Macquarie Group Limited

(ABN 94 122 169 279)

Disclosure Report (U.S. Version)
for the half year ended September 30, 2016

Dated: November 11, 2016

TABLE OF CONTENTS

CERTAIN DEFINITIONS

In this Disclosure Report (U.S. Version) for the half year ended September 30, 2016 ("*2017 Interim U.S. Disclosure Report*" or this "*Report*"), unless otherwise specified or the context otherwise requires:

- "*2016 Annual U.S. Disclosure Report*" means our Disclosure Report (U.S. Version) for the fiscal year ended March 31, 2016 and the documents incorporated by reference therein;

- "*2016 Interim Directors' Report and Financial Report*" means our 2016 Interim Directors' Report and Financial Report;

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

- *"2017 Half Year Management Discussion and Analysis Report"* means our Management Discussion and Analysis report dated October 28, 2016, which includes a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2016 compared to the half year ended September 30, 2015, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2016, has been posted on MGL's U.S. Investors' Website, and has been incorporated by reference herein; and

- "*2017 interim financial statements*" means our unaudited financial statements for the half year ended September 30, 2016 contained in our 2017 Interim Directors' Report and Financial Report.

In addition, you should refer to "Certain Definitions" beginning on page ii of our 2016 Annual U.S. Disclosure Report, which is posted on MGL's 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 "*2017*" or "*fiscal year*" and like references in the discussion of our financial statements, results of operation and financial condition are to the 12 months ending on March 31 of the applicable year; and, in connection with our interim financial statements, results of operation and financial condition, references such as "half year" and like references are to the six months ending on September 30 of the preceding year.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute "*forward-looking statements*" within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). Examples of these forward-looking statements include, but are not limited to: (i) statements regarding our future results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to our products or services; and (iii) statements of assumptions underlying those statements. Words such as "*may*", "*will*", "*expect*", "*intend*", "*plan*", "*estimate*", "*anticipate*", "*believe*", "*continue*", "*probability*", "*risk*", and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

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

- macroeconomic conditions in the global debt and equity markets;
- changes in market liquidity, volatility and investor confidence;
- inflation, and interest rate, exchange rate and other market fluctuations;
- our ability to deal effectively with an economic slowdown or other economic or market difficulties or disruptions;
- our ability to effectively manage our capital and liquidity and to adequately fund the operations of MGL and the Non-Banking Group;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices, or government policy, including as a result of regulatory proposals for reform of the banking, life insurance and funds management industries in Australia and the other countries in which we conduct our operations or which we may enter in the future;
- our ability to complete, integrate or process acquisitions, disposals, mergers and other significant corporate transactions;
- our ability to effectively manage our growth;
- adverse impact on our reputation;
- the performance and financial condition of MGL;
- the effects of competition in the geographic and business areas in which we conduct our operations or which we may enter in the future;
- our ability to maintain or to increase market share and control expenses;
- the ability of MGL to attract and retain employees;
- changes in the credit quality of MGL's clients and counterparties;
- changes to the credit ratings assigned to each of MGL and MBL;
- the effectiveness of our risk management processes and strategies;
- the performance of funds and other assets we manage;

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

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

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

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

Significant risk factors applicable to MGL Group are described under "Risk Factors" beginning on page 1 of our 2016 Annual U.S. Disclosure Report. Other factors are discussed in our 2017 Half Year Management Discussion and Analysis Report and in our 2016 Fiscal Year Management Discussion and Analysis Report.

EXCHANGE RATES

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

In providing these translations, we are not representing that the Australian dollar amounts actually represent these U.S. dollar amounts or that we could have converted those Australian dollars into U.S. dollars. Unless otherwise indicated, conversions of Australian dollars to U.S. dollars in this Report have been made at the noon buying rate on September 30, 2016, which was US$0.7667 per A$1.00. The noon buying rate on November 4, 2016 was US$0.7669 per A$1.00.

Fiscal year	Period End	Average Rate[1]	High	Low
2012	1.0367	1.0456	1.1026	0.9453
2013	1.0409	1.0317	1.0591	0.9688
2014	0.9275	0.9339	1.0564	0.8715
2015	0.7625	0.8673	0.9488	0.7582
2016	0.7677	0.7353	0.8118	0.6855

Month	Period End		High	Low
May 2016	0.7242		0.7641	0.7184
June 2016	0.7432		0.7598	0.7225
July 2016	0.7599		0.7632	0.7453
August 2016	0.7519		0.7717	0.7516
September 2016	0.7667		0.7676	0.7470
October 2016	0.7578		0.7715	0.7545
November 2016 (through November 4, 2016)	0.7669		0.7681	0.7659

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

AUSTRALIAN EXCHANGE CONTROL RESTRICTIONS

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

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

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 2016 Annual U.S. Disclosure Report and our 2017 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, 2016 and the impact of such operating conditions on MGL Group;
- the section of this Report under the heading "Management's Discussion and Analysis of Interim Results of Operation and Financial Condition", which incorporates by reference our 2017 Half Year Management Discussion and Analysis Report, which includes a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2016 compared to the half year ended September 30, 2015, along with other balance sheet, capital and liquidity disclosures as at or for the half year ended September 30, 2016 and which has been posted on MGL's U.S. Investors' Website;
- MBL's Pillar 3 Disclosure Document dated June 2016, which describes the Bank's capital position, risk management policies and risk management framework and the measures adopted to monitor and report within the 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 2017 Interim Directors' Report and Financial Report posted on MGL's U.S. Investors' Website.

For further information on our historical financial information for the 2016 Fiscal Year and prior periods, refer to the discussion under the heading "Financial Information Presentation — Our financial information" included in our 2016 Annual U.S. Disclosure Report.

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

For information on certain differences between Australian Accounting Standards and U.S. GAAP, see "Financial Information Presentation — Certain differences between Australian Accounting Standards and U.S. GAAP" beginning on page xi of our 2016 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 2016 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 2017 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 2016 Annual U.S. Disclosure Report.

RISK FACTORS

We are subject to a variety of risks that arise out of our financial services and other businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, some of which are described in Note 37 to our 2016 annual financial statements.

The significant risk factors applicable to MGL Group are described under "Risk Factors" beginning on page 1 of our 2016 Annual U.S. Disclosure Report.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as at September 30, 2016.

The information relating to MGL Group in the following table is based on our 2017 interim financial statements, which were prepared in accordance with Australian Accounting Standards, and should be read in conjunction therewith.

	As at	
	Sep 16	**Sep 16**
	US$m[1]	**A$m**
CAPITALIZATION		
Borrowings[2]		
Debt issued — due greater than 12 months	29,907	39,008
Subordinated debt — due greater than 12 months	3,514	4,583
Total borrowings[3]	**33,421**	**43,591**
Equity		
Contributed equity		
Ordinary share capital	5,707	7,444
Treasury shares	(936)	(1,221)
Exchangeable shares	8	11
Reserves	993	1,295
Retained earnings	5,667	7,392
Macquarie Income Preferred Securities	-	-
Macquarie Income Securities	300	391
Other non-controlling interests	116	151
Total equity	**11,855**	**15,463**
TOTAL CAPITALIZATION	**45,276**	**59,054**

1 Conversions of Australian dollars to U.S. dollars have been made at the noon buying rate on September 30, 2016, which was US$0.7667 per A$1.00. See “Exchange Rates” for further information on the historical rates of exchange between the Australian dollar and the U.S. dollar.

2 At September 30, 2016, we had A$3.1 billion of secured indebtedness due in greater than 12 months compared to A$3.4 billion at September 30, 2015.

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$17.2 billion as at September 30, 2016 and securitizations totaled A$13.7 billion as at September 30, 2016 compared to A$19.5 billion and A$16.6 billion, respectively, as at September 30, 2015.

For details on our short-term debt position as at September 30, 2016, see section 5.4 of our 2017 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 2016 Annual U.S. Disclosure Report on May 20, 2016. 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 13 of our 2016 Annual U.S. Disclosure Report and other information posted on MGL's U.S. Investors' Website.

Organizational structure

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

The Banking Group comprises MBL Group and has five 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 & Financial Markets (excluding certain assets of the Credit Markets business and some other less financially significant activities); and Macquarie Securities (excluding certain activities of the Cash division and certain activities of the Derivatives and Trading division, in each case, in certain jurisdictions). See "Macquarie Group Limited—Overview—Recent developments" in our 2016 Annual U.S. Disclosure Report.

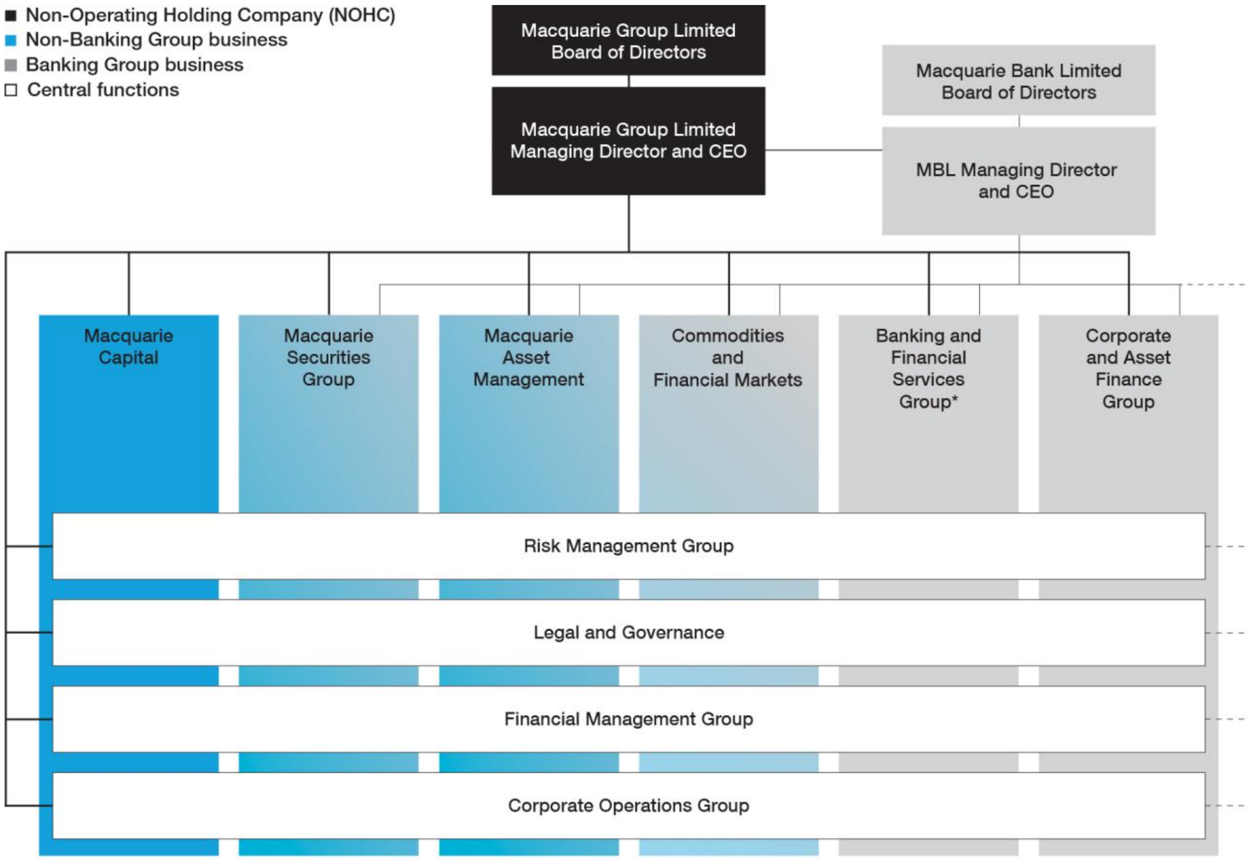
The Non-Banking Group consists of Macquarie Capital; the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division of Macquarie Asset Management; the Cash division and certain activities of the Derivatives and Trading division of Macquarie Securities, in each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

MGL Group provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Company Secretarial, Corporate Communications and Investor Relations Services, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

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

MBL and MGL have corporate governance and policy frameworks that meet the Australian Prudential Regulation Authority's ("*APRA*") requirements for ADIs and NOHCs, respectively. The Banking Group and the Non-Banking Group operate as separate sub-groups within MGL with clearly identifiable businesses, separate capital requirements and discrete funding programs. For further information on MGL and MBL's liquidity and funding, see the discussion in section 5.0 of our 2017 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 8 May 2015
**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" beginning on page 16 of our 2016 Annual U.S. Disclosure Report.

At September 30, 2016, MGL had total regulatory capital of A$16.9 billion, including A$3.7 billion of capital in excess of MGL Group's current 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 was required by APRA from January 1, 2016. For further information, refer to the discussion under the heading "Regulation and Supervision — APRA" on page 36 of our 2016 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, 2016, see our 2017 Half Year Management Discussion and Analysis Report.

Our strategy

Our strategy is set out under "Macquarie Group Limited — Our strategy" on page 18 of our 2016 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

Macquarie Asset Management's Assets under Management increased 3% to A$491.3 billion compared to March 31, 2016. While Corporate & Asset Finance benefited from acquisitions of a portfolio of aircraft (transition completed by March 31, 2016) and the Esanda dealer finance portfolio in November 2015, the business reported a reduced contribution from the Lending portfolio. Banking & Financial Services benefited from volume growth compared to the prior corresponding period in Australian mortgages, business lending, deposits and the Wrap platform.

Macquarie Securities experienced limited trading opportunities in the half year ended September 30, 2016 due to market uncertainty. Macquarie Capital experienced subdued market conditions particularly in equity capital markets in the Australian business. Commodities & Financial Markets experienced lower levels of volatility across a number of commodities, particularly oil, but benefited from increased customer activity in foreign exchange, interest rates and futures markets, due to ongoing market volatility.

For a discussion of the impact of trading and market conditions on our results of operation and financial condition for the half year ended September 30, 2016, see our 2017 Half Year Management Discussion and Analysis Report for further information.

Overview of MGL Group

At September 30, 2016, MGL had total assets of A$193.1 billion and total equity of A$15.5 billion. For the half year ended September 30, 2016, our net operating income was A$5.2 billion and profit after tax attributable to ordinary equity holders was A$1,050 million, with 59% 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 of each of our operating groups in the half years ended September 30, 2016 and 2015.

Net operating income of MGL Group by operating group for the half years ended September 30, 2016 and 2015[1]

	Half year ended		
	Sep 16	**Sep 15**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	1,373	1,669	(18)
Corporate & Asset Finance	835	863	(3)
Banking & Financial Services	879	736	19
Macquarie Securities	483	718	(33)
Macquarie Capital	569	516	10
Commodities & Financial Markets	1,002	811	24
Total net operating income from operating groups	**5,141**	**5,313**	(3)
Corporate[2]	77	5	*
Total net operating income	**5,218**	**5,318**	(2)

Profit contribution of MGL Group by operating group for the half years ended September 30, 2016 and 2015[1]

	Half year ended		
	Sep 16	**Sep 15**	**Movement**
	A$m	**A$m**	**%**
Macquarie Asset Management	857	1,139	(25)
Corporate & Asset Finance	521	611	(15)
Banking & Financial Services	261	170	54
Macquarie Securities	18	240	(93)
Macquarie Capital	205	170	21
Commodities & Financial Markets	472	282	67
Total contribution to profit by operating group	**2,334**	**2,612**	(11)
Corporate[2]	(1,284)	(1,542)	(17)
Net profit after tax	**1,050**	**1,070**	(2)

1 For further information on our segment reporting, see section 3.0 of our 2017 Half Year Management Discussion and Analysis Report and Note 3 to our 2017 interim financial statements.

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

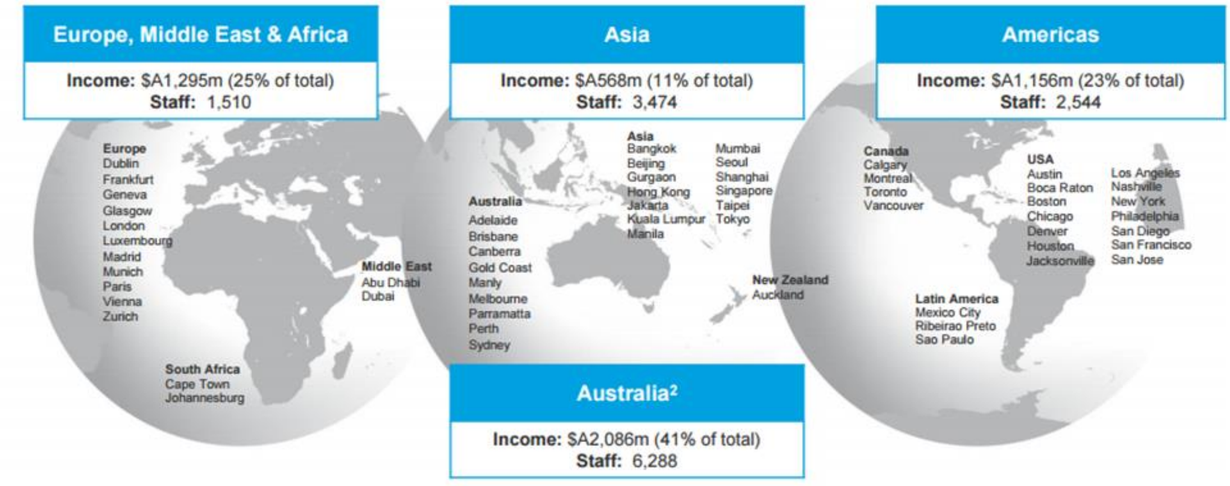
3 "*" indicates that actual movement was greater than 300%, that the movement was positive to negative, or that the movement was negative to positive.

Regional activity

At September 30, 2016, MGL Group employed over 13,800 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, 2016.

International income of MGL Group[1] by region for the half year ended September 30, 2016



1. Net operating income excluding earnings on capital and other corporate items. 2. Includes New Zealand.

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, 2016, MGL Group employed over 6,200 staff across Australia and New Zealand. In the half year ended September 30, 2016, Australia and New Zealand contributed A$2.1 billion (41%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.5 billion (29%) in the half year ended September 30, 2015.

Americas. MGL Group has been active in the Americas for over 20 years, when we established our first office in New York in 1994, and has grown rapidly over the last several years, both organically and through acquisitions including Delaware Investments, Tristone and Constellation Energy. As at September 30, 2016, MGL Group employed over 2,500 staff across the United States, Canada, Mexico and Brazil. In the half year ended September 30, 2016, the Americas contributed A$1.2 billion (23%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.7 billion (31%) in the half year ended September 30, 2015.

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, 2016, MGL Group employed over 3,400 staff across China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. MGL has expanded the regional investment and product platforms of Macquarie Asset Management, Corporate & Asset Finance as well as Commodities & Financial Markets, which had established an Asian regional "*hub*" in Singapore in the 2011 fiscal year. In the half year ended September 30, 2016, Asia contributed A$0.6 billion (11%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$0.9 billion (16%) in the half year ended September 30, 2015.

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, 2016, MGL Group employed over 1,500 staff across the United Kingdom, Germany, France, Luxembourg, the Netherlands, Sweden, Austria, Switzerland, South Africa, Abu Dhabi and Dubai. In the half year ended September 30, 2016, Europe, Middle East & Africa contributed A$1.3 billion (25%) of our net operating income (excluding earnings on capital and other corporate items) as compared to A$1.3 billion (24%) in the half year ended September 30, 2015.

For further information on our segment reporting, see section 3.0 of our 2017 Half Year Management Discussion and Analysis Report and Note 3 to our 2017 interim financial statements.

Recent developments within MGL Group

Macquarie Capital

Macquarie Capital is in the Non-Banking Group.

Macquarie Capital contributed A$205 million to MGL Group's net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,100 staff operating across 20 countries, including Australia, the United States, the United Kingdom, Germany, Canada, Hong Kong, South Korea and China. For further information on Macquarie Capital's results of operation and financial condition for the half year ended September 30, 2016, see section 3.6 of our 2017 Half Year Management Discussion and Analysis Report.

In the half year ended September 30, 2016, Macquarie Capital was involved in 201 transactions with an aggregate deal value of approximately A$65 billion. Significant transactions that Macquarie Capital was involved in during the half year ended September 30, 2016 included, advising Brookfield Infrastructure, together with its institutional partners, on the acquisition of Asciano Limited; advising on behalf of Seoul Tunnel Co., Ltd. in connection with Seoul Jemulpo Tunnel Project; advising Siris Capital on its acquisition of Polycom as well as being sole bookrunner and sole lead arranger on the debt financing to support the acquisition; and capital raising and acquisition in conjunction with Commodities & Financial Markets of a 50% principal investment in the 299 megawatt Tees Renewable Energy Plant.

For further information on Macquarie Capital, its divisions and products, see "Macquarie Group Limited — Operating groups — Macquarie Capital" beginning on page 24 of our 2016 Annual U.S. Disclosure Report

Commodities & Financial Markets

Commodities & Financial Markets is primarily in the Banking Group, however, certain assets of the Credit Markets business and some other less financially significant activities are in the Non-Banking Group.

Commodities & Financial Markets contributed A$472 million to MGL Group's net profit for the half year ended September 30, 2016 and, as at September 30, 2016, had over 900 staff operating across 14 countries, with locations in Australia, Asia, the Middle East, North and South America, the United Kingdom and Europe. For further information on Commodities & Financial Markets' results of operation and financial condition for the half year ended September 30, 2016, see section 3.7 of our 2017 Half Year Management Discussion and Analysis Report.

There were no significant developments for Commodities & Financial Markets during the half year ended September 30, 2016.

For further information and a description of the divisions within Commodities & Financial Markets and their respective activities, see "Macquarie Group Limited — Operating groups — Commodities & Financial Markets" beginning on page 24 of our 2016 Annual U.S. Disclosure Report.

Macquarie Securities

Macquarie Securities operates businesses both in the Banking Group and Non-Banking Group. The Cash division's activities, which include cash equities broking and equity capital markets services, operate in both the Banking Group (in respect of the Cash division's activities in Hong Kong and clearing and settlement services in Australia) and the Non-Banking Group (in respect of the Cash division's activities in jurisdictions other than Hong Kong). Generally, the Derivatives and Trading division's activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

Macquarie Securities contributed A$18 million to MGL Group's net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 900 staff operating across 19 countries, including Australia, Canada, China, Germany, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, South Africa, Switzerland, Taiwan, Thailand, the United Kingdom and the United States. For further information on Macquarie Securities' results of operation and financial condition for the half year ended September 30, 2016, see section 3.5 of our 2017 Half Year Management Discussion and Analysis Report.

There were no significant developments for Macquarie Securities during the half year ended September 30, 2016.

For further information and a description of the divisions within Macquarie Securities and their respective activities, see "Macquarie Group Limited — Operating groups — Macquarie Securities" beginning on page 26 of our 2016 Annual U.S. Disclosure Report.

Banking & Financial Services

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

Banking & Financial Services contributed A$261 million to MGL Group's net profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,900 staff operating predominantly in Australia (headcount excludes 97 staff relating to the sale of Macquarie Life's risk insurance business). For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2016, see our 2017 Half Year Management Discussion and Analysis Report.

Banking & Financial Services' Australian mortgage portfolio is broadly in line with the prior period, growing from A$28.5 billion at March 31, 2016 to A$28.6 billion at September 30, 2016, representing approximately 2% of the Australian mortgage market.

Banking & Financial Services' funds on platform have grown from A$58.4 billion at March 31, 2016 to A$62.1 billion at September 30, 2016, due to net inflows.

Banking & Financial Services' cash deposits have grown from A$40.4 billion at March 31, 2016 to A$42.2 billion at September 30, 2016. This was primarily due to increased Macquarie Cash Management Account and Business Banking At-Call deposits.

During the half year ended September 30, 2016, Banking & Financial Services completed the sale of Macquarie Life's risk insurance business to Zurich Australia Limited.

During the half year ended September 30, 2016, Banking & Financial Services continued to develop its intuitive new digital banking offering, unveiled market leading features in Australian banking and made Android Pay available for cardholders.

During the half year ended September 30, 2016, Banking & Financial Services has continued its investment in technology projects to improve client experience and the scalability of its operating model.

For further information on Banking & Financial Services' results of operation and financial condition for the half year ended September 30, 2016, see section 3.4 of our 2017 Half Year Management Discussion and Analysis Report.

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 27 of our 2016 Annual U.S. Disclosure Report.

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 diverse range of tailored investment solutions over funds and listed equities. In the Non-Banking Group, Macquarie Asset Management offers a diverse range of securities investment management products and capabilities and manages alternative assets, specializing in infrastructure, energy, real estate and agriculture via public and private funds, co-investments, partnerships and separately managed accounts.

Macquarie Asset Management contributed A$857 million to MGL Group's profit for the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,500 staff operating across 22 countries across Australia, the Americas, Europe and Asia.

As at September 30, 2016, Macquarie Asset Management had Assets under Management of A$491.3 billion. For further information on Macquarie Asset Management's results of operation and financial condition for the half year ended September 30, 2016, see section 3.2 of our 2017 Half Year Management Discussion and Analysis Report. For further information on Macquarie Asset Management's Assets under Management, see " — Funds management business — Assets under Management" beginning on page 31 of our 2016 Annual U.S. Disclosure Report.

In the Non-Banking Group, Macquarie Infrastructure and Real Assets, continued its focus on investing capital strategically across the globe during the half year ended September 30, 2016 by raising A$7.4 billion in new equity commitments, investing A$3.4 billion in equity across 12 acquisitions and 8 follow-on investments in 9 countries and divesting managed assets of over A$2.0 billion. Macquarie Investment Management's Assets under Management of A$351.1 billion at September 30, 2016 increased 4% from A$337.1 billion at March 31, 2016, largely driven by positive market movements and partially offset by small net outflows which related to client asset allocation changes in a select number of funds in the United States and Australia.

In the Banking Group, Macquarie Specialised Investment Solutions continued to grow its infrastructure debt management business with total third party investor commitments of over A$3.4 billion and raised over A$1.0 billion for Australian retail principal protected investments and specialist funds.

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 28 of our 2016 Annual U.S. Disclosure Report.

Corporate & Asset Finance

Corporate & Asset Finance operates businesses within the Banking Group and provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate & Asset Finance specializes in corporate debt and asset finance including aircraft, motor vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

Corporate & Asset Finance contributed A$521 million to MGL Group's profit in the half year ended September 30, 2016 and, as at September 30, 2016, had over 1,300 staff operating across 18 countries, including Australia, New Zealand, South Korea, the United States and the United Kingdom. For further information on Corporate & Asset Finance's results of operation and financial condition for the half year ended September 30, 2016, see section 3.3 of our 2017 Half Year Management Discussion and Analysis Report.

At September 30, 2016, Corporate & Asset Finance managed an asset and loan portfolio of A$38.1 billion, which represents a decrease of 3% from A$39.4 billion at March 31, 2016. The asset finance portfolio of A$29.8 billion was broadly in line with A$29.9 billion at March 31, 2016.

The funded loan portfolio of A$8.3 billion at September 30, 2016 decreased 13% from A$9.5 billion at March 31, 2016, due to net repayments. During the half year ended September 30, 2016, there were A$0.8 billion of portfolio additions, comprising A$0.6 billion of new primary financings across corporate and real estate, weighted towards bespoke originations and A$0.2 billion of corporate and real estate loans and similar assets acquired in the secondary market. Notable transactions included the acquisition of a residential mortgage portfolio in the United Kingdom totaling £89 million and acting as lead arranger of and participant in a €300 million debt refinancing for a leading private hospital in Ireland.

Corporate & Asset Finance's motor vehicle leasing portfolio continued to grow, with total contracts in excess of 600,000 following the successful migration of the Esanda portfolio acquired in November 2015. The AWAS and Esanda portfolios have been successfully integrated and continue to perform in line with expectations.

For further information on Corporate & Asset Finance's businesses, see "Macquarie Group Limited — Operating groups — Corporate & Asset Finance" beginning on page 29 of our 2016 Annual U.S. Disclosure Report.

Recent developments within the Corporate segment of MGL Group

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

Corporate contributed a net loss of A$1.3 billion in the half year ended September 30, 2016 and, as at September 30, 2016, had over 5,800 staff operating across all countries in which MGL operates.

For further information on Corporate's results of operation and financial condition for the half year ended September 30, 2016, see section 3.8 of our 2017 Half Year Management Discussion and Analysis Report.

Funds management business

For a description of MGL Group's funds management businesses, see "Macquarie Group Limited — Funds management business" beginning on page 31 of our 2016 Annual U.S. Disclosure Report.

Assets under Management

For a description of MGL Group's funds management fee income, see "Macquarie Group Limited — Funds management business — Assets under Management" beginning on page 31 of our 2016 Annual U.S. Disclosure Report. MGL Group's policy is to recognize a performance fee only once the fee can be reliably measured and the risk of not receiving the fee is highly improbable. The timing and quantum of these fees are therefore unpredictable, can require significant judgment and will vary depending on the specific factors relevant for each fund.

For further detail on MGL Group's income from funds management for the half year ended September 30, 2016, see section 2.2 of our 2017 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, 2016, see section 7.1 of our 2017 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, 2016, see section 7.2 of our 2017 Half Year Management Discussion and Analysis Report.

Legal proceedings and regulatory matters

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 2017 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 32 of our 2016 Annual U.S. Disclosure Report.

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 36 of our 2016 Annual U.S. Disclosure Report. Our businesses are increasingly subject to greater regulatory scrutiny as we continue to grow our businesses both organically and through acquisitions. For a description of certain regulatory risks our businesses face, see "Risk Factors — Many of our businesses are highly regulated and we could be adversely affected by temporary and permanent changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions, in the markets in which we operate", "Risk Factors — We may incur losses as a result of ineffective risk management processes and strategies" and "Risk Factors — We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational systems, processes, people or systems or external events" on pages 2, 7 and 9, respectively, of our 2016 Annual U.S. Disclosure Report.

Significant regulatory changes that may affect our businesses are expected in the various markets in which we operate. The following is a summary of significant regulatory and supervision developments in Australia, the United States, the United Kingdom and other jurisdictions for MGL Group that have occurred since the release of our 2016 Annual U.S. Disclosure Report on May 20, 2016.

Australia

APRA consults further on the Net Stable Funding Ratio

On September 29, 2016, APRA released for consultation (i) its response to issues raised in submissions on the discussion paper *Basel III liquidity – the Net Stable Funding Ratio and liquid assets requirements for foreign ADIs* ("*March 2016 NSFR discussion paper*"); and (ii) draft Prudential Standard *APS 210 Liquidity and Prudential Practice Guide APG 210 Liquidity* ("*September 2016 NSFR Consultation Package*").

In APRA's March 2016 NSFR discussion paper, APRA proposed treating third-party CLF-eligible debt securities as being equivalent to high-quality liquid assets ("*HQLA*") in determining the NSFR and applying a required stable funding ("*RSF*") factor of 10%, but that self-securitized assets should have the same RSF factor as that attributable to the underlying loan (which can range from 65% to 100%). APRA now proposes to allow self-securitized assets to be treated on the same basis as third-party CLF eligible debt securities and allow an RSF of 10% to be applied to self-securitized assets.

APRA's September 2016 NSFR Consultation Package proposed that APRA should have the discretion to set an ADI's NSFR requirement above the minimum 100%. This would allow APRA to increase an ADI's minimum required NSFR where it has concerns about an ADI's liquidity risk management, or is of the view that an ADI needs to improve its funding or liquidity risk profile. APRA will set the NSFR on a bilateral basis with each ADI.

APRA expects to release its final position on the NSFR in late 2016, with the NSFR applying from January 1, 2018 for the 15 locally incorporated ADIs that are also currently subject to the Liquidity Coverage Ratio (which includes MBL).

APRA consults on proposed revisions to its counterparty credit risk framework for ADIs

On September 15, 2016, APRA released for consultation (i) its proposed revisions to its counterparty credit risk framework for ADIs; (ii) draft new prudential standard, Prudential Standard *APS 180 Capital Adequacy: Counterparty Credit Risk*, and (iii) draft revised Prudential Standard *APS 112 Capital Adequacy: Standardised Approach to Credit Risk*. The revisions in large part reflect changes made by the Basel Committee on Banking Supervision ("*Basel Committee*") to its framework for counterparty credit risk as set out in *The standardised* *approach for measuring counterparty credit risk* ("*SA-CCR*"), released in March 2014, and *Capital requirements for bank exposures to central counterparties - final standard*, released in April 2014.

In particular, the September 2016 Counterparty credit risk for ADIs consultation package proposes to require ADIs to use the SA-CCR methodology to measure counterparty credit risk exposures arising from over-the-counter derivatives, exchange traded derivatives and long settlement transactions. APRA announced that it does not propose to introduce the Basel Committee's internal model method for counterparty credit risk into its framework. It also proposed that all ADIs will be required to hold capital for exposures to central counterparties in a manner consistent with Basel Committee's final standard.

APRA proposes to apply its revised counterparty credit risk framework from January 1, 2018 (as opposed to January 1, 2017 set out in the Basel Committee's framework). Under the current proposal, MBL will be required to comply with the SA-CCR from January 1, 2018.

Financial System Inquiry

Over the course of 2014, the Australian Federal Government undertook a review of the Australian financial system, called the Financial System Inquiry ("***FSI***"). The FSI released its final report on December 7, 2014, which included 44 recommendations. On October 20, 2015, the Australian Federal Treasury responded to each of the recommendations made by the FSI, endorsing the majority of them, referring certain matters to key regulators and proposing a timetable for further public and industry consultation and, in certain cases, for implementation of reform measures. It is not currently possible to have any further certainty on the impact on the capital structure or businesses of MGL from any future policy changes resulting from the regulatory and supervisory responses to the FSI or broader international regulatory developments.

Sound residential mortgage lending practices

On July 20, 2015, APRA announced an increase in the amount of capital required for Australian residential mortgage exposures by certain ADIs accredited to use the IRB approach to credit risk. For those ADIs using the IRB approach, the average risk weight on Australian residential mortgage exposures increased from approximately 16% to at least 25%, effective July 1, 2016. The affected ADIs are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, MBL, National Australia Bank Limited and Westpac Banking Corporation.

On August 5, 2016, APRA reaffirmed its objective to increase the average risk weight on Australian mortgages measured across all IRB ADIs to an average of at least 25%. APRA acknowledged that the impact of certain modelling adjustments it had required certain IRB ADIs to make, when combined with the adjustment proposed in July 2015, resulted in an average risk weight well in excess of the 25% risk weight targeted by APRA in its original announcement. APRA has advised the relevant ADIs of a recalibration of the adjustments advised in July 2015 with a view to ensure that its original target of an average risk weight for Australian residential mortgages of at least 25% is achieved, while not significantly exceeding this target. The recalibration and modelling changes will be implemented by APRA in the upcoming quarters and this may lead to some volatility in mortgage risk weights as those changes are finalized.

APRA's prudential supervision - margining and risk mitigation for non-centrally cleared derivatives

In February 2016, APRA released a consultation package for APRA-regulated institutions on margining and risk mitigation requirements for non-centrally cleared derivatives – draft Prudential Standard *CPS 226 Margining and risk mitigation for non-centrally cleared derivatives* ("*CPS 226*"). This consultation generally follows the internationally-agreed standards, including those published by the Basel Committee and the International Organization of Securities Commissions (IOSCO) in March 2015 with some modifications to avoid placing undue cost on regulated entities with relatively small levels of non-centrally cleared derivative activity. APRA proposes to apply margin and risk mitigation requirements to all APRA-regulated entities (excluding private health insurers but including ADIs such as MBL) that transact in non-centrally cleared derivatives over certain qualifying thresholds.

On October 17, 2016, APRA released the final version of CPS 226 and a response to the submissions paper addressing issues raised in the February 2016 consultation. At this stage, APRA has not set a commencement date, but has released CPS 226 to provide clarity on the final requirements and to allow APRA-regulated institutions with material levels of non-centrally cleared derivatives to actively continue their preparations. Under the requirements, MBL and Level 2 affiliates will be required to exchange initial margin and variation margin when transacting uncleared OTC derivatives with certain financial institutions, as well as being subject to risk mitigation obligations, including documentation standards, dispute resolution, portfolio reconciliation and portfolio compression requirements. Macquarie expects to be subject to variation margin requirements in early 2017, but does not expect to be subject to initial margin requirements until 2018-2019.

APRA finalises non-capital components for the supervision of conglomerate groups

On August 8, 2016, APRA released its final requirements for governance and risk management of the frame for supervision of banking and insurance conglomerate groups. This follows APRA's consultation on the requirements in March 2016 with only minor clarifications being made to the requirements as part of feedback received during the consultation period. These new requirements are expected to apply beginning July 1, 2017.

International

United States

On July 26, 2013, the U.S. Commodity Futures Trading Commission ("*CFTC*") issued Cross-Border Guidance addressing the extent to which, and the manner in which, its rules governing swap dealers would be applied to non-U.S. swap dealers in connection with their transactions with non-U.S. counterparties. Among other things, the Cross-Border Guidance provided a framework for the CFTC to grant "*substituted compliance*" to swap dealers located in non-U.S. jurisdictions, pursuant to which such swap dealers would be permitted to comply with local law and regulations when transacting with non-U.S. counterparties, in lieu of compliance with CFTC rules. On December 20, 2013, the CFTC, pursuant to its previously issued Cross-Border Guidance, approved a series of substituted compliance determinations covering certain swap entity-level and transaction-level requirements in six jurisdictions, including entity-level requirements under Australian law, which permits non-U.S. swap dealers to rely on substituted compliance with approved local laws and regulations when dealing with non-U.S. counterparties, in place of certain of the CFTC's rules. Therefore, one of MGL's affiliates, MBL, is able to comply only with Australian regulatory requirements in certain respects in connection with its swap dealing business with non-U.S. counterparties. It is possible that further cross-border relief will be granted in the future. However, MBL remains subject to many of the CFTC's requirements and the other MGL affiliate that is registered as a swap dealer is fully subject to CFTC rules.

The CFTC has substantially completed the adoption and implementation of the principal components of the regulatory structure for swap dealers, although it continues to issue final and proposed regulations, statements of guidance and no-action letters that may affect certain members of the MGL Group, including MBL. For example, on November 14, 2013, the CFTC issued a staff advisory (the "*Advisory*") relating to the cross-border application of transaction-level swap requirements. However, through a series of no-action letters, the CFTC delayed the effectiveness of the Advisory, and has most recently issued an extension of that delay until September 30, 2017, and proposed rules to address the cross-border application of certain requirements and replace its Advisory. Further actions by the CFTC may affect swap transactions of certain members of the MGL Group.

The CFTC has promulgated margin rules for swap dealers subject to its jurisdiction and will adopt capital requirements for such dealers. For entities subject to their supervision, the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration and the Federal Housing Finance Agency (the "*Prudential Regulators*") have adopted capital and margin rules. The CFTC and the Prudential Regulators finalized their respective regulations on initial and variation margin for uncleared swaps in late 2015 and early 2016. The CFTC margin requirements will apply to MGL's U.S. affiliate swap dealer, and the Prudential Regulator margin requirements will apply to MBL. Some MGL affiliates will also be subject to these margin rules, including with respect to affiliate transactions. The phase-in period for compliance began in September 2016 with additional staged compliance dates until September 2020, including a general compliance date of March 1, 2017, for the variation margin requirements. The CFTC is expected to finalize its proposed regulations on position limits on swaps and listed futures and commodity options in 2016, although the effective date of the regulations is unclear. The imposition of these requirements may limit trading activities by MGL and its affiliates. In addition, the Prudential Regulators have adopted a rule with respect to the capital requirements applicable to registered swap dealers that are subject to their supervision. Under those rules, MBL, as a registered swap dealer, will be subject to APRA capital rules. See “Regulation and Supervision—International—United States” in our 2016 Annual U.S. Disclosure Report for further information.

Since February 2016, the CFTC has been working on re-proposing new capital requirements for swap dealers that are not subject to a Prudential Regulator’s supervision. An MGL affiliate that is a U.S. swap dealer, will be subject to the CFTC’s capital requirements for swap dealers. There is no set date as to when the re-proposed CFTC capital rules will be issued.

On October 13, 2016, the CFTC unanimously approved an order establishing December 31, 2018 as the swap dealer *de minimis* threshold phase-in termination date. Under the order, the CFTC will retain the $8 billion *de minimis* threshold (for dealing activity with counterparties other than Special Entities) until December 31, 2018. The original phase-in termination date in which the swap dealer *de minimis* threshold was scheduled to automatically drop to $3 billion was December 31, 2017. Absent further action by the CFTC, the phase-in period will terminate on December 31, 2018 and the *de minimis* threshold will automatically drop to $3 billion. The extension of, or potential reduction in, the *de minimis* threshold does not affect a registered swap dealer unless it desires to deregister, in which case it would need to conduct its swap dealing under the threshold. Such a reduction in the *de minimus* threshold also does not affect other members of the MGL Group as no other MGL affiliate currently engages in swap dealing activity subject to these rules.

The U.S. Securities and Exchange Commission (“*SEC*”) has jurisdiction over transactions in security-based swaps, which are swaps on single securities or narrow-based indices of securities, and has proposed or adopted regulations requiring, among other things, registration of security-based swap dealers and compliance with regulations on business conduct, recordkeeping and reporting and other matters. However, compliance with the SEC’s rules applicable to security-based swaps is not yet required and the SEC has not publicly announced a timetable for compliance. In addition, the Prudential Regulators’ capital and margin rules will apply to those security-based swap dealers that are subject to their supervision at such time as the SEC requires registration of such entities. However, such registration is not required until the SEC finalizes and mandates compliance with its rules on security-based swaps. MGL expects that MBL will be required to register as a security-based swap dealer with its Prudential Regulator at the time that such registration becomes mandatory and that it will thereafter be subject to compliance with SEC rules regarding security-based swap transactions. The registration and compliance obligations will likely result in increased costs with respect to MBL’s security-based swaps business.

The CFTC reopened the comment period to Regulation Automated Trading (“*Regulation AT*”) on June 10, 2016. The CFTC proposed Regulation AT in an attempt to reduce the risk of market disruptions caused by automated trading. Regulation AT includes risks controls and transparency measures for Futures Commission Merchants (“*FCMs*”), Designated Contract Markets (“*DCMs*”), and CFTC registrants using algorithmic trading systems. The proposed rule also includes a new registration requirement for persons engaged in proprietary algorithmic trading on a DCM through direct electronic access (“*DEA*”). CFTC Chairman, Timothy Massad, expressed his willingness to finalize Regulation AT in phases. Regulation AT may affect MBL, should it utilize algorithmic trading systems for CFTC governed swap dealing activities. However, Macquarie’s CFTC registered FCM, may also be impacted when the rule is finalized. It is not possible at this point in time to determine definitively the full extent of the impact of Regulation AT because the final scope and terms of the rules, and the effective date remain unknown. Nevertheless, the regulatory changes may increase regulatory burdens and compliance costs for those entities that utilize algorithmic trading systems for swap dealing activities.

On August 25, 2015, the U.S. Treasury Department proposed new regulations that would require investment advisers registered or required to be registered with the SEC to satisfy anti-money laundering (“*AML*”) requirements that are similar to those currently imposed on banks and broker-dealers. If adopted as proposed, MGL’s subsidiaries that are registered or required to be registered with the SEC as investment advisers would be required to comply with new AML requirements, and the SEC would examine those subsidiaries for compliance with the AML requirements.

United Kingdom

On June 23, 2016, the United Kingdom voted to leave the European Union in a referendum. Over the next two to three years, the MGL Group expects there will be increased uncertainty and volatility in the global financial markets while the details of this departure (known as the 'Brexit') is negotiated. There is also potential for further consequences of the Brexit to impact the markets as details of the terms of this departure emerge. At this point in time it is not possible to definitely determine what the impact of the Brexit will be on the MGL Group.

European Union

Although the European Union member states proposing to participate in a financial transaction tax issued a joint statement in December 2015 indicating their intention to make decisions on the remaining open issues by the end of June 2016, the proposal has not yet been finalized. The scope, legality and coming into force of any such tax remains uncertain.

Additional financial disclosures for the half year ended September 30, 2016

Euro-zone and other exposures

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

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

	As at Sep 30, 2016			
		Non sovereign exposure		
Financial instrument	**Sovereign exposure**	**Financial institutions**	**Corporate**	**Total exposure[3]**
	A$m	**A$m**	**A$m**	**A$m**
Greece				
Derivative assets[2]	-	-	0	0
Greece totals	-	-	0	0
Russia				
Loans, receivables & commitments[1]	-	0	-	0
Derivative assets[2]	-	-	0	0
Equity	-	-	18	18
Russia totals	-	0	18	18
Italy				
Loans, receivables & commitments[1]	-	-	57	57
Derivative assets[2]	-	0	0	0
Traded debt securities	-	9	-	9
Italy totals	-	9	57	66
Spain				
Loans, receivables & commitments[1]	19	16	131	166
Derivative assets[2]	1	0	28	29
Spain totals	20	16	159	195
Portugal				
Loans, receivables & commitments[1]	-	-	55	55
Derivative assets[2]	-	-	0	0
Portugal totals	-	-	55	55
Ireland				
Loans, receivables & commitments[1]	0	0	331	331
Derivative assets[2]	-	0	8	8
Traded debt securities	-	16	-	16
Equity	-	-	1	1
Ireland totals	0	16	340	357
Total exposure	20	41	630	691

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, 2016, the political situation in Russia and Ukraine continued to negatively affect market sentiment toward those countries. As of September 30, 2016, MGL's total credit and market exposure to Russia and Ukraine was not material.

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

Investors should refer to our 2017 Half Year Management Discussion and Analysis Report for a comparative discussion and analysis of our results of operation and financial condition for the half year ended September 30, 2016 compared to the half year ended September 30, 2015, along with other balance sheet, capital and liquidity disclosures as at and for the half year ended September 30, 2016, which is posted on MGL's U.S. Investors' Website. Such information should be read in conjunction with the discussion under "Management's Discussion and Analysis of Results of Operation and Financial Condition" beginning on page 49 of our 2016 Annual U.S. Disclosure Report.

Recent developments post September 30, 2016

On October 31, 2016, S&P Global Ratings revised their outlook for the MGL Group's long-term credit rating, along with a number of other Australian banks and financial institutions, from "stable" to "negative" in a system-wide action as a result of macroeconomic factors.

Half year ended September 30, 2016 compared to half year ended September 30, 2015

See sections 1.0 – 6.0 of our 2017 Half Year Management Discussion and Analysis Report for a discussion of our results of operation and financial condition for the half year ended September 30, 2016, which has been incorporated by reference herein.

MACQUARIE