

MACQUARIE BANK LIMITED

VICTORIAN ELECTRICITY RETAIL LICENCE APPLICATION

**PREPARED FOR THE VICTORIAN ESSENTIAL SERVICES
COMMISSION**

FEBRUARY 2014

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1. Information on the applicant and nature of the application

1.1 Applicant details

Legal Name	Macquarie Bank Limited ("Macquarie")
ABN	46 008 583 542
Registered Address	Level 1, 1 Martin Place, Sydney, NSW 2000
Postal Address	As above
Contact Person	Andrew McGrath Executive Director Energy Markets Division Macquarie Bank Limited Phone: 02 8232 9744 Email: Andrew.McGrath@macquarie.com

1.2 Nature of the application

Licence Sought	Macquarie seeks an electricity retail licence to retail to large (>160MWh per year) customers in Victoria.
Date from which licence is sought	1 April 2014
Details of current or former licences held in Victoria or other jurisdictions	Macquarie holds a Retail Authority Without a Retail Area No. R01/13 issued by the Queensland Department of Energy and Water Supply in December 2013. Macquarie is in the process of applying for an electricity retail authority with the AER.
Previous unsuccessful licence applications sought in Victoria and/or any other jurisdiction	Macquarie has not unsuccessfully applied for an electricity retail licence in the past in any Australian jurisdiction.
Licences held by associates of the application	Not applicable.
Licence conditions	Macquarie is not seeking any non standard licence terms or conditions.

2. The Commission's objectives

Section 8 of the *Essential Services Commission Act 2001* (VIC) sets out the objectives of the Commission to promote the long term interests of Victorian consumers, and in seeking to achieve this objective have regard to the price, quality and reliability of essential services.

The grant of a retail licence to Macquarie is consistent with the Commission's objectives. Macquarie will provide large use Victorian energy consumers (>160MWh pa) with a new retail offering, enhancing competition and value for Victorian consumers. Macquarie intends to focus on providing large use consumers (>160MWh pa) in Victoria with an innovative way to separately manage their retail grid connection requirements and their electricity and environmental price risk according to their individual risk appetite. Macquarie believes this may allow consumers to realise lower prices over the long term and provide an integrated and flexible offering to managing their electricity supply arrangements.

3. Information on technical capacity

3.1 Experience in the energy market

The Energy Markets Division ("EMD") is a division of Macquarie's Fixed Income, Currencies and Commodities ("FICC") group and is an active participant in global power, gas, oil, coal and environmental markets, trading across both financial and physical markets. Macquarie's Australian EMD Team has been active in the National Electricity Market ("NEM") since April 2011, having previously been involved in the late 1990's and early 2000's which it exited at that time due to market factors.

Macquarie is currently an active trader across the major NEM nodes including VIC, NSW and QLD, and their associated environmental markets including STCs, LGCs, VEECs, ESCs and carbon.

Macquarie is also an active provider of reallocation and is currently registered with the Australian Energy Market Operator ("AEMO") as a trader and reallocator, with an application for registration as a market participant forthcoming.

Macquarie holds an Australian Financial Services Licence ("AFSL") which authorises it to make markets and deal in electricity derivative products. Macquarie is also a provider of a range of structured financing facilities to a number of participants in the NEM.

Macquarie's trading team is experienced across electricity and other commodity markets, enabling it to manage its risk exposures through the use of electricity derivatives across both exchange traded and over the counter markets with a wide range of trading counterparties.

Macquarie's trading team contains experienced energy market professionals who will be able to incorporate the additional retailing activities into their responsibilities. To complete the team required to implement and manage the new retail business the company has recruited a compliance professional with specific energy retailing experience. Further details are set out below.

3.2 Nature and scope of the proposed operations

Macquarie intends to provide large, corporate consumers in Victoria with a product that provides the consumer with exposure to wholesale prices in electricity and green certificate markets, and gives them the ability to manage their risk directly with Macquarie according to their individual risk appetite.

Macquarie holds a Retail Authority in Queensland (a copy is provided as Appendix 23) and is simultaneously pursuing a licence application with the Australian Energy Regulator (“AER”) with the intention of providing similar services on the other NEM jurisdictions.

3.3 Corporate Structure

Macquarie Bank Limited is a wholly owned subsidiary of the ASX listed Macquarie Group Limited. Further detail of the corporate structure of Macquarie Group Limited is contained in the Annual Report which is attached as Appendix 1.

The Board of Directors of Macquarie Bank Limited is as follows:

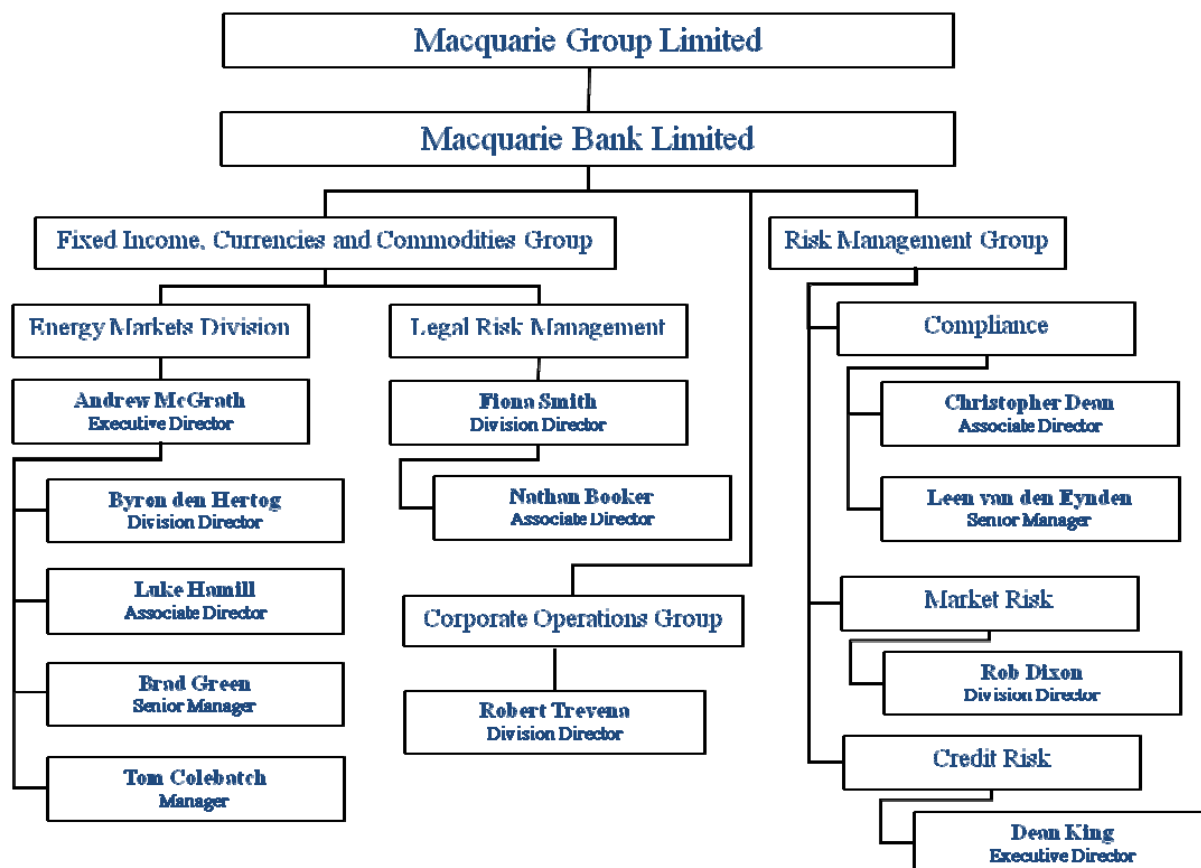
- Kevin McCann, Chairman
- Diane Grady
- Michael Hawker
- Peter Kirby
- Patricia Cross
- Helen Nugent
- Peter Warne
- Michael Coleman
- Gary Banks
- Nicole Wakefield Evans
- Greg Ward (Managing Director and Chief Executive Officer)
- Nicholas Moore (Executive Director)

A description of the experience and responsibilities of the Directors is contained in the Annual Report of Macquarie Bank Limited attached as Appendix 2.

3.4 Organisational structure and key personnel

Macquarie's organisational structure for activities undertaken with the Victorian Electricity Retail Licence will involve a number of teams performing different functions under the licence. An outline of the teams, key staff and reporting lines in relation to key functions is set out below.

Organisation Chart – Australian Power – Macquarie Bank Limited



The primary responsibility for managing the activities undertaken through the licence will rest with the EMD team (responsible manager Andrew McGrath, 5 staff). Their responsibilities will include customer account establishment, management and service, risk management, customer billing and collections, systems management, interaction with distributors and other suppliers, and overall management of the business. EMD will work closely with other teams within Macquarie to assist it perform these functions. An overview of these teams, the number of staff in those teams involved in these activities, and the functions they will be involved in is provided below:

- Legal Risk Management: responsible manager Fiona Smith, 5 staff, preparation and negotiation of supplier and customer contracts;
- Corporate Operations Group (COG): responsible manager Robert Trevena, 4 staff, assistance with customer billing and collection;
- Risk Management Group:
 - Compliance: responsible manager Christopher Dean, 2 staff, development and maintenance of regulatory compliance systems;

- Market Risk: responsible manager Rob Dixon, 2 staff, management of market risk and adherence with internal trading limits;
- Credit Risk: responsible manager Dean King, 4 staff, management of credit risk and adherence with internal credit limits;

The staff who will be involved in performance of these functions have a range of experience in the energy industry and have been heavily involved in Macquarie's activities in the Australian electricity market since the commencement of the business in April 2011. Macquarie believes this leaves it well placed to successfully carry out its activities under the Victorian electricity retail licence and comply with all regulatory obligations attached to that Licence.

Energy Markets Division

Andrew McGrath – Executive Director

Andrew is the Head of Macquarie's EMD Asia business which includes trading of electricity and environmental products across Australia and New Zealand, as well as Macquarie's regional physical and financial oil trading business. Andrew has worked in Finance for 15 years, 13 of them with Macquarie. Andrew drove the establishment of Macquarie's presence in the Australian Power market in 2011 and has extensive experience in client facing roles. Andrew holds a Bachelor of Laws (Hons) and Bachelor of Commerce from the University of Queensland.

Byron Den Hertog – Division Director

Byron is the Head Trader and has over twelve years experience in Australian electricity markets. Before joining Macquarie in 2011, Byron worked on the electricity trading desk at Societe Generale, and before that Byron was at Integral Energy where he was responsible for hedging customer load. Byron has a deep understanding of the Australian electricity markets and managing risk in both a market intermediary setting and in an electricity retailer setting. Byron holds a Bachelor of Science (Hons) from Monash University and a PhD in Theoretical Physics from the Australian National University.

Luke Hamill – Associate Director

Luke has six years of trading and risk management experience in the Australian power industry. He worked for Snowy Hydro for three and a half years in a number of roles, including as a spot market trader where he was responsible for the dispatch of Snowy's plant to optimise the company's revenue, for managing dam levels and working with operations staff to time plant outages, and later as a contract trader where he was responsible for forward hedging Snowy's production. As part of this role, Luke was involved in the integration of Red Energy's load into Snowy Hydro's portfolio management systems – this included load forecasting, hedging and working with the spot trading team to optimise generation around this load. Most recently Luke spent two years at Tibra Capital as an energy trader and later Head of Energy Trading. Luke joined Macquarie Bank in 2013 and holds a Bachelor of Engineering from University College Dublin, and is currently completing his Masters of Applied Finance at Macquarie University.

Brad Green – Senior Manager

Brad has been a trader on the electricity desk since April 2011. Brad's specific focus is on trading of environmental markets, including domestic green certificates and regional carbon markets, and his experience in trading and market analysis provides a strong base for Macquarie to manage environmental scheme liabilities arising from supplying its customers. Prior to trading electricity and environmental products, Brad worked on Macquarie's regional Asian oil desk and UK gas desk in London. Brad holds a Bachelor of Science and a Bachelor of Commerce from Sydney University.

Tom Colebatch – Manager

Tom has been a member of the EMD team since 2009 in a customer facing marketing and structuring role. Tom has been focused across the electricity and environmental markets since 2011 and is responsible for customer management including development of new customer relationships, customer onboarding and set up, ongoing customer service and relationship management needs, and day to day management of Macquarie's structured finance facilities in the NEM. Tom has a strong understanding of the operational aspects of electricity retailing including managing customer and supplier contracts, billing and collection requirements, and the overall performance of an electricity retail business. Tom holds a Bachelor of Laws (Hons) and Bachelor of Commerce from the Australian National University.

Legal Risk Management

Fiona Smith – Division Director

Fiona oversees a team of lawyers advising and supporting Macquarie's energy, environmental financial products, agricultural commodities, and freight markets trading businesses within FICC. Fiona joined Macquarie in London in November 2008 prior to relocating to Macquarie in Sydney in February 2009. Prior to joining Macquarie Fiona worked in London for 15 years advising commodities trading businesses with a global investment bank and a major international law firm. Fiona holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales.

Nathan Booker – Associate Director

Nathan provides legal advice and support to Macquarie's energy markets businesses. Since joining Macquarie in December 2003, Nathan has worked in Los Angeles and New York assisting with the development of Macquarie's US natural gas and power businesses. Upon returning to Sydney in 2011, Nathan has advised on electricity financing and hedging facilities and general trading matters. Nathan has a sound understanding of the legal framework of the Australian electricity market, and holds a Bachelor of Business Administration and Bachelor of Laws from Macquarie University.

Corporate Operations Group

Robert Trevena – Division Director, Settlements

Robert joined Macquarie in 1996 and is the global head of Market Operations Division – Settlements within the Corporate Operations Group (COG). Robert oversees a team of 75 staff in 8 locations globally, providing a settlement function for the FICC and Macquarie Securities groups of Macquarie Group. This function includes invoicing, pre-matching, funding, payments and reconciliation

investigations. Robert's Sydney based team has extensive experience managing the settlement function for Macquarie's existing Australian electricity business including managing AEMO payments, provision of funding to retailers and settlement of OTC derivatives. Robert holds a Bachelor of Technology Management (Instrumentation and Control major) from University of Western Sydney, and a Graduate Diploma of Applied Finance and Investment from a Securities Institute of Australia.

Risk Management Group

Christopher Dean – Associate Director, Compliance

Chris joined Macquarie in December 2012 as part of the FICC Compliance team. Chris has 12 years compliance experience prior to joining Macquarie with firms including Santander, Merrill Lynch, Barclays & Commonwealth Bank in Australia and the UK where he was responsible for overseeing compliance by both wholesale and retail businesses across a range of industries. Chris holds a Bachelor of Economics from Murdoch University.

Leen van den Eynden – Senior Manager, Compliance

Leen joined Macquarie in 2013 in the FICC Compliance team where she brings a strong background in and understanding of compliance requirements in the Australian electricity industry. Prior to Macquarie, Leen worked for 3 years as a Regulatory Compliance Manager at Origin Energy where she gained experience in both the wholesale and retail electricity businesses. Prior to Origin, Leen held roles at the Australian Energy Market Commission (2 years) and legal roles with ExxonMobil and the Belgian Electricity and Gas Market Regulation Commission. Leen holds a Masters in Law from the University of Antwerp, Belgium, and a LLM in Competition Law and Economics from the Erasmus University in Rotterdam, Netherlands.

Rob Dixon – Division Director, Market Risk

Rob has overseen Macquarie's Energy Markets business since he joined the Market Risk team in 2005. Rob worked in both Sydney and London before moving to Houston to head up the US Market Risk team. Rob recently transferred back to Sydney to head up the Australian team, which includes oversight of the Australian power business. Rob has a deep understanding of managing market-related risk across a number of markets that Macquarie is active in and is well placed to provide strong oversight of market risk positions in the Australian electricity market. Prior to Macquarie Rob worked as an Engineer.

Dean King – Executive Director, Credit Risk

Dean joined RMG Credit in Sydney in 2004 as a Petroleum Engineer in the resources team. In 2007 he relocated to Houston where he was responsible for establishing the credit presence. Initially his focus was analysing and recommending oil and gas transactions generated by Macquarie Energy Capital, before his role expanded to include Energy Markets Division in Houston. In late 2011 he returned to Australia and is responsible for monitoring credit risk across a range of businesses including regional energy businesses. Dean has a strong understanding of the Australian electricity

landscape and credit assessment of entities in the sector. He holds a Bachelor of Engineering from Monash University and a MBA from the Australian Graduate School of Management.

3.5 Internal controls, policies and procedures

Through its existing banking (with AFSL accreditation) and energy trading activities, Macquarie has built up a framework of governance arrangements including policies and procedures that will govern activities undertaken with the Victorian Electricity Retail Licence. In addition a number of specific new arrangements are currently being developed to support the aspects unique to these activities.

3.5.1 Recruitment

Macquarie has a number of policies in place in relation to recruitment of its staff and employee qualifications to ensure that all staff have the knowledge, experience and skills needed for the role they perform. All permanent employees undergo psychometric assessment, their backgrounds are screened by a third party provider and are reference checked prior to employment. Macquarie has a number of policies in place covering the employment of its staff, including

- Psychometric Assessment Policy, a copy of this policy is provided in Appendix 3; and
- Reference Checks, an overview of the relevant sections on Macnet¹ is provided in Appendix 4.

3.5.2 Training and development

Employee training and development is fundamental to Macquarie's commitment to conducting business in accordance with the highest standards. Macquarie's Compliance Training Policy requires its staff to undertake annual training on laws, regulations and policies that govern their activities and sets out the minimum initial and continuing compliance training obligations for all Macquarie staff. A copy of the policy can be found in Appendix 5.

In addition Macquarie has a comprehensive learning and development framework in place called 'Learning at Macquarie'. A Macnet overview of this framework is provided in Appendix 6.

All relevant Macquarie staff will receive specific training in respect of Macquarie's regulatory obligations and internal policies related to activities related to the Victorian Retail Electricity Licence (see Section 3.7 below).

3.5.3 Staff conduct and compliance

Macquarie is committed to conducting its business in accordance with its stated values: Integrity, Client Commitment, Strive for Profitability, Fulfilment for our People, Teamwork and Highest Standards. This has been reflected in a series of policies and guidelines set out in the Macquarie Staff Guide, a copy of which is provided in Appendix 7. The Guide includes, but is not limited to:

¹ Macnet is Macquarie's internal intranet available to all staff.

- Conflicts of Interest
 - Breach and Incident Escalation
 - Dealing with clients and external parties
 - Confidentiality
 - Dealing with government and regulators
- Privacy and data protection

3.5.4 Document retention

It is Macquarie's policy that management of its records meets standards which support efficient business operations, preserve corporate memory and comply with all relevant legal and regulatory requirements. Its Records Management Policy sets out the framework for the management of records through all relevant stages of the document lifecycle. The policy is applicable to all Macquarie's activities and a copy of the policy can be found in Appendix 8.

3.5.5 Privacy and confidentiality

Macquarie honours without reservation its obligation to respect and protect the privacy of the information of clients with whom they deal. Macquarie is committed to conducting its business in accordance with all relevant applicable laws and regulations. Macquarie's Privacy (Client and Third Party) Policy deals with Macquarie's obligations in relation to the collection and use of the personal information of clients, third parties and individual representatives of corporate clients and third parties. A copy of this policy is provided in Appendix 9.

Macquarie actively puts in place effective information barriers to manage confidential information, and/or non-public price sensitive information (inside information) to manage potential conflicts of interest in accordance with applicable laws and regulations, its contractual obligations and the protection of its reputation. Macquarie's Information Barriers and Confidentiality and Conflicts of Interest Policies are included in Appendices 10 and 11.

3.6 Risk management strategy

The major risks faced by Macquarie are market, equity, credit, liquidity, operational, compliance, legal, reputation and capital adequacy. Macquarie's risk management framework is well established, proven and publically reported on. A copy of Macquarie's Risk Management Report 2013 has been included in Appendix 12.

Ultimately, it is the responsibility of each business area giving rise to such risk to manage them, and Macquarie's Risk Management Group (RMG) acts as an independent, centralised business unit to assist all business areas with ensuring that all risks are appropriately assessed and managed. RMG's functions include:

- Credit (including Credit Assurance);
- Market Risk;
- Prudential & Capital (PCM);

- Operational Risk;
- Compliance.

Macquarie will utilise a suite of internal risk management systems for its activities under a Victorian Electricity Retail Licence to assist in the management of these risks. Principal among these is the Macquarie Trading System (“MTS”) which acts as the central “source of truth” for deal entry and trade verification, risk monitoring and settlement payments across all of Macquarie’s activities. MTS will be developed to accommodate retail activities including capture of customer usage data, billing and collections, network costs and other costs. In addition, Macquarie will utilise its existing Central Customer system for onboarding and setup of all customers.

Macquarie intends to manage any exposure to the wholesale electricity market arising from activities undertaken with a Victorian electricity retail licence through its own trading desk and risk management capabilities. Any exposure would be subject to and governed by Macquarie’s internal risk management framework, including separation of trading (front office) and settlement (back office) functions, and independent monitoring of risk limits. As Macquarie intends to focus primarily on providing a pool pass through product it is not expected that this exposure will be material.

Macquarie will manage settlement of energy purchases and network service charges through its COG in line with existing settlement processes. Macquarie’s settlement teams is highly experienced in settlement of weekly energy amounts direct with AEMO and market counterparties as a result of Macquarie’s existing activities in the market .

3.7 Compliance Strategy

Macquarie has extensive compliance requirements under many different jurisdictions and compliance regimes globally. As referred to above, the Compliance Division within RMG, is a specific independent function responsible for ensuring that all compliance risks are appropriately addressed and managed across Macquarie. Representatives of the Compliance Division (i.e. business aligned compliance representatives) are embedded within front office businesses and work closely with those businesses to ensure obligations continue to be met.

The Compliance Division provides advice, training and education, monitoring and surveillance in relation to the establishment of ongoing compliance of all existing or likely regulatory obligations. Macquarie maintains appropriate compliance management, governance, and reporting systems consistent with all applicable codes and guidelines and with Australian Standards (AS-3806, AS - 8000).

A copy of the Compliance Division Mission, Charter & Operating Model has been attached in Appendix 13.

An essential component of Macquarie’s operational and compliance risk strategy is an effective process that encourages staff to be aware of and escalate any suspected or actual breach of internal policies and procedures, external rules and regulations and any operational incidents. Macquarie’s Breach, Incident and Escalation Policy details the requirements for timely identification, escalation

and reporting of incidents through the appropriate channels. A copy of this policy is included in Appendix 14.

The FICC Business Aligned Compliance representatives are developing an Electricity Retail Victoria Compliance Manual to ensure Macquarie will be in a position to comply with all legal obligations as a licensed electricity retailer in Victoria as well as adhering to internal policies. All staff involved with the electricity retail business will receive specific training in relation to this Compliance Manual, and any future updates as required. A copy of Macquarie's existing Energy Compliance Manual is attached in Appendix 15 and a draft of the Victorian Electricity Retail Compliance Manual is attached in Appendices 16A and 16B.

3.8 Capacity to operate a business

3.8.1 Contract management

Contracts will be drafted by Macquarie's Legal Risk Management team, in conjunction with Compliance and EMD. This structure will ensure that commercial contracts between Macquarie and its large use customers satisfy all relevant laws, codes and guidelines and reflect commercial terms between the two entities. It will also ensure that all relevant information is provided to Macquarie's customers at the inception of the contract including obligations of both parties, details of contract terms, billing and payment arrangements.

3.8.2 Account Setup

The account setup process for new customers will reflect Macquarie's existing internal procedures for the establishment of new customers. This process includes customer onboarding to Australian bank standards, performing Anti-Money Laundering (AML)/Counter Terrorism Financing (CTF) checks, establishing internal credit limits based on expected exposures to the counterparty, and agreeing contracts and other required documentation with the counterparty.

Macquarie has a number of internal policies that cover these issues including AML/CTF policy, Know Your Client Breach policy, and Economic and Trade Sanctions Policy.

Customer contact details and records of each step in the customer setup process being completed will be stored in Macquarie's Central Customer system. This system will complement the MTS system and EMD records which will contain details of all customer contracts including contract terms, account histories, billings, settlements and other items as required for reporting to the ESC or distributors.

All information will be maintained in accordance with privacy requirements under relevant legislation and the Energy Retail Code.

3.8.3 Account closure

Where a client chooses to terminate a supply arrangement, Macquarie will ensure the timely provision of a final bill to the customer in accordance with the terms of the supply agreement with that client.

3.8.4 Customer Service and account management

Macquarie's existing global energy business has a strong focus on the provision of excellent customer service across every market that it is active in, reflecting Macquarie's goal of "Client Commitment". EMD will ensure that these high standards of customer service are continued in any activities undertaken with a Victorian Electricity Retail Licence.

Every customer account with Macquarie will have a dedicated Account Manager in EMD focused specifically on the needs and requirements of that customer. The Account Manager will be responsible for overseeing the end to end requirements of their customers including billing, collections, providing information and managing any customer queries. Individual performance will be assessed against customer satisfaction and appropriately addressing the needs of customers. Where required the Account Manager will liaise with other teams involved in activities under the Victorian Electricity Retail Licence to resolve any matters outstanding.

Given the nature of Macquarie's target customer base being large entities with high electricity use, most correspondence is expected to be via phone or email between customers and their Account Manager, without the need for a call centre. Customers will also have the ability to correspond via fax or post if required. Macquarie strongly believes that this framework for customer service is highly appropriate for the customer base that it intends to service under this licence.

3.8.5 Dispute resolution and management

Macquarie has developed a dispute resolution scheme which will cover electricity retail agreements in Victoria between Macquarie and its customers. A copy of this policy is provided in Appendix 17.

In addition, Macquarie's current Dispute Management System based on section 8.2.3 of the National Electricity Rules is embedded in the Australian Energy Compliance Manual as included in Appendix 15 and will be updated to include retail activities once the licence has been granted.

Note that Macquarie does not intend to pursue membership of the Energy and Water Ombudsman of Victoria which it understands is designed to protect the interests of small customers, while Macquarie intends to only contract directly with large consumers who can negotiate and agree appropriate dispute resolution procedures with Macquarie.

3.8.6 Billing

All customer billing and collections processes will be managed by EMD directly in conjunction with the COG. The COG team already handles the invoicing and settlement of Macquarie's current activities in the financial electricity and environmental markets, and will manage receipt of payments and late payments from customers, as well as processing and payment of invoices from AEMO and distributors. EMD and COG will work with Compliance to ensure that all bills comply with all regulatory requirements.

The customer billing and collections process will be managed through MTS where all customer transactions will be centrally booked. Macquarie intends to bill all customers on a calendar monthly basis. Alternative billing cycles (such as weekly) may be agreed with individual customers depending on their specific requirements.

3.8.7 Collections/Settlement

Macquarie will manage settlement of customer billings, wholesale energy purchases and network service charges through COG in line with existing settlement processes. Macquarie's settlement teams is highly experienced in settlement of weekly energy amounts direct with AEMO and market counterparties as a result of Macquarie's existing activities in the market. Unpaid debts will be managed through existing processes for collection of overdue amounts, including taking steps for recovery, disconnection and write off according to the terms of each customer agreement.

3.8.8 Meter reading

Macquarie is considering a range of accredited meter reading agents to perform meter reading services as needed. Macquarie envisages using a range of meter reading agents depending on the specific requirements of each customer.

Metering services will be utilised according to the existing or preferred metering company that the corporate customer is already utilising. Any conversations and negotiations with such metering services provider will commence after we have identified and initiated negotiations with a potential customers.

3.8.9 AEMO registration

Macquarie is currently pursuing registration with AEMO as a Market Customer. Macquarie is already registered with AEMO as a Trader and Reallocator.

3.8.10 Supplier contracts

Macquarie intends to manage any exposure to wholesale price risk and environmental schemes through its existing hedging capabilities across both futures and Over-the-Counter ("OTC") markets and does not expect any additional arrangements will be required in this respect.

Macquarie is in the process of negotiating Network Use of System Agreements with the various distribution networks throughout Victoria and will ensure the required agreements are finalised prior to serving any load to customers under the Victorian Electricity Retail Licence.

3.8.11 Details of third party service providers

Macquarie does not anticipate engaging dedicated third party service providers to perform core functions under the Victorian Electricity Retail Licence as these functions will be performed in house (e.g. billing, customer account establishment and management). The only exception to this is metering services where Macquarie will rely on third party service providers as outlined in section 3.8.8 above.

3.9 Capacity to comply with regulatory requirements

The Electricity Retail Victoria Compliance Manual (Appendices 16A and 16B) sets out the applicable regulatory framework and processes required to meet all its obligations in respect of the Victorian electricity retail business.

This includes processes to provide information as required to distributors and customers, although Macquarie notes that compliance with these obligations will be centred on those obligations that apply to servicing of large use customers only.

3.10 Details of Prosecutions or Regulatory Complaints

Macquarie is not aware of any outstanding prosecutions or regulatory complaints in relation to the activities conducted by its Energy Markets Division in Australia.

4. Information on financial viability

4.1 Statements

A statement provided by Andrew McGrath, Head of Energy Markets for Asia, affirming Macquarie's financial viability to hold a Victorian Electricity Retail Licence is provided in Appendix 18.

4.2 Audited Financial Reports

Consolidated audited financial statements for both Macquarie Group Limited and Macquarie Bank Limited are available at:

<http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure>

A copy of the 2013 Annual Reports for Macquarie Bank Limited and Macquarie Group Limited, containing the most recent audited financial reports for both entities, is contained in Appendix 1 and Appendix 2 respectively. An extract of the income statement and balance sheet for Macquarie Bank Limited for the financial year ended 31 March 2013 is provided below. All statements are prepared in accordance with Australian Accounting Standards.

Income statements for the financial year ended 31 March 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Bank 2013 \$m	Bank 2012 \$m
Interest and similar income		4,394	5,157	3,203	3,735
Interest expense and similar charges		(2,966)	(3,554)	(2,491)	(2,835)
Net interest income	2	1,428	1,603	712	899
Fee and commission income	2	1,556	1,344	373	85
Net trading income	2	1,278	999	854	895
Share of net profits of associates and joint ventures accounted for using the equity method	2	40	87	—	—
Other operating income and charges	2	342	728	1,173	625
Net operating income		4,644	4,711	3,112	2,504
Employment expenses	2	(1,511)	(1,507)	(875)	(850)
Brokerage, commission and trading-related expenses	2	(566)	(611)	(330)	(339)
Occupancy expenses	2	(145)	(149)	(93)	(85)
Non-salary technology expenses	2	(88)	(98)	(52)	(47)
Other operating expenses	2	(1,305)	(1,485)	(855)	(882)
Total operating expenses		(3,615)	(3,828)	(2,205)	(2,208)
Operating profit before income tax		1,029	883	907	295
Income tax expense	4	(355)	(243)	(86)	—
Profit after income tax		674	640	821	295
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	(4)	(4)	—	—
Other non-controlling interests		1	(1)	—	—
Profit attributable to non-controlling interests		(3)	(5)	—	—
Profit attributable to equity holders of Macquarie Bank Limited		671	635	821	295
Distributions paid or provided for on:					
Macquarie Income Securities	5	(21)	(26)	—	—
Convertible debentures	5	—	—	(4)	(4)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		650	609	817	294

The above income statements should be read in conjunction with the accompanying notes.

Source: Macquarie Bank Limited 2013 Annual Report, page 41

Statements of financial position as at 31 March 2013

	Notes	Consolidated 2013 \$m	Consolidated 2012 \$m	Bank 2013 \$m	Bank 2012 \$m
Assets					
Receivables from financial institutions	6	13,899	15,940	12,149	18,892
Trading portfolio assets	7	18,853	11,646	16,323	9,070
Derivative assets		14,595	21,961	13,513	18,918
Investment securities available for sale	8	14,190	16,286	15,641	17,207
Other assets	9	6,685	7,444	4,836	8,960
Loan assets held at amortised cost	10	47,926	44,066	24,361	17,929
Other financial assets at fair value through profit or loss	12	4,645	6,962	3,358	4,657
Life investment contracts and other unitholder investment assets	13	7,247	6,908	–	–
Due from related body corporate entities	31	1,060	1,118	994	981
Due from subsidiaries		–	–	19,791	18,927
Property, plant and equipment	14	5,352	4,836	221	4
Interests in associates and joint ventures accounted for using the equity method	16	528	707	175	232
Intangible assets	16	795	874	55	66
Investments in subsidiaries	17	–	–	4,243	4,263
Deferred tax assets	19	262	106	363	41
Total assets		136,037	186,169	116,023	109,847
Liabilities					
Trading portfolio liabilities	20	1,384	8,607	1,371	8,488
Derivative liabilities		14,725	20,897	14,588	17,987
Deposits		40,966	37,014	39,992	36,781
Other liabilities	21	6,966	7,766	4,520	4,271
Payables to financial institutions	22	15,180	9,078	14,644	7,666
Other financial liabilities at fair value through profit or loss	23	919	1,688	739	1,266
Life investment contracts and other unitholder liabilities		7,218	6,897	–	–
Due to related body corporate entities	31	5,456	8,022	5,250	2,709
Due to subsidiaries	31	–	–	7,758	8,974
Debt issued at amortised cost	24	31,826	35,068	16,306	16,213
Provisions	26	104	99	68	66
Deferred tax liabilities	19	435	636	236	124
Total liabilities excluding loan capital		125,179	124,672	105,472	98,794
Loan capital					
Subordinated debt at amortised cost		2,203	2,176	2,203	2,176
Subordinated debt at fair value through profit or loss		–	160	–	160
Total loan capital	27	2,203	2,326	2,203	2,326
Total liabilities		127,382	126,998	107,675	101,120
Net assets		8,655	9,271	8,348	8,727
Equity					
Contributed equity	28	8,077	8,077	8,152	8,166
Reserves	29	(645)	(617)	34	(36)
Retained earnings	29	1,131	1,743	162	607
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		8,563	9,203	8,348	8,727
Non-controlling interests	29	92	68	–	–
Total equity		8,655	9,271	8,348	8,727

The above statements of financial position should be read in conjunction with the accompanying notes.

Source: Macquarie Bank Limited 2013 Annual Report, page 43

4.3 Credit Rating

Information and agency reports related to the credit rating of Macquarie Group Limited and Macquarie Bank Limited are available at:

<https://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/debt-investors/unsecured-funding/credit-ratings>

Macquarie is currently rated "A" (Stable) by Standard & Poors.

4.4 Australian Financial Services Licence

Macquarie Bank Limited holds Australian Financial Services Licence number 237502. A copy of the licence is provided in Appendix 19.

4.5 Shareholder Register

Macquarie is a wholly owned subsidiary of Macquarie Group. Macquarie Group is a public company listed on the Australian Stock Exchange with a diversified register of shareholders. As at 31 March 2013 the top 20 ordinary shareholders of Macquarie Group were as follows:

Fully paid ordinary shares		
Twenty largest ordinary shareholders at 22 April 2013:	Ordinary Shares	Percentage of Ordinary Shares
HSBC Custody Nominees (Australia) Limited	66,620,616	19.33
JP Morgan Nominees Australia Limited	67,223,999	16.86
National Nominees Limited	43,623,319	12.86
Bond Street Custodians Limited - MEREP Trustee - RDU Allocated	24,803,421	7.31
Oilcorp Nominees Pty Limited	15,451,829	4.66
Oilcorp Nominees Pty Limited - Colonial First State Inv A/O	9,979,253	2.94
BNP Paribas Noms Pty Ltd - DRP	9,284,818	2.73
Bond Street Custodians Limited - MEREP Trustee - Unallocated	4,423,966	1.30
JP Morgan Nominees Australia Limited - Cash Income A/O	3,661,062	1.08
AMP Life Limited	3,182,809	0.94
Argo Investments Limited	2,646,247	0.76
QIO Limited	1,659,356	0.48
HSBC Custody Nominees (Australia) Limited - NIT-Comwith Super Corp A/O	1,622,817	0.46
BNP Paribas Nominees Pty Ltd - Agency Lending DRP A/O	1,090,709	0.32
UBS Wealth Management Australia Nominees Pty Ltd	662,637	0.17
BS Holdings Pty Ltd	660,000	0.16
Ramea Holdings Pty Ltd	601,702	0.16
Milton Corporation Limited	494,118	0.15
Mr Nicholas Moore	486,970	0.14
Gordon Merchant No 2 Pty Ltd - Merchant Family A/O	472,441	0.14
Total	247,061,008	72.77

Source: Macquarie Group Limited 2013 Annual Report, page 208

4.6 Credit Support

Macquarie is an acceptable credit counterparty under the AEMO prudential framework. It is expected that any initial level of credit support required with AEMO to support Macquarie's new business will be minimal and internal funding will be available to meet these requirements.

Macquarie is also an acceptable credit counterparty under standard form use of system agreements with licensed distributors, and Macquarie expects a Credit Allowance Percentage of 100% to apply based on its "A" (Stable) rating from Standard & Poors.

Discussions and negotiations concerning credit arrangements with licensed distributors will commence after we have identified and initiated negotiations with potential customers.

4.7 Certificate of registration and Constitution

Macquarie is registered as an Australian Public Company with its main business location being 1 Martin Place, Sydney NSW 2000, Australia. A copy of Macquarie Bank's Constitution and Certificate of Registration is provided in Appendix 20 and 21 respectively.

4.8 Significant Contracts

Macquarie Bank has a range of trading agreements in place in support its wholesale electricity, green certificate and carbon trading with counterparties. There are no other significant contracts currently in place that affect Macquarie Bank's ability to fulfil its licence obligations.

4.9 Business Plan and Forecast

Macquarie's business plan is focused on the provision of innovative and cost effective products to large consumers. In particular, Macquarie sees an opportunity to engage with large corporate consumers through a pool pass through product, allowing them to minimise energy costs while carefully managing risk. These entities have frameworks in place and are familiar with managing risk across a range of exposures already and would be well suited to managing their electricity exposure through a pool pass through product.

Macquarie would serve and support its customers' load with AEMO while providing the customer with a range of vanilla and tailored risk management products to actively manage each component of their electricity, green certificate and carbon costs. This framework may allow customers to realise savings according to their risk tolerance and financial capacity compared to a standard fixed price, variable volume contract from a retailer.

Macquarie Bank has prepared a five year financial forecast as part of this licence application which demonstrates that returns relating to activities undertaken under a Victorian Electricity Retail Licence make commercial sense and meet internal hurdles against a range of metrics including return on economic and regulatory capital. It also provides evidence that Macquarie is financially viable to provide the proposed electricity retail services and it has sufficient financial resources to sustain its operations. A copy of this forecast has been provided on a “commercial in confidence” basis in Appendix 22.

5. Appendices

The following are provided as appendices to the application. All appendices are provided on a confidential basis, except appendices 1, 2, 19 and 23.

- 5.1 Appendix 1: Annual Report of Macquarie Group Limited**
- 5.2 Appendix 2: Annual Report of Macquarie Bank Limited**
- 5.3 Appendix 3: Psychometric Assessment Policy**
- 5.4 Appendix 4: Macnet Overview Reference Checks**
- 5.5 Appendix 5: Compliance Training Policy**
- 5.6 Appendix 6: Macnet Overview Learning and Development**
- 5.7 Appendix 7: Staff Guide ANZ**
- 5.8 Appendix 8: Records Management Policy**
- 5.9 Appendix 9: Privacy (Client and Third Party) Policy**
- 5.10 Appendix 10: Information Barriers & Confidentiality Policy**
- 5.11 Appendix 11: Conflict of Interest Policy**
- 5.12 Appendix 12: Risk Management Report 2013**
- 5.13 Appendix 13: Compliance Division Mission, Charter & Operating Model**
- 5.14 Appendix 14: Breach, Incident and Escalation Policy**
- 5.15 Appendix 15: FICC Australian Energy Compliance Manual**
- 5.16 Appendix 16A:FICC Electricity Retail Victoria Compliance Manual – draft Jan 2014**
- 5.17 Appendix 16B:FICC Electricity Retail Victoria Compliance Manual – appendices - draft Jan 2014**
- 5.18 Appendix 17: Dispute Resolution Scheme**
- 5.19 Appendix 18: Statement on Financial Viability**
- 5.20 Appendix 19: Macquarie Bank Limited Australian Financial Services Licence**
- 5.21 Appendix 20: Macquarie Bank Limited Constitution**
- 5.22 Appendix 21: Macquarie Bank Limited Certificate of Registration**
- 5.23 Appendix 22: Financial Forecast**
- 5.24 Appendix 23: MBL Queensland Electricity Retail Authority**
- 5.25 Appendix 24: Statutory Declaration**