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## **ASX Release**

### **MACQUARIE BANK RELEASES MARCH PILLAR 3 DISCLOSURE DOCUMENT**

28 May 2015 - The Macquarie Bank Limited March 2015 Pillar 3 disclosure document was released today on the Macquarie website [www.macquarie.com](http://www.macquarie.com). These disclosures have been prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

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# Pillar 3 disclosures

Macquarie Bank  
March 2015



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# Introduction

Macquarie Bank Limited (MBL) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). MBL is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

On 1 January 2013, reforms to the Basel II capital adequacy framework came into effect (the Basel III framework). These reforms are designed to strengthen global capital rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

The reforms include;

- Raising the quality, consistency and transparency of the capital base – section 3 (including changes to equity risk, see section 13)
- Introducing a capital requirement to cover Credit Valuation Adjustments (CVA) – section 10
- Introducing an Asset Value Correlation (AVC) loading on exposures to certain financial institutions – section 4
- Requiring capital to be held against exposures to central clearing houses – section 11
- Introducing a range of capital buffers, these will be phased in by 2016.

APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS330) as at 31 March 2015 together with the 31 March 2014 comparatives where appropriate.

This report also describes Macquarie's risk management policies and risk management framework and the measures adopted to monitor and report within this framework. Detailed in this report are the major components of capital structure, the key risk exposures and the associated capital requirements. The key risk exposures are credit risk (including securitisation exposures, credit valuation adjustment, and exposures to central counterparties), market risk, and operational risk. Each of these risks are individually discussed in later sections of this report where the individual risk components, measurement techniques and management practices are detailed.

The current Macquarie Bank Group capital ratios and relevant comparatives are set out in the table below.

Capital Ratios	As at 31 March 2015	As at 31 March 2014
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	9.7%	9.6%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio	11.0%	10.6%
Level 2 Macquarie Bank Group Total capital ratio	12.4%	12.6%

The Macquarie Bank Group capital ratios are well above the regulatory minimum capital ratios required by APRA, and the Board imposed internal minimum capital requirement.



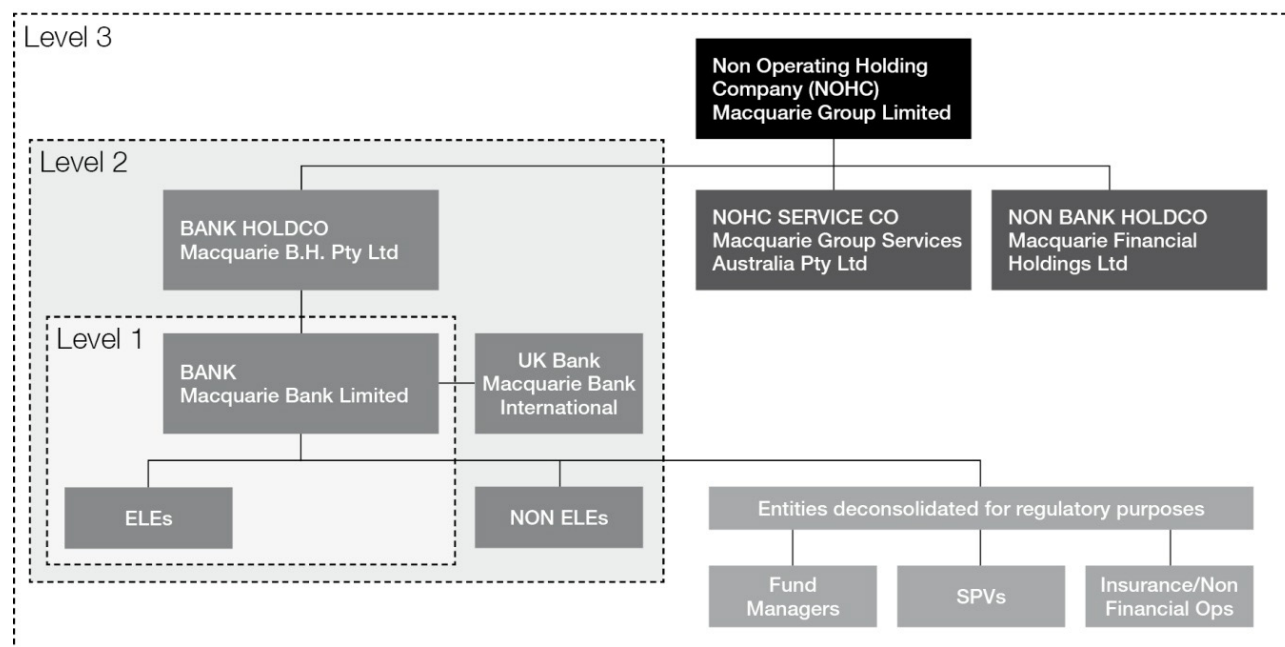
# 1.0 Overview

## 1.1 Scope of Application

MBL, as an approved ADI, is required to comply with the disclosure requirements of APS 330 on a Level 2 basis, as described below.

### 1.1.1 Macquarie Regulatory Group

The regulatory consolidated group is different to the accounting consolidated group and identifies three different levels of consolidation as illustrated below:



Reporting levels are in accordance with APRA definitions contained in ADI Prudential Standard APS 110: Capital Adequacy (APS 110).

MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities (ELE) are reported to APRA as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent (Macquarie B.H. Pty Ltd) but excluding certain subsidiaries of MBL which are required by APRA to be deconsolidated for APRA reporting purposes. Equity investments into these entities by the Level 2 group are required to be deducted from Common Equity Tier 1 (CET1) capital under APRA ADI Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111). The subsidiaries which are deconsolidated for regulatory purposes include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. These deconsolidated entities result in the Macquarie Level 2 group for regulatory purposes differing from the MBL Group for accounting purposes. Therefore, the disclosures made in this report are for a different group of entities to those made in the Macquarie Bank Limited financial statements. A list of entities deconsolidated for Level 1 and Level 2 reporting purposes is included in Appendix 2.

References in this report to Macquarie or Bank Group refer to the Level 2 regulatory group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group prepared on a Basel III basis.

MBL is part of the larger Macquarie Group Limited Consolidated Group (MGL Group), which includes Macquarie Group Limited (MGL) and its subsidiaries (referred to as 'Level 3'). APS 330 does not require disclosures relating to the Level 3 Group, however, some limited Level 3 disclosures are made in this report (refer section 4.0).

Comments on policies in this report generally reflect policies adopted across the MGL Group, unless it is stated that the policies are specific to any one part of the group.

# 1.0 Overview

## continued

### 1.2 Frequency

The qualitative disclosures in this report are required to be updated on an annual basis and more frequently if significant changes to policies are made. This report has been updated as at 31 March 2015 and policies disclosed within are effective at this time. The capital adequacy and summarised credit risk exposure quantitative disclosures are published on a quarterly basis. All other quantitative disclosures are published semi-annually in conjunction with Macquarie's half year (30 September) and annual (31 March) reporting cycles.

### 1.3 Report Conventions

The disclosures in this report are not required to be audited by an external auditor. However, the disclosures have been prepared on a basis consistent with information submitted to APRA. Under the revised APRA Prudential Standard APS 310, the information submitted to APRA is required to be either audited or reviewed by an external auditor at Macquarie's year end, being 31 March.

Averages have been prepared in this report for certain disclosures as required by APS 330.

All numbers in this report are in Australian Dollars and have been rounded to the nearest million, unless otherwise stated.

Where necessary comparative information has been restated to conform with changes in presentation in the current period.

The Appendices include a Glossary of Terms used throughout this document.

### 1.4 Overview of the Basel III Regulatory Capital Framework

Basel III is designed to raise the resilience of the banking sector by strengthening the regulatory capital framework, building on the three pillars of the Basel II framework. The framework seeks to increase the sensitivity to risk in the capital calculations and to ensure that this is aligned with an ADI's internal processes for assessing risk. Consequently, there are a number of different approaches to risk calculation that allows use of internal models to calculate regulatory capital. A bank may be accredited to use the advanced approaches when it can demonstrate the integrity and sophistication of its risk management framework. It must also ensure that its internal estimates of risk are fully integrated into corporate governance functions as well as internal calculations of capital. Further to this, the most advanced approaches are available if a bank has sufficient depth and history of default data to enable it to generate its own Probability of Default (PD) estimates based on its own loss experience.

The requirements of Basel III are contained within three broad sections or 'Pillars'.

#### 1.4.1 Pillar 1

The first section of the Basel III framework covers the rules by which Risk Weighted Assets (RWA) and capital adequacy must be calculated.

Macquarie has been approved by APRA to apply the FIRB approach for credit risk capital calculation. This approach utilises the PD and internal rating assigned to the obligor. The exposure is weighted using this internal PD and a Loss Given Default (LGD) value set by APRA. Credit Conversion Factors are applied to off balance sheet exposures based on the nature of the exposure.

Operational risk is calculated using the AMA.

Market risk and interest rate risk in the banking book is calculated using the internal model approach.

#### 1.4.2 Pillar 2

Pillar 2 (the Supervisory Review Process) of the Basel III framework requires ADIs to make their own assessments of capital adequacy in light of their risk profile and to have a strategy in place for maintaining their capital levels. Macquarie's Internal Capital Adequacy Assessment Process (ICAAP) addresses its requirements under Pillar 2.

The ICAAP is part of Macquarie's overall risk management framework; its key features include:

- Comprehensive risk assessment process;
- Internal assessment of capital adequacy using Macquarie's economic capital model (refer section 4.1);
- Risk appetite setting (refer section 4.2);
- Capital management plans designed to ensure the appropriate level and mix of capital given Macquarie's risk profile; and
- Regular reporting of capital adequacy and monitoring of risk profile against risk appetite.

Macquarie's ICAAP is subject to Board and senior management oversight and internal control review.

#### 1.4.3 Pillar 3

These disclosures have been formulated in response to the requirements of Pillar 3 of the Basel III Framework. APRA has laid down the minimum standards for market disclosure in its APS 330.

This report includes a breakdown of both on and off-balance sheet exposures, and RWA. The report consists of sections covering:

- Risk Management Framework
- Capital Management
- Credit Risk Measurement
- Securitisation
- Credit Valuation Adjustment
- Exposures to Central Counterparties
- Market Risk
- Equity Risk, and
- Operational Risk



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## 2.0 Risk Management Policies and Objectives

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Risk is an integral part of Macquarie's business. The main risks faced by Macquarie are market risk, equity risk, credit risk and operational risk.

Responsibility for management of these risks resides with the individual businesses that give rise to them. It is the responsibility of the Risk Management Group (RMG) to ensure appropriate assessment and management of these risks. RMG is independent of all other areas of Macquarie.

### 2.1 Risk Governance at Macquarie

The primary role of the Board is to promote the long-term health and prosperity of Macquarie. Macquarie's robust risk management framework supports the Board in its role and the oversight of the framework is a top priority for the Board.

The Board monitors significant business risks and reviews how they are managed. It also monitors Macquarie's risk management framework, including by forming a view of Macquarie's risk culture, and approving Macquarie's risk appetite statement and risk management strategy. The Board determines delegations to management, approving relevant risk limits and policies, and reviews business developments for consistency with the risk appetite and strategy of Macquarie.

The Board Risk Committee (BRC) assists the Board by providing oversight of the implementation and operation of Macquarie's risk management framework and constructively challenging senior management's proposals and decisions on risk management arising from the Group's activities. The BRC assists the Board with its oversight of Macquarie's risk profile, risk appetite and risk culture. The BRC receives information on breaches of the policy framework and external developments that may have some impact on the effectiveness of the risk management framework.

The Board is also assisted by the following Committees:

- The Board Audit Committee (BAC) monitors the effectiveness of internal financial controls with Macquarie's management, the Head of Internal Audit and the external auditor. The BAC also monitors and reviews the effectiveness of the external auditors and Internal Audit and Credit Assurance;
- The Board Remuneration Committee liaises with the BRC and the Chief Risk Officer to ensure there is a properly integrated approach to remuneration that appropriately reflects risk; and
- The Board Governance and Compliance Committee (BGCC) reviews Macquarie's corporate governance arrangements and compliance matters. The BGCC also has oversight of Work Health and Safety and environmental matters on behalf of the Board.

The Head of RMG, as Macquarie's Chief Risk Officer (CRO), is a member of Macquarie's Executive Committee and reports directly to the CEO. The CRO has a secondary reporting line to the BRC. The BRC approves the replacement, appointment, reassignment or dismissal of the CRO and also reviews the performance and remuneration of the CRO.

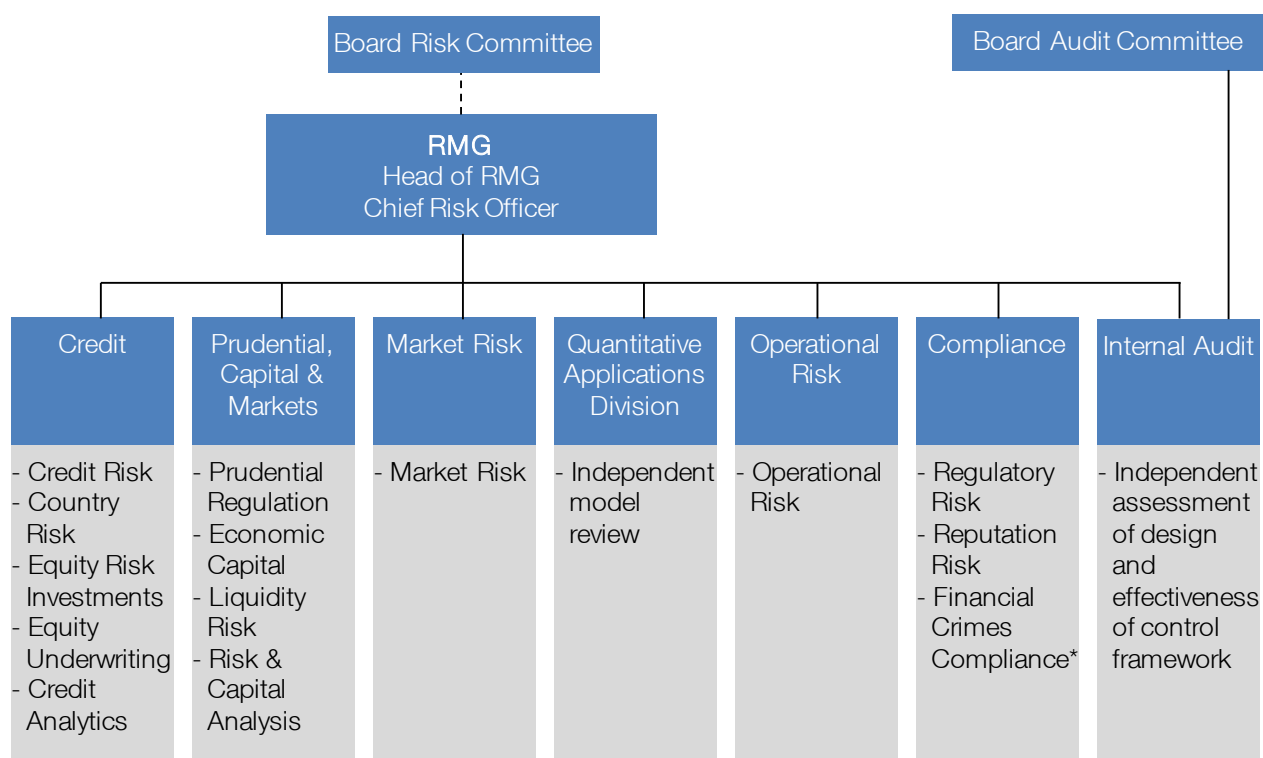
Committees exist at the executive management level to ensure that the necessary elements of expertise are focused on specific risk areas. The Macquarie and Macquarie Bank Executive Committees focus on strategic issues as well as material transactions. The Risk and Compliance Committee is responsible for monitoring the operation of key risk frameworks, internal controls and Macquarie's approach to governance. There are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and the Asset and Liability Committee (ALCO) are examples of these committees.

While committees oversee Macquarie's risk appetite and risk acceptance processes, risk acceptance decisions are ultimately delegated to individuals to ensure that approvers are accountable when signing off on risk acceptance decisions.

## 2.0 Risk Management Policies and Objectives

### continued

#### Risk Management Group Structure:



\*Financial Crimes Compliance includes Anti-money laundering, Anti-bribery & Corruption and Sanctions

#### 2.2 Internal Audit

Internal Audit provides independent assurance to senior management and the Board on the adequacy and operational effectiveness of Macquarie's internal control, risk management and governance systems and processes. Internal Audit provides an independent and objective assessment as to whether risks have been adequately identified; adequate internal controls are in place to manage those risks; and whether those controls are working effectively. Internal Audit is independent of both business management and the activities it reviews.

The Head of Internal Audit is jointly accountable to the BAC and the CRO. The BAC approves the appointment and removal of the Head of Internal Audit who has unlimited access to the BAC.

In addition to the regular review cycle by Internal Audit, Credit Assurance (CA) provides independent oversight of the quality of credit decision making and the credit rating process. This function is described in detail in section 5.2.4.

## 3.0 Capital Structure

### 3.1 Total Available Capital

The Macquarie Bank Group capital supply is detailed in the table below.

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>Common Equity Tier 1 capital</b>		
Paid-up ordinary share capital	8,690	7,710
Retained earnings	1,884	1,371
Reserves	639	(42)
Gross Common Equity Tier 1 capital	11,213	9,039
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	50	104
Deferred tax assets	243	189
Net other fair value adjustments	(66)	(9)
Intangible component of investments in subsidiaries and other entities	479	443
Loan and lease origination fees and commissions paid to mortgage originators and brokers	215	115
Shortfall in provisions for credit losses	263	380
Equity exposures	1,386	1,307
Other Common Equity Tier 1 capital deductions	228	192
Total Common Equity Tier 1 capital deductions	2,798	2,721
<b>Net Common Equity Tier 1 capital</b>	<b>8,415</b>	<b>6,318</b>
<b>Additional Tier 1 capital</b>		
Additional Tier 1 capital instruments	1,084	643
Gross Additional Tier 1 capital	1,084	643
Deductions from Additional Tier 1 capital:	-	-
Net Additional Tier 1 capital	1,084	643
<b>Total Net Tier 1 capital</b>	<b>9,499</b>	<b>6,961</b>
<b>Tier 2 capital</b>		
Tier 2 capital instruments	1,237	1,343
<b>Total capital base</b>	<b>10,736</b>	<b>8,304</b>

## 3.0 Capital Structure

### continued

#### 3.2 Common Equity Tier 1 Capital

Common Equity Tier 1 capital is defined in paragraphs 18 to 26 of APS 111. Additional Tier 1 capital is defined in paragraphs 27 to 29 of APS 111.

Macquarie's Common Equity Tier 1 capital consists of ordinary share capital, retained earnings, and certain reserves. The main component of reserves included in Common Equity Tier 1 capital is the foreign currency translation reserve.

Additional Tier 1 capital, consists of Macquarie Income Securities (MIS), Macquarie Income Preferred Securities (MIPS), Bank Capital Notes (BCN) and Exchangeable Capital Securities (ECS). MIS, MIPS, BCN and ECS are included as Additional Tier 1 capital subject to APRA imposed limits with any excess included as Tier 2 capital.

MIS and MIPS are included under Basel III transitional rules which require the value recognised to amortise by 10% each year until no part of the instruments are included after 10 years. APRA has confirmed that the ECS will be 100% eligible hybrid capital until its first call date on 20 June 2017.

MIS are a perpetual instrument with no conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank.

MIPS were issued when the London Branch of the Bank issued reset subordinated convertible debentures to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% until April 2020. As at 31 March 2015, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie.

BCN were issued by MBL in October 2014 and are quoted on the Australian Stock Exchange. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN pay discretionary, semi-annual floating rate cash distributions equal to 6 month BBSW plus 330bps margin, adjusting for franking credits, paid semi annually.

ECS were issued by MBL acting through its London Branch (Issuer), in March 2012 and are quoted on the Singapore Stock Exchange. Subject to certain conditions, the ECS will be exchanged for a variable number of fully paid MGL ordinary shares on 20 June 2017 (or earlier in certain circumstances). The ECS pay interest of 10.25% per annum, paid semi-annually, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. The interest payments are subject to payment tests, including the discretion of the Issuer.

#### 3.3 Tier 2 Capital

Tier 2 capital is defined in paragraphs 30 to 33 of APS 111. Macquarie's Tier 2 capital consists of a portion of certain equity and credit loss reserves plus subordinated debt instruments. Subordinated debt is included under Basel III transitional rules which require the value recognised to amortise by 10% each year until no part of the instruments are included after 10 years.

#### 3.4 Restrictions on capital

Various restrictions or costs exist on the transfer of capital within the Macquarie accounting consolidated Group. For example:

- Licensed entities such as Australian Financial Services Licensed (AFSL) entities are required to maintain minimum capital requirements to comply with their licence. Macquarie seeks to maintain a sufficient level of capital within these entities to ensure compliance with these regulations;
- Where retained earnings are transferred from related entities, tax costs may be payable on repatriation which may reduce the actual amount of available capital;
- As an ADI, Macquarie is subject to the prudential limits imposed by APRA ADI Prudential Standard APS 222: Associations with Related Entities (APS 222);
- RMG also manage and monitor internal limits on exposures to related entities which, combined with APRA's prudential limits, seeks to minimise contagion risk.

## 4.0 Capital Adequacy

### 4.1 Capital Management

Macquarie's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The capital management objectives are to:

- continue to support Macquarie's credit rating;
- ensure sufficient capital resources to support Macquarie's business and operational requirements;
- maintain sufficient capital to exceed externally imposed capital requirements; and
- safeguard Macquarie's ability to continue as a going concern.

Macquarie has developed an economic capital model that is used to quantify MGL's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of MGL's risk profile.

The economic capital model is used to support business decision-making and has three main applications:

- capital adequacy assessment;
- risk appetite setting; and
- risk-adjusted performance measurement.

Capital adequacy is assessed for both MGL and the Bank Group. In each case, capital adequacy is assessed on a regulatory basis and on an economic basis, with capital requirements assessed as follows:

Economic capital adequacy means an internal assessment of capital adequacy, designed to ensure Macquarie has sufficient capital to absorb potential losses and provide creditors with the required degree of protection.

Potential losses are quantified using the Economic Capital Adequacy Model (ECAM). These potential losses are compared to the capital resources available to absorb loss, consisting of book equity and eligible hybrid equity. Earnings are also available to absorb losses, however, only a fraction of potential earnings is recognised as a buffer against losses.

APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for banks, as shown in the table which appears on the following page with both calculating capital at a one year, 99.9% confidence level. This 99.9% confidence level is broadly consistent with the acceptable probability of default implied by Macquarie's credit ratings.

Entity	Economic	Regulatory
MBL	Internal model, covering exposures of the Bank Group	Capital to cover RWA and regulatory deductions, according to APRA's banking prudential standards
MGL	Internal model, covering all exposures of the Group	Bank regulatory capital requirement plus economic capital requirement of the Non-Bank Group

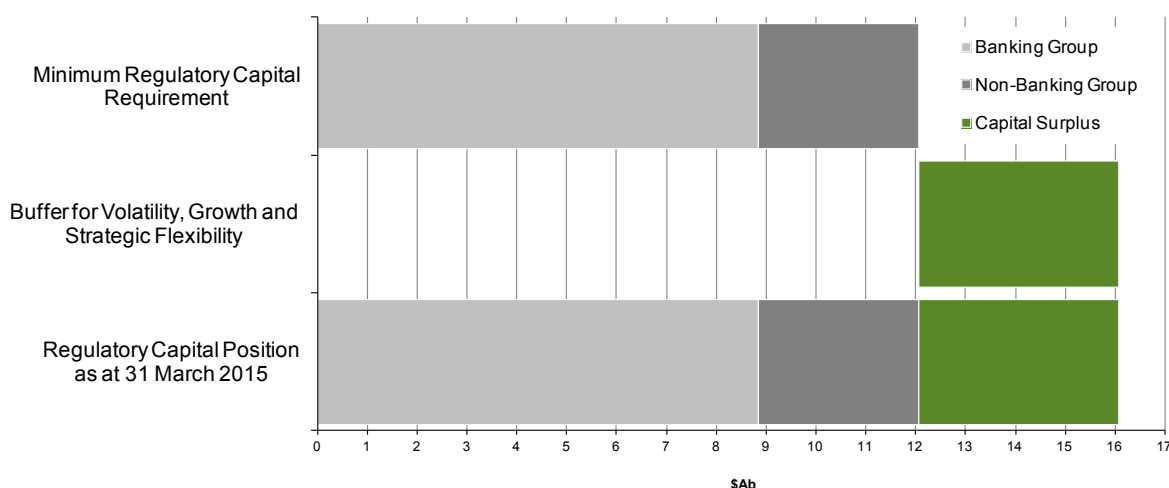
## 4.0 Capital Adequacy

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Risk	Basel III	ECAM
Credit	Capital requirement determined by Basel III formula, with some parameters specified by the regulator (e.g. LGD)	Capital requirement determined by Basel III formula, with internal estimates of key parameters
Equity	Deduction from Common Equity Tier 1	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 79% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed Value at Risk (SVaR), plus a specific risk charge	Scenario-based approach
Operational	Basel III Advanced Measurement Approach	Basel III Advanced Measurement Approach

The regulatory capital adequacy of MGL is shown below.

#### Macquarie Group Limited - Regulatory Capital Position (31 March 2015)



Macquarie is currently well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy. The remaining capital surplus is available to support growth and provide strategic flexibility.

In order to reduce volatility in Macquarie's capital adequacy, Macquarie actively manages the sensitivity of its capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the Foreign Currency Translation Reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

The capital adequacy results are reported to the MGL Board and senior management on a regular basis, together with projections of capital adequacy under a range of scenarios.



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## 4.2 Risk Appetite Setting

The Board reviews and endorses Macquarie's risk appetite as part of the annual corporate strategy review process. Risk appetite is the nature and amount of risk that the Group is willing to accept. At Macquarie, this is outlined in the Board-approved Risk Appetite Statement (RAS).

The RAS sets out the degree of risk Macquarie is willing to take overall and for each material risk type. It also conveys the process for ensuring that risk limits (tolerances) are set at an appropriate level, monitored and reviewed.

The key methods by which the statement is put into operation are via the New Product and Business Approval process, aggregate and specific risk limits, relevant policies and communication and training. These are discussed further below.

### New product and business approval process

All new businesses and significant changes to existing products or processes are subject to a rigorous approval process. Approval requires confirming that the proposal is consistent with the principles stated in the RAS. The process is interactive and results in constructive dialogue on risk matters.

This formal process is designed so that the proposed transaction or operation can be managed properly and does not create unknown or unwanted risks for Macquarie in the future. All relevant risks (for example, market, credit, equity, legal, compliance, taxation, accounting, operational and systems) are reviewed to ensure that they are identified and addressed prior to implementation (including ongoing risk monitoring processes). The approvals of RMG, Finance Division, Taxation Division, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

For all material transactions, independent input from RMG on the risk and return of the transaction is included in the approval document submitted to senior management.

The Operational Risk function within RMG oversees the new product and business approval process.

RMG Internal Audit performs an audit of the operations of any significant new businesses based on an assessment of the associated risk faced by Macquarie. The audit typically takes place within six to twelve months following acquisition or launch and includes confirmation that operations are in line with the new product approval document.

### Limits

In many cases limits translate risk appetite principles into hard constraints on individual businesses.

These consist of specific risk limits given to various businesses and products or industry sectors as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk.

Macquarie sets the Global Risk Limit with reference to earnings and not just capital. The limit is set in such a way that in a prolonged and severe downturn, losses would be covered by earnings and surplus capital, and market confidence in Macquarie is maintained.

In accordance with Macquarie's 'no limits, no dealing' approach, individual credit and equity exposures must also fit within approved counterparty limits. Market risk exposures are governed by a suite of individual and portfolio limits.

These granular limits are set to allow businesses to achieve their near-term plans and promote a reassessment of the opportunity and associated risks as the limit is reached.

### Relevant policies

Policies expand on the principles found in the RAS and often translate them into what must be done operationally by an individual or business.

Policies are communicated regularly to key staff. Director level staff attend mandatory risk management framework and policy training on a regular basis. Training programs for specific policies are also in place.

### Communication and training

The RAS is available for all staff to access and is referred to in the *Code of conduct* which is a document that must be read by all staff.

In addition, the principles in the RAS are communicated to relevant staff by other formal and informal training programs.

### The Risk Appetite Test – An aggregate stress test

The key tool that the Board uses to aggregate risk appetite is the Risk Appetite Test. This is a Macquarie-wide stress test which considers losses and earnings under a severe economic downturn scenario with the aim of Macquarie emerging from the severe downturn with sufficient capital to operate.

## 4.0 Capital Adequacy

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The Risk Appetite Test asserts that potential losses must be less than the Global Risk Limit which comprises underlying earnings that Macquarie can achieve in a three year downturn (downturn forward earnings capacity) plus surplus regulatory capital. Consideration is also given to the year by year outcome of the modelled downturn scenario to ensure that market confidence is maintained.

Downturn forward earnings capacity is estimated by the operating groups with reference to a three year downturn scenario provided to them by RMG.

Aggregate risk can be broken down into two categories:

- **business risk**, meaning decline in earnings through deterioration in volumes and margins due to market conditions; and
- **potential losses**, meaning potential credit losses, write-downs of equity investments, operational risk losses and losses on trading positions (including Credit Valuation Adjustment).

Business risk is captured by the difference in base case and downturn earnings estimates. Potential losses are quantified using a version of the economic capital model. A principal use of the Risk Appetite Test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any changes to the ERL are sized to ensure that even under full utilisation of this limit, and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

### 4.3 Risk Weighted Assets (RWA)

RWA are a risk based measure of exposures used in assessing overall capital usage of the Bank Group. When applied against eligible regulatory capital the overall capital adequacy is determined. RWA are calculated in accordance with APRA Prudential Standards.

The table below sets out the RWA exposures for the Macquarie Bank Group.

APS 330 Table 6 (b) to (f)

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate	27,780	19,392
SME Corporate	2,211	1,831
Sovereign	350	626
Bank	1,726	1,781
Residential Mortgages	5,418	4,320
Other Retail	3,382	5,218
Retail SME <sup>1</sup>	2,543	-
<b>Total RWA subject to IRB approach<sup>2</sup></b>	<b>43,410</b>	<b>33,168</b>
<b>Specialised lending exposures subject to slotting criteria<sup>3</sup></b>	<b>7,044</b>	<b>4,891</b>
Subject to Standardised approach		
Corporate	659	920
Residential Mortgages	3,008	1,479
Other Retail	1,265	953
<b>Total RWA subject to Standardised approach<sup>2</sup></b>	<b>4,932</b>	<b>3,352</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>729</b>	<b>874</b>
<b>Credit Valuation Adjustment RWA</b>	<b>2,769</b>	<b>2,325</b>
<b>Exposures to Central Counterparties RWA</b>	<b>1,776</b>	<b>1,595</b>
<b>RWA for Other Assets</b>	<b>9,790</b>	<b>6,395</b>
<b>Total Credit risk RWA</b>	<b>70,450</b>	<b>52,600</b>
<b>Market risk RWA</b>	<b>6,650</b>	<b>4,567</b>
<b>Operational risk RWA</b>	<b>9,399</b>	<b>8,531</b>
<b>Interest rate risk in the banking book RWA</b>	<b>-</b>	<b>-</b>
<b>Total RWA</b>	<b>86,499</b>	<b>65,698</b>

<sup>1</sup> "Retail SME" RWA include those that meet the criterion for retail treatment in paragraph 47 of APS113, these were included in Residential Mortgages and Other Retail in previous periods.

<sup>2</sup> Refer to section 6.0 for more details on exposures calculated under the IRB and Standardised approaches.

<sup>3</sup> Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

## 4.0 Capital Adequacy

### continued

Ratios for Common Equity Tier 1, Total Tier 1, and Total capital of Macquarie Bank Group are set out below.

**APS 330 Table 6 (g)**

<b>Capital Ratios</b>	<b>As at 31 March 2015</b>	<b>As at 31 March 2014</b>
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	<b>9.7%</b>	9.6%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio	<b>11.0%</b>	10.6%
Level 2 Macquarie Bank Group Total capital ratio	<b>12.4%</b>	12.6%
Level 1 Macquarie ELE Common Equity Tier 1 capital ratio	<b>9.9%</b>	8.6%
Level 1 Macquarie ELE Total Tier 1 capital ratio	<b>11.3%</b>	9.6%
Level 1 Macquarie ELE Total capital ratio	<b>12.8%</b>	11.7%

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8%, with at least 4.5% of this capital in the form of Common Equity Tier 1 capital, and 6% in the form of Total Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

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## 5.0 Credit Risk Measurement

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### 5.1 Credit Risk Overview

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

Macquarie maintains a comprehensive and robust framework for the identification, analysis and monitoring of its credit risk exposure arising within each business. Key aspects of the framework are detailed below.

### 5.2 Credit Risk

Macquarie's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals.

All credit risk approvals reflect two principles:

- a requirement for dual sign-off; and
- a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them.

#### 5.2.1 Analysis and Approval of Exposures

MGL and MBL Boards are responsible for establishing the framework for approving credit exposures. The Boards delegate discretions to approve credit exposure to designated individuals within the Group whose capacity to exercise authority prudently has been adequately assessed.

Operating groups are assigned modest levels of credit discretions. Credit exposures above those levels are assessed independently by RMG and approved by senior RMG staff, the CEO and the Boards as required.

Macquarie enforces a strict 'no limit, no dealing' rule; all proposed transactions are analysed and approved by designated individuals before they can proceed.

All wholesale credit exposures are reviewed at least once a year, or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

## 5.0 Credit Risk Measurement

### Continued

#### 5.2.2 Macquarie Ratings

All corporate, sovereign and bank counterparties (wholesale) customer limits and exposures are allocated a Macquarie Group rating (MQ rating) which broadly correspond with Standard and Poor's (S&P), Fitch and Moody's Investor Services credit ratings. Each MQ rating has been assigned a Probability of Default (PD) derived from Standard and Poor's or Moody's long term average one year default rates for similarly rated obligors. A Loss Given Default (LGD) percentage is additionally assigned to each limit and exposure, reflecting the economic loss estimated to result if default occurs, taking into account the security supporting the credit exposure.

Ratings provided by External Credit Assessment Institutions (ECAI) are considered throughout the rating process but are supplementary to the internal rating process.

The table below outlines the internal MQ Ratings relative to ECAI ratings.

MQ ratings are used to:

- assess the default risk of credit exposures for management reporting, credit approval of limits, risk attribution and regulatory purposes;
- assist in credit decisions by providing guidelines and tools that promote a more consistent analytical approach;
- assist in the process of sharing credit knowledge (including knowledge of specialised and unique companies, industries and products); and
- provide a basis for disclosing and reporting to investors and the market.

Each MQ rating band is associated with an estimate of the PD by the counterparty on its financial obligations and provides a consistent measure across the Bank Group. Applicable at either the borrower or transaction level, a rating must be justified and set as part of the credit approval and review process.

The ratings process combines a quantitative analysis by way of scoring industry specific risk factors and a qualitative assessment based on expert judgement.

#### Rating System

Macquarie	S&P	Fitch	Moody's
MQ1	AAA	AAA	Aaa
MQ2	AA+	AA+	Aa1
	AA	AA	Aa2
	AA-	AA-	Aa3
MQ3	A+	A+	A1
MQ4	A	A	A2
MQ5	A-	A-	A3
MQ6	BBB+	BBB+	Baa1
MQ7	BBB	BBB	Baa2
MQ8	BBB-	BBB-	Baa3
MQ9	BB+	BB+	Ba1
MQ10	BB	BB	Ba2
MQ11	BB-	BB-	Ba3
MQ12	B+	B+	B1
MQ13	B	B	B2
MQ14	B-	B-	B3
MQ15	CCC+	CCC+	Caa1
	CCC	CCC	Caa2
	CCC-	CCC-	Caa3
MQ16	CC	CC	Ca
	C	C	C
MQ99	D	RD/D	D



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For wholesale counterparties, Macquarie utilises a number of industry templates and a sovereign template to assess the appropriate MQ ratings. These industry templates are designed to ensure that Macquarie ratings take into account the different risk factors that affect different industries.

Analysts are required to input a range of quantitative and qualitative factors and then consider the MQ rating output. At the same time as considering the appropriate MQ rating, analysts are also required to consider the appropriate LGD. For economic capital purposes, LGDs are stressed estimates, taking into account the security, jurisdiction, seniority and quality of the balance sheet. For regulatory capital, MBL uses the APRA supervisory estimates for LGDs.

For retail counterparties, PDs and LGDs are assigned to retail pools. Retail exposures are allocated to pools, such that each pool has homogenous risk. PDs and LGDs are calculated using the following methods:

- **PDs:** calculate the long-run average default rate from the internal and external default data available for each pool. When internal data is not available in sufficient quantity, external data is used but only in the case where it is relevant to the pool.
- **LGDs:** consider a downturn scenario and the loss that would be incurred for this scenario on defaulted loans in each pool.

Macquarie applies a standard definition of default, which is that an item is considered defaulted when it is either (i) 90 days past due or; (ii) unlikely to pay. 'Unlikely to pay' is defined in Macquarie policies based on APRA standards.

All templates and models are validated annually by Credit Assurance (CA). CA is an independent function, and the validation tasks are outlined in a detailed framework. Refer to section 5.2.4 for further detail of this function. Annually, CA undertakes the following:

- review of wholesale ratings templates;
- validation of wholesale PD estimates;
- validation of wholesale LGD estimates;
- ratings migration analysis of wholesale PD ratings;
- validation of retail PDs;
- validation of retail LGDs; and
- approval of any changes to credit risk models.

Macquarie has developed extensive system functionality to support the allocation of internal ratings. This application ensures that all supporting factors and weightings are stored together with the system-generated rating. Approvers have access to all of these details through the credit approval process. Details are also maintained of any rating override which must be accompanied by specific commentary from the credit analyst and which is subject to regular monitoring by CA.

Macquarie considers that ratings are an integral part of determining the creditworthiness of the obligor. However, Macquarie does not believe that model and template output should replace thorough and thoughtful analysis. In addition to the system details, credit analysts must also provide specific justification of the internal rating as part of their overall credit analysis of each counterparty. Credit approvers consider and approve the internal rating for the counterparty in relation to the size and tenor of their proposed credit limits.

All proposals for significant deals, products and businesses must contain an analysis of risk-adjusted returns, based on the ECAM which for credit exposures is a function of the assessed credit rating (together with other factors such as maturity and estimates of LGD). In assessing these proposals, the Executive Committee and Board consider these returns together with other relevant factors. They therefore form an important element in ensuring the visibility and impact of the MQ rating to the overall risk acceptance decision.

Risk-adjusted performance metrics for each business unit are prepared on a regular basis and distributed to senior management and the Board as well as to business units. These performance metrics are also based on calculations of Economic Capital usage and are a significant factor when allocations of performance-based remuneration are determined for each business.

### 5.2.3 Measuring and Monitoring Exposures

Credit exposures are calculated differently according to the nature of the obligation. Loan assets are reported at full face value whereas derivative contracts are measured according to both internal and regulatory measures of Counterparty Credit Exposure. Exposures are assessed in the context of the replacement cost of the contract should the counterparty default prior to the maturity of the trade.

Derivative revaluation based measures are calculated using valuation models which are consistent with those used for determining mark to market values for financial reporting purposes and are reported daily to RMG Credit.

## 5.0 Credit Risk Measurement

### continued

For regulatory purposes, CEA (Credit Equivalent Amount) is calculated according to the methodology outlined in the APRA ADI Prudential Standards (APS) which combines the positive mark-to-market value (Current Credit Exposure) with a percentage of the face value based on the type of contract and the contractual maturity (Potential Credit Exposure). CEA exposures are used in daily calculations of large exposures in accordance with APS 221 Large Exposures.

The internal measure of counterparty credit exposure is calculated as a function of market movements. A range of exposure profiles are calculated representing portfolio exposures at different confidence levels or under predefined scenarios through the life of the portfolio. At a minimum, counterparty credit limits are set for all businesses against a consistent low probability (high confidence) profile. The effect of this limit framework is to ensure that there is a low probability of exposures exceeding the original approved limit. The models and parameters used to determine future asset prices and consequent portfolio exposures are reviewed and approved by RMG quarterly, significant changes in volatility or market conditions result in more frequent reviews.

High confidence level exposure measures are supplemented by regular and ad hoc exposure sensitivity analysis to evaluate the effect of extreme stress on the portfolio.

Both the internal and regulatory calculations of exposure relating to derivatives are calculated on a net basis where appropriate legal netting arrangements are in effect. The details of what products can be netted for each counterparty are recorded in legal documentation systems. These systems are tightly integrated into the exposure calculation functionality and serve to ensure that netting is only performed when the legal basis for this has been formally assessed and confirmed.

Where trading gives rise to settlement risk, this risk is normally assessed at full face value of the settlement amount. However, Macquarie utilises a number of market standard clearing mechanisms to ensure that the bulk of settlements are effected on a secured basis or through exchanges where a DVP (delivery vs payment) settlement process is ensured.

Contingent exposures arising from the issuance of guarantees, letters of credit and performance bonds are also reported daily.

On and off-balance sheet exposures are considered together for approval, monitoring and reporting purposes. Credit exposures of all types are calculated and reported daily.

Each business is responsible for calculating their credit exposures to ensure that they stay within credit limits. In addition, these exposures are supplied to RMG Credit on a daily basis for centralised limit monitoring. Any excesses identified are investigated and escalated as appropriate to both business line and RMG management. All reportable excesses are summarised and reported to the Board monthly.

All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to limits and/or their MQ rating. Furthermore, other indicators of deterioration in credit quality are monitored daily, such as share price and credit default swap spread movements, covenant breaches and credit ratings downgrades. Where appropriate, these are reported to senior management and where recoverability is in doubt, appropriate provisions are held.

A review of the Credit and Equity Portfolio analysing exposure concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to limit large exposures to single counterparties or groups of counterparties.

#### 5.2.4 Credit Assurance

CA is the centralised function within RMG which independently verifies the effectiveness of Macquarie's credit risk management. It provides an independent assurance of the quality of Macquarie's credit processes and decisions.

CA fulfils its responsibilities by regular monitoring of the exercise of discretions and sample testing of credit decisions. It is involved in the Creditwatch process. Oversight and validation of the internal rating system and credit risk estimates for the retail portfolios is conducted through the monitoring of actual defaults and losses against all estimates. Additionally CA performs annual reviews of ratings template usage, applicability and overrides so as to ensure that the industry templates remain appropriate.

CA reports to the Credit Chief Operating Officer, except in matters which affect RMG Credit. To ensure independence on reviews of RMG Credit, the Head of Credit Assurance reports directly to the CRO on a quarterly basis. In addition to regular reporting to senior management, CA is required to report at least annually to, and have an annual private session with, the BAC.

### 5.3 Macquarie's Credit Risk Exposures

Credit exposures are disclosed in the following pages dissected by:

- geographic distribution;
- maturity profile;
- measurement approach;
- risk weight banding; and
- risk grade.

Disclosures in this section have been prepared on a gross credit exposure basis. Gross credit risk exposure relates to the potential loss that Macquarie would incur as a result of a default by an obligor. The gross credit risk exposures are calculated as the amount outstanding on drawn facilities and the exposure at default on undrawn facilities. The exposure at default is calculated in a manner consistent with APRA ADI Prudential Standards.

Exposures have been based on a regulatory Level 2 group as defined in section 1.1.1. The gross credit risk exposures in this section will differ from the disclosures in the Macquarie Bank Limited Consolidated financial statements as gross credit risk exposures include off balance sheet exposures but exclude the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes.

The exposures below exclude the impact of:

- netting and credit risk mitigation (discussed in section 8);
- securitisation exposures (discussed in section 9);
- CVA (discussed in section 10)
- Central counterparty exposures (discussed in section 11)
- trading book exposures (discussed in section 12); and
- equity exposures (discussed in section 13).

**APS 330 Table 7(b)**

Portfolio Type	As at 31 March 2015 \$m	As at 31 March 2014 \$m
Corporate <sup>1</sup>	44,486	33,152
SME Corporate <sup>2</sup>	3,154	2,623
Sovereign	2,691	3,539
Bank	11,373	9,519
Residential Mortgages	29,823	22,789
Other Retail	6,641	9,053
Retail SME <sup>3</sup>	4,054	-
Other Assets <sup>4</sup>	14,560	10,626
<b>Total Gross Credit Exposure</b>	<b>116,782</b>	<b>91,301</b>

<sup>1</sup> "Corporate" includes Specialised Lending exposure of \$8,450 million as at 31 March 2015 (31 March 2014: \$5,766 million).

<sup>2</sup> "SME Corporate" includes Specialised Lending exposure of \$519 million as at 31 March 2015 (31 March 2014: \$488 million).

<sup>3</sup> "Retail SME" exposures include those that meet the criterion for retail treatment in paragraph 47 of APS113, these were included in Residential Mortgages and Other Retail in previous periods.

<sup>4</sup> The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

## 5.0 Credit Risk Measurement

### continued

APS 330 Table 7(b) (continued)

	On Balance Sheet \$m	As at 31 March 2015 Off Balance sheet		Total \$m	Average Exposures for the 12 months \$m
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	18,039	4,077	13,261	35,377	30,921
SME Corporate	2,338	297	-	2,635	2,385
Sovereign	2,246	-	445	2,691	3,115
Bank	4,463	-	6,910	11,373	10,446
Residential Mortgages	21,033	406	-	21,439	18,519
Other Retail	5,269	-	-	5,269	6,561
Retail SME	4,050	4	-	4,054	2,027
<b>Total IRB approach</b>	<b>57,438</b>	<b>4,784</b>	<b>20,616</b>	<b>82,838</b>	<b>73,974</b>
<b>Specialised Lending</b>	<b>8,016</b>	<b>720</b>	<b>233</b>	<b>8,969</b>	<b>7,612</b>
<b>Subject to Standardised approach</b>					
Corporate	-	659	-	659	790
Residential Mortgages	8,384	-	-	8,384	7,787
Other Retail	1,372	-	-	1,372	1,286
<b>Total Standardised approach</b>	<b>9,756</b>	<b>659</b>	<b>-</b>	<b>10,415</b>	<b>9,863</b>
<b>Other Assets</b>	<b>10,003</b>	<b>4,557</b>	<b>-</b>	<b>14,560</b>	<b>12,593</b>
<b>Total Gross Credit Exposures</b>	<b>85,213</b>	<b>10,720</b>	<b>20,849</b>	<b>116,782</b>	<b>104,042</b>

APS 330 Table 7(b) (continued)

	On Balance Sheet \$m	As at 31 March 2014 Off Balance sheet		Total \$m	Average Exposures for the 12 months \$m
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	16,865	2,407	7,192	26,464	23,580
SME Corporate	1,912	223	-	2,135	2,037
Sovereign	3,181	-	358	3,539	4,311
Bank	3,997	403	5,119	9,519	9,348
Residential Mortgages	15,297	302	-	15,599	12,957
Other Retail	7,854	-	-	7,854	7,469
<b>Total IRB approach</b>	<b>49,106</b>	<b>3,335</b>	<b>12,669</b>	<b>65,110</b>	<b>59,702</b>
<b>Specialised Lending</b>	<b>5,208</b>	<b>894</b>	<b>152</b>	<b>6,254</b>	<b>5,866</b>
<b>Subject to Standardised approach</b>					
Corporate	225	697	-	922	968
Residential Mortgages	7,187	3	-	7,190	7,206
Other Retail	1,196	3	-	1,199	1,537
<b>Total Standardised approach</b>	<b>8,608</b>	<b>703</b>	<b>-</b>	<b>9,311</b>	<b>9,711</b>
<b>Other Assets</b>	<b>10,626</b>	<b>-</b>	<b>-</b>	<b>10,626</b>	<b>10,640</b>
<b>Total Gross Credit Exposures</b>	<b>73,548</b>	<b>4,932</b>	<b>12,821</b>	<b>91,301</b>	<b>85,919</b>

## 5.0 Credit Risk Measurement

### continued

APS 330 Table 7(i)

	As at 31 March 2015				For the 12 months to 31 March 2015	
	Gross Credit Exposure \$m	Impaired Facilities <sup>1</sup> \$m	Past Due > 90 days \$m	Individually Assessed Provisions <sup>1</sup> \$m	Charges for Individually Assessed Provisions <sup>1</sup> \$m	Write-offs \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	43,827	1,106	755	(526)	(289)	(4)
SME Corporate	3,154	22	7	(7)	(5)	-
Sovereign	2,691	-	-	-	-	-
Bank	11,373	-	46	-	-	-
Residential Mortgages	21,439	175	50	(4)	-	-
Other Retail	5,269	49	-	(13)	(5)	(39)
Retail SME	4,054	-	-	-	-	-
<b>Total IRB approach</b>	<b>91,807</b>	<b>1,352</b>	<b>858</b>	<b>(550)</b>	<b>(299)</b>	<b>(43)</b>
<b>Subject to Standardised approach</b>						
Corporate	659	-	-	-	-	-
Residential Mortgages	8,384	47	101	(13)	(1)	-
Other Retail	1,372	19	4	(5)	(7)	(33)
<b>Total Standardised approach</b>	<b>10,415</b>	<b>66</b>	<b>105</b>	<b>(18)</b>	<b>(8)</b>	<b>(33)</b>
<b>Other Assets<sup>3</sup></b>	<b>14,560</b>	<b>127</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>116,782</b>	<b>1,545</b>	<b>963</b>	<b>(575)</b>	<b>(307)</b>	<b>(76)</b>

As at  
30 March  
2015  
\$m

General reserve for credit losses <sup>4</sup>	319
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<sup>1</sup> In accordance with Attachment C (Paragraph 1) APS 330, the table above excludes securitisation exposures. As at 31 March 2015, Macquarie has impaired securitised facilities of nil (31 March 2014: \$5 million) with individually assessed provisions of nil (31 March 2014: \$4 million), and charges for individually assessed provisions of nil for the 12 months to 31 March 2015.

<sup>2</sup> IRB "Corporate" includes Specialised Lending.

<sup>3</sup> Other assets impaired facilities include other real estate owned subsequent to facility foreclosure.

<sup>4</sup> The General reserve for credit losses is equivalent to the collective provisions for regulatory purposes.



#### 5.4 Credit Risk by Geographic Distribution

The credit risk exposures below have been based on a geographical split by domicile of the risk counterparty.

APS 330 Table 7(c)

Portfolio Type	As at 31 March 2015				
	Asia \$m	Australia \$m	EMEA \$m	Americas \$m	Total \$m
Corporate	2,784	7,098	18,339	16,265	44,486
SME Corporate	5	3,120	29	-	3,154
Sovereign	372	1,988	298	33	2,691
Bank	877	3,154	5,990	1,352	11,373
Residential Mortgages	57	25,206	690	3,870	29,823
Other Retail	53	6,307	281	-	6,641
Retail SME	-	4,054	-	-	4,054
Other Assets	2,525	2,192	8,991	852	14,560
<b>Total Gross Credit Exposure</b>	<b>6,673</b>	<b>53,119</b>	<b>34,618</b>	<b>22,372</b>	<b>116,782</b>

EMEA represents Europe, Middle East and Africa

Portfolio Type	As at 31 March 2014				
	Asia \$m	Australia \$m	EMEA \$m	Americas \$m	Total \$m
Corporate	1,498	6,395	13,338	11,921	33,152
SME Corporate	4	2,535	83	1	2,623
Sovereign	149	2,768	489	133	3,539
Bank	1,033	2,398	4,744	1,344	9,519
Residential Mortgages	6	17,092	167	5,524	22,789
Other Retail	30	8,897	27	99	9,053
Other Assets	2,009	2,194	4,841	1,582	10,626
<b>Total Gross Credit Exposure</b>	<b>4,729</b>	<b>42,279</b>	<b>23,689</b>	<b>20,604</b>	<b>91,301</b>

## 5.0 Credit Risk Measurement

### continued

#### 5.5 Credit Risk distribution by Counterparty Type

The credit risk exposures by Basel III risk type (Portfolio Type) below have been classified on a counterparty split consistent with the Macquarie Bank Limited Consolidated financial statements.

APS 330 Table 7(d)

Portfolio Type	As at 31 March 2015				
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	Total \$m
Corporate	10,316	480	33,118	572	44,486
SME Corporate	-	-	2,645	509	3,154
Sovereign	2,194	497	-	-	2,691
Bank	10,931	20	422	-	11,373
Residential Mortgages	403	-	741	28,679	29,823
Other Retail	107	19	463	6,052	6,641
Retail SME	220	2	2,619	1,213	4,054
Other Assets	53	194	14,243	70	14,560
<b>Total Gross Credit Exposure</b>	<b>24,224</b>	<b>1,212</b>	<b>54,251</b>	<b>37,095</b>	<b>116,782</b>

Portfolio Type	As at 31 March 2014				
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	Total \$m
Corporate	7,298	261	25,339	254	33,152
SME Corporate	-	-	2,072	551	2,623
Sovereign	2,959	580	-	-	3,539
Bank	9,519	-	-	-	9,519
Residential Mortgages	432	-	706	21,651	22,789
Other Retail	234	2	2,359	6,458	9,053
Other Assets	-	-	10,509	117	10,626
<b>Total Gross Credit Exposure</b>	<b>20,442</b>	<b>843</b>	<b>40,985</b>	<b>29,031</b>	<b>91,301</b>

## 5.6 Credit Risk by Maturity Profile

The credit risk exposures below have been based on contractual maturity of the exposure.

**APS 330 Table 7(e)**

Portfolio Type	As at 31 March 2015			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	19,327	19,346	5,813	44,486
SME Corporate	387	2,290	477	3,154
Sovereign	1,268	643	780	2,691
Bank	6,989	2,362	2,022	11,373
Residential Mortgages	1,901	1,786	26,136	29,823
Other Retail	1,452	4,736	453	6,641
Retail SME	291	3,183	580	4,054
Other Assets	7,038	6,422	1,100	14,560
<b>Total Gross Credit Exposure</b>	<b>38,653</b>	<b>40,768</b>	<b>37,361</b>	<b>116,782</b>

Portfolio Type	As at 31 March 2014			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	16,146	12,942	4,064	33,152
SME Corporate	689	1,809	125	2,623
Sovereign	728	664	2,147	3,539
Bank	5,699	2,727	1,093	9,519
Residential Mortgages	1,789	3,758	17,242	22,789
Other Retail	1,276	7,367	410	9,053
Other Assets	8,184	1,979	463	10,626
<b>Total Gross Credit Exposure</b>	<b>34,511</b>	<b>31,246</b>	<b>25,544</b>	<b>91,301</b>

## 5.0 Credit Risk Measurement

### continued

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Macquarie is approved by APRA to use the Basel III Foundation Internal Ratings Based (FIRB) Approach for credit risk for its wholesale portfolios. Approval for the FIRB approach enables Macquarie to rely on its own internal estimates for some of the necessary credit risk components in determining the capital requirement for a given credit exposure. Internal estimates are used for PD and Maturity, while for wholesale exposures APRA provided estimates must be used for LGD and Exposures at Default (EAD).

A number of retail businesses have been accredited to use the Internal Ratings Based (IRB) Approach, whereby retail exposures are assigned to pools based on both borrower and transaction risk and where the PD and LGD estimates are derived from Macquarie's loss history for exposures in that pool.

Macquarie has a number of portfolios which do not have a statistically significant loss history and therefore do not qualify for the IRB approach to credit risk. Accordingly, the Standardised approach is applied to these portfolios and they are assessed periodically to determine if a change to the IRB approach can be substantiated.

Other portfolios will remain Standardised either because they are in run-off or have been approved by APRA as such. The obligors in these portfolios are not rated by any of the recognised ECAI (S&P, Moody's & Fitch) as they are primarily composed of individual borrowers or small businesses. Consequently these exposures are risk-weighted at 100%.

A summary of the applicable IRB or Standardised treatment to the Macquarie credit portfolios is set out in the table below.

Exposure Type	Approach	Treatment
All credit exposures to Corporate (including SME Corporate), Bank and Sovereign counterparties.	IRB	MQ rating is mapped to the S&P ratings scale. S&P or Moody's historical default data is used to estimate a PD for each rating grade.
All exposures subject to Supervisory Slotting Treatment.	IRB	Exposures are pooled based on MQ ratings and LGD, with APRA determined risk weights assigned to each pool.
Auto and equipment lease exposures in Australia.	IRB	Through-the-cycle pool PDs and downturn LGDs.
Macquarie originated prime Residential Mortgages in Australia.	IRB	Through-the-cycle pool PDs and downturn LGDs. The regulatory floor of 20% applies to the LGD of each pool.
Other Residential Mortgages	Standardised	Risk Weighted per APS 112.
Credit card exposures in Australia.	Standardised	100% risk-weighted.
Personal loan exposures in Australia.	Standardised	100% risk-weighted.
Margin loan exposures in Australia.	IRB	A 20% risk-weight prescribed in APS113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk is applied.
Retail investment loan exposures. The majority are capital protected.	Standardised	100% risk-weighted.

## 6.0 Calculation of Credit Risk Exposures

### 6.1 Credit Risk exposures by measurement approach

The table below sets out the gross exposures by Basel III portfolio class as required by APRA under APS 330.

APS 330 Table 7(i)

Portfolio Type	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>Subject to IRB approach</b>		
Corporate	43,827	32,230
SME Corporate	3,154	2,623
Sovereign	2,691	3,539
Bank	11,373	9,519
Residential Mortgages	21,439	15,599
Other Retail	5,269	7,854
Retail SME	4,054	-
<b>Total IRB approach</b>	<b>91,807</b>	<b>71,364</b>
<b>Subject to Standardised approach</b>		
Corporate	659	922
Residential Mortgages	8,384	7,190
Other Retail	1,372	1,199
<b>Total Standardised approach</b>	<b>10,415</b>	<b>9,311</b>
<b>Other Assets<sup>1</sup></b>	<b>14,560</b>	<b>10,626</b>
<b>Total Gross Credit Exposure</b>	<b>116,782</b>	<b>91,301</b>

<sup>1</sup> The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.



## 6.2 Credit Risk exposures by risk weight

The tables below detail total credit exposures by risk weight bandings for the standardised portfolio and risk weightings for specialised lending exposures.

The disclosure of Standardised exposures below shows gross credit exposures before and after the impact of risk mitigation by collateral and guarantees. The breakdown of collateral is provided in further detail in section 8.2.

**APS 330 Table 8(b) Standardised Approach Exposures**

Risk Weight	As at 31 March 2015		As at 31 March 2014	
	Total Gross Credit Exposure \$m	Gross Credit Exposure after mitigation by eligible collateral & guarantees <sup>1</sup> \$m	Total Gross Credit Exposure \$m	Gross Credit Exposure after mitigation by eligible collateral & guarantees <sup>1</sup> \$m
0% <sup>2</sup>	3,064	-	4,924	-
> 0% ≤ 20%	-	-	-	-
> 20% ≤ 35%	2,464	2,464	914	914
> 35% ≤ 50%	1,428	1,428	832	832
> 50% ≤ 75%	355	355	99	99
> 75% ≤ 100%	3,104	3,104	2,542	2,542
> 100% ≤ 150%	-	-	-	-
> 150%	-	-	-	-
<b>Total</b>	<b>10,415</b>	<b>7,351</b>	<b>9,311</b>	<b>4,387</b>

<sup>1</sup> Refer to section 8.2 for details of eligible collateral and guarantees.

<sup>2</sup> 0% - RWA includes a portion of Canadian Prime Residential Mortgages. These loans are mortgage insured, with the majority guaranteed by the Canadian government.

## IRB Approach Exposures

### Specialised lending exposures subject to supervisory slotting

Risk Weight	Gross Credit Exposure	
	As at 31 March 2015 \$m	As at 31 March 2014 \$m
70%	1,057	1,116
90%	2,813	2,527
115%	3,015	1,415
250%	122	83
Default <sup>1</sup>	1,962	1,113
<b>Total</b>	<b>8,969</b>	<b>6,254</b>

<sup>1</sup> Default specialised lending exposures are assessed for impairment (refer section 7).

## 6.0 Calculation of Credit Risk Exposures

### continued

#### 6.3 Credit risk exposures by Risk Grade

This section sets out the FIRB gross credit exposures split by PD for Non-Retail portfolios and Expected Loss (EL) for Retail portfolios.

The tables below provide a breakdown of gross credit exposures into each PD band for the Non-Retail portfolios under the Basel III FIRB classes of Corporate, Bank and Sovereign as shown in section 6.1.

APS 330 Table 9(d)

	As at 31 March 2015 PD Grade							Total Gross Credit Exposure \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
<b>Non-Retail</b>								
Corporate	1,111	9,143	6,814	13,896	9,660	520	2,683	43,827
SME Corporate	-	-	3	2,268	826	9	48	3,154
Sovereign	2,341	221	119	5	3	1	1	2,691
Bank	4,609	5,862	443	319	49	8	83	11,373
<b>Total Gross Credit Exposure</b>	<b>8,061</b>	<b>15,226</b>	<b>7,379</b>	<b>16,488</b>	<b>10,538</b>	<b>538</b>	<b>2,815</b>	<b>61,045</b>

	As at 31 March 2014 PD Grade							Total Gross Credit Exposure \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
<b>Non-Retail</b>								
Corporate	636	3,595	7,008	13,451	4,407	1,196	1,937	32,230
SME Corporate	-	-	6	1,745	628	188	56	2,623
Sovereign	3,286	116	133	4	-	-	-	3,539
Bank	4,280	4,348	672	147	5	50	17	9,519
<b>Total Gross Credit Exposure</b>	<b>8,202</b>	<b>8,059</b>	<b>7,819</b>	<b>15,347</b>	<b>5,040</b>	<b>1,434</b>	<b>2,010</b>	<b>47,911</b>

Included within Total Gross Credit Exposures above are exposures for undrawn commitments. These undrawn commitment exposures are set out in the following tables.

**APS330 Table 9(d) continued**

	As at 31 March 2015 PD Grade							Total \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
<b>Undrawn Commitments</b>								
Corporate	-	326	577	697	621	82	7	2,310
SME Corporate	-	-	-	214	59	6	-	279
<b>Total Undrawn Commitments</b>	-	326	577	911	680	88	7	2,589

	As at 31 March 2014 PD Grade							Total \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
<b>Undrawn Commitments</b>								
Corporate	-	292	131	675	189	19	174	1,480
SME Corporate	-	-	-	129	37	1	-	167
Bank	-	403	-	-	-	-	-	403
<b>Total Undrawn Commitments</b>	-	695	131	804	226	20	174	2,050

## 6.0 Calculation of Credit Risk Exposures

### continued

The tables below provide a breakdown of gross credit exposures into each EL category for the Retail portfolios under the Basel III classes of Residential Mortgages, Other Retail and Retail SME as shown in section 6.1.

**APS330 Table 9(d) continued**

	As at 31 March 2015 Expected Loss Categories					Total Gross Credit Exposure \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
<b>Retail</b>						
Residential Mortgages	8,394	9,576	3,133	175	161	21,439
Other Retail	-	-	5,253	-	16	5,269
Retail SME	305	301	3,332	84	32	4,054
<b>Total Gross Credit Exposure</b>	<b>8,699</b>	<b>9,877</b>	<b>11,718</b>	<b>259</b>	<b>209</b>	<b>30,762</b>

	As at 31 March 2014 Expected Loss Categories					Total Gross Credit Exposure \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
<b>Retail</b>						
Residential Mortgages	2,948	8,818	3,660	-	173	15,599
Other Retail	-	-	7,811	40	3	7,854
<b>Total Gross Credit Exposure</b>	<b>2,948</b>	<b>8,818</b>	<b>11,471</b>	<b>40</b>	<b>176</b>	<b>23,453</b>

Included within Total Gross Credit Exposures above are exposures for undrawn commitments. These undrawn commitment exposures are set out in the following tables.

**APS330 Table 9(d) continued**

As at 31 March 2015 Expected Loss Categories						
Undrawn Commitments	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Total \$m
Residential Mortgages	343	62	1	-	-	406
Other Retail	-	-	-	-	-	-
Retail SME	4	-	-	-	-	4
<b>Total Undrawn Commitments</b>	<b>347</b>	<b>62</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>410</b>

As at 31 March 2014 Expected Loss Categories						
Undrawn Commitments	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Total \$m
Residential Mortgages	156	66	80	-	-	302
Other Retail	-	-	-	-	-	-
<b>Total Undrawn Commitments</b>	<b>156</b>	<b>66</b>	<b>80</b>	<b>-</b>	<b>-</b>	<b>302</b>

## 7.0 Provisioning

### 7.1 Impaired Facilities and Past Due

Impaired facilities are financial assets (including both on and off balance sheet exposures) where there is doubt regarding the collectability of some or all of the contractual payments due from a counterparty. The contractual payments include principal outstanding, interest and other related charges.

Exposures will be assessed for impairment where there is objective evidence of impairment. Objective evidence of impairment may include market, economic or legal factors impacting upon the ability of a counterparty to meet their repayment obligations. The assessment process consists of a comparison of the carrying value of the exposure and the present value of its estimated future cash flows (recoverable amount).

The estimation of expected future cash flows takes into consideration:

- external valuations of the asset (taking into account the value of any security held);
- costs of recovery; and
- the timeframe for realisation of recovery and/or sale of security.

The estimated future cash flows are discounted at the original effective interest rate to determine the recoverable amount of the financial asset.

Facilities that are more than 90 calendar days past contractual due date can be classified as either:

- impaired facility if it meets the criteria for impairment as detailed above; or
- past due where the facility is assessed as well secured.

For the purposes of this report, past dues represent the full amount outstanding, not just the amount that is past due.

### 7.2 Individually Assessed Provisions

Facilities that are assessed as impaired are subject to a recoverability test. Individually assessed provisions are calculated in accordance with Australian Accounting Standards and are recognised as the difference between the carrying value of the exposure and the present value of expected future cash flows, discounted using the original effective interest rate.

### 7.3 Collective Provisions

Facilities for which no individually assessed provision is required are assessed collectively for impairment. Collective provisions are calculated in accordance with Australian Accounting Standards and are representative of credit losses that have been incurred but not yet specifically identified. For Wholesale and Retail IRB facilities, the collective provision calculation applies the PD and LGD estimates to the EAD. For other facilities, assets are placed into portfolios with similar characteristics and assessed against parameters based on historical loss experience. The historical loss experience is adjusted, where appropriate, for current circumstances, trends and conditions which may affect portfolio recoverability over a period of time.

### 7.4 Regulatory Expected Loss (REL)

REL represents the estimated future credit losses expected to be incurred in a portfolio. Similar to collective provisions, REL is calculated as a function of the outstanding exposure, PD and LGD. LGDs are defined by APRA for Corporate, Bank, Sovereign and Specialised Lending exposures. For the remaining IRB exposures for which REL is required to be calculated, the LGD is based on historical loss experience using economic downturn scenario assumptions.

The excess of REL over eligible provisions is required by APRA to be deducted from Common Equity Tier 1 capital. Eligible provisions include individually assessed provisions and collective provisions. As at 31 March 2015, the total REL was \$1,959 million (31 March 2014: \$1,370 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of \$263 million (31 March 2014: \$380 million).

## 7.5 Impaired facilities and individually assessed provisions reconciliation

The disclosures of impaired facilities in this report are presented on a basis consistent with APS220 Credit Quality. APS220 applies a broader definition of impaired facilities than the definition applied by Australian Accounting Standards. A reconciliation of the APS220 impaired facilities to MBL consolidated financial statements – impaired loans and other financial assets is provided below:

	As at 31 March 2015		As at 31 March 2014	
	Impaired Facilities \$m	Individually Assessed Provisions \$m	Impaired Facilities \$m	Individually Assessed Provisions \$m
Total - APS220 impaired facilities	1,545	575	1,441	334
Impaired debt investment securities <sup>1</sup>	(3)	(3)	(7)	(6)
Impaired loans without provisions <sup>2</sup>	(271)	-	(550)	-
Real estate and other assets acquired through security enforcement <sup>3</sup>	(79)	-	(175)	-
Off balance sheet exposures	(8)	-	(2)	-
Other exposures	6	5	13	6
<b>Total – Impaired loans &amp; other financial assets with individually assessed provisions for impairment per MBL consolidated financial statements</b>	<b>1,190</b>	<b>577</b>	<b>720</b>	<b>334</b>

<sup>1</sup> Disclosed separately in MBL consolidated financial statements. These exposures are included in "IRB - Other" in other tables in this section.

<sup>2</sup> Comprises secured exposures where no loss is anticipated, and which are not impaired in the MBL consolidated financial statements. Collective provisions of \$73 million (\$41 million as at 31 March 2014) relating to these exposures which are treated as individually assessed provisions for regulatory purposes, are not presented in this table (refer to section 7.8).

<sup>3</sup> Real estate and other assets acquired through security enforcement are classified as Other Assets in the MBL consolidated financial statements and in other tables in this section.

## 7.0 Provisioning

### continued

#### 7.6 Provisions by Counterparty Type

The table below details impaired facilities, past due and individually assessed provisions.

APS 330 Table 7(f)

	As at 31 March 2015			As at 31 March 2014		
	Impaired Facilities \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m	Impaired Facilities \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
<b>Subject to IRB approach</b>						
Corporate	1,106	755	(526)	967	183	(280)
SME Corporate	22	7	(7)	29	6	(10)
Bank	-	46	-	-	-	-
Residential Mortgages	175	50	(4)	152	58	(8)
Other Retail	49	-	(13)	19	-	(8)
Other	-	-	-	5	-	(4)
<b>Total IRB approach</b>	<b>1,352</b>	<b>858</b>	<b>(550)</b>	<b>1,172</b>	<b>247</b>	<b>(310)</b>
<b>Subject to Standardised approach</b>						
Residential Mortgages	47	101	(13)	34	20	(10)
Other Retail	19	4	(5)	27	5	(11)
<b>Total Standardised approach</b>	<b>66</b>	<b>105</b>	<b>(18)</b>	<b>61</b>	<b>25</b>	<b>(21)</b>
<b>Other Assets</b>	<b>127</b>	<b>-</b>	<b>(7)</b>	<b>208</b>	<b>-</b>	<b>(3)</b>
<b>Total</b>	<b>1,545</b>	<b>963</b>	<b>(575)</b>	<b>1,441</b>	<b>272</b>	<b>(334)</b>



APS 330 Table 9(e)

	For the 12 months to 31 March 2015		For the 12 months to 31 March 2014	
	Charges for Individually Assessed provisions \$m	Write-offs \$m	Charges for Individually Assessed provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>				
Corporate	(289)	(4)	(122)	(3)
SME Corporate	(5)	-	(9)	-
Residential Mortgages	-	-	(3)	-
Other Retail	(5)	(39)	(3)	(37)
<b>Total IRB approach</b>	<b>(299)</b>	<b>(43)</b>	<b>(137)</b>	<b>(40)</b>
<b>Subject to Standardised approach</b>				
Residential Mortgages	(1)	-	(2)	-
Other Retail	(7)	(33)	(5)	(23)
<b>Total Standardised approach</b>	<b>(8)</b>	<b>(33)</b>	<b>(7)</b>	<b>(23)</b>
<b>Total</b>	<b>(307)</b>	<b>(76)</b>	<b>(144)</b>	<b>(63)</b>

## 7.0 Provisioning

### continued

#### 7.7 Provisions by Geographic Region

The tables below split impaired facilities, past due and provisions by geographic region. Note that the geographic split has been based on the domicile of the risk counterparty.

APS 330 Table 7(g)

Geographic Region	As at 31 March 2015			
	Impaired Facilities \$m	Past due > 90 days \$m	Individually Assessed Provisions \$m	Collective Provisions \$m
Australia	549	315	(182)	(183)
EMEA	268	145	(39)	(61)
Americas	664	503	(306)	(145)
Asia	64	-	(48)	(3)
<b>Total</b>	<b>1,545</b>	<b>963</b>	<b>(575)</b>	<b>(392)</b>

Geographic Region	As at 31 March 2014			
	Impaired Facilities \$m	Past due > 90 days \$m	Individually Assessed Provisions \$m	Collective Provisions \$m
Australia	439	228	(117)	(146)
EMEA	374	-	(56)	(57)
Americas	577	44	(128)	(71)
Asia	51	-	(33)	(1)
<b>Total</b>	<b>1,441</b>	<b>272</b>	<b>(334)</b>	<b>(275)</b>

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## 7.8 General reserve for credit losses

### APS 330 Table 7(j)

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
Collective provisions	392	275
Collective provisions treated as individually assessed provisions for regulatory purposes	(73)	(41)
Net collective provisions for regulatory purposes <sup>1</sup>	319	234
Tax effect	(96)	(70)
<b>General reserve for credit losses</b>	<b>223</b>	<b>164</b>

<sup>1</sup> The general reserve for credit losses is equivalent to the net collective provisions for regulatory purposes.

## 7.0 Provisioning

### continued

#### 7.9 Movement in Provisions

The table below shows the movement of provisions over the 12 months to 31 March 2015.

APS 330 Table 7(h)

	\$m
<b>Total Provisions as at 31 March 2014</b>	<b>609</b>
<b>Collective Provisions</b>	
Balance at start of the period	275
Provided for during the period	191
Written back during the period	(91)
Adjustments for foreign exchange fluctuations	17
<b>Total Collective Provisions</b>	<b>392</b>
<b>Individually Assessed Provisions</b>	
Balance at start of the period	334
Charge to income statement	307
Assets written off, previously provided for	(68)
Recovery of loans, previously provided for	(37)
Adjustments for foreign exchange fluctuations	39
<b>Total Individually Assessed Provisions</b>	<b>575</b>
<b>Total Provisions as at 31 March 2015</b>	<b>967</b>

## 7.10 Analysis of expected credit model performance versus actual results

The table below relates only to Macquarie's portfolios measured under the IRB approach and compares actual results to the average estimate over the January 2008 to March 2015 period.

APS 330 Table 9(f)

Portfolio Type	PD	Exposure at default		LGD	
	Estimated %	Actual %	Estimate to Actual Ratio	Estimated %	Actual %
Corporate	1.39	0.73	N/A*	N/A*	N/A*
SME Corporate	2.31	1.28	N/A*	N/A*	N/A*
Sovereign	0.03	0.00	N/A*	N/A*	N/A*
Bank	0.08	0.00	N/A*	N/A*	N/A*
Residential Mortgages	1.06	1.44	100 %	20.77	5.35
Other Retail	1.38	1.26	113 %	46.35	30.54

\* Macquarie is accredited under the Foundation Internal Ratings Based Approach (FIRB). As the LGD and EAD assumptions under FIRB are set by APRA for these portfolio types, disclosure of actual against estimates does not facilitate meaningful assessment of the performance of internal rating processes for these portfolios.

## 8.0 Credit Risk Mitigation

### 8.1 Netting

Netting arises where a single legal obligation is created covering all transactions included in a netting agreement. The most common form of netting which Macquarie applies for these purposes is close-out netting.

Netting is applied to a counterparty balance only when appropriate documentation governing transactions between the Macquarie entity and the counterparty has been entered into, Legal Risk Management has confirmed that it is legally effective to net with that counterparty, and APRA ADI Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112), has been complied with.

#### 8.1.1 Collateral Valuation and Management

RMG Credit limits are set and the related exposures are calculated before taking any non-cash collateral into consideration other than for securities finance transactions where liquid financial instruments are an inherent part of the lending arrangement. Typically collateral is required for all but short-dated, vanilla trading activity.

A wide variety of collateral can be accepted depending on the counterparty and the nature of the exposure. Some of the most common forms are charges over:

- cash or gold deposits;
- debt or equity securities;
- company assets; and
- commercial or residential property.

Guarantees are frequently requested from banks, parent or associated companies. Relative ratings between the obligor and guarantor are monitored as part of the regulatory capital calculation process as mitigation will cease to be eligible if the rating of the guarantor falls below that of the underlying obligor. Collateral taken in the form of tradeable securities is revalued daily by the same application systems which are used to trade those particular products. Credit default swaps are not a common form of credit risk mitigation. Macquarie policies ensure that all security is taken in conjunction with a formal written agreement which gives Macquarie direct and unconditional rights over the collateral in the event of default by the obligor.

To mitigate credit risk Macquarie makes frequent use of margining arrangements. In these cases, counterparties post collateral daily in the form of cash or liquid securities to cover outstanding trading positions. Macquarie also engages in reciprocal margining agreements with counterparties under ISDA or similar agreements where the Credit Support Annex can contain provisions whereby margining thresholds may vary in relation to the credit ratings of the respective parties. These thresholds are incorporated into one of the scenarios considered under the MGL Group liquidity policy which assesses the collateral and funding requirements in the event of a credit downgrade.

This is part of the general requirement of the MGL Group to be able to meet all obligations for a period of twelve months under both an individual and combined name and systemic challenge. The resultant increase in collateral requirements is included as an outflow in the scenarios - explicitly ensuring that Macquarie has sufficient funding coverage in this event.

Specific protocols surround the acceptance of real estate as collateral.

Prior to acceptance, any independent valuation must undergo a formal review process by which it is assessed for quality and adherence to policy and standing instructions. The escalation of this review and acceptance process will depend on:

- the type of property being valued;
- the dollar value of the property being valued; and
- the proposed loan-to-value ratio (LVR).

The value of all real estate collateral is assessed regularly and is re-valued where appropriate. The interval between re-valuation is contingent on the type of property, extent of the property's encumbrance, the LVR at origination and the market conditions that have prevailed since the valuation was conducted. All prior claims on the property collateral are recorded and taken into consideration when calculating the available security value.

All details regarding security together with netting/margining rules are recorded in collateral management systems which support the operational control framework.

#### 8.1.2 Wrong Way Risk

Specific wrong-way risk occurs when exposure to the counterparty is positively correlated with the counterparty's probability of default. General wrong-way risk occurs when the probabilities of counterparty defaults are positively correlated with market risk factor movements. Macquarie considers these correlations as part of the credit assessment process.

## 8.2 Exposures Mitigated by Eligible Collateral

Eligible financial collateral is defined in APS 112 as cash, certificates of deposit, bank bills, certain rated debt issues and listed equities. Other items that are eligible for recognition as collateral include mortgages over commercial or residential real estate (subject to the satisfaction of certain requirement listed in APS113).

As noted above, Macquarie takes a wide range of collateral of which only a portion is eligible under APS 112. All collateral is recorded in appropriate systems with clear definition by type and eligibility status. Ineligible collateral under APRA standards is excluded from the capital calculation process.

Some types of collateral which are eligible by definition may be determined to be ineligible or adjusted with an appropriate haircut at the time of calculation due to

mismatches of maturity or currency between the collateral and the underlying exposures.

For capital adequacy purposes, eligible cash collateral is deducted from the gross credit exposure and this net balance used as the basis of calculating the capital requirement. For non-cash collateral, a regulatory haircut is applied to both the gross credit exposure and the value of the collateral, and these adjusted amounts are used as the basis of calculating the capital requirement.

The tables below show gross credit exposures by Basel III portfolio (Corporate, Sovereign and Bank) under the FIRB and Standardised approach and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives.

APS 330 Table 10(b) & (c)

Measurement Approach	As at 31 March 2015			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate	43,827	1,188	58	770
SME Corporate	3,154	43	654	-
Sovereign	2,691	26	-	6
Bank	11,373	1,240	-	432
<b>Total IRB approach</b>	<b>61,045</b>	<b>2,497</b>	<b>712</b>	<b>1,208</b>

Measurement Approach	As at 31 March 2014			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate	32,230	2,352	68	885
SME Corporate	2,623	43	1,000	4
Sovereign	3,539	-	-	95
Bank	9,519	1,055	-	366
<b>Total IRB approach</b>	<b>47,911</b>	<b>3,450</b>	<b>1,068</b>	<b>1,350</b>

## 9.0 Securitisation

### 9.1 Overview

A securitisation is defined by APRA ADI Prudential Standard APS 120 Securitisation (APS 120) as “a structure where the cash flow from a pool is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors).”

Macquarie engages in a range of activities in the securitisation market, including playing the following roles:

- Originator, Arranger, Manager and Servicer on Macquarie mortgage and auto and equipment finance securitisation programs;
- Lead Manager on Macquarie originated and third party securitisations;
- Swap Counterparty to Macquarie originated and third party securitisations;
- Warehouse facility provider to several third-party originators;
- Liquidity facility provider to several third-party originators and provider of redraw facilities to all Macquarie Mortgage SPVs; and
- Investor in third-party securitisation transactions.

Macquarie has also established contingent liquidity securitisation SPVs that issue and hold Residential Mortgage Backed Securities (RMBS) eligible for repurchase with the RBA.

Macquarie may, as sponsor, use the following types of special purpose vehicles to securitise third-party exposures:

- trusts, and
- special purpose companies,

issuing RMBS or asset-backed securities (ABS).

Following are the affiliated entities which Macquarie manages or advises and which can invest either in the securitisation exposures that Macquarie has securitised or in SPVs in relation to whom Macquarie performs any of the above roles:

- Macquarie Enhanced Australian Fixed Interest Fund;
- Macquarie Life Superannuation Approved Deposit Fund;
- Macquarie Diversified Fixed Interest Fund
- Macquarie True Index Cash Fund;
- Macquarie True Index Sovereign Bond Fund;
- Macquarie Global Income Opportunities Fund;
- Macquarie Income Opportunities Fund;
- Macquarie Australian Diversified Income Fund;
- Macquarie Australian Diversified Income (High Grade) Fund;
- Macquarie Debt Markets Opportunity Fund No 2; and
- Macquarie Core Australian Fixed Interest Fund;

Any investments by these entities (if any) in securitisation exposures that Macquarie has securitised or sponsored does not form a majority of their investment portfolios and their investment represents a small percentage of the relevant securitisation issue.

### 9.1.1 Securitisation Risk Management

RMG is responsible for overseeing the management of the risk arising from all securitisation exposures. RMG approves all securitisation transactions and exposures arising from securitisation activity. RMG Prudential, Capital & Markets (PCM) reviews transactions where Macquarie acts as originator, manager or sponsor to ensure compliance with APS 120 and other regulations. RMG Credit sets limits on securitisation exposures and reviews transactions to identify all risks involved. RMG Market Risk reviews market exposures associated with securitisations, such as swaps, and other exposures held in the trading book. Macquarie's primary risk mitigant is the limit framework and approval process governing exposures to securitisations.

In addition to credit risk, securitised assets can be subject to liquidity risk, interest rate risk, and in some instances FX risk. The nature and scale of these risks varies from transaction to transaction. All securitised assets are subject to a degree of operational risk associated with documentation and the collection of cashflows.

Securitisation exposures are measured daily and monitored by RMG. RMG completes an annual review of all securitisation exposures and limits. Regulatory capital is calculated on all securitisation exposures using the available approaches in APS116 and APS 120 and economic capital is calculated on all securitisation exposures across the Macquarie Bank Group.

Macquarie applies the following approaches to the calculation of regulatory capital for securitisation exposures:

- the Ratings Based approach;
- the Inferred Ratings Based approach;
- the supervisory formula; and
- the approach for eligible facilities under APS 120 Attachment D paragraph 39.

If the exposure is not covered by one of the above approaches it is assigned a 1250% risk weight.

S&P, Moody's and Fitch Ratings have all been used to rate Macquarie securitisations. They have been used to rate notes and commercial paper issued by Macquarie securitisation and Commercial Paper programs.

Mitigation of credit risk on securitisation exposures is performed in accordance with Macquarie's overall credit risk mitigation policy. Details of the policy can be found in section 8.0 of this disclosure.



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### 9.1.2 Accounting for Securitisation

Securitisation transactions undertaken by Macquarie are accounted for in accordance with Australian Accounting Standards (AAS). As noted above, securitised positions are managed in a number of SPVs.

Where these SPVs are deconsolidated for regulatory purposes under APS 120, they still need to be assessed under AAS to determine whether these SPVs should be considered part of the consolidated accounting group.

In Macquarie's case, it has been determined that under accounting rules, Macquarie should consolidate Macquarie mortgage SPVs and auto and equipment finance SPVs. The assets and liabilities in these SPVs detailed in the tables within this section are consolidated into the Macquarie accounting consolidated group. However in most cases, these SPVs are deconsolidated for APRA reporting purposes.

Banking book securitised assets consolidated by Macquarie are held on the balance sheet at amortised cost. Macquarie accounts for securitisation transactions at fair value, which means that no gain or loss is booked on the sale of the mortgage assets to the SPVs. Securitised exposures in the trading book are held at market value. There has been no material change to the methods of valuation from the prior period.

If there are circumstances where Macquarie is required to provide financial support for securitised assets, a relevant liability is recognised on the Bank's balance sheet. Where no current liability exists, but could in the future, the likelihood of this arising is assessed and a contingent liability disclosed as required. This does not give rise to an actual liability being recognised on the Bank's balance sheet.

Further information on accounting policies as they relate to securitisation exposures, including key assumptions and inputs to valuation processes, can be found in the Macquarie Bank Limited annual report.

## 9.0 Securitisation

### continued

#### 9.2 Securitisation Exposures

##### 9.2.1 Originating ADI Securitisation Exposures

The table below sets out the assets originated or sponsored by Macquarie where the exposures have subsequently been securitised.

##### APS 330 Table 12(g) and (o)

Exposure type – Traditional	As at 31 March 2015		
	Total outstanding exposures securitised		
	ADI originated assets <sup>1</sup> \$m	ADI as sponsor <sup>2</sup> \$m	Other \$m
<b>Banking Book</b>			
Residential Mortgages	19,064	401	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,786	-	-
<b>Total Banking Book</b>	<b>26,850</b>	<b>401</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>26,850</b>	<b>401</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$25,617m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>2</sup> Included in the above are exposures held in third party warehouse funding facilities.

Exposure type – Traditional	As at 31 March 2014		
	Total outstanding exposures securitised		
	ADI originated assets <sup>1</sup> \$m	ADI as sponsor <sup>2</sup> \$m	Other \$m
<b>Banking Book</b>			
Residential Mortgages	15,101	535	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,042	-	-
<b>Total Banking Book</b>	<b>22,143</b>	<b>535</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>22,143</b>	<b>535</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$20,105m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>2</sup> Included in the above are exposures held in third party warehouse funding facilities.

### 9.2.2 Performance of assets securitised

The assets below have been originated and securitised by Macquarie. The table below identifies the total exposures and impairment of these assets.

APS 330 Table 12(h)

Exposure type	As at 31 March 2015			
	Total outstanding exposures securitised			ADI recognised loss from exposures securitised \$m
	Total outstanding exposures <sup>1</sup> \$m	Impaired <sup>2</sup> \$m	Past due <sup>3</sup> \$m	
Residential Mortgages	19,064	202	63	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	7,786	32	-	-
<b>Total</b>	<b>26,850</b>	<b>234</b>	<b>63</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$25,617m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>2</sup> Included in the above are impaired facilities of \$171m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>3</sup> Included in the above are past due facilities of \$50m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

Exposure type	As at 31 March 2014			
	Total outstanding exposures securitised			ADI recognised loss from exposures securitised \$m
	Total outstanding exposures <sup>1</sup> \$m	Impaired <sup>2</sup> \$m	Past due <sup>3</sup> \$m	
Residential Mortgages	15,101	188	94	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	7,042	14	21	-
<b>Total</b>	<b>22,143</b>	<b>202</b>	<b>115</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$20,105m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>2</sup> Included in the above are impaired facilities of \$152m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

<sup>3</sup> Included in the above are past due facilities of \$79m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

## 9.0 Securitisation

### continued

#### 9.2.3 Summary of outstanding exposures intended to be securitised

##### APS 330 Table 12(i) and (p)

MBL may securitise assets depending on a variety of factors, including market conditions and business requirements. The table below sets out identified assets as at the reporting date which are intended to be put into term securitisation deals.

Exposure type	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>Banking Book</b>		
Residential Mortgages	624	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	325
<b>Total Banking Book</b>	<b>624</b>	<b>325</b>
<b>Trading Book</b>	-	
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>

#### 9.2.4 Securitisation activity

Over the 12 months to 31 March 2015, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

##### APS 330 Table 12(j) and (q)

Exposure type	As at 31 March 2015		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	15,727	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	8,169	-	-
Other	204	-	-
<b>Total Banking Book</b>	<b>24,100</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	

<sup>1</sup> Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

Exposure type	As at 31 March 2014		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	11,588	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	6,015	-	-
Other	570	-	-
<b>Total Banking Book</b>	18,173	-	-
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	-	-	-

<sup>1</sup> Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

## 9.0 Securitisation

### continued

#### Originating ADI Securitisation Exposures

##### APS 330 Table 12(r) – Trading Book

Exposure type	As at 31 March 2015			
	Total outstanding exposures securitised			
	Standard Method		IMA Method	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
<b>Total</b>	-	-	-	-

#### Originating ADI Securitisation Exposures

##### APS 330 Table 12(r) – Trading Book

Exposure type	As at 31 March 2014			
	Total outstanding exposures securitised			
	Standard Method		IMA Method	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
<b>Total</b>	-	-	-	-

### 9.3 Exposures arising from Securitisation Activity by asset type

9.3.1 This table sets out the on and off balance sheet securitisation exposures originated or purchased, broken down by asset type.

#### APS 330 Table 12(k) and (s)

Exposure type	As at 31 March 2015		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	19,744	604	20,348
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,868	-	7,868
Other	433	28	461
<b>Total Banking Book</b>	<b>28,045</b>	<b>632</b>	<b>28,677</b>
<b>Trading Book</b>			
Residential Mortgages	-	39	39
Credit cards and other personal loans	-	4	4
Auto and equipment finance	-	1	1
Other	-	35	35
<b>Total Trading Book</b>	<b>-</b>	<b>79</b>	<b>79</b>

<sup>1</sup> Included in the above are assets of \$25,617m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

Exposure type	As at 31 March 2014		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	15,703	659	16,362
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,141	-	7,141
Other	385	59	444
<b>Total Banking Book</b>	<b>23,229</b>	<b>718</b>	<b>23,947</b>
<b>Trading Book</b>			
Residential Mortgages	-	9	9
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>9</b>	<b>9</b>

<sup>1</sup> Included in the above are assets of \$20,105m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

## 9.0 Securitisation

### continued

#### 9.3.2 Exposure by Risk Weight band

##### Banking Book

##### APS 330 Table 12(l)

Risk weight band	As at 31 March 2015					
	Gross Credit Exposure			Risk Weighted Assets		
	Securitisation \$m	Resecuritisation \$m	Total \$m	Securitisation \$m	Resecuritisation \$m	Total \$m
=< 25%	2,600	217	2,817	191	43	234
>25%=<35%	57	2	59	20	1	21
>35%=<50%	31	-	31	15	-	15
>50%=<75%	61	-	61	46	-	46
>75%=<100%	15	2	17	15	2	17
>100%=<650%	52	-	52	216	-	216
1250%	8	6	14	102	78	180
<b>Total</b>	<b>2,824</b>	<b>227</b>	<b>3,051</b>	<b>605</b>	<b>124</b>	<b>729</b>

##### Trading Book

##### APS 330 Table 12(t)

Risk weight band	Gross Credit Exposures As at 31 March 2015				
	IAA Approach	RBA Approach	SFA Approach	Standardised Approach	Total Exposures
	\$m	\$m	\$m	\$m	\$m
=< 25%	-	-	-	79	79
>25%=<35%	-	-	-	-	-
>35%=<50%	-	-	-	-	-
>50%=<75%	-	-	-	-	-
>75%=<100%	-	-	-	-	-
>100%=<650%	-	-	-	-	-
1250%	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>79</b>



**Banking Book**  
**APS 330 Table 12(l)**

Risk weight band	As at 31 March 2014					
	Gross Credit Exposure			Risk Weighted Assets		
	Securitisation \$m	Resecuritisation \$m	Total \$m	Securitisation \$m	Resecuritisation \$m	Total \$m
=< 25%	3,200	339	3,539	248	78	326
>25%=<35%	25	-	25	9	-	9
>35%=<50%	53	-	53	26	-	26
>50%=<75%	72	-	72	52	-	52
>75%=<100%	28	-	28	28	-	28
>100%=<650%	11	-	11	27	-	27
1250%	33	-	33	406	-	406
<b>Total</b>	<b>3,422</b>	<b>339</b>	<b>3,761</b>	<b>796</b>	<b>78</b>	<b>874</b>

**Trading Book**  
**APS 330 Table 12(t)**

Risk weight band	Gross Credit Exposures As at 31 March 2014				
	IAA Approach \$m	RBA Approach \$m	SFA Approach \$m	Standardised Approach \$m	Total Exposures \$m
=< 25%	-	-	-	9	9
>25%=<35%	-	-	-	-	-
>35%=<50%	-	-	-	-	-
>50%=<75%	-	-	-	-	-
>75%=<100%	-	-	-	-	-
>100%=<650%	-	-	-	-	-
1250%	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>9</b>

## 9.0 Securitisation

### continued

#### 9.3.3 RWA by Risk Weight band

##### APS 330 Table 12(u) – Trading Book

Risk weight band	Risk Weight Assets As at 31 March 2015			
	IAA Approach		RBA Approach	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	\$m	\$m	\$m	\$m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250%	-	-	-	-
<b>Total</b>	-	-	-	-

Risk weight band	Risk Weight Assets As at 31 March 2015			
	SFA Approach		Standardised Approach	
	Securitisation	Resecuritisation	Securitisation	Resecuritisation
	\$m	\$m	\$m	\$m
=< 25%	-	-	9	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250%	-	-	-	-
<b>Total</b>	-	-	9	-

APS 330 Table 12(u) – Trading Book continued

Risk weight band	Risk Weight Assets As at 31 March 2014			
	IAA Approach		RBA Approach	
	Securitisation \$m	Resecuritisation \$m	Securitisation \$m	Resecuritisation \$m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250% (Deduction)	-	-	-	-
<b>Total</b>	-	-	-	-

Risk weight band	Risk Weight Assets As at 31 March 2014			
	SFA Approach		Standardised Approach	
	Securitisation \$m	Resecuritisation \$m	Securitisation \$m	Resecuritisation \$m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250% (Deduction)	-	-	-	-
<b>Total</b>	-	-	-	-

## 9.0 Securitisation

### continued

#### 9.3.4 Resecuritisation Exposure

APS 330 Table 12(n) and (w)

	As at 31 March 2015 Gross Credit Exposure \$m	As at 31 March 2014 Gross Credit Exposure \$m
<b>Resecuritisation type</b>		
<b>Banking book</b>		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	227	339
<i>Exposure to Guarantors by ratings:</i>	-	-
<b>Total banking book</b>	<b>227</b>	<b>339</b>
<b>Trading book</b>		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	-	-
<i>Exposures to Guarantors by ratings:</i>	-	-
<b>Total trading book</b>	<b>-</b>	<b>-</b>

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## 10.0 Credit Valuation Adjustment

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### 10.1 Credit Valuation Adjustment

Under Basel III, and in accordance with APS 112 Capital Adequacy: Standardised Approach to Credit Risk banks are subject to a capital charge for potential mark-to-market losses on OTC derivatives (i.e. credit valuation adjustments – CVA – risk) associated with a deterioration in the credit worthiness of a counterparty.

The Credit Valuation Adjustment RWA as at 31 March 2015 is \$2,769 million. The CVA capital requirement is shown in the table below.

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>CVA capital treatment</b>		
Total CVA capital charge (standardised formula)	221.5	186.0
Total CVA RWA	2,769.0	2,325.0

## 11.0 Exposure to Central Counterparties

### 11.1 Exposures to Central Counterparties

Under Basel III, and in accordance with APS 112 Capital Adequacy: Standardised Approach to Credit Risk banks are required to hold capital against exposures arising from trades undertaken through central counterparties. This includes outstanding trade exposures, collateral placed with the clearing house, and default fund contributions.

The RWA on Exposures to Central Counterparties as at 31 March 2015 is \$1,776 million. Details of the components of the exposures to central counterparties capital requirement is shown in the tables below.

	As at 31 March 2015		
	Trade Exposure \$m	Risk Weight	RWA \$m
<b>Central counterparty trade exposure</b>			
Exposures eligible for a 0% risk weight	-	-	-
Exposures eligible for a 2% risk weight	8,769	0.02	175
Exposures eligible for a 4% risk weight	2,349	0.04	94
Exposures eligible for a bilateral risk weight	464	-	277
Total central counterparty exposures	11,582	-	546

	Prefunded Default fund Contribution \$m	Unfunded Default fund Contribution \$m	RWA \$m
<b>Qualifying central counterparty default fund guarantees</b>			
Qualifying central counterparty 1	57	2,691	484
Qualifying central counterparty 2	53	2,381	429
Qualifying central counterparty 3	24	900	162
Qualifying central counterparty 4	12	818	147
Qualifying central counterparty 5	12	45	8
Other qualifying central counterparties	23	787	-
Total	181	7,622	1,230

	Prefunded Default fund Contribution \$m	Unfunded Default fund Contribution \$m	RWA \$m
<b>Non-qualifying central counterparty default fund guarantees</b>			
Qualifying central counterparty 1	-	-	-
Qualifying central counterparty 2	-	-	-
Qualifying central counterparty 3	-	-	-
Qualifying central counterparty 4	-	-	-
Qualifying central counterparty 5	-	-	-
Other qualifying central counterparties	-	-	-
Total	-	-	-

	As at 31 March 2014		
	Trade Exposure \$m	Risk Weight	RWA \$m
<b>Central counterparty trade exposure</b>			
Exposures eligible for a 0% risk weight	-	-	-
Exposures eligible for a 2% risk weight	6,288	0.02	126
Exposures eligible for a 4% risk weight	1,116	0.04	45
Exposures eligible for a bilateral risk weight	1,167	-	618
<b>Total central counterparty exposures</b>	<b>8,571</b>	<b>-</b>	<b>789</b>

	Prefunded Default fund Contribution \$m	Unfunded Default fund Contribution \$m	RWA \$m
<b>Qualifying central counterparty default fund guarantees</b>			
Qualifying central counterparty 1	43	2,110	380
Qualifying central counterparty 2	34	1,237	222
Qualifying central counterparty 3	17	605	109
Qualifying central counterparty 4	11	320	58
Qualifying central counterparty 5	12	151	27
Other qualifying central counterparties	19	1,330	10
<b>Total</b>	<b>136</b>	<b>5,753</b>	<b>806</b>

	Prefunded Default fund Contribution \$m	Unfunded Default fund Contribution \$m	RWA \$m
<b>Non-qualifying central counterparty default fund guarantees</b>			
Qualifying central counterparty 1	-	-	-
Qualifying central counterparty 2	-	-	-
Qualifying central counterparty 3	-	-	-
Qualifying central counterparty 4	-	-	-
Qualifying central counterparty 5	-	-	-
Other qualifying central counterparties	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 12.0 Market Risk

### 12.1 Market Risk

Market risk is the exposure to adverse changes in the value of Macquarie's trading portfolios as a result of changes in market prices or volatility. Macquarie is exposed to the following risks in each of the major markets in which it trades:

- foreign exchange: changes in spot and forward exchange rates and the volatility of exchange rates;
- interest rates and debt securities: changes in the level, shape and volatility of yield curves, the basis between different interest rate securities and derivatives and credit spreads;
- equities: changes in the price and volatility of individual equities, equity baskets and equity indices;
- commodities: changes in the price and volatility of precious and base metals, agricultural commodities and energy products; and
- the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. Macquarie is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

#### 12.1.1 Traded Market Risk

RMG monitors positions within Macquarie according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the consolidated entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- Contingent Loss Limits: a wide range of price and volatility scenarios, including comprehensive worst case, or stress scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- Position Limits: volume, maturity and open position limits are set on a large number of market instruments and positions in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- Value at Risk (VaR) Limits: statistical measure that determines the potential loss in trading value at both a business and aggregate level.

The risk of loss from incorrect or inappropriate pricing and hedging models is mitigated by the requirement for all new pricing models to be independently tested by the specialist Quantitative Applications Division within RMG.

#### 12.1.2 Aggregate Measures of Market Risk

Aggregate market risk is constrained by two risk measures, Value at Risk (VaR) and the Macro-Economic Linkages (MEL) scenario. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days. The MEL scenario utilises the contingent loss approach to capture simultaneous, worst case contingent loss movements across all major markets. Whereas MEL focuses on extreme price movements, VaR focuses on unexceptional changes in price so that it does not account for losses that could occur beyond the 99 per cent level of confidence. For this reason, stress testing remains the predominant focus of RMG as it is viewed to be the most effective mechanism to reduce Macquarie's exposure to unexpected market events.



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### **12.1.3 Value at Risk Model**

VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 3,200 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded at different locations. Exposures to individual equities within a national market are captured by equity specific risk modelling incorporated into the VaR model.

The integrity of the VaR model is tested against daily hypothetical and actual trading outcomes (profit and loss) and reported to APRA quarterly.

### **12.1.4 Macro Economic Linkage Model**

MEL scenarios are large, simultaneous, 'worst case' movements in global markets. The MEL scenarios consider very large movements in a number of markets at once, based on Macquarie's understanding of the economic linkages between markets. The MEL scenarios reflect a market 'shock' or 'gap' as opposed to a sustained deterioration.

## 12.0 Market Risk

### continued

#### 12.2 Market Risk Capital Requirement

The regulatory capital requirement is based upon:

- Value at Risk using a 10 day time horizon at a 99% confidence level.
- Stressed Value at Risk using a 10 day time horizon at a 99% confidence level.

Regulatory capital for debt security specific risk is calculated using the APRA standardised method (see section 12.2.3).

The sum of the VaR and debt security specific risk amounts are scaled by 12.5 in accordance with APRA policy and added to the banking book interest rate risk to arrive at the regulatory capital requirement.

The market risk RWA as at 31 March 2015 is \$6,650 million (31 March 2014: \$4,567 million).

There was no hypothetical trading loss that exceeded the 1-day 99% VaR calculated for the twelve months ended 31 March 2015. There was also no actual trading loss that exceeded the 1-day 99% VaR during this period.

#### 12.2.1 Value at Risk figures

APS 330 Table 14(d)

	As at 31 March 2015				As at 31 March 2014			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR \$m	Mean value \$m	Max value \$m	Min value \$m	VaR \$m
Commodities	28	43	17	26	33	51	19	23
Equities <sup>1</sup>	11	33	5	22	8	15	3	5
Foreign Exchange	8	15	2	13	12	26	4	11
Interest Rates	21	35	11	34	17	24	13	15
Aggregate	34	63	15	47	38	57	17	24

<sup>1</sup> Equities figures incorporate the Equity specific risk amount.

#### 12.2.2 Stressed Value at Risk figures

APS 330 Table 14(d)

	As at 31 March 2015				As at 31 March 2014			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR \$m	Mean value \$m	Max value \$m	Min value \$m	VaR \$m
Commodities	53	90	20	55	52	96	28	42
Equities <sup>1</sup>	27	80	9	64	21	45	7	10
Foreign Exchange	19	45	3	33	19	57	4	26
Interest Rates	80	116	52	77	50	67	42	60
Aggregate	80	128	38	123	61	109	40	51

<sup>1</sup> Equities figures incorporate the Equity specific risk amount.

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### 12.2.3 Debt Security Specific Risk figures

Regulatory capital for Macquarie's debt security specific risk (including securitisations held in the trading book) is calculated using the APRA standardised method.

**APS 330 Table 13(b)**

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
Debt specific risk	54	53

The specific risks referred to above arise from movements in credit curves in the Macquarie trading book.

### 12.2.4 Interest Rate Risk in the Banking Book

Interest rate exposures, where possible, are transferred into the trading books of the Commodities and Financial Markets and Group Treasury, and managed under market risk limits. The residual risks in the banking book are not material but are nevertheless monitored and controlled by RMG and reported to senior management monthly. Macquarie measures interest rate risk on a monthly basis using an APRA approved repricing gap model with monthly bucketing of exposures.

The total IRRBB capital is calculated by adding the change in economic value derived from the worst-case of extreme parallel and non-parallel moves in the yield curves of each currency to the embedded gains and losses as defined in APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) for each currency.

# 12.0 Market Risk

## continued

APS 330 Table 17(b)

	As at 31 March 2015 Change in economic value \$m	As at 31 March 2014 Change in economic value \$m
Stress testing: interest rate shock applied		
<b>AUD</b>		
200 basis point parallel increase	(11.6)	(18.4)
200 basis point parallel decrease	11.3	19.1
<b>CAD</b>		
200 basis point parallel increase	2.6	(0.1)
200 basis point parallel decrease	(3.9)	0.1
<b>EUR</b>		
200 basis point parallel increase	1.7	(2.8)
200 basis point parallel decrease	1.2	3.6
<b>GBP</b>		
200 basis point parallel increase	(5.0)	3.5
200 basis point parallel decrease	3.6	(0.0)
<b>USD</b>		
200 basis point parallel increase	(17.5)	(15.5)
200 basis point parallel decrease	10.8	19.3
<b>IRRBB regulatory capital requirement – AUD</b>	<b>0.0</b>	<b>0.0</b>

Note that the brackets in the above table indicate a loss in economic value due to movements in interest rates.

## 13.0 Equity Risk

Equity risk is the exposure to loss arising from banking book equity-type positions. These exposures include:

- holdings in Macquarie – managed funds;
- principal exposures, including direct investments in entities external to Macquarie and assets held for sale;
- property equity, including property trusts and direct property equity investments; and
- other equity, including lease residuals and investment in resource companies.

Macquarie's equity risk positions are managed within the constraints of the Board imposed Equity Risk Limit (ERL). In setting the limit, the Board gives consideration to the level of earnings, capital and market conditions. The ERL is reviewed semi-annually by RMG and the review results are reported to the Risk and Compliance Committee and the Board.

Concentrations within the equity portfolio are managed by a number of additional limits approved by the Risk and Compliance Committee and / or Board. These include limits on:

- property equity investments;
- investments in the resource sector;
- lease residuals (by type of leased asset); and
- acquisition of seed assets.

### 13.1 Accounting for Equity Holdings in the Banking Book

Equity investment positions have varying accounting treatments depending on the nature of the exposure. These include:

- equity accounting for investments in associates;
- available for sale (AVS) equity investments; and
- investments in subsidiaries and held for sale (HFS) associates held at lower of cost or net realisable value.

In addition to equity investment positions in the Banking Book, Macquarie has equity investments held at Fair Value through Profit and Loss, which are included in the Market Risk calculation.

#### 13.1.1 Investments in Associates

Equity accounting is applied to investments in which Macquarie has significant influence or joint control. These equity investments are described as Investments in Associates. Equity accounting is applied such that Macquarie's share of its investee's post acquisition profit or losses are recorded in Macquarie's Income Statement. Investments accounted for using equity accounting are subject to recurring review and assessment for possible impairment. At each balance date, if there is an indication that an investment in an associate may be impaired, then the entire carrying amount of the investment in associate is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment losses are recognised in the Income Statement.

#### 13.1.2 AVS equity investments

Where an equity investment is not subject to the significant influence or joint control of Macquarie, it is held as a direct equity investment. These direct investments are classified as AVS. AVS securities are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the AVS reserve in equity, until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the Income Statement.

At each balance sheet date, an assessment is performed to determine whether there is any objective evidence that available for sale financial assets have been impaired. Impairment exists if there is objective evidence of impairment as a result of one or more events (loss event) which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated. For equity securities, classified as AVS, the main indicators of impairment are: significant changes in the market, economic or legal environment; and a significant or prolonged decline in fair value below cost.

Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (or the securities are unlisted), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### 13.1.3 Held for sale (HFS) investments

HFS assets include subsidiaries and interests in associates or joint ventures whose carrying amount will be recovered principally through a sale transaction rather than continuing use. The policy of management is to classify these assets as held for sale when it is highly probable that the asset will be sold within the twelve months subsequent to being classified as such. Assets classified as HFS investments are carried at the lower of carrying amount and fair value less costs to sell.

## 13.0 Equity Risk

### continued

#### 13.2 Equity Investments

The table below details the carrying value of equity investments held by Macquarie, in comparison to the applicable fair value of these equities. The carrying value is stated net of any charge for impairment. The categorisation of listed and unlisted investments is required for APRA regulatory reporting purposes – these include the equity investments under each of the accounting classifications outlined above. Valuations have been based on the requirements of accounting standards.

APS 330 Table 16(b) and (c)

	As at 31 March 2015		As at 31 March 2014	
	Carrying value <sup>1</sup> \$m	Fair value <sup>2</sup> \$m	Carrying value <sup>1</sup> \$m	Fair value <sup>2</sup> \$m
<b>Equity investments</b>				
Value of listed (publicly traded) equities	110	130	168	199
Value of unlisted (privately held) equities	872	872	829	829
<b>Total</b>	<b>982</b>	<b>1,002</b>	<b>997</b>	<b>1,028</b>

<sup>1</sup> Net of any impairment charges recognised

<sup>2</sup> Fair value is:

- listed market value for all listed equity investments;
- carrying value (after any impairment charges) for all unlisted equity investments.

#### 13.3 Capital requirements arising from equity risks

Equity investments are deducted from Common Equity Tier 1 capital under APRA's version of the Basel III rules.

APS 330 Table 16(f)

	As at 31 March 2015 \$m	As at 31 March 2014 \$m
<b>Deduction amount</b>		
Equity investments	765	761

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### 13.4 Gains and losses on equity investments

#### APS 330 Table 16(d) and (e)

	For the 12 months to 31 March 2015 \$m	For the 12 months to 31 March 2014 \$m
<b>Gains / (losses) on equity investments</b>		
Cumulative realised gains in 12 months to the period end <sup>1</sup>	42	113
Total unrealised losses <sup>2</sup>	60	50
Total unrealised gains / (losses) included in Tier 1	60	50

<sup>1</sup> Gains are defined as proceeds on sale less costs net of provisions.

<sup>2</sup> Includes losses that have not gone through the Income Statement. These are primarily the amounts recognised in the Available for Sale Reserve.

# 14.0 Operational Risk

Operational risk is inherent in Macquarie's business. It is the risk of loss from inadequate or failed internal processes, people, systems or from external events.

It also includes the failure or inadequate management of other risk types.

## 14.1 Macquarie's Operational Risk Capital Framework

### Operational Risk Objectives

Macquarie has developed an Operational Risk Management Framework (Framework) to identify, assess and manage operational risks and controls. The Framework is also designed to escalate information about changes in operational risk exposures to relevant stakeholders.

### Operational Risk Management Process

The Framework includes:

- regular self-assessments of risks and controls;
- the recording and analysis of internal incidents;
- the use of indicators to detect changes in risk exposures; and
- a robust change management process ensuring that risks arising from new activities are identified, addressed and managed.

The Framework also includes a variety of Macquarie wide risk policies which require businesses to approach risk matters in a consistent way and conform to minimum standards. External operational risk events are also monitored to learn lessons from other organisations.

### Structure and Organisation of the Operational Risk Function

Most Macquarie operational risk staff operate at the business level. These Business Operational Risk Managers (BORMs) are responsible for embedding operational risk management within their business. They report directly to the relevant business and have a dotted reporting line to the Head of RMG Operational Risk.

RMG Operational Risk is a division of RMG and is managed separately from other risk disciplines within RMG. RMG Operational Risk is responsible for ensuring the Framework remains appropriate and that skilled resources are available to support it. It is also responsible for Macquarie's operational risk capital measurement methodology.

RMG regularly reports on the operational risk profile and the effectiveness of the Framework to the BRC, the BAC and to senior management. The BRC is responsible for establishing an appropriate operational risk management framework and reviewing Macquarie's operational risk profile. The BAC is responsible for assessing the effectiveness of the group's internal controls.

## 14.2 Operational Risk Capital Calculation

APRA approved Macquarie's use of the AMA for assessing operational risk capital in December 2007.

Macquarie's operational risk capital is calculated using a scenario-based approach combined with statistical modelling of potential losses. Operational risk scenarios quantify very low probability, potentially high impact losses. When identifying and quantifying such events, Macquarie gives consideration to:

- individual statistical distributions for each scenario,
- external loss data;
- internal loss data;
- risk and control factors determined by the operational risk self assessments; and
- expert opinion from businesses.

Scenarios are updated as business or market factors require.

Scenario estimates are modelled on a semi-annual basis to determine the operational risk regulatory capital required to be held by Macquarie at the 99.9th percentile confidence level. Monte Carlo techniques are used to aggregate individual scenario distributions to determine a group-wide operational risk loss distribution. The model also reflects recent changes in operational risk capital regulatory requirements.

Over time changes in operational risk capital reflect:

- new or significantly changed business activity or businesses growth;
- reduced risk arising from business stability and control environment maturity; and
- changes in the external environment such as new regulations or movements in the economic cycle.

Macquarie allocates capital to individual businesses through quarterly scorecards. The scorecards measure changes in key business factors including:

- size and complexity of the business;
- risk and control assessment outcomes; and
- incident and exception management and governance.

Scorecards help each business to understand their operational risk profile and the impact of changes in their businesses on that profile. Capital allocation rewards positive risk behaviour and penalises increased risk.

Quarterly change in divisional capital is also used to estimate changes to the bank level capital requirement between scenario assessments.

### Mitigation of Operational Risk through Insurance

Macquarie does not currently use insurance in its AMA model for the purpose of operational risk capital reduction.

### Operational Risk - RWA

The operational risk RWA as at 31 March 2015 is \$9,399 million (31 March 2014: \$8,531 million).



**General areas of disclaimer:**

- The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (Macquarie) purely for the purpose of explaining the basis on which Macquarie has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation or opinion on any of the Businesses. This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Macquarie's businesses and operations, market conditions, results of operation and financial conditions, capital adequacy, individually assessed provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements.
- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with other banks. This may be due to a number of factors such as:
  - The mix of business exposures between banks
  - Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the bank and any surplus capital available.

# Appendix 1 Regulatory Capital Reconciliation

## 1.1 Common Disclosures Template

The Level 2 Macquarie Bank Group capital disclosures detailed in the template below represents the post 1 January 2018 Basel III common disclosure requirements for APS 330 (Attachment A). Macquarie Bank Group is applying the Basel III regulatory adjustments in full as implemented by APRA. These tables should be read in conjunction with section 1.2 Regulatory Balance sheet and section 1.3 Reconciliation between common disclosures template and the Regulatory Balance Sheet.

		As at 31 Mar 2015 \$m	Table Reference
<b>Common Equity Tier 1 capital: instruments and reserves A\$m</b>			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	8,690	Table f
2	Retained earnings	1,884	
3	Accumulated other comprehensive income (and other reserves)	639	
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	-	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>11,213</b>	
<b>Common Equity Tier 1 capital : regulatory adjustments</b>			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	50	Table b
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	600	Table b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	108	Table a
11	Cash-flow hedge reserve	(81)	
12	Shortfall of provisions to expected losses	230	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	15	
15	Defined benefit superannuation fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	Table c
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	Table c
20	Mortgage service rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	Table a
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	Table c
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	Table a
<b>APRA Specific Regulatory Adjustments</b>			
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	1,876	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	-	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	803	Table c
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	135	Table a
26f	of which: capitalised expenses	289	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	583	Table c
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	

		As at 31 Mar 2015 \$m	Table Reference
	<b>Common Equity Tier 1 capital: instruments and reserves A\$m</b>		
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	66	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>2,798</b>	
29	<b>Common Equity Tier 1 Capital (CET1)</b>	<b>8,415</b>	
	<b>Additional Tier 1 Capital: instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments	429	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	429	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	655	Table d
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	<b>Additional Tier 1 Capital before regulatory adjustments</b>	<b>1,084</b>	<b>Table d</b>
	<b>Additional Tier 1 Capital: Regulatory adjustments</b>		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	-	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	-	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	
44	<b>Additional Tier 1 capital (AT1)</b>	<b>1,084</b>	
45	<b>Tier 1 Capital (T1=CET1+AT1)</b>	<b>9,499</b>	
	<b>Tier 2 Capital: instruments and provisions</b>		
46	Directly issued qualifying Tier 2 instruments	-	
47	Directly issued capital instruments subject to phase out from Tier 2	1,207	Table e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	30	
51	<b>Tier 2 Capital before regulatory adjustments</b>	<b>1,237</b>	
	<b>Tier 2 Capital: regulatory adjustments</b>		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	-	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	-	

# Appendix 1 Regulatory Capital Reconciliation

## continued

		As at 31 Mar 2015 \$m	Table Reference
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58	<b>Tier 2 capital (T2)</b>	<b>1,237</b>	
59	<b>Total capital (TC=T1+T2)</b>	<b>10,736</b>	
60	<b>Total risk-weighted assets based on APRA standards</b>	<b>86,499</b>	
<b>Capital ratios and buffers</b>			
61	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	9.7%	
62	<b>Tier 1 (as a percentage of risk-weighted assets)</b>	11.0%	
63	<b>Total capital (as a percentage of risk-weighted assets)</b>	12.4%	
64	<b>Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)</b>	N/A	
65	of which: capital conservation buffer requirement	N/A	
66	of which: ADI-specific countercyclical buffer requirements	N/A	
67	of which: G-SIB buffer requirement (not applicable)	N/A	
68	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)</b>	N/A	
<b>National minima (if different from Basel III)</b>			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	4.5%	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.0%	
71	National total capital minimum ratio (if different from Basel III minimum)	8.0%	
<b>Amount below thresholds for deductions (not risk-weighted)</b>			
72	Non-significant investments in the capital of other financial entities	121	Table c
73	Significant investments in the ordinary shares of financial entities	682	Table c
74	Mortgage servicing rights (net of related tax liability)	N/A	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	135	Table a
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	30	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	118	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	307	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	Current cap on CET1 instruments subject to phase out arrangements	N/A	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	N/A	
82	Current cap on AT1 instruments subject to phase out arrangements	655	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	144	
84	Current cap on T2 instruments subject to phase out arrangements	1,207	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	948	

## 1.2 Regulatory Balance Sheet as at 31 March 2015

	Macquarie Bank Group Consolidated <sup>1</sup> \$m	Adjustment <sup>2</sup> \$m	Level 2 Regulatory Balance Sheet \$m	Template/ Reconciliation Table Reference
<b>Assets</b>				
Receivables from financial institutions	25,981	(125)	25,856	
Trading portfolio assets	30,039	-	30,039	
Derivative assets	19,952	(126)	19,826	
Investment securities available for sale	6,345	-	6,345	
Other assets	7,818	(1,306)	6,512	
Loan assets held at amortised cost	71,206	(1,165)	70,041	
Other financial assets at fair value through profit or loss	1,323	21	1,344	
Due from related body corporate entities	1,163	456	1,619	
Property, plant and equipment	6,743	(171)	6,572	
Interests in associates and joint ventures accounted for using the equity method	471	(135)	336	
Intangible assets <sup>3</sup>	229	(128)	101	Table b
Deferred tax assets	238	5	243	Table a
Investments in regulatory non-consolidated subsidiaries	-	619	619	Table c
Non-current assets and assets of disposal groups classified as held for sale	1,072	(402)	670	
<b>Total Assets</b>	<b>172,580</b>	<b>(2,457)</b>	<b>170,123</b>	
<b>Liabilities</b>				
Trading portfolio liabilities	5,045	-	5,045	
Derivative liabilities	18,100	(22)	18,078	
Deposits	47,333	(1)	47,332	
Other liabilities	9,179	(1,351)	7,828	
Payables to financial institutions	14,874	(187)	14,687	
Other financial liabilities at fair value through profit or loss	1,237	-	1,237	
Due to related body corporate entities	7,700	507	8,207	
Debt issued at amortised cost	53,033	(1,095)	51,938	
Provisions	83	-	83	
Deferred tax liabilities	378	(257)	121	
Liabilities for disposals group classified as held for sale and distribution	779	(139)	640	
<b>Total liabilities excluding loan capital</b>	<b>157,741</b>	<b>(2,545)</b>	<b>155,196</b>	
<b>Loan capital</b>				
Subordinated debt at amortised cost	3,240	-	3,240	Table d
<b>Total loan capital</b>	<b>3,240</b>	<b>-</b>	<b>3,240</b>	
<b>Total liabilities</b>	<b>160,981</b>	<b>(2,545)</b>	<b>158,436</b>	
<b>Net Assets</b>	<b>11,599</b>	<b>88</b>	<b>11,687</b>	
<b>Equity</b>				
Contributed equity	9,082	-	9,082	Table f
Reserves	603	36	639	Row 3
Retained earnings	1,831	53	1,884	Row 2
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	11,516	89	11,605	
<b>Non-controlling Interests</b>	<b>83</b>	<b>(1)</b>	<b>82</b>	
<b>Total equity</b>	<b>11,599</b>	<b>88</b>	<b>11,687</b>	

<sup>1</sup> Macquarie Bank Limited Consolidated Group as per financial statements as at 31 March 2015.

<sup>2</sup> Reflects the deconsolidation of certain subsidiaries for APRA reporting purposes. The subsidiaries which are deconsolidated for regulatory purposes include mortgage and leasing special purpose vehicles (SPV) which Macquarie has not made an APS120 Attachment B Para 25 election to be included in the Bank Regulatory Group, and entities conducting insurance, funds management and non-financial operations. Mortgage and leasing special purpose vehicles (SPV) which Macquarie has made an APS 120 Attachment B Para 25 election are included in the Bank Level 2 Regulatory Group.

<sup>3</sup> The intangible component of investments in non-consolidated subsidiaries is included in Intangible assets.

# Appendix 1 Regulatory Capital Reconciliation

## continued

### 1.3 Reconciliation between Common Disclosures Template and Regulatory Balance Sheet

Table a	31 March 2015 \$m	Template Reference
<b>Deferred Tax Assets</b>		
Total Deferred Tax Assets per level 2 Regulatory Balance Sheet	243	
Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(108)	Row 10
Less: Deferred tax assets (temporary differences) - Amounts below prescribed threshold	(135)	Row 26e, 75
<b>Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold</b>	-	<b>Row 21 / 25</b>

Table b	31 March 2015 \$m	Template Reference
<b>Intangible Assets</b>		
Total Intangible Assets as per level 2 Regulatory Balance Sheet	101	
Add: Intangible assets included non-current assets and assets of disposal groups classified as held for sale	549	
Less: capitalised software disclosed under intangibles	(121)	Row 9
Less: intangible component of deconsolidates subsidiaries	(479)	Row 9
<b>Total per Common Disclosure Template – Goodwill</b>	50	<b>Row 8</b>

Table c	31 March 2015 \$m	Template Reference
<b>Equity Investments</b>		
Significant investment in financial entities <sup>1,2</sup>	682	Row 73
Non-significant investment in financial entities <sup>1</sup>	121	Row 72
Total Investments in financial institutions	803	Row 26d
Investment in commercial entities <sup>1,2</sup>	583	Row 26g
Total Equity Investments before applying prescribed threshold	1,386	
Less: amounts risk weighted under Internationally Harmonised	(1,386)	
<b>Total per Common Disclosure Template – Equity Investments</b>	-	<b>Row 18, 19, 23</b>

Table d	31 March 2015 \$m	Template Reference
<b>Additional Tier 1 Capital</b>		
Total Loan Capital per Level 2 Regulatory Balance Sheet	3,240	
Less: Accrued interest	(10)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital <sup>3</sup>	11	Included in Row 26f
Less: Tier 2 capital instruments reported in Table e	(2,484)	
Additional Tier 1 Capital (ECS and BCN)	757	
Add: Other Equity Instruments (MIS) included in contributed equity	400	
Add: Other Equity Instruments (MIPS) included in non-controlling Interests	82	
Less: Basel III transitional amortisation for MIS and MIPS	(120)	
Less: Foreign Exchange Gain Included in Level 2 Regulatory Balance Sheet	(35)	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	1,084	<b>Row 36</b>

1 Equity Investments are classified in the Level 2 Regulatory Balance Sheet across Investments in Associates, Available-for-Sale Securities and Investment in regulatory non-consolidated subsidiaries. In addition, the Group has undrawn commitments (off balance sheet) which are deemed in the nature of equity for Regulatory Capital purposes.

2 Included in investment in significant financial entities is \$536m of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is \$83m of equity investments in regulatory non-consolidated subsidiaries.

3 Unamortised issue cost relating to capital instruments are netted against each instrument on the Level 2 Balance Sheet. For regulatory capital purposes, the unamortised costs are deducted at CET1 as part of capitalised expenses in row 26f of the Common Disclosures Template.

	31 March 2015 \$m	Template Reference
<b>Table d cont</b>		
<b>Additional Tier 1 Capital Instruments</b>		
Macquarie Income Preferred Securities	46	
Macquarie Income Securities	280	
Macquarie Bank Capital Notes	429	
Macquarie Exchangeable Capital Securities	329	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	<b>1,084</b>	<b>Row 33, 36</b>

	31 March 2015 \$m	Template Reference
<b>Table e</b>		
<b>Total Tier 2 Capital per Balance Sheet</b>		
Total Tier 2 Capital per Balance Sheet	2,484	Table d
Less: Fair value hedge adjustments <sup>1</sup>	(258)	
Less: Accrued Interest	(69)	
Less: Foreign Exchange Gain Included in Balance Sheet <sup>2</sup>	(302)	
Less: Basel III transitional amortisation <sup>2</sup>	(648)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>1,207</b>	<b>Row 47</b>

<b>Tier 2 Capital Instruments</b>		
Subordinated Debt - EUR600m <sup>2</sup>	(533)	
Subordinated Debt – USD1.0bn <sup>2</sup>	(674)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>(1,207)</b>	<b>Row 47</b>

Details on the main features of Capital instruments included in the Group's Regulatory Capital, (Ordinary Share Capital, Additional Tier 1 Capital and Tier 2 capital) as required by APS 330 Attachment B can be found at:  
<http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations>.

	31 March 2015 \$m	Template Reference
<b>Table f</b>		
<b>Contributed Equity</b>		
Total Contributed Equity as per level 2 Regulatory Balance Sheet	9,082	
Less: Additional tier 1 instruments (MIS) included in share capital	(400)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	8	Included in Row 26f
<b>Total per Common Disclosure Template – Contributed Equity</b>	<b>8,690</b>	<b>Row 1</b>

<sup>1</sup> For regulatory capital purposes, APRA requires these instruments to be included as if they were unhedged.

<sup>2</sup> For Tier 2 instruments eligible for transition under APRA Prudential Standards, the amount eligible for recognition as Tier 2 capital at 31 March 2015 is calculated at 70% of the Subordinated debt at the 1 January 2013 foreign exchange rate.

# Appendix 1 Regulatory Capital Reconciliation

## continued

Table g	31 March 2015 \$m	Template Reference
<b>Non Controlling Interests</b>		
Total Non Controlling Interests as per level 2 Regulatory Balance Sheet	82	
Less: Foreign exchange gain included in level 2 Regulatory Balance Sheet	(17)	
Less: Basel III transitional amortisation (MIPS)	(19)	
Less: MIPS included in Additional Tier 1 Capital (Refer to Table d)	(46)	Included in Row 33
<b>Total per Common Disclosure Template – Non Controlling Interests</b>	-	<b>Row 5</b>



## Appendix 2 List of entities deconsolidated from the Level 1 and Level 2 Regulatory groups for APRA reporting purposes

31 March 2015	Total Assets <sup>1,2,3</sup>	Total Liabilities <sup>1,2,3</sup>
<b>Securitisation</b>		
Mornington Funding 2012-1 PLC	0	(0)
PUMA GLOBAL TRUST NO.5	404	(403)
PUMA Master Fund P-11	5	(5)
PUMA Master Fund S-2	0	(0)
PUMA MASTERFUND H-1	108	(108)
PUMA MASTERFUND P12	267	(267)
PUMA MASTERFUND P-13	86	(86)
PUMA MASTERFUND S-5	39	(39)
PUMA MASTERFUND S-8	309	(309)
<b>Funds Management</b>		
Belike Nominees Pty. Limited	1	(0)
Bond Street Custodians Limited	12	(0)
Brook Asset Management Limited	1	(0)
Delaware Alternative Strategies	0	(0)
Delaware Asset Advisers	22	(4)
Delaware Capital Management	31	(10)
Delaware Capital Management Advisers, Inc.	0	(0)
Delaware Distributors, Inc.	0	(0)
Delaware Distributors, L.P.	61	(37)
Delaware Investment Advisers	397	(237)
Delaware Investments Advisers Partner, Inc.	107	(36)
Delaware Investments Advisory Services	2	(1)
Delaware Investments Distribution Partner, Inc.	27	(3)
Delaware Investments Fund Advisers	33	(12)
Delaware Investments Fund Services Company	8	(4)
Delaware Investments Management Company, LLC	600	(427)
Delaware Investments Real Estate Absolute Return Fund, L.P.	22	(0)
Delaware Management Business Trust	65	(0)
Delaware Management Company	591	(88)
Delaware Management Holdings, Inc.	315	(282)
Delaware Management Trust Company	0	(0)
Delaware Real Estate Absolute Return Partners, Inc.	0	(0)
Delaware Service Company, Inc.	35	(9)
Elise Nominees Pty Limited	0	(0)
Four Corners Capital Management, LLC	19	(1)
Macquarie Allegiance Capital, LLC	1	(0)
Macquarie Alternative Assets Management Limited	45	(22)
Macquarie Asia Pacific Private Equity Offshore Fund, L.P.	15	(0)
Macquarie Asset Management Inc.	4	(0)
Macquarie Australia Securities Pty Limited	1	(0)
Macquarie Capital Investment Management (Australia) Limited	2	(0)
Macquarie Capital Investment Management LLC	4	(2)
Macquarie Equipment Leasing Fund II, LLC	0	(0)
Macquarie Financial Products Management Limited	44	(2)
Macquarie Fonds GmbH	0	(0)
Macquarie Fondsmanagement GmbH	0	(0)

## Appendix 2 List of entities deconsolidated from the Level 1 and Level 2 Regulatory groups for APRA reporting purposes

### continued

31 March 2015	Total Assets <sup>1,2,3</sup>	Total Liabilities <sup>1,2,3</sup>
Macquarie Forestry Management Pty Limited	0	(0)
Macquarie Funds Management (USA) Inc.	13	(7)
Macquarie Funds Management Hong Kong Limited	54	(6)
Macquarie Global Bond Fund	0	(0)
Macquarie Global Investments Canada Ltd	0	(0)
Macquarie Investment Management (NZ) Limited	6	(0)
Macquarie Investment Management Austria Kapitalanlage AG	16	(6)
Macquarie Investment Management Korea Co., Ltd	39	(19)
Macquarie Investment Management Ltd	156	(16)
Macquarie Investment Management S.à r.l.	1	(0)
Macquarie Investment Services Limited	7	(0)
Macquarie Management GmbH	1	(0)
Macquarie Master Geared Growth Fund	1	(1)
Macquarie Master Small Companies Fund	2	(2)
Macquarie NRAS Trust	3	(3)
Macquarie PA TAP Management I, Inc.	1	(0)
Macquarie Prism Pty Limited	3	(0)
Macquarie Private Capital Management Limited	1	(0)
Macquarie Private Portfolio Management Limited	7	(0)
Macquarie Securities Management Pty Limited	3	(0)
Macquarie Structured and Specialist Investments Holdings Pty Limited	78	(75)
Macquarie Treu Vermögen GmbH	0	(0)
Macquarie Vermögenstreuhand GmbH	0	(0)
MIDF UK1 GUERNSEY GP LIMITED	1	(1)
MIDF UK1 LLP	0	(0)
MIDF UK1B GUERNSEY GP LIMITED	0	(0)
MQ Capital Pty Limited	2	(0)
MQ Portfolio Management Limited	12	(0)
MQ Specialist Investment Management Limited	5	(0)
Retirement Financial Services, Inc.	1	(0)
<b>Insurance</b>		
International Life Solutions (Pty) Limited	0	(0)
Macquarie Life Limited	1,323	1,121
<b>Non-Financial Operations</b>		
Avenal Power Center, LLC	24	(8)
Bella Holdings LLC	21	(9)
Bella Property Owner LLC	81	(60)
Capital Meters Limited	171	(139)
Cheeryble Developments Limited	39	(31)
CMC Railroad, Inc.	81	(43)
Corona Energy Limited	45	(12)
Corona Energy Retail 1 Limited	52	(35)
Corona Energy Retail 2 Limited	69	(42)
Corona Energy Retail 3 Limited	7	(1)
Corona Energy Retail 4 Limited	90	(76)
Corona Energy Retail 5 Limited	7	(10)
Corona Gas Management Limited	4	(1)
Keba Energy LLC	3	(0)

31 March 2015	Total Assets <sup>1,2,3</sup>	Total Liabilities <sup>1,2,3</sup>
Levantera Developments Limited	37	(21)
Macquarie Agricultural Services Pty Limited	4	(4)
Macquarie Barnett LLC	8	(0)
Macquarie Business Solutions Pty Limited	1	(0)
Macquarie Corona Energy Holdings Limited	29	(0)
Macquarie Farm Assets and Resources Management Pty Limited	71	(58)
Macquarie Rotorcraft Leasing, Inc.	2	(0)
Outplan Pty Limited	0	(0)
PT Macquarie Commodities Indonesia	1	(0)
PT MPM Indonesia	1	(0)
Relational Technology Services, Inc.	1	(0)
Shelby Energy Holdings, LLC	4	(0)
Sterling TC Holdings LLC	13	(7)
Sterling TC Property Owner LLC	54	(39)

- 1 These balances, along with any Australian GAAP adjustment where required, are included in Macquarie Bank Group's audited Australian GAAP financial statements for the year ended 31 March 2015. Financial statements under local GAAP of certain entities may be subjected to separate audits from the Macquarie Bank Group audit and these audits may not be complete as at the date of this report.
- 2 The total assets and liabilities should not be aggregated as certain entities are holding companies for other entities in the table shown above.
- 3 Numbers are rounded to the nearest A\$ million. Asset balances are shown as positive and liability balances are shown as negative.

## Appendix 3 Annual remuneration disclosures

### Introduction

This document has been prepared in accordance with the Australian Prudential Regulatory Authority (APRA) Prudential Standard APS 330 Public Disclosure (APS 330) for Authorised Deposit-taking Institutions (ADIs). The remuneration disclosures presented herein for the financial years ended 31 March 2015 and 31 March 2014 of Macquarie Bank Limited (MBL or Macquarie Bank) are separate to the requirements of the Corporations Act 2001 (Cth) and may not be comparable to other information disclosed by MBL.

Macquarie Bank is a subsidiary of Macquarie Group Limited (Macquarie). Whilst subject to the remuneration framework determined by Macquarie, Macquarie Bank's Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this disclosure document, for consistency, references are made to Macquarie's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

The qualitative remuneration disclosures (sections 1 to 4) outline the remuneration framework consistent with Macquarie's Remuneration Policy. Macquarie's Remuneration Policy applies to all employees globally. The quantitative information (section 5) relates to senior managers and material risk takers of MBL for the financial years ended 31 March 2015 and 31 March 2014. The Board Remuneration Committee (the BRC or the Committee) has identified the following groups of employees as senior managers and material risk takers as defined in paragraph 17 of APS 330 for the financial year ended 31 March 2015 and 31 March 2014 respectively:

Roles		Number of individuals	
		2015 <sup>(1)</sup>	2014
Senior managers	the MBL Executive Committee <sup>(2)</sup>	12	10
Material risk takers	Executive Directors who are MBL Designated Executive Directors <sup>(3)</sup>	35 <sup>(4)</sup>	38

(1) Three Executive Directors who were appointed to the Executive Committee with effect from 1 July 2014 are included in senior managers in these figures.

(2) These individuals will be referred to as either senior managers or Executive Committee members throughout this document.

(3) Executive Directors who have a significant management or risk responsibility in the organisation. These individuals will be referred to as either material risk takers (MRTs) or Designated Executive Directors (Designated EDs) throughout this document.

(4) Includes six Designated Executive Directors who terminated employment during FY2015.

### 1 Remuneration governance

Macquarie's Board of Directors (the Board) has oversight of Macquarie's remuneration arrangements. The Board Remuneration Committee (BRC) of Macquarie supports both the Board and the Board of Macquarie Bank with Macquarie's remuneration policies and practices.

The BRC currently comprises five Independent Non-Executive Directors (NEDs):

- Peter Warne (Chairman)
- Gary Banks
- Gordon Cairns
- Diane Grady
- Kevin McCann.

The responsibilities of the BRC include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The full responsibilities of the BRC are outlined in their Charter, which is reviewed and approved annually by the Board. A copy of the charter is available on Macquarie's website.

Committee fees for the Chairman of the BRC for FY2015 and FY2014 were \$70,000 and for BRC members were \$30,000. Per diem fees may also be paid from time to time for approved additional work. These fees are in respect of the Committee's support to the Boards of both Macquarie Group and MBL.

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards. The BRC has a regular meeting cycle and met nine times over the last financial year. Strict processes are in place to ensure that conflicts of interest are appropriately managed. The Board pays close attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

The remuneration governance framework requires that remuneration recommendations relating to staff at various levels of seniority be approved at an appropriate level of authority. As part of this, the BRC recommends the remuneration outcomes to the Board for approval for the:

- 
- CEOs of both Macquarie and Macquarie Bank
  - Executive Committee members
  - Designated EDs
  - senior risk and financial control personnel
  - staff covered under specific regulatory requirements.

The BRC reviews the Remuneration Policy at least annually and it was most recently approved by the Board in March 2015.

Updates to the Remuneration Policy were made during the year to reflect:

- the BRC's new responsibility for oversight of the performance reviews of the Managing Director and CEOs of the Group and the Bank (previously a responsibility of the Board Governance and Compliance Committee)
- regulatory and governance developments particularly in regards to EU Code Staff
- enhancements to the Malus and Post Employment Event provisions (formerly the Disqualifying Events provisions) for FY2015

The BRC has access, as required, to Macquarie's senior management and has retained an independent consultant, Pay Governance, for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration system, objectives and program and other employment conditions.

The only service that Pay Governance provides to Macquarie is executive compensation consulting to the BRC. This year, Pay Governance considered the overall approach to remuneration, peer organisations' overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data.

## 2 Remuneration design and structure

During the year, the Board and the BRC have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of delivering superior company performance over the short and long-term, while prudently managing risk. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- the evolving regulatory landscape
- market developments
- feedback from shareholders
- the employment environment
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance long-term and short-term incentives.

The Board considers that Macquarie's overall remuneration objectives of delivering superior company performance over the short and long-term, while prudently managing risk, remain appropriate. They recognise that to achieve these objectives, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

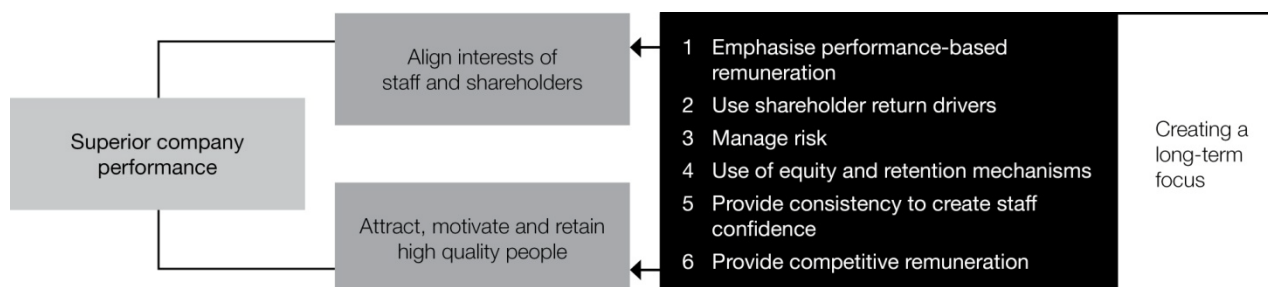
They consider this is best achieved by supporting the following principles:

- emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk
- linking rewards to the creation of sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital
- structuring remuneration to encourage behaviour that supports Macquarie's risk management framework
- delivering remuneration in a way that encourages a long term perspective and creates alignment with shareholder interests
- providing consistent arrangements over time to give staff the confidence to pursue multi-year initiatives
- remunerating high performing staff appropriately, relative to global peers, so they are attracted to and stay with Macquarie.

## Appendix 3 Annual remuneration disclosures

### continued

The way these principles link to the overall objectives are outlined in the following chart.



The remuneration framework should be considered as an integrated whole. The components that make up the integrated remuneration framework are fixed remuneration, a profit share system, and for MBL's most senior executives, the Executive Committee, PSUs.

Fixed remuneration is modest compared with similar roles in other organizations but sufficient to avoid inappropriate risk-taking. It is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements. Performance-based remuneration is described in section 4.

#### 2.1 Risk and financial control personnel

The Board seeks to ensure that remuneration for staff whose primary role is risk and financial control, including the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), preserves the independence of the function and maintains Macquarie's robust risk management framework.

Fixed remuneration for risk and financial control staff is generally higher, compared with profit share, than for front office staff. Profit share is allocated to risk and financial control groups based on the quality and integrity of control functions and the quality of business support services and is not determined solely with reference to profitability. The CRO, the CFO and the Group General Counsel, as appropriate, review remuneration recommendations for all staff whose primary role is risk management and confirm to the Committee that remuneration for these staff is determined in a way that preserves the independence of the function and maintains Macquarie's robust risk management framework. As part of the annual remuneration review, the Board reviews and approves, on BRC recommendation, the individual remuneration recommendations for senior risk and financial control staff.

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### 3 Remuneration and risk

The BRC liaises with the Board Risk Committee and the CRO to ensure there is a properly integrated approach to remuneration that appropriately reflects risk. The BRC makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie consistent with Macquarie's risk management framework. Macquarie's risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, regulatory and legal risks. Remuneration measures are managed within Macquarie's risk appetite and risk-adjusted performance metrics for each division are a significant input into performance-based remuneration.

The effective alignment of remuneration with prudent risk taking is fundamental to Macquarie's approach to remuneration. Such alignment occurs at Group, business and individual levels.

#### Group

The size of the overall profit share pool is determined annually with reference to Macquarie's net profit after tax (NPAT) and return on ordinary equity (ROE) over and above the cost of capital. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool.

#### Business

Risk-adjusted performance metrics for each business unit are prepared on a regular basis and distributed to senior management and the Board as well as to business units. These performance metrics are based on calculations of regulatory and economic capital usage and are a significant factor when allocations of performance-based remuneration are determined for each business. At Macquarie, proposals for all significant deals, products and businesses must also contain an analysis of risk-adjusted returns.

#### Individual

Risk management and compliance outcomes are one of the key factors considered by Management and the BRC when assessing the performance of individuals. These outcomes are assessed through independent reports from the CRO, the CFO and Human Resources (HR) which are detailed below. Other key factors are outlined in section 4.

As part of the annual remuneration process:

- the CFO confirms to the BRC that the forecast profit share pool does not result in eliminating capital surpluses
- the BRC receives an independent report from the CRO on material losses, impairments or breaches of the risk management framework, return on economic capital by business, the relationship between profitability and risk and the contingent risks associated with large transactions concluded during the current financial year
- the Global Head of HR discusses the link between losses and proposed remuneration with the Group Heads and reports to the BRC in regards to the link between risk outcomes and individual remuneration. The BRC uses this information when considering the profit share allocated to businesses and to individuals.

Where applicable, the Board or its delegate also have the discretion to reduce or eliminate unvested profit share amounts for certain staff (from 2012 onwards) under Macquarie's Malus policy, as detailed in section 4.4 below.

## Appendix 3 Annual remuneration disclosures

### continued

#### 4 Linking performance and remuneration

Performance-based remuneration consists of a profit share system, and for Macquarie's most senior executives, the Executive Committee, PSUs. Allocation of performance-based remuneration is discretionary.

Macquarie's remuneration structure emphasises performance-based remuneration, with an appropriate balance between short and longer-term incentives, and an alignment with prudent risk-taking.

Performance-based remuneration in the form of profit share is aligned with company performance. The profit share pool is determined annually using the twin measures of NPAT and ROE, measures which are known to be drivers of returns to shareholders. A portion of Macquarie's profit earned accrues to the profit share pool. Once the cost of equity capital is met, an additional portion of excess profit is accrued to the profit share pool. In addition, the NEDs of the Board have the discretion to change the quantum of the profit share pool to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. As has occurred in previous years, not all of the profit share pool has been paid to employees in the current year.

Profit share is allocated to Macquarie's businesses based on each business' relative contribution to profits (not revenue) taking into account capital usage, risk management, compliance and competitor dynamics.

In turn, profit share is allocated to individuals based on individual performance. Performance criteria vary depending on an individual's role including:

- financial performance
- risk management and compliance
- business leadership
- people leadership including upholding Macquarie's *Code of conduct*.

More specifically, the Board has strong processes for making remuneration decisions for senior staff. As part of its process, towards the end of each financial year, the NEDs meet with the Macquarie Bank CEO to consider formal documentation that outlines her views on the Bank's performance. This includes a wide range of Bank's activities covering the following main areas:

- financial position and performance
- risk management and compliance
- people and culture
- sustainability (planning and investment in the future)
- community.

The Board considers the CEO's performance and progress against all of these topics in determining the CEO's remuneration for the year. Over the course of the year the Board receives regular reports and updates on many of these topics. These are summarised in the CEO's presentation, together with additional information on any particular areas of interest which the Board have identified for further discussion as a part of the review process.

The Board and the BRC also consider formal documentation for each Executive Committee member which covers financial performance, risk management and compliance, business leadership and people leadership (including upholding Macquarie's *Code of conduct*). This information helps the BRC and Board make decisions in relation to remuneration.

Performance-based remuneration is delivered in ways that encourage a longer-term perspective and ensure alignment with shareholders' longer-term interests and staff retention. In turn, this encourages staff to maximise profit without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation. To achieve this outcome, a significant portion of performance-based remuneration is:

- retained and deferred over a long period (section 4.1 and section 4.3)
- delivered in equity (section 4.2 and section 4.6)
- subject to forfeiture in certain circumstances (section 4.4 and section 4.5).

Performance-based remuneration in the form of PSUs are allocated to Executive Committee members based on role scope and complexity, financial and non-financial performance and upholding Macquarie's *Code of conduct*. Further details on PSUs are provided in section 4.6 below.



#### 4.1 Profit share retention levels

A percentage of each Executive Directors' annual gross profit share allocation is retained by Macquarie (retained profit share). The percentage is set according to their role.

The percentage retained reflects the scope and nature of an individual's role and responsibilities and any applicable regulatory requirements. Generally, for more senior roles, that have significant management or risk responsibility, a greater proportion of profit share is deferred.

The Board has discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30 per cent for Executive Directors.

##### Standard retention rates by role

Role	%
Macquarie CEO	70%
Macquarie Bank CEO	50%
Other Executive Committee members	50% – 60%
Designated Executive Directors <sup>(1)</sup>	50% – 60%
Other Executive Directors	40% – 60%
Staff other than Executive Directors	25% – 60% <sup>(2)</sup>

<sup>(1)</sup> Executive Directors who have a significant management or risk responsibility in the organisation.

<sup>(2)</sup> Dependent on certain thresholds.

#### 4.2 Investment of retained profit share

Executive Directors' retained profit share is invested in a combination of Macquarie shares under the MEREP<sup>(3)</sup>, and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan<sup>(4)</sup>. The following table shows the current percentage allocation of retained profit share that is invested in these two plans, depending on the Executive Director's role:

Role	Post-2009 DPS Plan (Macquarie-managed fund equity)	MEREP (Macquarie shares)
Macquarie CEO and Macquarie Bank CEO	10%	90%
Executive Committee members with Funds responsibilities	50%	50%
Other Executive Committee members	10%	90%
Executive Directors with Funds responsibilities	50% – 75%	25% – 50%
Other Executive Directors	10% – 20%	80% – 90%

For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity.

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The BRC reviews the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities. In limited circumstances, retained profit share may be allocated to other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a need to directly align the interests of employees with those of their specific types of clients.

<sup>(3)</sup> The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). Where legal or tax rules make the grant of RSUs impractical, including different tax rules for employee equity and different securities laws, equity grants will be in the form of: 1. shares held by the staff member subject to restrictions (Restricted Shares); or 2. the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised.

<sup>(4)</sup> The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. These amounts are required to be disclosed as remuneration for Executive KMP. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

## Appendix 3 Annual remuneration disclosures

### continued

#### 4.3 Vesting and release of profit share

Retained profit share vests and is released over a period that reflects the scope and nature of an individual's role and responsibilities. The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions, having regard to regulatory and remuneration trends at the time of allocation. Generally, for more senior roles, that have significant management or risk responsibility, profit share is deferred over a longer period of time.

For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. The BRC has established the following release schedule for retained profit share invested in the Post-2009 DPS Plan and the MEREP:

Role	Release schedule
Executive Committee Members (including the CEOs of Macquarie and Macquarie Bank),	one-fifth in each
Designated Executive Directors	of years 3–7
Other Executive Directors	one-third in each of years 3–5
Staff other than Executive Directors	one-third in each of years 2–4

Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

#### 4.4 Forfeiture of retained profit share (Malus)

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances (Malus). The Malus provisions were enhanced in FY2015, such that the Board or its delegate may reduce or eliminate in full, the unvested profit share awarded in respect of FY2015 and subsequent years to certain senior employees if it determines that the individual has at any time:

- acted dishonestly (including, but not limited to, by misappropriating funds or deliberately concealing a transaction)
- acted or failed to act in a way that contributed to a breach of a significant legal or significant regulatory requirement relevant to Macquarie
- acted or failed to act in a way that contributed to Macquarie, Macquarie Bank or any Group within Macquarie incurring:
  - significant reputational harm, and/or
  - a significant unexpected financial loss, impairment charge, cost or provision, or
- acted or failed to act in a way that contributed to MGL or MBL making a material financial restatement.

Each of the above is a Malus Event.

Additional provisions may apply to staff in jurisdictions outside Australia to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with the UK Regulators' Remuneration Code (Code Staff). These individuals are subject to additional Malus and clawback provisions under these regulations.

Macquarie has always had, and continues to have, the ability to terminate staff for such circumstances, at which time any unvested profit share would be forfeited in full. The BRC considers whether, and the extent to which, to apply Malus, taking into account local employment laws, the nature and circumstances of the event and any other redress that has been or may be applied.

#### 4.5 Early vesting and release of retained profit share

A departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy, disability, serious ill-health or other limited exceptional circumstances. The Board, or its delegate, has discretion to accelerate the vesting of retained profit share under these circumstances (subject to the conditions of early release as set out below).

In the case of death or serious incapacitation, the Board or its delegate will typically accelerate the vesting of retained profit share and immediately release it to the Executive Director or, to the Executive Director's legal personal representative (subject to the Malus provisions).

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in connection with strategic business objectives (including in connection with the divestment or internalisation of Macquarie businesses) or when an employee resigns to fulfil a senior full-time role in a governmental organisation or agency. Where such discretion is exercised, the Board or its delegate may impose such other conditions as it considers appropriate. This year discretion has been exercised and retained profit share released for seven executives.

##### 4.5.1 Conditions of early release of retained profit share to departing Executive Directors

In addition to the Malus provisions set out in section 4.4, the Board or its delegate may reduce or eliminate in full the retained profit share of any departing Executive Director for whom discretion has been exercised to accelerate the vesting of their retained profit share upon termination, if it determines that the Executive Director has at any time committed a Malus Event (as described above) or:

- a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
- b) joined a competitor.

Each of the above is a Post Employment Event. Other than in the case of death or serious incapacitation, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

	First period	Second period	Third period
<b>Time post departure</b>	Six months	Six months – one year	One year – two years
<b>Unvested retained profit share released</b>	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
<b>Subject to</b>	No Malus Event or Post Employment Event	No Malus Event or Post Employment Event during First Period <b>and</b> no Malus Event or Post Employment Event (a) in Second Period	No Malus Event or Post Employment Event during First Period and No Malus Event or Post Employment Event (a) during Second Period <b>and</b> No Malus Event in Third Period

Where an Executive Director has a tax liability on termination of employment in respect of any unvested retained profit share, the Board or its delegate has discretion to release unvested retained profit share up to an amount equal to the Executive Director's tax liability, at an earlier time than noted above.

## Appendix 3 Annual remuneration disclosures

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#### 4.6 Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs. Since their introduction, PSUs have been structured as DSUs<sup>(1)</sup> with performance hurdles. Holders have no right to dividend equivalent payments. In all other respects, holders of these PSUs have the same rights as holders of DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

Determination	<ul style="list-style-type: none"> <li>– The Board approves the value of PSUs to be allocated to Executive Committee members each year.</li> </ul>
Allocation	<ul style="list-style-type: none"> <li>– The allocation to individuals<sup>(2)</sup> is based on:               <ul style="list-style-type: none"> <li>– role scope and complexity</li> <li>– financial and non-financial performance assessment against a range of factors including financial results, risk management, business leadership and people leadership</li> <li>– upholding Macquarie's <i>Code of conduct</i>.</li> </ul> </li> </ul>
Vesting	<ul style="list-style-type: none"> <li>– Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer to section 4.6.1)</li> <li>– Grants made prior to 2012 vest in three equal tranches after two, three and four years.</li> </ul>
Upon leaving Macquarie	<p>To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.</p>

<sup>(1)</sup> A DSU is a Deferred Share Unit and is one of the award types under the MEREP (refer footnote 3 in section 4.2 for more information).

<sup>(2)</sup> The allocation of PSUs to the Macquarie CEO, who is an Executive Voting Director of Macquarie Group, is subject to shareholder approval.

#### 4.6.1 Performance hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2015.

PSUs issued under the MEREP become exercisable upon the achievement of two performance hurdles, each applying individually to 50 per cent of the total number of each tranche of PSUs awarded. The following table provides a summary of the hurdles:

	EPS CAGR Hurdle	ROE Hurdle
<b>Application to PSU awards</b>	50 per cent	50 per cent
<b>Performance measure</b>	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)	Relative average annual return on ordinary equity over the vesting period (three to four years) compared to a reference group of global peers <sup>(1)</sup> .
<b>Hurdle</b>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent</li> <li>– 100 per cent at EPS CAGR of 12 per cent.</li> </ul> <p>For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable.</p> <p>For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.</p>	<p>Sliding scale applies:</p> <ul style="list-style-type: none"> <li>– 50 per cent becoming exercisable above the 50th percentile</li> <li>– 100 per cent at the 75th percentile.</li> </ul> <p>For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable.</p>
<b>Rationale for hurdles</b>	<ul style="list-style-type: none"> <li>– ROE and EPS are considered appropriate measures of performance as they drive longer-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool</li> <li>– ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control</li> <li>– ROE and EPS can be substantiated using information that is disclosed in audited financial statements</li> <li>– the use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking</li> <li>– the approach is consistent with that advocated by APRA in not using TSR as a measure</li> <li>– being three and four year average measures from 2012 and aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee.</li> </ul> <p>Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2015 approximately 70 per cent of Macquarie's income and approximately 54 per cent of Macquarie's staff were offshore.</p>	

<sup>(1)</sup> The reference group comprises Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for awards made from 2013 is Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG. The reference group for awards made prior to 2013 comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

Under both performance hurdles, the objective is examined once only. Testing occurs at the calendar quarter end immediately before vesting, based on the most recent financial year end results available. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

## Appendix 3 Annual remuneration disclosures

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#### 4.7 Other features of Macquarie's remuneration structure

##### Promotion awards

Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on seniority, set with reference to an \$A value.

##### Minimum Shareholding requirement

Executive Directors are required to hold a minimum amount of Macquarie shares which is satisfied by the requirements of the profit share retention policy.

##### Hedging

Macquarie prohibits staff from hedging unvested options, shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

##### Employment contracts

The following table summarises key features of the employment contracts for Executive Committee members including the Macquarie CEO and the Macquarie Bank CEO:

<b>Length of contract</b>	Permanent open-ended
<b>Remuneration review period</b>	1 April to 31 March annually
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation which ensures that a large part of their remuneration is 'at risk'.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs.
<b>Termination of employment</b>	Requires no more than four weeks notice <sup>(1)</sup> by Macquarie or the Executive Committee member.

<sup>(1)</sup> Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment.

## 5 Quantitative disclosures for senior managers and material risk takers

The following tables have been prepared in accordance with APS 330 for the financial years ended 31 March 2015 and 31 March 2014. These tables are prepared on a different basis than those required by Australian Accounting Standards and the Corporations Act, as disclosed in Macquarie Bank's Annual Report.

These disclosures reflect remuneration for services to MBL for the reporting period when the individual was a senior manager or material risk taker.

### 5.1 Total value of remuneration awards for senior managers and material risk takers <sup>(1)</sup>

The following table sets out the total value of remuneration awarded to senior managers and material risk takers in respect of their performance for the financial years ended 31 March 2015 and 31 March 2014 respectively. 12 senior managers (FY2014:10) and 29 material risk takers (FY2014: 33) received a variable remuneration award in respect of services to MBL in FY2015.

\$A'000	Senior managers				Material risk takers			
	Non-Deferred		Deferred		Non-Deferred		Deferred	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Fixed remuneration<sup>(2)</sup></b>								
Cash-based	5,966	4,630	-	-	15,616	16,697	-	-
Shares and share-linked instruments	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Variable remuneration<sup>(3)(4)</sup></b>								
Cash-based	28,055	14,515	-	-	38,726	35,134	-	-
Shares and share-linked instruments <sup>(5)</sup>	-	-	44,311	30,896	(6)1,334	(6)1,142	39,373	37,285
Other	-	-	-	-	-	-	-	-

### 5.2 Deferred remuneration for senior managers and material risk takers – total value outstanding, vested and any downward adjustments

The following table sets out the total value of deferred remuneration outstanding at 31 March 2015 and 31 March 2014 respectively, remuneration granted in previous years that vested during the current financial year and any realised reductions due to ex post explicit and implicit adjustments. All outstanding deferred remuneration is exposed to ex post explicit and implicit adjustments.

\$A'000	Senior managers		Material risk takers	
	2015	2014	2015	2014
<b>Outstanding deferred remuneration<sup>(7)</sup></b>				
Cash-based	-	-	-	-
Shares and share-linked instruments <sup>(8)</sup>	269,247	161,828	207,441	213,044
<b>Deferred remuneration vested during the financial year<sup>(9)</sup></b>	25,410	12,176	56,708	24,991
<b>Deferred remuneration adjustments during the financial year</b>				
Reductions due to ex post explicit adjustments <sup>(10)</sup>	(2,259)	(6,040)	(478)	(6,015)
Reductions due to ex post implicit adjustments <sup>(11)</sup>	-	(41)	-	(115)

No senior managers or material risk takers were awarded a guaranteed or sign-on award for the financial year ended 31 March 2015 (FY2014: Nil). No payments associated with terminations were made to senior managers (FY2014: Nil). There were six (FY2014: three) termination payments made to material risk takers during the 2015 and 2014 financial years as set out in the table below.

\$A'000	Senior managers				Material risk takers			
	No. of individuals		Total amount		No. of individuals		Total amount	
	2015	2014	2015	2014	2015	2014	2015	2014
Termination payments <sup>(12)</sup>	-	-	-	-	6	3	446	199

## Appendix 3 Annual remuneration disclosures

### continued

#### Notes to the quantitative remuneration disclosures

- (1) Remuneration awarded in respect of FY2015 and FY2014 performance reflects remuneration relating to services to MBL for the portion of the relevant periods that each individual was a senior manager or material risk taker of MBL. Effective 1 July 2014, three individuals, who were previously disclosed in the material risk taker category were appointed to the Executive Committee. Their remuneration is disclosed in the Material Risk Taker category until 30 June 2014 and in the Senior Manager category from 1 July 2014.
- (2) Fixed remuneration comprises current year salary, including superannuation and other cash allowances. There have been no fixed remuneration increases for Senior Managers during FY2015.
- (3) Deferred variable remuneration for Senior Managers in FY2014 was increased (and non-deferred cash-based variable remuneration decreased) to reflect the impact of the SYD Distribution in January 2014.
- (4) Variable remuneration awarded in respect of performance for FY2015 and FY2014 includes the total value of non-deferred and deferred components related to the FY2015 and FY2014 awards. The non-deferred (cash-based) components will be granted and paid in the following financial year and the payment of deferred components are deferred to a future period.
- (5) Includes the value of retained profit share invested in Macquarie shares under the MEREP, retained profit share notionally invested in Macquarie managed-fund equity under the Post-2009 DPS Plan, and for Senior Managers, PSUs.
- (6) This relates to Code Staff in the UK for whom a portion of their non-deferred profit share is delivered in Macquarie shares in accordance with the Remuneration Code.
- (7) Value as at 31 March 2015 and 31 March 2014 of unvested deferred remuneration. Effective 1 July 2014, three individuals, who were previously disclosed in the Material Risk Taker category were appointed to the Executive Committee. Their outstanding deferred remuneration has been disclosed in the Senior Manager category for FY2015. The number of Senior Managers with outstanding deferred remuneration as at 31 March 2015 was 12 (31 March 2014: 10) and of Material Risk Takers was 28 (31 March 2014: 35).
- (8) Includes the value as at 31 March 2015 (for FY2015) and 31 March 2014 (for FY2014) of retained profit share invested in Macquarie shares under the MEREP, retained profit share notionally invested in Macquarie-managed fund equity under the Post-2009 DPS Plan, and for senior managers, the fair value of PSUs at the same date. The value of retained profit share invested in the MEREP for FY2015 has been calculated based on the 31 March 2015 share price of \$A76.67. For FY2014, the value of retained profit share invested in the MEREP has been calculated based on the 31 March 2014 share price of \$A57.90.
- (9) Value as at the date of vesting of deferred remuneration that vested during the financial years ended 31 March 2015 and 31 March 2014 for senior managers and material risk takers. The value has been calculated based on the share price on the date of vesting which for FY2015 was in the range of \$A57.59 to \$A76.67 (FY2014: \$A41.96 to \$A56.72).
- (10) Explicit adjustments include any realised reductions relating to forfeitures, lapses as a result of failure to meet performance hurdles, Malus and adjustments made under the disqualifying event provisions.
- (11) Implicit adjustments include reductions in the value of awards that vested during the year due to a downward movement of Macquarie's share price from grant date to vesting date or realised notional losses on amounts retained under the Post-2009 DPS Plan.
- (12) This amount reflects payments made in FY2015 and FY2014 associated with termination of employment with Macquarie in accordance with Macquarie policies, Executive Director remuneration arrangements, individual employment agreements, and/or local legal requirements. Payments associated with termination will typically include unused long-service and annual leave entitlements, and redundancy amounts, where applicable, but will exclude the release (in accordance with Macquarie's remuneration arrangements) of deferred remuneration awarded in prior years which is included in deferred remuneration vested during the relevant financial year. There are no ex-gratia termination payments. Individuals may also retain deferred remuneration held in the MEREP, the Post-2009 DPS Plan or as PSUs (senior managers only), which may be released in future years subject to the relevant restriction periods, DPS release provisions and performance hurdles per Macquarie policies, Executive Director remuneration arrangements and/or individual employment agreements.



## Appendix 4 List of APRA Quantitative tables

APS 330 Table	Title	Section No
<b>Attachment A</b>	Common Disclosures Template	Appendix 1
<b>Attachment D</b>		
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## Appendix 5 Glossary of terms

ADI	Authorised Deposit-taking Institution.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held For Sale ('HFS') associates. HFS investments are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
AVC multiplier	Asset Value Correlation multiplier. A loading introduced as part of Basel III which is added to the correlation factor when calculating the RWA on exposures to certain financial institutions.
AVS assets	Available-for-sale assets Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially recognised at fair value and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement.
BAC	Board Audit Committee.
BRC	Board Risk Committee
Contingent liabilities	Defined in AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
CCE	Current Credit Exposure. The sum of the positive mark-to-market value (or replacement cost) of market-related contracts entered into by the ADI.
CEA	Credit Equivalent Amount. The on-balance sheet equivalent value of an off balance sheet transaction.
Central counterparty	A clearing house or exchange that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and therefore ensuring the future performance or open contracts.
Common Equity Tier 1 capital	A capital measure defined by APRA comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> <li>- provide a permanent and unrestricted commitment of funds,</li> <li>- are freely available to absorb losses,</li> <li>- do not impose any unavoidable servicing charge against earnings; and</li> <li>- rank behind the claims of depositors and other creditors in the event of winding up.</li> </ul> Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
CVA	Credit Valuation Adjustment. The risk of mark-to-market losses on the expected counterparty risk to OTC derivatives.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV) that are not consolidated for the APRA regulatory reporting group.
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.
EL	Expected Loss, which is a function of PD and LGD.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI ('Level 1') for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.
EMEA	Europe, Middle East & Africa.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
FICO	Fair Isaac Corporation

FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA.
GAAP	Generally Accepted Accounting Principles
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation.
ICAAP	Internal Capital Adequacy Assessment Process.
IRRBB	Interest Rate Risk in the Banking Book.
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised.
Level 2 MBL Regulatory Group	MBL, its parent Macquarie B.H. Pty Ltd and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
Macquarie Income Preferred Securities (MIPS)	MIPS were issued when the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of the Bank. The convertible debentures currently pay a fixed return of 6.177% until April 2020. As at 31 March 2014, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie.
Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital and are treated as equity on the balance sheet. There are four million \$A100 face value MIS on issue.
MBL	Macquarie Bank Limited.
MGL	Macquarie Group Limited.
PCE	Potential Credit Exposure. The potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
Reserve Bank of Australia (RBA)	Central bank of Australia with responsibility over monetary policy.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
SPV's	Special purpose vehicles or securitisation vehicles.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
Tier 1 Capital	A capital measure defined by APRA, comprising common equity tier 1 capital plus eligible hybrid securities.
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.