpac Banking Corporation from 2014 until his retirement in 2017, overseeing relationships with key stakeholders including industry groups, regulators, customers and government. He was also responsible for Westpac's Mergers & Acquisitions function. He previously held a number of executive positions including Group Chief Financial Officer and Group Executive, Westpac Institutional Bank. Mr. Coffey is a Non-Executive Director of Lendlease Corporation Limited, a member of the Clean Energy Finance Corporation Board and Chairman of the Westpac Bicentennial Foundation. Mr. Coffey is a Member of the Board Nominating Committee and the Board Risk Committee at Macquarie.

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).

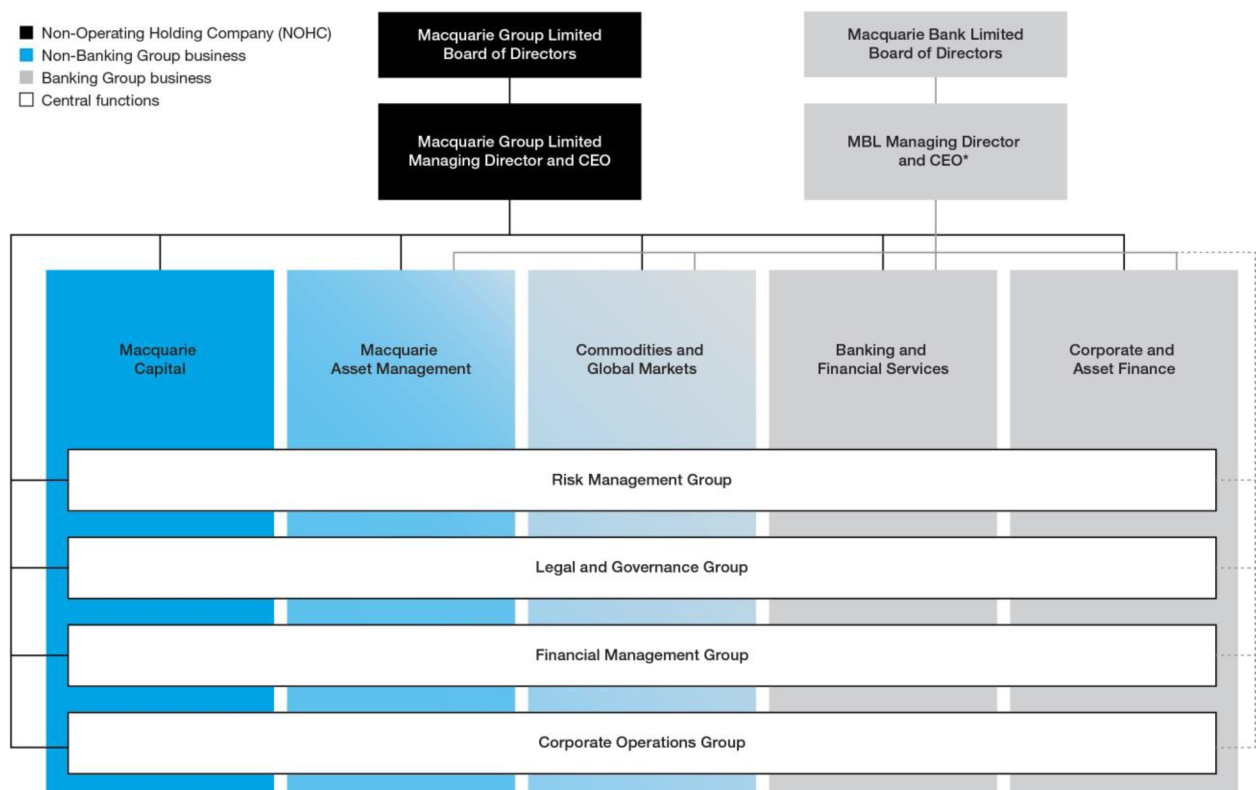
The Non-Banking Group consists of Macquarie Capital; the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division of Macquarie Asset Management; certain assets of the Credit Markets business, certain activities of the Cash Equities business and some other less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

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate 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 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 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 2019 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 17 of our 2018 Annual U.S. Disclosure Report.

At September 30, 2018, MGL Group had total regulatory capital of A$19.8 billion, including A$3.4 billion of capital, which is above 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 34 of our 2018 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, 2018, see our 2019 Half Year Management Discussion and Analysis Report.

Our strategy

Our strategy is set out under "Macquarie Group Limited — Our strategy" on page 19 of our 2018 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$1,495 million for the half year ended September 30, 2018. Macquarie Asset Management continued to perform well against a strong prior corresponding period, which benefited from higher performance fees and investment-related income. Corporate & Asset Finance experienced lower Principal Finance income due to early repayments, realizations and investment-related income and lower portfolio volumes. Asset Finance was broadly in line with the prior corresponding period. Banking & Financial Services experienced growth in BFS deposits[2], Australian loan portfolio and funds on platform.

MGL's capital markets-facing businesses contributed a combined net profit contribution of A$1,106 million for the half year ended September 30, 2018. Commodities & Global Markets experienced a strong contribution from the commodities platform driven by increased client activity and improved trading opportunities. Macquarie Capital experienced higher investment-related income due to asset realizations and reclassifications and increased fee revenue across M&A, debt capital markets and equity capital markets.

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, 2018, see our 2019 Half Year Management Discussion and Analysis Report for further information.

Overview of MGL Group

At September 30, 2018, MGL had total assets of A$205.6 billion and total equity of A$17.2 billion. For the half year ended September 30, 2018, our net operating income was A$5,830 million and profit after tax attributable to ordinary equity holders was A$1,310 million, with 67% 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, 2018 and 2017

[2] Banking & Financial Services deposits exclude corporate/wholesale deposits.

Net operating income of MGL Group by operating group for the half years ended September 30, 2018 and 2017[1]

	Half Year ended		
	Sep 18	**Sep 17**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	1,410	1,730	(18)
Corporate & Asset Finance	758	931	(19)
Banking & Financial Services	864	822	5
Commodities & Global Markets	1,860	1,321	41
Macquarie Capital	867	582	49
Total net operating income from operating groups	**5,759**	**5,386**	7
Corporate[2]	71	11	*
Total net operating income	**5,830**	**5,397**	8

Net profit contribution of MGL Group by operating group for the half years ended September 30, 2018 and 2017[1]

	Half Year ended		
	Sep 18	**Sep 17**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	762	1,189	(36)
Corporate & Asset Finance	437	619	(29)
Banking & Financial Services	296	286	3
Commodities & Global Markets	700	378	85
Macquarie Capital	406	190	114
Total contribution to net profit by operating group	**2,601**	**2,662**	(2)
Corporate[2]	(1,291)	(1,414)	(9)
Profit attributable to ordinary equity holders of MGL	**1,310**	**1,248**	5

[1] For further information on our segment reporting, see section 3.0 of our 2019 Half Year Management Discussion and Analysis Report and Note 3 to our 2019 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 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 loan capital.

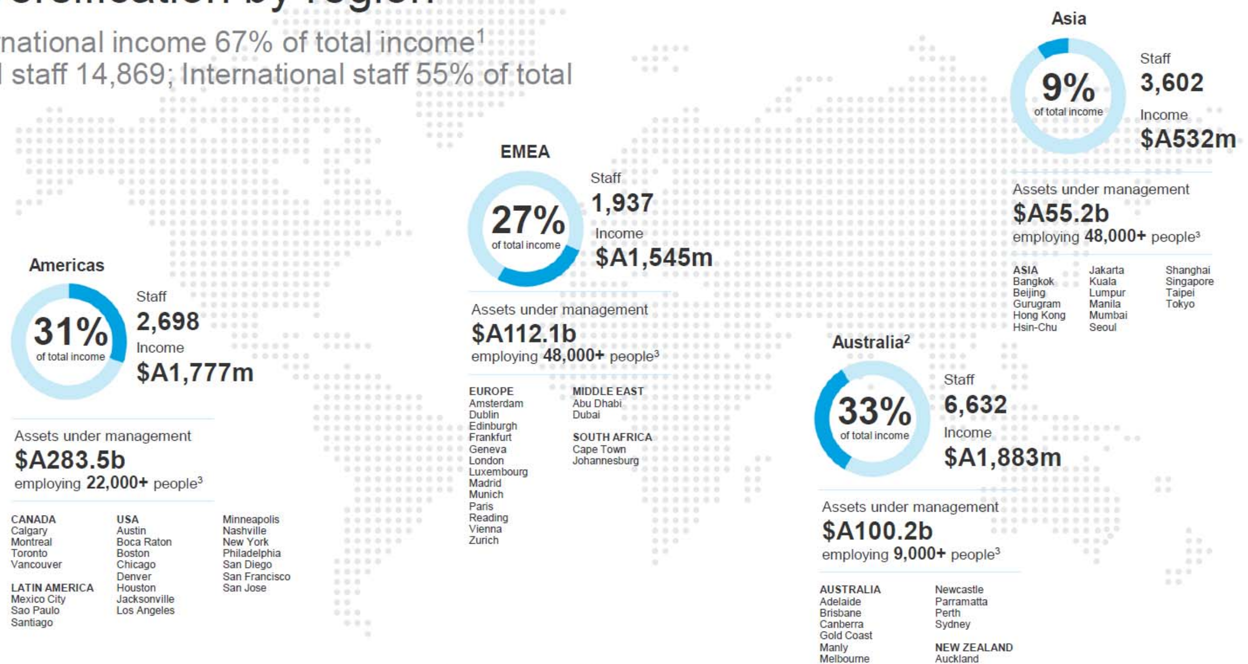
[3] "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Regional activity

At September 30, 2018, MGL Group employed over 14,800 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, 2018.

International income of MGL Group[1] by region for the half year ended September 30, 2018



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, 2018, MGL Group employed over 6,600 staff across Australia and New Zealand. In the half year ended September 30, 2018, Australia and New Zealand contributed A$1.9 billion (33%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.9 billion (35%) in the half year ended September 30, 2017.

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, Constellation Energy and Cargill. As at September 30, 2018, MGL Group employed over 2,600 staff across the United States, Canada, Mexico and Brazil. In the half year ended September 30, 2018, the Americas contributed A$1.8 billion (31%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.4 billion (25%) in the half year ended September 30, 2017.

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, 2018, MGL Group employed over 3,600 staff across China, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore 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, 2018, Asia contributed A$0.5 billion (9%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$0.5 billion (10%) in the half year ended September 30, 2017.

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, 2018, MGL Group employed over 1,900 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, 2018, Europe, Middle East & Africa contributed A$1.5 billion (27%) of

our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.6 billion (30%) in the half year ended September 30, 2017.

For further information on our segment reporting, see section 3.0 of our 2019 Half Year Management Discussion and Analysis Report and Note 3 to our 2019 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 for its fiduciary clients within the infrastructure debt sector. In addition, it provides financing solutions for ship owners, hedge funds, private equity and private credit funds as well as real estate funds along with a market leading capability in arranging and underwriting Export Credit Agency backed debt facilities. 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$762 million to MGL Group's net profit for the half year ended September 30, 2018 and, as at September 30, 2018, had over 1,700 staff operating in 24 countries across Australia, the Americas, Europe and Asia.

As at September 30, 2018, Macquarie Asset Management had Assets under Management of A$549.5 billion. For further information on Macquarie Asset Management's results of operations and financial condition for the half year ended September 30, 2018, see section 3.2 of our 2019 Half Year Management Discussion and Analysis Report. For further information on Macquarie Asset Management's Assets under Management, see "Macquarie Group Limited — Asset management business — Assets under Management" beginning on page 30 of our 2018 Annual U.S. Disclosure Report.

During the half year ended September 30, 2018:

(a) in the Non-Banking Group:

   i. Macquarie Infrastructure and Real Assets continued its focus on investing capital strategically across the globe, finishing the half year ended September 30, 2018 with A$105.8 billion in equity under management;

   ii. Macquarie Infrastructure and Real Assets raised A$7.8 billion in new equity commitments, invested A$6.6 billion in equity across 7 acquisitions and 10 follow-on investments in 11 countries and received equity proceeds from asset divestments of over A$7.0 billion; and

   iii. Macquarie Investment Management division had Assets under Management of A$363.6 billion at September 30, 2018. This represents an increase of 9% from A$333.5 billion at March 31, 2018, largely due to positive foreign exchange and market movements together with the completion of the acquisition of ValueInvest Asset Management S.A.

(b) in the Banking Group, Macquarie Specialised Investment Solutions continued to grow its infrastructure debt investment solutions business and lending with total third party investor commitments of over A$9.6 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 2018 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance currently operates businesses in the Banking Group and consists of an Asset Finance business which provides specialist finance and asset management solutions globally, and a Principal Finance business which provides flexible primary financing solutions, and engages in secondary market investing across the capital structure.

Corporate & Asset Finance contributed A$437 million to MGL Group's net profit in the half year ended September 30, 2018 and, as at September 30, 2018, had over 1,300 staff operating across 15 countries, including Australia, South Korea, Japan, the United Kingdom, Ireland, the United States and Canada. For further information on Corporate & Asset Finance's results of operations and financial condition for the half year ended September 30, 2018, see section 3.3 of our 2019 Half Year Management Discussion and Analysis Report.

At September 30, 2018, Corporate & Asset Finance managed an Asset and loan portfolio of A$33.7 billion, which represents a decrease of 2% from A$34.5 billion at March 31, 2018. The Asset Finance portfolio of A$29.6 billion at September 30, 2018, which represents a decrease of 1% from A$29.8 billion at March 31, 2018.

The Principal Finance funded loan portfolio of A$4.1[3] billion at September 30, 2018 decreased 13% from A$4.7 billion at March 31, 2018, due to net repayments and realizations, with portfolio additions of A$0.4 billion.

During the half year ended September 30, 2018:

(a) notable transactions in the Principal Finance business included a commitment to acquire 50% of a leading United Kingdom car park management and solutions company, providing financing to the United Kingdom's largest provider of construction waste management services and providing refinancing to a portfolio of commercial properties located in France;

(b) notable realizations included the early repayment of financing provided to a leading private hospital group in Ireland and completion of Principal Finance's sale of a portfolio of U.S. multi-family rental properties acquired over the period of 2014 to 2017; and

(c) notable transactions in the Asset Finance business included continued growth in mobile device finance programs, the sale of an aircraft, end of lease sale of mining equipment, the sale of a residential subdivision and growth in technology remarketing and inventory sales.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Group Limited — Operating groups — Corporate & Asset Finance" beginning on page 25 of our 2018 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 clients, advisers, brokers and business clients.

Banking & Financial Services contributed A$296 million to MGL Group's net profit in the half year ended September 30, 2018 and, as at September 30, 2018, had headcount of over 2,100 operating predominantly in Australia. For further information on Banking & Financial Services' results of operations and financial condition for the half year ended September 30, 2018, see section 3.4 of our 2019 Half Year Management Discussion and Analysis Report.

During the half year ended September 30, 2018, Banking & Financial Services:

(a) BFS deposits grew from A$45.7[4] billion at March 31, 2018 to A$49.4 billion at September 30, 2018. This was primarily due to increased term deposits and business banking at-call deposits;

(b) Australian mortgage portfolio grew from A$32.7 billion at March 31, 2018 to A$36.1 billion at September 30, 2018, representing approximately 2% of the Australian mortgage market.

(c) funds on platform[5] grew from A$82.5 billion at March 31, 2018 to A$88.1 billion at September 30, 2018, due to net positive client inflows and market movements;

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[3] Includes Real Estate Structured Finance legacy run-off portfolio and equity portfolio of A$0.4 billion.
[4] Banking & Financial Services deposits exclude corporate/wholesale deposits.
[5] Funds on platform includes Macquarie Wrap and Vision.

(d) continued to support innovative digital banking solutions for clients, including the launch of Macquarie Marketplace, which allows customers to purchase and redeem discounted eGift cards at over 40 leading retailers directly in its award winning digital banking app and online banking site;

(e) continued to focus on third party distribution with ongoing growth in small and medium-sized enterprises and middle market cash flow and lending deposits within the business banking portfolio; and

(f) commenced a wealth platform transformation through the implementation of a cloud based investment and portfolio management platform, which will enable real time capability.

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 2018 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.

Commodities & Global Markets contributed A$700 million to MGL Group's net profit in the half year ended September 30, 2018 and, as at September 30, 2018, had headcount of over 2,000 operating across 21 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 operations and financial condition for the half year ended September 30, 2018, see section 3.5 of our 2019 Half Year Management Discussion and Analysis Report.

There were no other significant developments for Commodities & Global Markets for the half year ended September 30, 2018.

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 2018 Annual U.S. Disclosure Report.

Macquarie Capital

Macquarie Capital is in the Non-Banking Group.

Macquarie Capital contributed A$406 million to MGL Group's net profit in the half year ended September 30, 2018 and, as at September 30, 2018, had over 1,200 staff operating across 16 countries, including Australia, China, Germany, India, Ireland, Japan, Malaysia, New Zealand, the Netherlands, the Philippines, Singapore, South Korea, Spain, the United Arab Emirates, the United Kingdom and the United States. For further information on Macquarie Capital's results of operations and financial condition for the half year ended September 30, 2018, see section 3.6 of our 2019 Half Year Management Discussion and Analysis Report.

During the half year ended September 30, 2018, Macquarie Capital:

(a) advised on 228 transactions valued at A$267 billion.[6] Significant transactions that Macquarie Capital was involved in during the half year ended September 30, 2018 included financial adviser to CSRA on its US$9.7 billion sale to General Dynamics; financial adviser to The Stars Group on its US$4.7 billion acquisition of Sky Betting & Gaming and joint bookrunner on its US$6.3 billion debt financing and US$1.1 billion follow-on equity offering to support the acquisition; joint financial adviser to the Sydney Transport Partners consortium on its acquisition of a 51% interest in WestConnex for A$9.3 billion from the New South Wales Government and joint leader manager, bookrunner and underwriter to Transurban Group on its A$4.2 billion entitlement offer, the largest M&A fund raising by an ASX listed company in the last decade;[7] and

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[6] Dealogic and IJGlobal for Macquarie Group completed M&A, balance sheet positions, equity capital markets and debt capital market transactions, converted at the September 30, 2018 foreign exchange rate. Deal values reflect the full transaction value and not an attributed value.

[7] Dealogic (since 2007, by value)

(b) also completed a number of balance sheet transactions including the acquisition and development of a 235MW onshore wind farm (under construction) in central Sweden and raised €270 million of related construction financing; and successfully exited its investment in TriTech Software Systems and subsequently acted as financial adviser on its merger with Superion and Aptean and joint bookrunner on the US$1.0 billion related financing.

For further information on Macquarie Capital, its divisions and products, see "Macquarie Group Limited — Operating groups — Macquarie Capital" beginning on page 28 of our 2018 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 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 loan capital.

Corporate contributed a net loss of A$1,291 million in the half year ended September 30, 2018 and, as at September 30, 2018, had over 6,300 staff operating across all countries in which MGL operates.

For further information on Corporate's results of operations and financial condition for the half year ended September 30, 2018, see section 3.7 of our 2019 Half Year Management Discussion and Analysis Report.

Asset management business

For a description of MGL Group's asset management business, see "Macquarie Group Limited — Asset management business" beginning on page 29 of our 2018 Annual U.S. Disclosure Report.

Assets under Management

For a description of MGL Group's funds management fee income, see "Macquarie Group Limited — Asset management business — Assets under Management" beginning on page 30 of our 2018 Annual U.S. Disclosure Report. MGL Group's income from asset management is mainly derived from management fees. Management fee income includes base fees, which are ongoing fees generated from assets under management (or equity under management in the case of Macquarie Infrastructure and Real Assets), and performance fees, which are typically earned when the strategies outperform pre-determined benchmarks.

For Macquarie Infrastructure and Real Assets' funds, the incentive income is typically 20% of any outperformance. In general, if the return of a Macquarie Infrastructure and Real Assets listed fund is less than the benchmark in any period, the amount of the deficit is carried forward in the calculation of the performance fee for subsequent periods. For unlisted funds, incentive income is earned for outperformance of a pre-determined internal rate of return. Unlisted performance fees are generally payable upon the occurrence of a "liquidity event", such as when capital is returned to investors following the completion of an asset sale or with a fund listing. The timing and quantum of these fees are therefore unpredictable.

For further detail on MGL Group's income from funds management for the half year ended September 30, 2018, see section 2.2 of our 2019 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, 2018, see section 7.1 of our 2019 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, 2018, see section 7.2 of our 2019 Half Year Management Discussion and Analysis Report.

Legal proceedings and regulatory matters

MGL Group German lending transaction in 2011

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. Earlier this year, 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. We understand the CPO will want to interview the individuals involved in the transaction, which may number up to 30 people. This is expected to include staff involved in the approval process, among them the Chief Executive Officer of MGL and the CEO designate.

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 total amount at issue with the CPO is not material and MGL has made reserves for these matters. MGL Group was one of over 100 institutions involved in this market, from which it withdrew in 2012.

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 2019 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 2018 Annual U.S. Disclosure Report.

Additional financial disclosures for the half year ended September 30, 2018

Euro-zone exposures

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

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

	As at Sep 30, 2018			
		Non sovereign exposure		
	Sovereign exposure	Financial institutions	Corporate	Total exposure[3]
	A$m	A$m	A$m	A$m
Italy				
Loans, receivables & commitments[1]	-	-	60	61
Derivative assets[2]	-	-	39	39
Italy totals	**-**	**-**	**99**	**100**
Spain				
Loans, receivables & commitments[1]	-	-	15	15
Equity	-	-	1	1
Derivative assets[2]	-	-	57	57
Spain totals	**-**	**-**	**73**	**73**
Portugal				
Loans, receivables & commitments[1]	-	-	17	17
Derivative assets[2]	-	-	4	4
Portugal totals	**-**	**-**	**21**	**21**
Greece				
Loans, receivables & commitments[1]	-	-	15	15
Greece totals	**-**	**-**	**15**	**15**
Russian Federation		-		
Equity	-	-	15	15
Russian Federation totals	**-**	**-**	**15**	**15**
Ireland				
Loans, receivables & commitments[1]	-	61	52	112
Traded debt securities	-	11	-	11
Equity	-	-	228	228
Derivative assets[2]	-	1	5	6
Ireland totals	**-**	**72**	**285**	**358**
Total exposure	**-**	**73**	**508**	**581**

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, 2018, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of September 30, 2018, MGL's total credit and market exposure to Russia and Ukraine was not material.

Lease commitments, contingent liabilities and assets

We do not expect our lease commitments to have a significant effect on our liquidity needs. See Note 33 "Lease commitments" to our 2018 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, 2018, MGL Group had A$14,793 million of contingent liabilities and commitments, including A$1,529 million of contingent liabilities and A$9,677 million of commitments with respect to undrawn credit facilities

and securities underwriting. See Note 18 “Contingent liabilities and commitments” to our 2019 interim financial statements which shows MGL Group’s contingent liabilities and commitments at September 30, 2018.

Quantitative and qualitative disclosures about market risk

Each year we prepare a detailed analysis of market risk as it applies to MGL Group and a quantitative analysis of MBL Group’s value at risk for equities, interest rates, foreign exchange and bullion, and commodities, individually and in the aggregate thereof. See Note 37 “Financial risk management” to our 2018 annual financial statements for a quantitative and qualitative discussion of these risks.

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 34 of our 2018 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 including conduct by our employees, contractors and external service providers, or systems or external events” on pages 2, 7 and 9, respectively, of 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 MGL Group that have occurred since the release of our 2018 Annual U.S. Disclosure Report on May 18, 2018 and a summary of certain regulatory developments prior to May 18, 2018.

Australia

APRA’s prudential supervision – Capital adequacy

On August 14, 2018, APRA released a discussion paper, “Improving the transparency, comparability and flexibility of the ADI capital framework”. APRA takes a more conservative approach to the definition of capital and the calculation of risk-weighted assets (in some areas) than the international standards set by the Basel Committee (referred to as “APRA super-equivalence”). Consequently, Australian ADIs typically have lower reported capital ratios than overseas peers with comparable capital strength.

APRA’s discussion paper sets out two potential options to improve the transparency, international comparability and flexibility of the capital framework. The proposals are not intended to change the amount of capital that ADIs are required to hold.

APRA’s prudential supervision – Associations with Related Entities

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

APRA – Banking Executive Accountability Regime

On October 17, 2018, APRA released an information paper to assist ADIs to meet their obligations under the Banking Executive Accountability Regime ("*BEAR*"). The BEAR, which establishes heightened standards of accountability among ADIs and their most senior executives and directors, came into force for the largest ADIs from July 1, 2018. It will apply to all other ADIs (including MBL) from July 1, 2019. 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.

Using experience gained in the establishment of the Senior Manager's Regime in the United Kingdom, MGL is developing an approach to the practical implementation of the new legislation and working on the application of the new BEAR regime to the MGL risk framework.

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, therefore using existing capital instruments rather than introducing new forms of loss-absorbing instruments;
- 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 on a framework for recovery and resolution in 2019, which will include further details on resolution planning. APRA expects ADIs that can be resolved without the need for additional financial resources will not be required to meet a higher total capital requirement. However, APRA anticipates that a small number of non-D-SIB ADIs may require additional loss absorbency to facilitate resolution, due to their complexity or the nature of their functions.

APRA expects to notify ADIs of changes to total capital requirements from 2019 onwards. ADIs would have four years in the first instance to meet the adjusted requirements. APRA is seeking submissions on the proposals by February 8, 2019. The effect of the proposed changes on MBL and the MGL Group is not yet known.

Enhanced criminal and civil penalties for corporate misconduct

On October 24, 2018, the Australian Government introduced a bill in Parliament to strengthen criminal and civil penalties for corporate and financial sector misconduct. The bill is based on recommendations from the ASIC Enforcement Review Taskforce. If passed, the bill will double maximum imprisonment penalties, from five years to 10 years in some cases. Civil penalties are also contemplated to increase by more than tenfold for corporations and more than fivefold for individuals. The financial penalty for individuals for civil contraventions will be increased from A$200,000 to A$1.05 million, or three times the benefit gained/loss avoided (whichever is greatest) from the

contravention. For corporations, the financial penalty for civil contraventions will be increased from A$1 million to A$10.5 million, or three times the benefit gained/loss avoided, or 10% of annual turnover (capped at A$210 million). The bill introduced by the Australian Government also proposes to expand the range of contraventions subject to civil penalties as well as give the courts the power to seek additional remedies to strip wrongdoers of profits illegally obtained or losses avoided.

ASIC's guidance on code of ethics compliance schemes for financial advisers

On September 28, 2018, ASIC released guidance on its proposed approach to approving and overseeing compliance schemes for financial advisers ("Regulatory Guide 269 Approval and oversight of compliance schemes for financial advisers"). From January 1, 2020, all financial advisers must be covered by an ASIC-approved compliance scheme under which their compliance with a new single, uniform code of ethics will be monitored and enforced. Regulatory Guide 269 sets out, among other things, ASIC's process and criteria for determining whether to grant approval to a compliance scheme. The code of ethics is being developed by the Financial Adviser Standards and Ethics Authority ("*FASEA*"), with consultation on an exposure draft of the code of ethics having closed on June 1, 2018. The final code of ethics has not yet been released by FASEA. In the event that there are significant changes from the draft code, ASIC may need to revise its guidance when the final code is released.

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

On September 25, 2018, ASIC released a report which examined the breach reporting processes of 12 financial services groups, including the "big four" Australian banks (ANZ, CBA, NAB and Westpac), AMP and the Macquarie Group. The review considered the institutions' compliance with reporting requirements under section 912D of the Corporations Act 2001 (Cth), which requires that all Australian Financial Services licensees report to ASIC a "significant breach" within 10 business days of becoming aware of it. ASIC announced that it has identified serious, unacceptable delays by financial institutions in reporting, addressing and remediating significant breaches of the law.

ASIC has concluded that all ADIs could improve their breach reporting processes, although ASIC acknowledges the issues and inadequacies in the current framework. It is worth noting that ASIC states that the "the findings do not affect all the reviewed banking groups to the same extent; in general, the major financial groups took longer to identify, investigate, report and remediate significant breaches." The eight non-major banks performed better than the four major banks, and Macquarie also performed better on average than the eight non-major banks.

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

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

ASIC powers to intervene in the design and distribution of financial products

On September 20, 2018, the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018 was introduced into the House of Representatives. The Bill was also referred to the Senate Economics Legislation Committee for inquiry and its report was due on November 9, 2018. The MGL Group and MBL will continue to monitor the impact that the Design and Distribution Bill may have on MBL's issuance and distribution of financial products to retail clients.

Insolvency reform

On September 18, 2017, the Australian Government passed reforms to Australian insolvency laws, including the introduction of an "ipso facto" moratorium. The new ipso facto regime came into effect in Australia on July 1, 2018 and will apply to ipso facto rights arising under contracts, agreements or arrangements entered into after July 1, 2018,

subject to certain exclusions. On June 21, 2018, the Australian federal government introduced regulations setting out the types of contracts and contractual rights which will be excluded from the stay (the "*Regulations*").

The Regulations provide, among other things, that any ipso facto rights under a contract, agreement or arrangement that is or governs securities, financial products, bonds or promissory notes will be exempt from the moratorium. Furthermore, a contract, agreement or arrangement under which a party is or may be liable to subscribe for, or to procure subscribers for, securities, financial products, bonds or promissory notes is also excluded from the stay. Accordingly, the Regulations should exclude the Notes and certain other related arrangements from the stay. As the legislation and the Regulations are new to the insolvency regime in Australia, they have not been the subject of judicial interpretation. If the Regulations are determined not to exclude the Notes or related arrangements from their operation under the exclusions mentioned above or any other exclusion under the Regulations, this may render unenforceable in Australia provisions of the Notes or related arrangements conditioned solely on the occurrence of events giving rise to ipso facto rights.

Code of Banking Practice 2016 review

The Code of Banking Practice (or the Banking Code of Practice, as the revised code is called) (the "*Code*") is the banking industry's customer charter on best banking practice standards. On July 31, 2018, ASIC approved the Code. Each ABA member that has adopted the Code is required to implement its provisions by July 31, 2019. The Code brings many improvements to the way in which banks deliver services and products to customers. For the first time, small business customers are also given protections under the new Code. There are other initiatives which are still in progress, including the measures related to the independent review of product sales commissions and product based payments. The Code sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for their banking services. The new Code will come into effect on July 1, 2019. Until that time, the current edition of the Code, published in 2013, shall continue to apply.

MBL has advised the Australian Bankers Association of its intention to subscribe to the revised Code. Work is underway to amend relevant policies, processes, documentation and systems.

Australian Productivity Commission Inquiry into Competition in the Australian Financial System

On August 3, 2018, the Australian Productivity Commission publicly released its inquiry report entitled "Competition in the Australian Financial System." The Australian Productivity Commission's report broadly concluded that the Australian financial system may be exposed to use of entrenched market power, resulting in unnecessary fees and low-value products for Australians. The report sets out various recommendations which may impact the MGL Group.

Open Banking

On February 9, 2018, the Australian Government released a review into open banking entitled "Open Banking: customers, choice, convenience, confidence", which provides guidance on the Australian Government's preferred approach to implementing an open data regime. On May 9, 2018, the Australian Government publicly accepted the recommendations made by the review and undertook to begin a phased implementation of the Open Banking regime from July 1, 2019. From that date, all major banks will be required to make data available on credit and debit card, deposit and transaction accounts, and must do the same in respect of mortgages by February 1, 2020. All non-major banks (including MBL) will be subject to a 12-month delay on timelines.

The regime is expected to increase competition among banks while reducing barriers to entry for new providers, allowing customers to benefit from a broader suite of financial products and services. The report indicated that the types of data to be shared will include all current and historical transactional data across deposits and lending products, achieved via application programming interfaces only at a customer's explicit request.

ASIC enforcement personnel in banks

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

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 banking business. These offices are generally limited to soliciting business on behalf of MBL, which must then be approved and booked offshore, and performing administrative tasks as directed by MBL. Our representative offices are licensed by individual states, in our case, the states of New York, Illinois and Texas, and are subject to periodic examination by the applicable state licensing authority and regional Federal Reserve Banks, which are subject to oversight by the Board of Governors of the Federal Reserve System (the "*FRB*").

Derivatives regulations

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

Pursuant to the CFTC's Comparability Determination for Australia, MBL's compliance with certain provisions and requirements under the applicable Australian regulatory regimes is sufficient to meet certain CFTC requirements to which MBL would otherwise be subject. In its capacity solely as a swap dealer, MBL became subject to the FRB's variation margin requirements in 2017 and expects to be subject to the phased compliance for initial margin requirements in September 2019 or September 2020. As a swap dealer regulated by the FRB, MBL is subject to the FRB's capital requirements. MELLC is subject to only CFTC regulations in this regard and not the Australian regulations or the FRB margin and capital requirements.

Anti-money laundering regulations

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

The Bank Secrecy Act, as amended by the USA PATRIOT Act, requires 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.

On May 11, 2016, 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. futures commission merchants, securities 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. Although these requirements became effective on July 11, 2016, institutions were required to comply with these requirements as of May 11, 2018.

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 U.K., Macquarie Infrastructure and Real Assets (Europe) Limited ("*MIRAEL*"), Macquarie Capital (Europe) Limited ("*MCEL*"), Macquarie Investment Management Europe Limited ("*MIMEL*"), Macquarie Corporate and Asset Finance 1 Limited ("*MCAF*") and Green Investment Group Management Limited ("*GIGML*") authorized and regulated by the FCA. MIRAEL and GIGML are authorized as an alternative investment fund manager ("*AIFM*") pursuant to the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773), which implements the Alternative Investment Fund Managers Directive (Directive 2011/61/EU) in the United Kingdom, and is able to manage qualifying alternative investment funds and market such funds to professional investors in the United Kingdom and across Europe. MCEL is authorized and regulated by the FCA as a full-scope investment firm. MIMEL is authorized and regulated by the FCA as a limited-scope investment firm. MCAF is authorized and regulated by the FCA as a consumer credit firm.

In many cases, the Rules reflect the requirements set out in European Union Regulations and implement applicable European Union Directives (such as the Capital Requirements Regulation (575/2013) ("*CRR*") and Capital Requirements Directive (2013/36) ("*CRD IV*"), which relate to regulatory capital requirements for banks and investment firms and came into force on January 1, 2014;and Directive 2014/65/EU ("*MiFID II*") and the Markets in Financial Instruments Regulation (600/2014/EU) ("*MiFIR*"), which relate to the carrying on of investment business and took effect on January 3, 2018). Under the Rules, regulated banks and certain investment firms are required to have an adequate liquidity contingency plan in place to deal with a liquidity crisis. A liquidity contingency plan is maintained for MGL and this covers the requirements for MBIL, MCEL and MBL LB. See section 5.1 of our 2019 Half Year Management Discussion and Analysis Report.

Brexit

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

It remains uncertain whether the Article 50 Withdrawal Agreement will be finalized and ratified by the United Kingdom and the European Union ahead of the March 29, 2019 deadline. If it is not ratified, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the United Kingdom from that date and, absent an alternative agreement, there will be no transitional period. While continuing to negotiate the Article 50 Withdrawal Agreement, the U.K. Government has therefore commenced preparations for a "hard" Brexit or "no-deal" Brexit to minimize the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book on March 30, 2019. Neither the European Union authorities, such as the European Commission, nor the national regulators of the other European Union member states are currently creating 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. 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 March 29, 2019.

U.K. Senior Managers and Certification Regimes

The PRA and the FCA have made major changes to the way individuals working for PRA supervised firms, including MBIL and MBL LB, are assessed and held accountable for the roles they perform. The changes were in response to perceived shortcomings in behavior and culture within firms following the financial crisis and recent conduct scandals. The changes were significant and introduced (i) a new Senior Managers Regime which is designed to clarify the lines of responsibility at the top of banks, enhance the regulator's ability to hold senior individuals accountable and require banks to regularly evaluate their senior managers for fitness and propriety; (ii) a Certification Regime (together with the Senior Managers Regime, the "*SMCR*") which 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; and (iii) a new set of "conduct" rules which set out high level principles and standards of behavior that will apply to all bank employees except those in ancillary service functions such as IT and catering. Banks and investment firms that are designated by the PRA became subject to the SMCR in March 2016.

In July 2017, the FCA published its long-awaited proposals for extending the SMCR to solo-FCA regulated firms. The FCA also published a consultation on extending the scope of the regime to all authorized firms on July 26, 2017 followed by a consultation on individual accountability and transitioning FCA firms and individuals to the SMCR in December 2017. The FCA published a policy statement including near final rules on July 4, 2018. Once the extended SMCR is brought into effect (which is currently anticipated to be in mid- to late-2019), 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 MBIL and MBL LB, 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 MCAF, MIRAEL, and 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*") (calculated as a three-year rolling average) 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 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 top-up permissions under the Markets in Financial Instruments Directive 2004/39/EC ("*MiFID*"). MIRAEL has MiFID top-up permissions.

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 only significant change that is likely to be introduced to the existing SMCR is a new prescribed responsibility for notification of and training in the Conduct Rules. This may be introduced into the existing SMCR prior to the go-live of the extension.

The FCA's near-final rules remain subject to commencement regulations to be made by HM Treasury which has determined that the extended regime will commence on December 9, 2019.

European Union

CRD V and CRR II

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

The final capital framework to be established in the European Union under CRD V/ CRR II differs from Basel III in certain areas. Following the EC's legislative proposals published in November 2016, the Council of the European Union has agreed its negotiating position, set out in compromise proposals published in May 2018. The European Parliament has also agreed its negotiating position. As the CRD V / CRR II legislative proposals continue to be negotiated by European policy-makers it is not possible to anticipate their final content or definite time of application though early 2019 remains a possible date

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. These proposals will need to be transposed into EU law before coming into force. The Basel Committee has recommended implementation commencing in 2022, however timing of implementation in the European Union is uncertain.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates, including the implementation of CRDV / CRRII, and Basel III final rules, and certain potential consequences of Brexit may require members of the MGL Group to raise additional capital. If the MGL Group is unable to raise the

requisite capital, it may be required to reduce the amount of its risk-weighted assets, which may not occur on a timely basis or achieve prices which would otherwise be attractive to it.

BRRD and BRRD 2

As a result of the EU Bank Recovery and Resolution Directive 2014/59/EU (the "*BRRD*") providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms and any relevant national implementing measures, it is possible that certain EU entities or branches of the MBL Group (such as MBIL and MBL LB) and/or certain other EU group companies could be subject to certain resolution actions under relevant national implementations of the BRRD. Certain amendments to the BRRD may be made as a result of proposals published by the European Commission on November 23, 2016 relating to EU implementation of the Financial Stability Board's total loss-absorbing capacity standard and other reforms (known as "*BRRD 2*"), including extending the "write down and conversion power" to cover non-own funds MREL-eligible liabilities of entities in a banking group other than the resolution entity. The end of 2018 is a possible date for the conclusion of dialogue in the European Parliament and Council of the EU on BRRD 2 though a formal adoption date is not possible to predict.

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 2019 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, 2018 compared to the half year ended September 30, 2017, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2018, 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 Operations and Financial Condition" beginning on page 53 of our 2018 Annual U.S. Disclosure Report.

Recent developments post-September 30, 2018

Board and management changes

Effective November 5, 2018, Jillian Broadbent AO joined the Boards of MGL and MBL as an independent director. Ms. Broadbent was a Member of the Reserve Bank of Australia Board between 1998 and 2013 after 22 years at Bankers Trust Australia as an economic strategist and then as executive director responsible for risk management of foreign exchange, interest rates and commodities.

Effective December 1, 2018:

- Martin Stanley, currently Global Head of Macquarie Infrastructure and Real Assets will be appointed Group Head of Macquarie Asset Management and will join the Executive Committee. Macquarie Asset Management will comprise Macquarie Infrastructure and Real Assets and Macquarie Investment Management and Mr. Stanley, based in London, will also continue to lead Macquarie Infrastructure and Real Assets globally.
- Ben Brazil will step down as Group Head, Corporate & Asset Finance - Principal Finance, and from the Executive Committee. He will become Chairman, Corporate & Asset Finance - Principal Finance, and continue in that role until mid-2019.
- Florian Herold, currently Co-Head of Corporate & Asset Finance - Principal Finance in Europe, the Middle East and Africa, will be appointed Group Head, Corporate & Asset Finance - Principal Finance. Mr. Herold will also join the Executive Committee.

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

Operating group updates

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

- Macquarie Vehicle Leasing will move from Corporate & Asset Finance - Asset Finance into Banking & Financial Services given shared opportunities between the two businesses.
- Macquarie Asset Management's Macquarie Specialised Investment Solutions business will move into Corporate & Asset Finance - Asset Finance in the Bank Group. Macquarie Specialised Investment Solutions' fiduciary businesses, such as the infrastructure debt business, Macquarie Infrastructure Debt Investment Solutions), will move to Macquarie Asset Management in the Non-Bank Group on receipt of the required approvals.
- Macquarie Capital's global real estate principal investment and private capital markets business will move into Macquarie Asset Management and merge with Macquarie Infrastructure and Real Assets Real Estate.

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

MBL has agreed to sell its Corporate & Asset Finance's Principal Finance and Transportation Finance businesses to the Non-Bank Group of its parent, MGL. Effective December 10, 2018, Corporate & Asset Finance's Principal

Finance and Transportation Finance business will transfer from the Bank Group to the Non-Bank Group. This simplifies the Group's overall structure and better reflects the latest activities of the individual businesses.

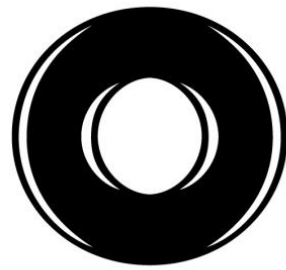
As a consequence of the transfer, MBL will deconsolidate the net assets of these Corporate & Asset Finance businesses resulting in an increase in equity of approximately A$0.3 billion which, subject to satisfaction of all applicable legal requirements, MBL expects to pay as a dividend to MGL. Additionally, it is proposed to return up to A$2.04 billion in capital from MBL to MGL, which will be surplus to MBL's requirements, subject to shareholder approval. The balance of the consideration received will be predominately used to reduce the borrowings of MBL.

The Australian Prudential Regulation Authority has given approval for the capital return. A meeting of MBL shareholders (which includes holders of Macquarie Income Securities) will be held at 10.30 am on December 10, 2018 at Macquarie's Sydney head office to request shareholder approval for the capital return. The formal notice for this meeting is expected to be circulated to shareholders and lodged with ASX by the end of next week.

As a result of this internal restructure (including the capital return), MBL expects its regulatory CET1 ratio to increase by approximately 0.7%, from 10.4% reported at September 30, 2018 to 11.1% on a pro forma basis. The internal restructure (including the capital return) is not expected to affect MBL's credit ratings. The proposed capital return is not expected to have a material impact on MBL's ability to fund new investments in its core business, or to fund new investments consistent with its current strategy.

Half year ended September 30, 2018 compared to half year ended September 30, 2017

See sections 1.0 – 7.0 of our 2019 Half Year Management Discussion and Analysis Report for a discussion of our results of operations and financial condition for the half year ended September 30, 2018, which has been incorporated by reference herein.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