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## **ASX Release**

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

28 May 2014 – The Macquarie Bank Limited March 2014 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 2014





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## THE HOLEY DOLLAR

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie Group.

This year celebrates the bicentenary of the Holey Dollar.

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# Contents

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|                                             |    |
|---------------------------------------------|----|
| Introduction                                | 2  |
| 1.0 Overview                                | 3  |
| 2.0 Risk Management Policies and Objectives | 5  |
| 3.0 Capital Structure                       | 7  |
| 4.0 Capital Adequacy                        | 9  |
| 5.0 Credit Risk Measurement                 | 14 |
| 6.0 Calculation of Credit Risk Exposures    | 27 |
| 7.0 Provisioning                            | 33 |
| 8.0 Credit Risk Mitigation                  | 41 |
| 9.0 Securitisation                          | 43 |
| 10.0 Credit Valuation Adjustment            | 56 |
| 11.0 Exposures to Central Counterparties    | 57 |
| 12.0 Market Risk                            | 59 |
| 13.0 Equity Risk                            | 64 |
| 14.0 Operational Risk                       | 67 |
| Disclaimer                                  | 68 |
| Appendices                                  | 69 |

# 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 2014 together with the 31 March 2013 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.

| <b>Capital Ratios</b>                                           | <b>As at<br/>31 March<br/>2014</b> | <b>As at<br/>31 March<br/>2013</b> |
|-----------------------------------------------------------------|------------------------------------|------------------------------------|
| Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio | <b>9.6%</b>                        | 9.7%                               |
| Level 2 Macquarie Bank Group Total Tier 1 capital ratio         | <b>10.6%</b>                       | 10.8%                              |
| Level 2 Macquarie Bank Group Total capital ratio                | <b>12.6%</b>                       | 13.5%                              |

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.

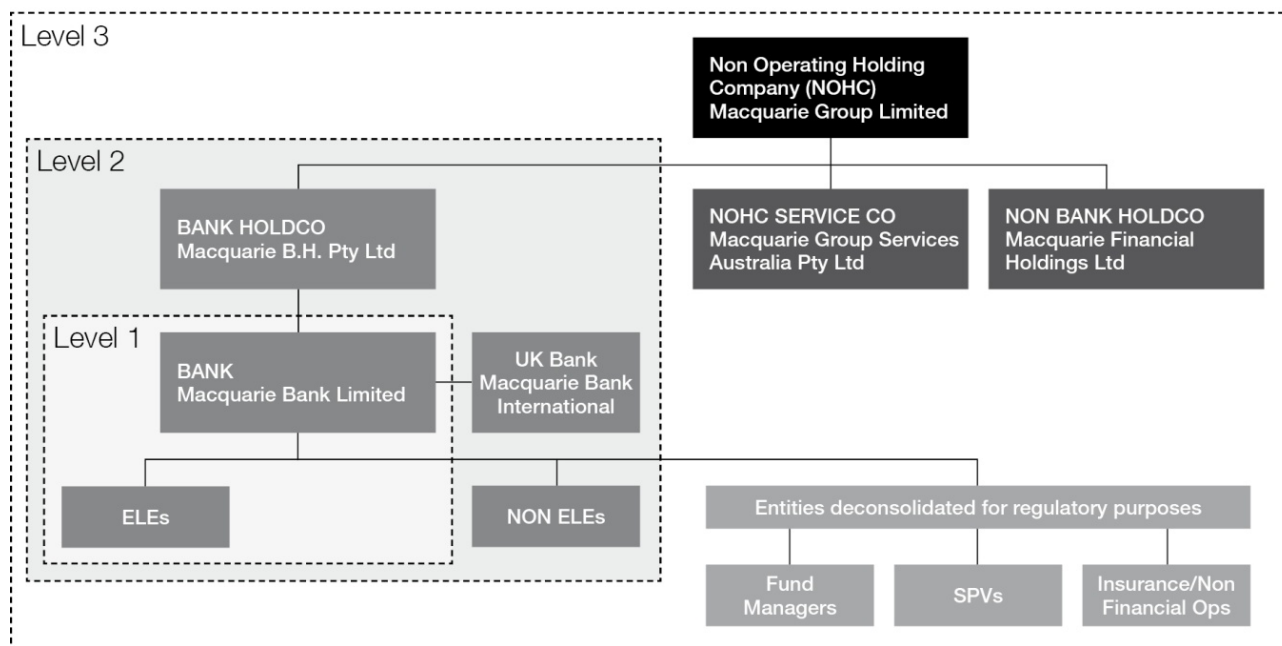
# 1.0 Overview

## 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 2014 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.

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 Structure

Risk management is sponsored by the Macquarie Group Board (Board), and is a top priority for senior managers, starting with the Managing Director and CEO.

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

The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

All Board members are members of the Board Risk Committee. The Board Risk Committee reviews and endorses Macquarie's risk management framework which includes the establishment of policies for the control of risk. The Board Risk Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments that may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework and approves Macquarie's risk appetite.

The Board Risk Committee is assisted by the following Committees:

- The Board Audit Committee (BAC) monitors the effectiveness of internal 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 the Internal Audit and Credit Assurance functions
- The Board Remuneration Committee liaises with the Board Risk Committee and the CRO to ensure there is a properly integrated approach to remuneration that appropriately reflects risk
- 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.

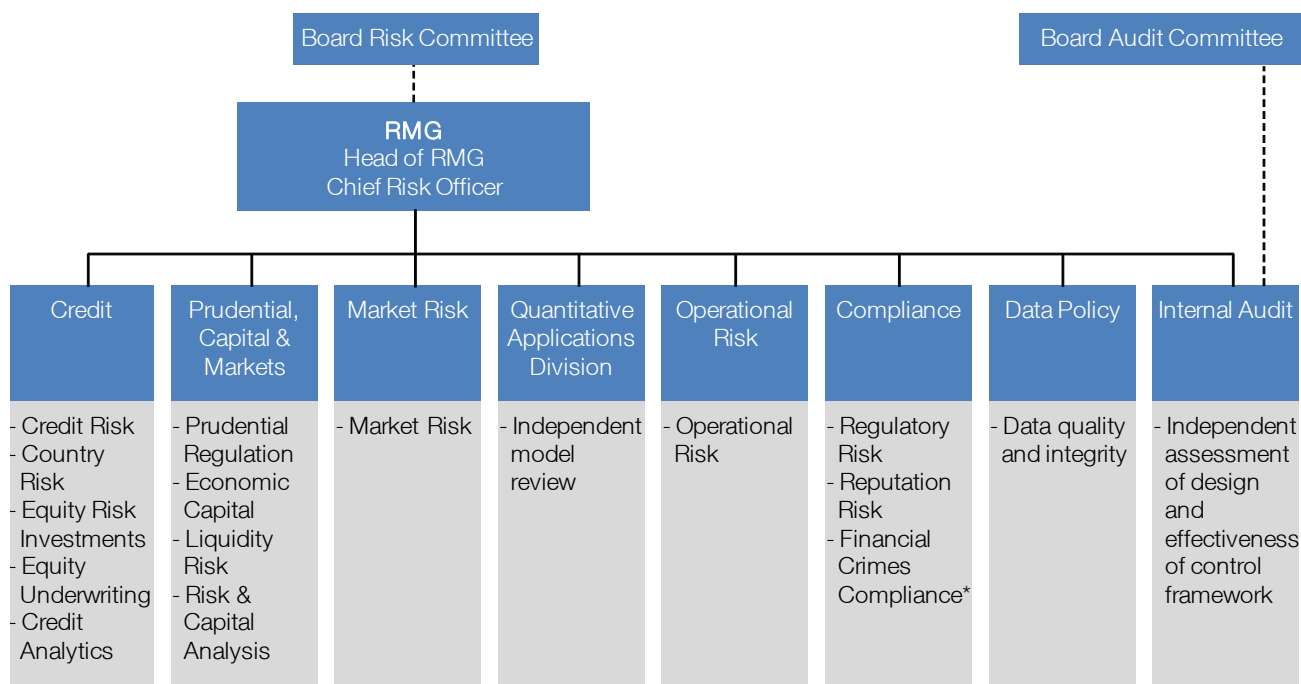
Committees exist at the executive management level to ensure that the necessary elements of expertise are focused on specific risk areas. The Macquarie and Macquarie Bank Executive Committees and the Macquarie Operations Review Committee focus on strategic issues, operational issues, material transactions, the management of risk and review the performance of Macquarie on a monthly basis. Beneath this level, there are other committees where senior specialists focus on specific risks as appropriate. The Market Risk Committee and Asset and Liability Committee are examples of these committees.

While committees oversee Macquarie's risk appetite and acceptance process, risk acceptance decisions are ultimately delegated to individuals to ensure that approvers are individually 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 effectiveness of Macquarie's financial control and risk management framework. Internal Audit forms an independent and objective assessment as to whether:

- risks have been adequately identified;
- adequate internal controls are in place to manage those risks; and
- those controls are working effectively.

Internal Audit is independent of both business management and of the activities it reviews. The Head of Internal Audit is jointly accountable to the BAC and the CRO, has free access at all times to the BAC and cannot be removed or replaced without the approval of 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>Common Equity Tier 1 capital</b>                                                      |                                  |                                  |
| Paid-up ordinary share capital                                                           | 7,710                            | 7,680                            |
| Retained earnings                                                                        | 1,371                            | 1,117                            |
| Reserves                                                                                 | (42)                             | (489)                            |
| Gross Common Equity Tier 1 capital                                                       | 9,039                            | 8,308                            |
| Regulatory adjustments to Common Equity Tier 1 capital:                                  |                                  |                                  |
| Goodwill                                                                                 | 104                              | 136                              |
| Deferred tax assets                                                                      | 189                              | 200                              |
| Net other fair value adjustments                                                         | (9)                              | (21)                             |
| Intangible component of investments in subsidiaries and other entities                   | 443                              | 380                              |
| Loan and lease origination fees and commissions paid to mortgage originators and brokers | 115                              | 86                               |
| Shortfall in provisions for credit losses                                                | 380                              | 140                              |
| Equity exposures                                                                         | 1,307                            | 1,455                            |
| Other Common Equity Tier 1 capital deductions                                            | 192                              | 273                              |
| Total Common Equity Tier 1 capital deductions                                            | 2,721                            | 2,649                            |
| <b>Net Common Equity Tier 1 capital</b>                                                  | <b>6,318</b>                     | <b>5,659</b>                     |
| <b>Additional Tier 1 capital</b>                                                         |                                  |                                  |
| Additional Tier 1 capital instruments                                                    | 643                              | 660                              |
| Gross Additional Tier 1 capital                                                          | 643                              | 660                              |
| Deductions from Additional Tier 1 capital:                                               | -                                | -                                |
| Net Additional Tier 1 capital                                                            | 643                              | 660                              |
| <b>Total Net Tier 1 capital</b>                                                          | <b>6,961</b>                     | <b>6,319</b>                     |
| <b>Tier 2 capital</b>                                                                    |                                  |                                  |
| Tier 2 capital instruments                                                               | 1,343                            | 1,579                            |
| <b>Total capital base</b>                                                                | <b>8,304</b>                     | <b>7,898</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 APS111.

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) and Exchangeable Capital Securities (ECS). MIS, MIPS 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 2014, Macquarie Bank had £42.5 million of MIPS on issue which are held by parties not associated with Macquarie.

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      |

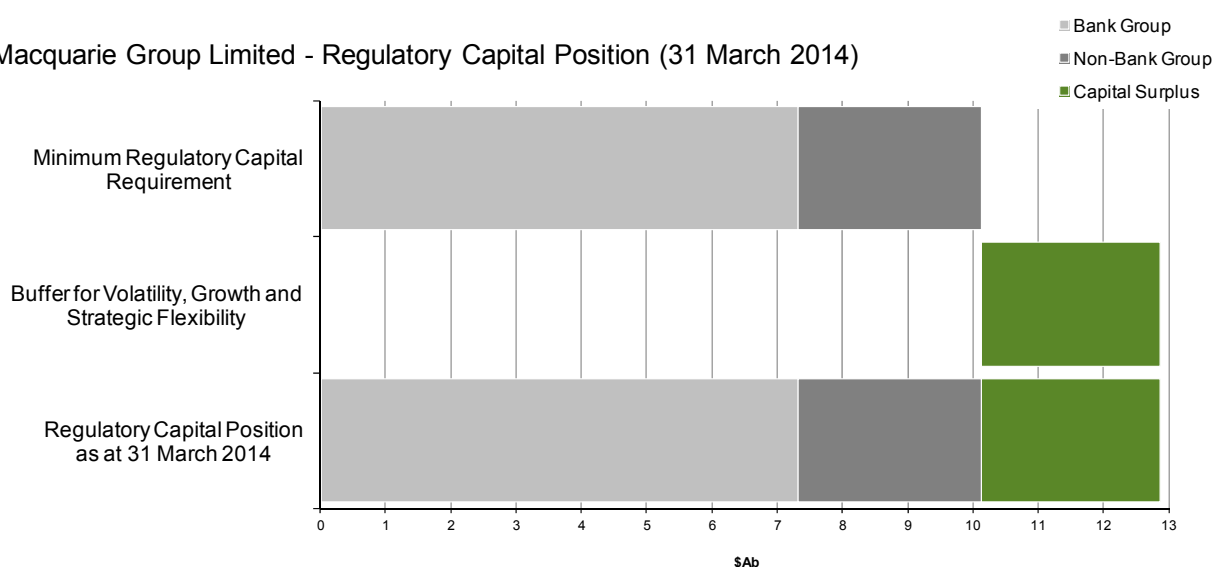
## 4.0 Capital Adequacy

### continued

| 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 some 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 2014)



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

Risk appetite is the nature and amount of risk that the Group is willing to accept. At Macquarie, this is expressed through the Board approved: (i) aggregate and specific risk limits, (ii) relevant policies, and (iii) requirement to consider risk adjusted returns.

The Board reviews Macquarie's risk appetite and approves the Global Risk Limit as part of the annual corporate strategy review process.

### (i) Limits

These consist of specific risk limits given to various businesses and products or industry sectors and also a Global Risk Limit which constrains Macquarie's aggregate level of risk. The Global Risk Limit is set to protect earnings and ensure Macquarie emerges from a downturn with sufficient capital to operate. The Risk Appetite Test, which is discussed below, measures usage against this limit.

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.

### (ii) Relevant policies

There are numerous Macquarie-wide policies which set out the principles that govern the acceptance and management of risks. A key policy is the New Product and Business Approval policy which ensures that a proposed transaction or operation can be handled properly and will not create unknown or unwanted risks for Macquarie in the future.

### (iii) Requirement to consider risk-adjusted returns

At Macquarie, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns. These returns are considered together with other relevant factors by RMG, the Executive Committee and Board in assessing these proposals. Achieving an appropriate return for the additional risk that is proposed is a key focus in deciding whether to accept the risk.

Risk-adjusted performance metrics are prepared on a regular basis and distributed to the Operations Review Committee, the Board and each division. Risk-adjusted performance metrics for each division are a significant input into performance based remuneration.

### 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.

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.

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 therefore 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.

## 4.0 Capital Adequacy

### continued

#### 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|-------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| <b>Credit risk</b>                                                            |                                  |                                  |
| Subject to IRB approach                                                       |                                  |                                  |
| Corporate                                                                     | 18,295                           | 15,546                           |
| SME Corporate                                                                 | 1,727                            | 1,597                            |
| Sovereign                                                                     | 591                              | 734                              |
| Bank                                                                          | 1,680                            | 1,636                            |
| Residential Mortgage <sup>1</sup>                                             | 4,075                            | 2,179                            |
| Other Retail                                                                  | 4,923                            | 4,613                            |
| <b>Total RWA subject to IRB approach<sup>2</sup></b>                          | <b>31,291</b>                    | <b>26,305</b>                    |
| <b>Specialised lending exposures subject to slotting criteria<sup>3</sup></b> | <b>4,891</b>                     | <b>4,683</b>                     |
| Subject to Standardised approach                                              |                                  |                                  |
| Corporate                                                                     | 920                              | 1,013                            |
| Residential Mortgage <sup>1</sup>                                             | 1,479                            | 482                              |
| Other Retail                                                                  | 953                              | 1,208                            |
| <b>Total RWA subject to Standardised approach<sup>2</sup></b>                 | <b>3,352</b>                     | <b>2,703</b>                     |
| <b>Credit risk RWA for securitisation exposures</b>                           | <b>874</b>                       | <b>945</b>                       |
| <b>Credit Valuation Adjustment RWA</b>                                        | <b>2,325</b>                     | <b>2,730</b>                     |
| <b>Exposures to Central Counterparties RWA</b>                                | <b>1,595</b>                     | <b>1,087</b>                     |
| <b>RWA for Other Assets</b>                                                   | <b>6,395</b>                     | <b>5,681</b>                     |
| <b>Total Credit risk RWA</b>                                                  | <b>50,723</b>                    | <b>44,134</b>                    |
| <b>Market risk RWA</b>                                                        | <b>4,567</b>                     | <b>4,536</b>                     |
| <b>Operational risk RWA</b>                                                   | <b>8,531</b>                     | <b>8,125</b>                     |
| <b>Interest rate risk in the banking book RWA</b>                             | <b>-</b>                         | <b>-</b>                         |
| <b>APRA Scaling factor (6%) applied to RWA subject to IRB Approach</b>        | <b>1,877</b>                     | <b>1,578</b>                     |
| <b>Total RWA</b>                                                              | <b>65,698</b>                    | <b>58,373</b>                    |

<sup>1</sup> Pursuant to APRA's review, the US Mortgages portfolio is being treated under Standardised approach as at 31 March 2014 (previously under IRB approach).

<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.

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<br/>31 March<br/>2014</b> | <b>As at<br/>31 March<br/>2013</b> |
|-----------------------------------------------------------------|------------------------------------|------------------------------------|
| Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio | <b>9.6%</b>                        | 9.7%                               |
| Level 2 Macquarie Bank Group Total Tier 1 capital ratio         | <b>10.6%</b>                       | 10.8%                              |
| Level 2 Macquarie Bank Group Total capital ratio                | <b>12.6%</b>                       | 13.5%                              |
| Level 1 Macquarie ELE Common Equity Tier 1 capital ratio        | <b>8.6%</b>                        | 9.1%                               |
| Level 1 Macquarie ELE Total Tier 1 capital ratio                | <b>9.6%</b>                        | 10.3%                              |
| Level 1 Macquarie ELE Total capital ratio                       | <b>11.7%</b>                       | 13.1%                              |

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.

## 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.

## 5.2.2 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       |

## 5.0 Credit Risk Measurement

### continued

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 Credit Equivalent Amount (CEA). This form of risk refers to the estimate of the replacement cost of the contract should the counterparty default prior to the maturity of the trade.

Each of these measures is based on mark-to-market values which are reported daily to RMG Credit.

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For regulatory purposes, CEA 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 exposure) profile. The effect of this limit framework is that the cost of replacing a counterparty portfolio at the time when the portfolio exposure is at its peak is restricted. The models and parameters used to determine future asset prices and consequent portfolio exposures are reviewed and approved by RMG at least every 2 years, significant changes in volatility or market conditions result in more frequent reviews.

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.

## 5.0 Credit Risk Measurement

### continued

#### 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|------------------------------------|----------------------------------|----------------------------------|
| Corporate <sup>1</sup>             | 33,152                           | 26,797                           |
| SME Corporate <sup>2</sup>         | 2,623                            | 2,330                            |
| Sovereign                          | 3,539                            | 5,083                            |
| Bank                               | 9,519                            | 9,177                            |
| Residential Mortgages              | 22,789                           | 17,538                           |
| Other Retail                       | 9,053                            | 8,961                            |
| Other Assets <sup>3</sup>          | 10,626                           | 10,653                           |
| <b>Total Gross Credit Exposure</b> | <b>91,301</b>                    | <b>80,539</b>                    |

<sup>1</sup> "Corporate" includes Specialised Lending exposure of \$5,766 million as at 31 March 2014 (31 March 2013: \$5,088 million).

<sup>2</sup> "SME Corporate" includes Specialised Lending exposure of \$488 million as at 31 March 2014 (31 March 2013: 390 million).

<sup>3</sup> The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 7(b) (continued)

|                                         | On Balance Sheet<br>\$m | As at<br>31 March 2014<br>Off Balance sheet |                       | Total<br>\$m  | Average Exposures<br>for the<br>12 months<br>\$m |
|-----------------------------------------|-------------------------|---------------------------------------------|-----------------------|---------------|--------------------------------------------------|
|                                         |                         | Non-market related<br>\$m                   | Market related<br>\$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(b) (continued)

|                                         | On Balance Sheet<br>\$m | As at<br>31 March 2013<br>Off Balance sheet |                          | Total<br>\$m  | Average Exposures<br>for the<br>12 months<br>\$m |
|-----------------------------------------|-------------------------|---------------------------------------------|--------------------------|---------------|--------------------------------------------------|
|                                         |                         | Non-market<br>related<br>\$m                | Market<br>related<br>\$m |               |                                                  |
| <b>Subject to IRB approach</b>          |                         |                                             |                          |               |                                                  |
| Corporate                               | 12,878                  | 1,703                                       | 6,114                    | 20,695        | 20,284                                           |
| SME Corporate                           | 1,739                   | 201                                         | -                        | 1,940         | 970                                              |
| Sovereign                               | 4,623                   | 240                                         | 220                      | 5,083         | 5,682                                            |
| Bank                                    | 4,666                   | 39                                          | 4,472                    | 9,177         | 9,955                                            |
| Residential Mortgages                   | 10,104                  | 211                                         | -                        | 10,315        | 8,749                                            |
| Other Retail                            | 7,085                   | -                                           | -                        | 7,085         | 6,438                                            |
| <b>Total IRB approach</b>               | <b>41,095</b>           | <b>2,394</b>                                | <b>10,806</b>            | <b>54,295</b> | <b>52,078</b>                                    |
| <b>Specialised Lending</b>              | <b>4,388</b>            | <b>633</b>                                  | <b>457</b>               | <b>5,478</b>  | <b>5,305</b>                                     |
| <b>Subject to Standardised approach</b> |                         |                                             |                          |               |                                                  |
| Corporate                               | 332                     | 682                                         | -                        | 1,014         | 1,887                                            |
| Residential Mortgages                   | 7,223                   | -                                           | -                        | 7,223         | 7,895                                            |
| Other Retail                            | 1,873                   | 3                                           | -                        | 1,876         | 2,485                                            |
| <b>Total Standardised approach</b>      | <b>9,428</b>            | <b>685</b>                                  | <b>-</b>                 | <b>10,113</b> | <b>12,267</b>                                    |
| <b>Other Assets</b>                     | <b>10,653</b>           | <b>-</b>                                    | <b>-</b>                 | <b>10,653</b> | <b>11,315</b>                                    |
| <b>Total Gross Credit Exposures</b>     | <b>65,564</b>           | <b>3,712</b>                                | <b>11,263</b>            | <b>80,539</b> | <b>80,965</b>                                    |

APS 330 Table 7(i)

|                                         | As at<br>31 March 2014          |                                            |                              |                                                            | For the 12 months to<br>31 March 2014                                     |                   |
|-----------------------------------------|---------------------------------|--------------------------------------------|------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------|-------------------|
|                                         | Gross Credit<br>Exposure<br>\$m | Impaired<br>Facilities <sup>1</sup><br>\$m | Past Due<br>> 90 days<br>\$m | Individually<br>Assessed<br>Provisions <sup>1</sup><br>\$m | Charges for<br>Individually<br>Assessed<br>Provisions <sup>1</sup><br>\$m | Write-offs<br>\$m |
| <b>Subject to IRB approach</b>          |                                 |                                            |                              |                                                            |                                                                           |                   |
| Corporate <sup>2</sup>                  | 32,230                          | 967                                        | 183                          | (280)                                                      | (122)                                                                     | (3)               |
| SME Corporate                           | 2,623                           | 29                                         | 6                            | (10)                                                       | (9)                                                                       | -                 |
| Sovereign                               | 3,539                           | -                                          | -                            | -                                                          | -                                                                         | -                 |
| Bank                                    | 9,519                           | -                                          | -                            | -                                                          | -                                                                         | -                 |
| Residential Mortgage                    | 15,599                          | 152                                        | 58                           | (8)                                                        | (3)                                                                       | -                 |
| Other Retail                            | 7,854                           | 19                                         | -                            | (8)                                                        | (3)                                                                       | (37)              |
| <b>Total IRB approach</b>               | <b>71,364</b>                   | <b>1,167</b>                               | <b>247</b>                   | <b>(306)</b>                                               | <b>(137)</b>                                                              | <b>(40)</b>       |
| <b>Subject to Standardised approach</b> |                                 |                                            |                              |                                                            |                                                                           |                   |
| Corporate                               | 922                             | -                                          | -                            | -                                                          | -                                                                         | -                 |
| Residential Mortgage                    | 7,190                           | 34                                         | 20                           | (10)                                                       | (2)                                                                       | -                 |
| Other Retail                            | 1,199                           | 27                                         | 5                            | (11)                                                       | (5)                                                                       | (23)              |
| <b>Total Standardised approach</b>      | <b>9,311</b>                    | <b>61</b>                                  | <b>25</b>                    | <b>(21)</b>                                                | <b>(7)</b>                                                                | <b>(23)</b>       |
| <b>Other Assets<sup>3</sup></b>         | <b>10,626</b>                   | <b>208</b>                                 | <b>-</b>                     | <b>(3)</b>                                                 | <b>-</b>                                                                  | <b>-</b>          |
| <b>Total</b>                            | <b>91,301</b>                   | <b>1,436</b>                               | <b>272</b>                   | <b>(330)</b>                                               | <b>(144)</b>                                                              | <b>(63)</b>       |

As at  
31 March  
2014  
\$m

General reserve for credit losses<sup>4</sup> 234

<sup>1</sup> In accordance with Attachment C (Paragraph 1) APS 330, the table above excludes securitisation exposures. As at 31 March 2014, Macquarie has impaired securitised facilities of \$5 million (31 March 2013: \$6 million) with individually assessed provisions of \$4 million (31 March 2013: \$5 million), and charges for individually assessed provisions of nil for the 12 months to 31 March 2014.

<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.

## 5.0 Credit Risk Measurement

### continued

#### 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<br>31 March 2014 |                  |               |                 |               |
|------------------------------------|------------------------|------------------|---------------|-----------------|---------------|
|                                    | Asia<br>\$m            | Australia<br>\$m | EMEA<br>\$m   | Americas<br>\$m | Total<br>\$m  |
| Corporate                          | 1,498                  | 6,656            | 13,338        | 11,660          | 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>42,540</b>    | <b>23,689</b> | <b>20,343</b>   | <b>91,301</b> |

EMEA represents Europe, Middle East and Africa

| Portfolio Type                     | As at<br>31 March 2013 |                  |               |                 |               |
|------------------------------------|------------------------|------------------|---------------|-----------------|---------------|
|                                    | Asia<br>\$m            | Australia<br>\$m | EMEA<br>\$m   | Americas<br>\$m | Total<br>\$m  |
| Corporate                          | 1,210                  | 6,025            | 10,536        | 9,026           | 26,797        |
| SME Corporate                      | 3                      | 2,205            | 121           | 1               | 2,330         |
| Sovereign                          | 124                    | 3,984            | 707           | 268             | 5,083         |
| Bank                               | 441                    | 1,688            | 5,132         | 1,916           | 9,177         |
| Residential Mortgages              | 3                      | 10,025           | 121           | 7,389           | 17,538        |
| Other Retail                       | 52                     | 8,719            | 72            | 118             | 8,961         |
| Other Assets                       | 1,479                  | 3,196            | 4,443         | 1,535           | 10,653        |
| <b>Total Gross Credit Exposure</b> | <b>3,312</b>           | <b>35,842</b>    | <b>21,132</b> | <b>20,253</b>   | <b>80,539</b> |

## 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<br>31 March 2014          |                   |                  |               |               |
|------------------------------------|---------------------------------|-------------------|------------------|---------------|---------------|
|                                    | Financial<br>Institution<br>\$m | Government<br>\$m | Corporate<br>\$m | Retail<br>\$m | Total<br>\$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              | -                               | -                 | 395              | 22,394        | 22,789        |
| Other Retail                       | -                               | -                 | 386              | 8,667         | 9,053         |
| Other Assets                       | -                               | -                 | 10,509           | 117           | 10,626        |
| <b>Total Gross Credit Exposure</b> | <b>19,776</b>                   | <b>841</b>        | <b>38,701</b>    | <b>31,983</b> | <b>91,301</b> |

| Portfolio Type                     | As at<br>31 March 2013          |                   |                  |               |               |
|------------------------------------|---------------------------------|-------------------|------------------|---------------|---------------|
|                                    | Financial<br>Institution<br>\$m | Government<br>\$m | Corporate<br>\$m | Retail<br>\$m | Total<br>\$m  |
| Corporate                          | 5,790                           | 211               | 20,342           | 454           | 26,797        |
| SME Corporate                      | -                               | -                 | 1,794            | 536           | 2,330         |
| Sovereign                          | 3,610                           | 1,473             | -                | -             | 5,083         |
| Bank                               | 9,177                           | -                 | -                | -             | 9,177         |
| Residential Mortgages              | -                               | -                 | 243              | 17,295        | 17,538        |
| Other Retail                       | -                               | -                 | 264              | 8,697         | 8,961         |
| Other Assets                       | -                               | 537               | 9,710            | 406           | 10,653        |
| <b>Total Gross Credit Exposure</b> | <b>18,577</b>                   | <b>2,221</b>      | <b>32,353</b>    | <b>27,388</b> | <b>80,539</b> |

## 5.0 Credit Risk Measurement

### continued

#### 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<br>31 March 2014 |                    |                  | Total<br>\$m  |
|------------------------------------|------------------------|--------------------|------------------|---------------|
|                                    | ≤1 year<br>\$m         | 1 ≤ 5 years<br>\$m | > 5 years<br>\$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                       | 666                    | 8,377              | 10               | 9,053         |
| Other Assets                       | 8,184                  | 1,979              | 463              | 10,626        |
| <b>Total Gross Credit Exposure</b> | <b>33,901</b>          | <b>32,256</b>      | <b>25,144</b>    | <b>91,301</b> |

| Portfolio Type                     | As at<br>31 March 2013 |                    |                  | Total<br>\$m  |
|------------------------------------|------------------------|--------------------|------------------|---------------|
|                                    | ≤1 year<br>\$m         | 1 ≤ 5 years<br>\$m | > 5 years<br>\$m |               |
| Corporate                          | 11,250                 | 11,298             | 4,249            | 26,797        |
| SME Corporate                      | 672                    | 1,556              | 102              | 2,330         |
| Sovereign                          | 758                    | 1,441              | 2,884            | 5,083         |
| Bank                               | 5,786                  | 2,380              | 1,011            | 9,177         |
| Residential Mortgages              | 1,479                  | 5,668              | 10,391           | 17,538        |
| Other Retail                       | 728                    | 8,229              | 4                | 8,961         |
| Other Assets                       | 7,782                  | 2,320              | 551              | 10,653        |
| <b>Total Gross Credit Exposure</b> | <b>28,455</b>          | <b>32,892</b>      | <b>19,192</b>    | <b>80,539</b> |

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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%.

## 5.0 Credit Risk Measurement

### continued

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 LGDs based on historic data.                                                                                                                                                                                                                                                                         |
| Exposures to prime Residential Mortgages in Australia.                                                               | IRB          | Through-the-cycle pool PDs and LGDs based on historic data. The regulatory floor of 20% applies to the LGD of each pool.                                                                                                                                                                                                            |
| Exposures to prime Residential Mortgages in the USA. Loans with higher loan-to-value ratios have mortgage insurance. | Standardised | 100% risk-weighted.                                                                                                                                                                                                                                                                                                                 |
| Exposures to mortgage insured prime Residential Mortgages in Canada.                                                 | Standardised | Mortgage insurance is provided by a corporate and government insurer. In the event of wind up of the corporate insurer, the Canadian government will guarantee all but 10% of the initial exposure. Accordingly, this 10% of original exposure to the Corporate insurer is risk weighted. The remaining 90% is risk weighted at 0%. |
| 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|-----------------------------------------|----------------------------------|----------------------------------|
| <b>Subject to IRB approach</b>          |                                  |                                  |
| Corporate                               | 32,230                           | 25,783                           |
| SME Corporate                           | 2,623                            | 2,330                            |
| Sovereign                               | 3,539                            | 5,083                            |
| Bank                                    | 9,519                            | 9,177                            |
| Residential Mortgage                    | 15,599                           | 10,315                           |
| Other Retail                            | 7,854                            | 7,085                            |
| <b>Total IRB approach</b>               | <b>71,364</b>                    | <b>59,773</b>                    |
| <b>Subject to Standardised approach</b> |                                  |                                  |
| Corporate                               | 922                              | 1,014                            |
| Residential Mortgage                    | 7,190                            | 7,223                            |
| Other Retail                            | 1,199                            | 1,876                            |
| <b>Total Standardised approach</b>      | <b>9,311</b>                     | <b>10,113</b>                    |
| <b>Other Assets<sup>1</sup></b>         | <b>10,626</b>                    | <b>10,653</b>                    |
| <b>Total Gross Credit Exposure</b>      | <b>91,301</b>                    | <b>80,539</b>                    |

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

## 6.0 Calculation of Credit Risk Exposures

### continued

#### 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<br>31 March 2014                |                                                                                                            | As at<br>31 March 2013                |                                                                                                            |
|-----------------|---------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------------------|------------------------------------------------------------------------------------------------------------|
|                 | Total Gross<br>Credit Exposure<br>\$m | Gross Credit<br>Exposure after<br>mitigation by<br>eligible collateral<br>& guarantees <sup>1</sup><br>\$m | Total Gross<br>Credit Exposure<br>\$m | Gross Credit<br>Exposure after<br>mitigation by<br>eligible collateral &<br>guarantees <sup>1</sup><br>\$m |
| 0% <sup>2</sup> | 4,924                                 | -                                                                                                          | 6,844                                 | 2                                                                                                          |
| > 0% ≤ 20%      | -                                     | -                                                                                                          | -                                     | -                                                                                                          |
| > 20% ≤ 35%     | 914                                   | 914                                                                                                        | 282                                   | 282                                                                                                        |
| > 35% ≤ 50%     | 832                                   | 832                                                                                                        | 543                                   | 543                                                                                                        |
| > 50% ≤ 75%     | 99                                    | 99                                                                                                         | 26                                    | 26                                                                                                         |
| > 75% ≤ 100%    | 2,542                                 | 2,542                                                                                                      | 2,418                                 | 2,418                                                                                                      |
| > 100% ≤ 150%   | -                                     | -                                                                                                          | -                                     | -                                                                                                          |
| > 150%          | -                                     | -                                                                                                          | -                                     | -                                                                                                          |
| <b>Total</b>    | <b>9,311</b>                          | <b>4,387</b>                                                                                               | <b>10,113</b>                         | <b>3,271</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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
| 70%                  | 1,116                            | 1,017                            |
| 90%                  | 2,527                            | 2,380                            |
| 115%                 | 1,415                            | 1,375                            |
| 250%                 | 83                               | 99                               |
| Default <sup>1</sup> | 1,113                            | 607                              |
| <b>Total</b>         | <b>6,254</b>                     | <b>5,478</b>                     |

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

### 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<br>31 March 2014<br>PD Grade |                         |                        |                     |                    |                      |                | Total<br>Gross<br>Credit<br>Exposure<br>\$m |
|------------------------------------|------------------------------------|-------------------------|------------------------|---------------------|--------------------|----------------------|----------------|---------------------------------------------|
|                                    | 0 < 0.03%<br>\$m                   | 0.03% <<br>0.15%<br>\$m | 0.15% <<br>0.5%<br>\$m | 0.5% <<br>3%<br>\$m | 3% <<br>10%<br>\$m | 10% <<br>100%<br>\$m | Default<br>\$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>                               |

|                                    | As at<br>31 March 2013<br>PD Grade |                         |                        |                     |                    |                      |                | Total<br>Gross<br>Credit<br>Exposure<br>\$m |
|------------------------------------|------------------------------------|-------------------------|------------------------|---------------------|--------------------|----------------------|----------------|---------------------------------------------|
|                                    | 0 < 0.03%<br>\$m                   | 0.03% <<br>0.15%<br>\$m | 0.15% <<br>0.5%<br>\$m | 0.5% <<br>3%<br>\$m | 3% <<br>10%<br>\$m | 10% <<br>100%<br>\$m | Default<br>\$m |                                             |
| <b>Non-Retail</b>                  |                                    |                         |                        |                     |                    |                      |                |                                             |
| Corporate                          | 838                                | 2,475                   | 4,904                  | 12,069              | 3,700              | 907                  | 890            | 25,783                                      |
| SME Corporate                      | -                                  | -                       | -                      | 1,533               | 539                | 230                  | 28             | 2,330                                       |
| Sovereign                          | 4,994                              | 65                      | 20                     | 4                   | -                  | -                    | -              | 5,083                                       |
| Bank                               | 3,108                              | 5,671                   | 360                    | 19                  | 2                  | -                    | 17             | 9,177                                       |
| <b>Total Gross Credit Exposure</b> | <b>8,940</b>                       | <b>8,211</b>            | <b>5,284</b>           | <b>13,625</b>       | <b>4,241</b>       | <b>1,137</b>         | <b>935</b>     | <b>42,373</b>                               |

## 6.0 Calculation of Credit Risk Exposures

### continued

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<br>31 March 2014<br>PD Grade |                         |                        |                     |                    |                      | Default<br>\$m | Total<br>\$m |
|----------------------------------|------------------------------------|-------------------------|------------------------|---------------------|--------------------|----------------------|----------------|--------------|
|                                  | 0 < 0.03%<br>\$m                   | 0.03% <<br>0.15%<br>\$m | 0.15% <<br>0.5%<br>\$m | 0.5% <<br>3%<br>\$m | 3% <<br>10%<br>\$m | 10% <<br>100%<br>\$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        |

|                                  | As at<br>31 March 2013<br>PD Grade |                         |                        |                     |                    |                      | Default<br>\$m | Total<br>\$m |
|----------------------------------|------------------------------------|-------------------------|------------------------|---------------------|--------------------|----------------------|----------------|--------------|
|                                  | 0 < 0.03%<br>\$m                   | 0.03% <<br>0.15%<br>\$m | 0.15% <<br>0.5%<br>\$m | 0.5% <<br>3%<br>\$m | 3% <<br>10%<br>\$m | 10% <<br>100%<br>\$m |                |              |
| <b>Undrawn Commitments</b>       |                                    |                         |                        |                     |                    |                      |                |              |
| Corporate                        | -                                  | 123                     | 221                    | 510                 | 178                | 32                   | 21             | 1,085        |
| SME Corporate                    | -                                  | -                       | -                      | 105                 | 29                 | 6                    | 1              | 141          |
| Bank                             | -                                  | 1                       | -                      | -                   | -                  | -                    | -              | 1            |
| <b>Total Undrawn Commitments</b> | -                                  | 124                     | 221                    | 615                 | 207                | 38                   | 22             | 1,227        |

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 Mortgage and Other Retail as shown in section 6.1.

| As at<br>31 March 2014<br>Expected Loss Categories |                 |                    |                    |                  |                 |                   |                                    |
|----------------------------------------------------|-----------------|--------------------|--------------------|------------------|-----------------|-------------------|------------------------------------|
| Retail                                             | 0 < 0.1%<br>\$m | 0.1% < 0.3%<br>\$m | 0.3% < 0.5%<br>\$m | 0.5% < 3%<br>\$m | 3% < 10%<br>\$m | 10% < 100%<br>\$m | Total Gross Credit Exposure<br>\$m |
| Residential Mortgage                               | 2,948           | 8,818              | 2,765              | 895              | -               | 173               | 15,599                             |
| Other Retail                                       | -               | -                  | 3,643              | 4,168            | 40              | 3                 | 7,854                              |
| <b>Total Gross Credit Exposure</b>                 | <b>2,948</b>    | <b>8,818</b>       | <b>6,408</b>       | <b>5,063</b>     | <b>40</b>       | <b>176</b>        | <b>23,453</b>                      |

| As at<br>31 March 2013<br>Expected Loss Categories |                 |                    |                    |                  |                 |                   |                                    |
|----------------------------------------------------|-----------------|--------------------|--------------------|------------------|-----------------|-------------------|------------------------------------|
| Retail                                             | 0 < 0.1%<br>\$m | 0.1% < 0.3%<br>\$m | 0.3% < 0.5%<br>\$m | 0.5% < 3%<br>\$m | 3% < 10%<br>\$m | 10% < 100%<br>\$m | Total Gross Credit Exposure<br>\$m |
| Residential Mortgage                               | 7,443           | 1,078              | 198                | 1,408            | -               | 188               | 10,315                             |
| Other Retail                                       | -               | -                  | 3,611              | 3,461            | -               | 13                | 7,085                              |
| <b>Total Gross Credit Exposure</b>                 | <b>7,443</b>    | <b>1,078</b>       | <b>3,809</b>       | <b>4,869</b>     | <b>-</b>        | <b>201</b>        | <b>17,400</b>                      |

## 6.0 Calculation of Credit Risk Exposures

### continued

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<br>31 March 2014<br>Expected Loss Categories |                    |                    |                  |                 |                   | Total<br>\$m |
|----------------------------------|----------------------------------------------------|--------------------|--------------------|------------------|-----------------|-------------------|--------------|
|                                  | 0 < 0.1%<br>\$m                                    | 0.1% < 0.3%<br>\$m | 0.3% < 0.5%<br>\$m | 0.5% < 3%<br>\$m | 3% < 10%<br>\$m | 10% < 100%<br>\$m |              |
| <b>Undrawn Commitments</b>       |                                                    |                    |                    |                  |                 |                   |              |
| Residential Mortgage             | 156                                                | 66                 | 77                 | 3                | -               | -                 | 302          |
| Other Retail                     | -                                                  | -                  | -                  | -                | -               | -                 | -            |
| <b>Total Undrawn Commitments</b> | <b>156</b>                                         | <b>66</b>          | <b>77</b>          | <b>3</b>         | <b>-</b>        | <b>-</b>          | <b>302</b>   |

|                                  | As at<br>31 March 2013<br>Expected Loss Categories |                    |                    |                  |                 |                   | Total<br>\$m |
|----------------------------------|----------------------------------------------------|--------------------|--------------------|------------------|-----------------|-------------------|--------------|
|                                  | 0 < 0.1%<br>\$m                                    | 0.1% < 0.3%<br>\$m | 0.3% < 0.5%<br>\$m | 0.5% < 3%<br>\$m | 3% < 10%<br>\$m | 10% < 100%<br>\$m |              |
| <b>Undrawn Commitments</b>       |                                                    |                    |                    |                  |                 |                   |              |
| Residential Mortgage             | 165                                                | 26                 | 2                  | 16               | -               | -                 | 209          |
| Other Retail                     | -                                                  | -                  | -                  | -                | -               | -                 | -            |
| <b>Total Undrawn Commitments</b> | <b>165</b>                                         | <b>26</b>          | <b>2</b>           | <b>16</b>        | <b>-</b>        | <b>-</b>          | <b>209</b>   |

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## 7.0 Provisioning

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### 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 2014, the total REL was \$1,370 million (31 March 2013: \$809 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of \$380 million (31 March 2013: \$140 million).

## 7.0 Provisioning

### continued

#### 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<br>31 March 2014        |                                               | As at<br>31 March 2013        |                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------------------------|-------------------------------|-----------------------------------------------|
|                                                                                                                                                           | Impaired<br>Facilities<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m | Impaired<br>Facilities<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m |
| Total - APS220 impaired facilities                                                                                                                        | 1,441                         | 334                                           | 1,028                         | 310                                           |
| Impaired debt investment securities <sup>1</sup>                                                                                                          | (7)                           | (6)                                           | (9)                           | (7)                                           |
| Impaired loans without provisions <sup>2</sup>                                                                                                            | (550)                         | -                                             | (162)                         | -                                             |
| Real estate and other assets acquired through security enforcement <sup>3</sup>                                                                           | (175)                         | -                                             | (207)                         | -                                             |
| Off balance sheet exposures                                                                                                                               | (2)                           | -                                             | (3)                           | -                                             |
| Other exposures                                                                                                                                           | 13                            | 6                                             | 13                            | 7                                             |
| <b>Total – Impaired loans &amp; other financial assets with individually assessed provisions for impairment per MBL consolidated financial statements</b> | <b>720</b>                    | <b>334</b>                                    | <b>660</b>                    | <b>310</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 \$41 million (\$17 million as at 31 March 2013) 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.

## 7.6 Provisions by Counterparty Type

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

APS 330 Table 7(f)

|                                         | As at<br>31 March 2014        |                             |                                               | As at<br>31 March 2013        |                             |                                               |
|-----------------------------------------|-------------------------------|-----------------------------|-----------------------------------------------|-------------------------------|-----------------------------|-----------------------------------------------|
|                                         | Impaired<br>Facilities<br>\$m | Past Due<br>>90 days<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m | Impaired<br>Facilities<br>\$m | Past Due<br>>90 days<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m |
| <b>Subject to IRB approach</b>          |                               |                             |                                               |                               |                             |                                               |
| Corporate                               | 967                           | 183                         | (280)                                         | 551                           | 40                          | (255)                                         |
| SME Corporate                           | 29                            | 6                           | (10)                                          | 24                            | 2                           | (8)                                           |
| Residential Mortgage                    | 152                           | 58                          | (8)                                           | 164                           | 80                          | (20)                                          |
| Other Retail                            | 19                            | -                           | (8)                                           | 13                            | -                           | (6)                                           |
| Other                                   | 5                             | -                           | (4)                                           | 6                             | -                           | (5)                                           |
| <b>Total IRB approach</b>               | <b>1,172</b>                  | <b>247</b>                  | <b>(310)</b>                                  | <b>758</b>                    | <b>122</b>                  | <b>(294)</b>                                  |
| <b>Subject to Standardised approach</b> |                               |                             |                                               |                               |                             |                                               |
| Residential Mortgage                    | 34                            | 20                          | (10)                                          | -                             | 25                          | -                                             |
| Other Retail                            | 27                            | 5                           | (11)                                          | 45                            | 1                           | (15)                                          |
| <b>Total Standardised approach</b>      | <b>61</b>                     | <b>25</b>                   | <b>(21)</b>                                   | <b>45</b>                     | <b>26</b>                   | <b>(15)</b>                                   |
| <b>Other Assets</b>                     | <b>208</b>                    | <b>-</b>                    | <b>(3)</b>                                    | <b>225</b>                    | <b>-</b>                    | <b>(1)</b>                                    |
| <b>Total</b>                            | <b>1,441</b>                  | <b>272</b>                  | <b>(334)</b>                                  | <b>1,028</b>                  | <b>148</b>                  | <b>(310)</b>                                  |

## 7.0 Provisioning

### continued

APS 330 Table 9(e)

|                                         | For the 12 months to<br>31 March 2014                        |                   | For the 12 months to<br>31 March 2013                        |                   |
|-----------------------------------------|--------------------------------------------------------------|-------------------|--------------------------------------------------------------|-------------------|
|                                         | Charges for<br>Individually<br>Assessed<br>provisions<br>\$m | Write-offs<br>\$m | Charges for<br>Individually<br>Assessed<br>provisions<br>\$m | Write-offs<br>\$m |
| <b>Subject to IRB approach</b>          |                                                              |                   |                                                              |                   |
| Corporate                               | (122)                                                        | (3)               | (126)                                                        | (28)              |
| SME Corporate                           | (9)                                                          | -                 | (4)                                                          | -                 |
| Residential Mortgage                    | (3)                                                          | -                 | (8)                                                          | -                 |
| Other Retail                            | (3)                                                          | (37)              | (3)                                                          | (34)              |
| <b>Total IRB approach</b>               | <b>(137)</b>                                                 | <b>(40)</b>       | <b>(141)</b>                                                 | <b>(62)</b>       |
| <b>Subject to Standardised approach</b> |                                                              |                   |                                                              |                   |
| Residential Mortgage                    | (2)                                                          | -                 | -                                                            | -                 |
| Other Retail                            | (5)                                                          | (23)              | (4)                                                          | (38)              |
| <b>Total Standardised approach</b>      | <b>(7)</b>                                                   | <b>(23)</b>       | <b>(4)</b>                                                   | <b>(38)</b>       |
| <b>Total</b>                            | <b>(144)</b>                                                 | <b>(63)</b>       | <b>(145)</b>                                                 | <b>(100)</b>      |

## 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<br>31 March 2014        |                              |                                               |                                 |
|-------------------|-------------------------------|------------------------------|-----------------------------------------------|---------------------------------|
|                   | Impaired<br>Facilities<br>\$m | Past due<br>> 90 days<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m | Collective<br>Provisions<br>\$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>                    |

| Geographic Region | As at<br>31 March 2013        |                              |                                               |                                 |
|-------------------|-------------------------------|------------------------------|-----------------------------------------------|---------------------------------|
|                   | Impaired<br>Facilities<br>\$m | Past due<br>> 90 days<br>\$m | Individually<br>Assessed<br>Provisions<br>\$m | Collective<br>Provisions<br>\$m |
| Australia         | 452                           | 115                          | (110)                                         | (134)                           |
| EMEA              | 91                            | -                            | (28)                                          | (28)                            |
| Americas          | 455                           | 33                           | (164)                                         | (47)                            |
| Asia              | 30                            | -                            | (8)                                           | (1)                             |
| <b>Total</b>      | <b>1,028</b>                  | <b>148</b>                   | <b>(310)</b>                                  | <b>(210)</b>                    |

## 7.0 Provisioning

### continued

#### 7.8 General reserve for credit losses

##### APS 330 Table 7(j)

|                                                                                           | As at<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|-------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| Collective provisions                                                                     | 275                              | 210                              |
| Collective provisions treated as individually assessed provisions for regulatory purposes | (41)                             | (17)                             |
| Net collective provisions for regulatory purposes <sup>1</sup>                            | 234                              | 193                              |
| Tax effect                                                                                | (70)                             | (58)                             |
| <b>General reserve for credit losses</b>                                                  | <b>164</b>                       | <b>135</b>                       |

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

## 7.9 Movement in Provisions

The table below shows the movement of provisions over the 12 months to 31 March 2014.

APS 330 Table 7(h)

|                                               | \$m        |
|-----------------------------------------------|------------|
| <b>Total Provisions as at 31 March 2013</b>   | <b>520</b> |
| <b>Collective Provisions</b>                  |            |
| Balance at start of the period                | 210        |
| Provided for during the period                | 125        |
| Written back during the period                | (65)       |
| Adjustments for foreign exchange fluctuations | 5          |
| <b>Total Collective Provisions</b>            | <b>275</b> |
| <b>Individually Assessed Provisions</b>       |            |
| Balance at start of the period                | 310        |
| Charge to income statement                    | 144        |
| Assets written off, previously provided for   | (116)      |
| Recovery of loans, previously provided for    | (27)       |
| Adjustments for foreign exchange fluctuations | 23         |
| <b>Total Individually Assessed Provisions</b> | <b>334</b> |
| <b>Total Provisions as at 31 March 2014</b>   | <b>609</b> |

## 7.0 Provisioning

### continued

#### 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 2014 period.

APS 330 Table 9(f)

| Portfolio Type       | PD          |          | Exposure at default      | LGD         |          |
|----------------------|-------------|----------|--------------------------|-------------|----------|
|                      | Estimated % | Actual % | Estimate to Actual Ratio | Estimated % | Actual % |
| Corporate            | 1.40        | 0.73     | N/A*                     | N/A*        | N/A*     |
| SME Corporate        | 2.20        | 1.30     | N/A*                     | N/A*        | N/A*     |
| Sovereign            | 0.02        | 0.00     | N/A*                     | N/A*        | N/A*     |
| Bank                 | 0.08        | 0.00     | N/A*                     | N/A*        | N/A*     |
| Residential Mortgage | 1.00        | 1.63     | 100%                     | 21.05       | 7.75     |
| Other Retail         | 1.27        | 1.19     | 113%                     | 43.55       | 30.90    |

\* 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.

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## 8.0 Credit Risk Mitigation

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### 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 collateral into consideration. 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 collateral 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 used as a major 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. All properties taken as security must be independently valued.

Prior to acceptance of any valuation it 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 correlated with general market risk factors. Macquarie considers these correlations as part of the credit assessment process.

## 8.0 Credit Risk Mitigation

### continued

#### 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<br>31 March 2014                   |                                            |                                        |                                              |
|--------------------------------|------------------------------------------|--------------------------------------------|----------------------------------------|----------------------------------------------|
|                                | Total Gross<br>Credit<br>Exposure<br>\$m | Eligible<br>Financial<br>Collateral<br>\$m | Other<br>Eligible<br>Collateral<br>\$m | Exposures<br>Covered by<br>Guarantees<br>\$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>                                 |

| Measurement Approach           | As at<br>31 March 2013                   |                                            |                                        |                                              |
|--------------------------------|------------------------------------------|--------------------------------------------|----------------------------------------|----------------------------------------------|
|                                | Total Gross<br>Credit<br>Exposure<br>\$m | Eligible<br>Financial<br>Collateral<br>\$m | Other<br>Eligible<br>Collateral<br>\$m | Exposures<br>Covered by<br>Guarantees<br>\$m |
| <b>Subject to IRB approach</b> |                                          |                                            |                                        |                                              |
| Corporate                      | 25,783                                   | 1,317                                      | 56                                     | 184                                          |
| SME Corporate                  | 2,330                                    | 38                                         | 909                                    | -                                            |
| Sovereign                      | 5,083                                    | -                                          | -                                      | 887                                          |
| Bank                           | 9,177                                    | 813                                        | -                                      | 168                                          |
| <b>Total IRB approach</b>      | <b>42,373</b>                            | <b>2,168</b>                               | <b>965</b>                             | <b>1,239</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 a warehouse SPV that issues and holds Residential Mortgage Backed Securities (RMBS) eligible for repurchase with the RBA.

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

- Macquarie Enhanced Australian Fixed Interest Fund;
- Macquarie Life Superannuation Approved Deposit Fund;
- Macquarie Life Pension Approved Deposit 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 1;
- Macquarie Debt Markets Opportunity Fund No 2;
- Macquarie Alpha Portfolio Investment No 1;
- Macquarie Alpha Portfolio Investment No 2;
- Macquarie Alpha Portfolio Investment No 3;
- Macquarie Core Australian Fixed Interest Fund; and
- Master Fixed Interest Fund.

These entities' investments 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 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 a deduction from capital, although in all cases the capital charge is capped at the on-balance sheet equivalent.

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.

## 9.0 Securitisation

### continued

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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.

## 9.2 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<br>31 March 2014                       |                                    |              |
|---------------------------------------|----------------------------------------------|------------------------------------|--------------|
|                                       | Total outstanding exposures securitised      |                                    |              |
|                                       | ADI originated<br>assets <sup>1</sup><br>\$m | ADI as sponsor <sup>2</sup><br>\$m | Other<br>\$m |
| <b>Banking Book</b>                   |                                              |                                    |              |
| Residential Mortgage                  | 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 Mortgage                  | -                                            | -                                  | -            |
| 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 \$7,881m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

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

| Exposure type - Traditional           | As at<br>31 March 2013                       |                                    |              |
|---------------------------------------|----------------------------------------------|------------------------------------|--------------|
|                                       | Total outstanding exposures securitised      |                                    |              |
|                                       | ADI originated<br>assets <sup>1</sup><br>\$m | ADI as sponsor <sup>2</sup><br>\$m | Other<br>\$m |
| <b>Banking Book</b>                   |                                              |                                    |              |
| Residential Mortgage                  | 11,760                                       | 673                                | -            |
| Credit cards and other personal loans | -                                            | -                                  | -            |
| Auto and equipment finance            | 5,709                                        | -                                  | -            |
| <b>Total Banking Book</b>             | <b>17,469</b>                                | <b>673</b>                         | <b>-</b>     |
| <b>Trading Book</b>                   |                                              |                                    |              |
| Residential Mortgage                  | -                                            | -                                  | -            |
| 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>17,469</b>                                | <b>673</b>                         | <b>-</b>     |

<sup>1</sup> Included in the above are assets of \$7,645m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

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

## 9.0 Securitisation

### continued

#### 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)

| As at<br>31 March 2014                  |                                                    |                              |                              |                                                         |
|-----------------------------------------|----------------------------------------------------|------------------------------|------------------------------|---------------------------------------------------------|
| Total outstanding exposures securitised |                                                    |                              |                              | ADI recognised<br>loss from<br>exposures<br>securitised |
| Exposure type                           | Total outstanding<br>exposures <sup>1</sup><br>\$m | Impaired <sup>2</sup><br>\$m | Past due <sup>3</sup><br>\$m | \$m                                                     |
| Residential Mortgage                    | 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 \$7,881m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

<sup>2</sup> Included in the above are impaired facilities of \$38m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

<sup>3</sup> Included in the above are past due facilities of \$39m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

| As at<br>31 March 2013                  |                                                    |                              |                              |                                                         |
|-----------------------------------------|----------------------------------------------------|------------------------------|------------------------------|---------------------------------------------------------|
| Total outstanding exposures securitised |                                                    |                              |                              | ADI recognised<br>loss from<br>exposures<br>securitised |
| Exposure type                           | Total outstanding<br>exposures <sup>1</sup><br>\$m | Impaired <sup>2</sup><br>\$m | Past due <sup>3</sup><br>\$m | \$m                                                     |
| Residential Mortgage                    | 11,760                                             | 189                          | 117                          | -                                                       |
| Credit cards and other personal loans   | -                                                  | -                            | -                            | -                                                       |
| Auto and equipment finance              | 5,709                                              | 4                            | 15                           | -                                                       |
| <b>Total</b>                            | <b>17,469</b>                                      | <b>193</b>                   | <b>132</b>                   | <b>-</b>                                                |

<sup>1</sup> Included in the above are assets of \$7,645m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

<sup>2</sup> Included in the above are impaired facilities of \$83m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

<sup>3</sup> Included in the above are past due facilities of \$37m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

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### 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|---------------------------------------|----------------------------------|----------------------------------|
| <b>Banking Book</b>                   |                                  |                                  |
| Residential Mortgage                  | -                                | -                                |
| Credit cards and other personal loans | -                                | -                                |
| Auto and equipment finance            | 325                              | -                                |
| <b>Total Banking Book</b>             | <b>325</b>                       | -                                |
| <b>Trading Book</b>                   |                                  |                                  |
| Residential Mortgage                  | -                                | -                                |
| Credit cards and other personal loans | -                                | -                                |
| Auto and equipment finance            | -                                | -                                |
| <b>Total Trading Book</b>             | <b>-</b>                         | -                                |

## 9.0 Securitisation

### continued

#### 9.2.4 Securitisation activity

Over the 12 months to 31 March 2014, 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                                                    |                | Recognised gain<br>or loss on sale |
|---------------------------------------|----------------------------------------------------------|----------------|------------------------------------|
|                                       | 31 March 2014                                            |                |                                    |
|                                       | Value of loans sold or originated<br>into securitisation |                |                                    |
|                                       | ADI originated                                           | ADI as sponsor |                                    |
|                                       | \$m                                                      | \$m            | \$m                                |
| <b>Banking Book</b>                   |                                                          |                |                                    |
| Residential Mortgage                  | 11,588                                                   | -              | -                                  |
| Credit cards and other personal loans | -                                                        | -              | -                                  |
| Auto and equipment finance            | 6,015                                                    | -              | -                                  |
| Other                                 | 570                                                      | -              | -                                  |
| <b>Total Banking Book</b>             | <b>18,173</b>                                            | <b>-</b>       | <b>-</b>                           |
| <b>Trading Book</b>                   |                                                          |                |                                    |
| Residential Mortgage                  | -                                                        | -              | -                                  |
| Credit cards and other personal loans | -                                                        | -              | -                                  |
| Auto and equipment finance            | -                                                        | -              | -                                  |
| <b>Total Trading Book</b>             | <b>-</b>                                                 | <b>-</b>       | <b>-</b>                           |

| Exposure type                         | As at                                                    |                       | Recognised gain<br>or loss on sale<br>\$m |
|---------------------------------------|----------------------------------------------------------|-----------------------|-------------------------------------------|
|                                       | 31 March 2013                                            |                       |                                           |
|                                       | Value of loans sold or originated into<br>securitisation |                       |                                           |
|                                       | ADI originated<br>\$m                                    | ADI as sponsor<br>\$m |                                           |
| <b>Banking Book</b>                   |                                                          |                       |                                           |
| Residential Mortgage                  | 4,768                                                    | 312                   | -                                         |
| Credit cards and other personal loans | -                                                        | -                     | -                                         |
| Auto and equipment finance            | 3,139                                                    | -                     | -                                         |
| Other                                 | 268                                                      | -                     | -                                         |
| <b>Total Banking Book</b>             | <b>8,175</b>                                             | <b>312</b>            | <b>-</b>                                  |
| <b>Trading Book</b>                   |                                                          |                       |                                           |
| Residential Mortgage                  | -                                                        | -                     | -                                         |
| Credit cards and other personal loans | -                                                        | -                     | -                                         |
| Auto and equipment finance            | -                                                        | -                     | -                                         |
| <b>Total Trading Book</b>             | <b>-</b>                                                 | <b>-</b>              | <b>-</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<br>\$m                      | Synthetic<br>\$m | Traditional<br>\$m | Synthetic<br>\$m |
| Residential Mortgage                  | -                                       | -                | -                  | -                |
| 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 2013                           |                  |                    |                  |
|                                       | Total outstanding exposures securitised |                  |                    |                  |
|                                       | Standard Method                         |                  | IMA Method         |                  |
|                                       | Traditional<br>\$m                      | Synthetic<br>\$m | Traditional<br>\$m | Synthetic<br>\$m |
| Residential Mortgage                  | -                                       | -                | -                  | -                |
| Credit cards and other personal loans | -                                       | -                | -                  | -                |
| Auto and equipment finance            | -                                       | -                | -                  | -                |
| Other                                 | -                                       | -                | -                  | -                |
| <b>Total</b>                          | -                                       | -                | -                  | -                |

## 9.0 Securitisation

### continued

#### 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<br>31 March 2014                               |                             |                           |
|---------------------------------------|------------------------------------------------------|-----------------------------|---------------------------|
|                                       | Total outstanding exposures securitised <sup>1</sup> |                             |                           |
|                                       | On<br>balance sheet<br>\$m                           | Off<br>balance sheet<br>\$m | Total<br>exposures<br>\$m |
| <b>Banking Book</b>                   |                                                      |                             |                           |
| Residential Mortgage                  | 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 Mortgage                  | -                                                    | 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 \$7,881m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

| Exposure type                         | As at<br>31 March 2013                               |                             |                           |
|---------------------------------------|------------------------------------------------------|-----------------------------|---------------------------|
|                                       | Total outstanding exposures securitised <sup>1</sup> |                             |                           |
|                                       | On<br>balance sheet<br>\$m                           | Off<br>balance sheet<br>\$m | Total<br>exposures<br>\$m |
| <b>Banking Book</b>                   |                                                      |                             |                           |
| Residential Mortgage                  | 11,621                                               | 389                         | 12,010                    |
| Credit cards and other personal loans | -                                                    | -                           | -                         |
| Auto and equipment finance            | 5,791                                                | -                           | 5,791                     |
| Other                                 | 333                                                  | 49                          | 382                       |
| <b>Total Banking Book</b>             | <b>17,745</b>                                        | <b>438</b>                  | <b>18,183</b>             |
| <b>Trading Book</b>                   |                                                      |                             |                           |
| Residential Mortgage                  | -                                                    | 14                          | 14                        |
| Credit cards and other personal loans | -                                                    | -                           | -                         |
| Auto and equipment finance            | -                                                    | -                           | -                         |
| Other                                 | -                                                    | 12                          | 12                        |
| <b>Total Trading Book</b>             | <b>-</b>                                             | <b>26</b>                   | <b>26</b>                 |

<sup>1</sup> Included in the above are assets of \$7,645m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Regulatory Group.

### 9.3.2 Exposure by Risk Weight band

#### Banking Book

#### APS 330 Table 12(l)

| Risk weight band | As at<br>31 March 2014 |                         |              |                       |                         |              |
|------------------|------------------------|-------------------------|--------------|-----------------------|-------------------------|--------------|
|                  | Gross Credit Exposure  |                         |              | Risk Weighted Assets  |                         |              |
|                  | Securitisation<br>\$m  | Resecuritisation<br>\$m | Total<br>\$m | Securitisation<br>\$m | Resecuritisation<br>\$m | Total<br>\$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)

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

## 9.0 Securitisation

### continued

#### Banking Book

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

| Risk weight band | As at<br>31 March 2013 |                         |              |                       |                         |              |
|------------------|------------------------|-------------------------|--------------|-----------------------|-------------------------|--------------|
|                  | Gross Credit Exposure  |                         |              | Risk Weighted Assets  |                         |              |
|                  | Securitisation<br>\$m  | Resecuritisation<br>\$m | Total<br>\$m | Securitisation<br>\$m | Resecuritisation<br>\$m | Total<br>\$m |
| =< 25%           | 3,541                  | 54                      | 3,595        | 283                   | 11                      | 294          |
| >25%=<35%        | 38                     | 131                     | 169          | 13                    | 39                      | 52           |
| >35%=<50%        | 36                     | -                       | 36           | 18                    | -                       | 18           |
| >50%=<75%        | 28                     | -                       | 28           | 21                    | -                       | 21           |
| >75%=<100%       | 16                     | -                       | 16           | 16                    | -                       | 16           |
| >100%=<650%      | 9                      | -                       | 9            | 23                    | -                       | 23           |
| 1250%            | 40                     | 1                       | 41           | 503                   | 18                      | 521          |
| <b>Total</b>     | <b>3,708</b>           | <b>186</b>              | <b>3,894</b> | <b>877</b>            | <b>68</b>               | <b>945</b>   |

#### Trading Book

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

| Risk weight band | Gross Credit Exposures<br>As at<br>31 March 2013 |                     |                     |                                 |                        |
|------------------|--------------------------------------------------|---------------------|---------------------|---------------------------------|------------------------|
|                  | IAA Approach<br>\$m                              | RBA Approach<br>\$m | SFA Approach<br>\$m | Standardised<br>Approach<br>\$m | Total Exposures<br>\$m |
|                  |                                                  |                     |                     |                                 |                        |
| =< 25%           | -                                                | -                   | -                   | 19                              | 19                     |
| >25%=<35%        | -                                                | -                   | -                   | 7                               | 7                      |
| >35%=<50%        | -                                                | -                   | -                   | -                               | -                      |
| >50%=<75%        | -                                                | -                   | -                   | -                               | -                      |
| >75%=<100%       | -                                                | -                   | -                   | -                               | -                      |
| >100%=<650%      | -                                                | -                   | -                   | -                               | -                      |
| 1250%            | -                                                | -                   | -                   | -                               | -                      |
| <b>Total</b>     | <b>-</b>                                         | <b>-</b>            | <b>-</b>            | <b>26</b>                       | <b>26</b>              |

### 9.3.3 RWA by Risk Weight band

APS 330 Table 12(u) – Trading Book

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

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

## 9.0 Securitisation

### continued

APS 330 Table 12(u) – Trading Book continued

| Risk weight band  | Risk Weight Assets<br>As at<br>31 March 2013 |                         |                       |                         |
|-------------------|----------------------------------------------|-------------------------|-----------------------|-------------------------|
|                   | IAA Approach                                 |                         | RBA Approach          |                         |
|                   | Securitisation<br>\$m                        | Resecuritisation<br>\$m | Securitisation<br>\$m | Resecuritisation<br>\$m |
|                   |                                              |                         |                       |                         |
| =< 25%            | -                                            | -                       | -                     | -                       |
| >25%=<35%         | -                                            | -                       | -                     | -                       |
| >35%=<50%         | -                                            | -                       | -                     | -                       |
| >50%=<75%         | -                                            | -                       | -                     | -                       |
| >75%=<100%        | -                                            | -                       | -                     | -                       |
| >100%=<650%       | -                                            | -                       | -                     | -                       |
| 1250% (Deduction) | -                                            | -                       | -                     | -                       |
| <b>Total</b>      | -                                            | -                       | -                     | -                       |

| Risk weight band  | Risk Weight Assets<br>As at<br>31 March 2013 |                         |                       |                         |
|-------------------|----------------------------------------------|-------------------------|-----------------------|-------------------------|
|                   | SFA Approach                                 |                         | Standardised Approach |                         |
|                   | Securitisation<br>\$m                        | Resecuritisation<br>\$m | Securitisation<br>\$m | Resecuritisation<br>\$m |
|                   |                                              |                         |                       |                         |
| =< 25%            | -                                            | -                       | 1                     | -                       |
| >25%=<35%         | -                                            | -                       | 2                     | -                       |
| >35%=<50%         | -                                            | -                       | -                     | -                       |
| >50%=<75%         | -                                            | -                       | -                     | -                       |
| >75%=<100%        | -                                            | -                       | -                     | -                       |
| >100%=<650%       | -                                            | -                       | -                     | -                       |
| 1250% (Deduction) | -                                            | -                       | -                     | -                       |
| <b>Total</b>      | -                                            | -                       | 3                     | -                       |

### 9.3.4 Resecuritisation Exposure

APS 330 Table 12(n) and (w)

| Resecuritisation type                      | As at<br>31 March<br>2014<br>Gross Credit<br>Exposure<br>\$m | As at<br>31 March<br>2013<br>Gross Credit<br>Exposure<br>\$m |
|--------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
| <b>Banking book</b>                        |                                                              |                                                              |
| Exposures with Credit Risk Mitigation      | -                                                            | -                                                            |
| Exposures without Credit Risk Mitigation   | 339                                                          | 186                                                          |
| <i>Exposure to Guarantors by ratings:</i>  | -                                                            | -                                                            |
| <b>Total banking book</b>                  | <b>339</b>                                                   | <b>186</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>                                                     |

## 10.0 Credit Valuation Adjustment

### 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 2014 is \$2,325 million. The CVA capital requirement is shown in the table below.

|                                                 | As at<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|-------------------------------------------------|----------------------------------|----------------------------------|
| <b>CVA capital treatment</b>                    |                                  |                                  |
| Total CVA capital charge (standardised formula) | 186.0                            | 218.4                            |
| Total CVA RWA                                   | 2,325.0                          | 2,730.0                          |

## 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 2014 is \$1,595 million. Details of the components of the exposures to central counterparties capital requirement is shown in the tables below.

|                                                | As at<br>31 March 2014   |                | RWA |
|------------------------------------------------|--------------------------|----------------|-----|
|                                                | Trade<br>Exposure<br>\$m | Risk<br>Weight | \$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 |
| Total central counterparty exposures           | 8,571                    | -              | 789 |

|                                                                | Prefunded<br>Default fund<br>Contribution<br>\$m | Unfunded<br>Default fund<br>Contribution<br>\$m | RWA<br>\$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         |
| Total                                                          | 136                                              | 5,753                                           | 806        |

|                                                                    | Prefunded<br>Default fund<br>Contribution<br>\$m | Unfunded<br>Default fund<br>Contribution<br>\$m | RWA<br>\$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                                                              | -                                                | -                                               | -          |

# 11.0 Exposure to Central Counterparties

## continued

|                                                | As at<br>31 March 2013   |                |            |
|------------------------------------------------|--------------------------|----------------|------------|
|                                                | Trade<br>Exposure<br>\$m | Risk<br>Weight | RWA<br>\$m |
| <b>Central counterparty trade exposure</b>     |                          |                |            |
| Exposures eligible for a 0% risk weight        | -                        | -              | -          |
| Exposures eligible for a 2% risk weight        | 6,848                    | 0.02           | 137        |
| Exposures eligible for a 4% risk weight        | 1,468                    | 0.04           | 59         |
| Exposures eligible for a bilateral risk weight | 339                      | -              | 277        |
| <b>Total central counterparty exposures</b>    | <b>8,655</b>             | <b>-</b>       | <b>473</b> |

|                                                                | Prefunded<br>Default fund<br>Contribution<br>\$m | Unfunded<br>Default fund<br>Contribution<br>\$m | RWA<br>\$m |
|----------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|------------|
| <b>Qualifying central counterparty default fund guarantees</b> |                                                  |                                                 |            |
| Qualifying central counterparty 1                              | 30                                               | 1,488                                           | 268        |
| Qualifying central counterparty 2                              | 10                                               | 734                                             | 129        |
| Qualifying central counterparty 3                              | 15                                               | 540                                             | 97         |
| Qualifying central counterparty 4                              | 6                                                | 363                                             | 65         |
| Qualifying central counterparty 5                              | 4                                                | 2,301                                           | 48         |
| Other qualifying central counterparties                        | 3                                                | 1,408                                           | 7          |
| <b>Total</b>                                                   | <b>68</b>                                        | <b>6,834</b>                                    | <b>614</b> |

|                                                                    | Prefunded<br>Default fund<br>Contribution<br>\$m | Unfunded<br>Default fund<br>Contribution<br>\$m | RWA<br>\$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>   |

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## 12.0 Market Risk

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### 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, including the risks arising from equity underwriting activity;
- 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.

## 12.0 Market Risk

### continued

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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 2,800 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.

## 12.2 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 2014 is \$4,567 million (31 March 2013: \$4,536 million).

There was no hypothetical trading loss that exceeded the 1-day 99% VaR calculated for the twelve months ended 31 March 2014. 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<br>31 March 2014                |                     |                     |            | As at<br>31 March 2013                 |                     |                     |            |
|-----------------------|---------------------------------------|---------------------|---------------------|------------|----------------------------------------|---------------------|---------------------|------------|
|                       | VaR over the current reporting period |                     |                     |            | VaR over the previous reporting period |                     |                     |            |
|                       | Mean<br>value<br>\$m                  | Max<br>value<br>\$m | Min<br>value<br>\$m | VaR<br>\$m | Mean<br>value<br>\$m                   | Max<br>value<br>\$m | Min<br>value<br>\$m | VaR<br>\$m |
| Commodities           | 33                                    | 51                  | 19                  | 23         | 26                                     | 45                  | 16                  | 31         |
| Equities <sup>1</sup> | 8                                     | 15                  | 3                   | 5          | 8                                      | 12                  | 5                   | 9          |
| Foreign Exchange      | 12                                    | 26                  | 4                   | 11         | 7                                      | 20                  | 1                   | 6          |
| Interest Rates        | 17                                    | 24                  | 13                  | 15         | 20                                     | 26                  | 14                  | 16         |
| Aggregate             | 38                                    | 57                  | 17                  | 24         | 31                                     | 48                  | 24                  | 34         |

<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<br>31 March 2014                |                     |                     |            | As at<br>31 March 2013                 |                     |                     |            |
|-----------------------|---------------------------------------|---------------------|---------------------|------------|----------------------------------------|---------------------|---------------------|------------|
|                       | VaR over the current reporting period |                     |                     |            | VaR over the previous reporting period |                     |                     |            |
|                       | Mean<br>value<br>\$m                  | Max<br>value<br>\$m | Min<br>value<br>\$m | VaR<br>\$m | Mean<br>value<br>\$m                   | Max<br>value<br>\$m | Min<br>value<br>\$m | VaR<br>\$m |
| Commodities           | 52                                    | 96                  | 28                  | 42         | 44                                     | 76                  | 27                  | 64         |
| Equities <sup>1</sup> | 21                                    | 45                  | 7                   | 10         | 17                                     | 29                  | 8                   | 24         |
| Foreign Exchange      | 19                                    | 57                  | 4                   | 26         | 12                                     | 38                  | 2                   | 15         |
| Interest Rates        | 50                                    | 67                  | 42                  | 60         | 44                                     | 58                  | 34                  | 37         |
| Aggregate             | 61                                    | 109                 | 40                  | 51         | 56                                     | 73                  | 35                  | 59         |

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

## 12.0 Market Risk

### continued

#### 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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|--------------------|----------------------------------|----------------------------------|
| Debt specific risk | 53                               | 85                               |

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

Macquarie Bank policy is to minimise interest rate risk in the banking book (IRRBB). This policy protects banking book products such as loans and deposits from changes in value caused by interest rate fluctuations. The policy applies to all currencies and yield curves where Macquarie Bank has interest rate exposure.

Interest rate exposures, where possible, are transferred into the trading books of the Fixed Income, Currencies and Commodities Group 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. Fixed-rate prepayment assumptions are used for each market based on historical observation.

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.

APS 330 Table 17(b)

|                                                   | As at<br>31 March<br>2014<br>Change in<br>economic<br>value<br>\$m | As at<br>31 March<br>2013<br>Change in<br>economic<br>value<br>\$m |
|---------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Stress testing: interest rate shock applied       |                                                                    |                                                                    |
| <b>AUD</b>                                        |                                                                    |                                                                    |
| 200 basis point parallel increase                 | (18.4)                                                             | (1.9)                                                              |
| 200 basis point parallel decrease                 | 19.1                                                               | 0.7                                                                |
| <b>CAD</b>                                        |                                                                    |                                                                    |
| 200 basis point parallel increase                 | (0.1)                                                              | (2.6)                                                              |
| 200 basis point parallel decrease                 | 0.1                                                                | 1.1                                                                |
| <b>EUR</b>                                        |                                                                    |                                                                    |
| 200 basis point parallel increase                 | (2.8)                                                              | 0.5                                                                |
| 200 basis point parallel decrease                 | 3.6                                                                | 1.9                                                                |
| <b>GBP</b>                                        |                                                                    |                                                                    |
| 200 basis point parallel increase                 | 3.5                                                                | 1.7                                                                |
| 200 basis point parallel decrease                 | (0.0)                                                              | 2.6                                                                |
| <b>USD</b>                                        |                                                                    |                                                                    |
| 200 basis point parallel increase                 | (15.5)                                                             | 1.0                                                                |
| 200 basis point parallel decrease                 | 19.3                                                               | 11.9                                                               |
| <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 Executive Committee and the Board.

Concentrations within the equity portfolio are managed by a number of additional limits approved by the Executive 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.

### 13.2 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<br>31 March 2014             |                                | As at<br>31 March 2013             |                                |
|---------------------------------------------|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
|                                             | Carrying value <sup>1</sup><br>\$m | Fair value <sup>2</sup><br>\$m | Carrying value <sup>1</sup><br>\$m | Fair value <sup>2</sup><br>\$m |
| <b>Equity investments</b>                   |                                    |                                |                                    |                                |
| Value of listed (publicly traded) equities  | 168                                | 199                            | 286                                | 289                            |
| Value of unlisted (privately held) equities | 829                                | 829                            | 774                                | 774                            |
| <b>Total</b>                                | <b>997</b>                         | <b>1,028</b>                   | <b>1,060</b>                       | <b>1,063</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<br>31 March<br>2014<br>\$m | As at<br>31 March<br>2013<br>\$m |
|-------------------------|----------------------------------|----------------------------------|
| <b>Deduction amount</b> |                                  |                                  |
| Equity investments      | 761                              | 943                              |

# 13.0 Equity Risk

## continued

### 13.4 Gains and losses on equity investments

APS 330 Table 16(d) and (e)

|                                                                       | For the 12 months to<br>31 March<br>2014<br>\$m | For the 12 months to<br>31 March<br>2013<br>\$m |
|-----------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| <b>Gains / (losses) on equity investments</b>                         |                                                 |                                                 |
| Cumulative realised gains in 12 months to the period end <sup>1</sup> | 113                                             | 122                                             |
| Total unrealised losses <sup>2</sup>                                  | 50                                              | 87                                              |
| Total unrealised gains / (losses) included in Tier 1                  | 50                                              | 87                                              |

<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 an inherent part of Macquarie's business. Operational risk is the risk of loss from inadequate or failed internal processes, people, systems or from external events. This 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 designed to identify, assess and manage operational risks. The framework is also designed to identify and monitor risks and controls, report and escalate information.

#### Operational Risk Management Process

Macquarie Operational Risk Management Framework includes regular self-assessments, the recording and analysis of internal incidents, the use of indicators and a robust change management process to ensure risks associated with new activities or products are identified, addressed and managed prior to implementation.

Consistent with Macquarie's philosophy of 'Freedom within Boundaries', the Operational Risk Management Framework includes a number of Macquarie wide policies which require a consistent approach and minimum standards on specific operational risk matters. External operational risk events are also monitored in order to learn lessons from other organisations.

#### Structure and Organisation of the Operational Risk Function

The majority of Macquarie's operational risk staff reside at the business level. These Business Operational Risk Managers (BORMs) are responsible for embedding the management of operational risk within their business and report directly to the relevant business and also 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 an appropriate framework exists to identify, assess and manage operational risk and that dedicated skilled resources are available to support it. It is also responsible for Macquarie's operational risk capital measurement methodology. In general, Macquarie's operational risk profile increases as a result of greater innovation and is offset by constant gradual adaptation and development of the control environment to new risks. Macquarie's risk profile can also change as a result of external changes such as new legislation or market conditions.

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

### 14.2 Operational Risk Capital Calculation

Macquarie received APRA approval for use of the AMA for assessing operational risk capital in December 2007.

Macquarie's operational risk capital is calculated using a scenario based approach together with statistical modelling of potential losses. Operational risk scenarios identify key risks that, while low in probability, may result in high impact losses. In identifying and quantifying such events, consideration is given 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 the contribution of expert opinion from businesses. Scenarios are updated when business or market factors indicate.

Scenario estimates are then modelled on a semi annual basis to determine the operational risk component of 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 operational risk capital changes to reflect:

- New business activity, businesses growth and significant change in activity which may require new or revised loss scenarios and / or a revised loss probability;
- As business changes stabilise and the control environment continues to mature, the probability of loss decreases, reducing the capital requirement; and
- Changes in the external environment such as new regulations or movements in the economic cycle can also influence scenario estimates.

Macquarie allocates capital to individual businesses through quarterly scorecards. This enables each business to understand their operational risk profile and the impact changes in their businesses make to that profile. The capital allocation effectively rewards positive risk behaviour and penalises increased risk. The scorecards measure changes in a number of key factors covering the size and complexity of the business, risk and control assessments, incident and exception management and governance.

The quarterly change in the sum of divisional capital is also used as an estimate to update the bank level capital requirement between scenario assessments.

#### Mitigation of Operational Risk

Insurance is not currently used in Macquarie's AMA model for the purpose of operational risk capital reduction.

#### Operational Risk - RWA

The operational risk RWA as at 31 March 2014 is \$8,531 million (31 March 2013: \$8,125 million).

# Disclaimer

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**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, specific 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.

# Appendices

## 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<br>31 Mar 2014<br>\$m | Table<br>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                                                                                                                                                                    | 7,710                       | Table f            |
| 2                                                                  | Retained earnings                                                                                                                                                                                                                                                  | 1,371                       |                    |
| 3                                                                  | Accumulated other comprehensive income (and other reserves)                                                                                                                                                                                                        | (42)                        |                    |
| 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>9,039</b>                |                    |
| <b>Common Equity Tier 1 capital : regulatory adjustments</b>       |                                                                                                                                                                                                                                                                    |                             |                    |
| 7                                                                  | Prudential valuation adjustments                                                                                                                                                                                                                                   | –                           |                    |
| 8                                                                  | Goodwill (net of related tax liability)                                                                                                                                                                                                                            | 104                         | Table b            |
| 9                                                                  | Other intangibles other than mortgage servicing rights (net of related tax liability)                                                                                                                                                                              | 555                         | Table b            |
| 10                                                                 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)                                                                                                                            | 98                          | Table a            |
| 11                                                                 | Cash-flow hedge reserve                                                                                                                                                                                                                                            | (21)                        |                    |
| 12                                                                 | Shortfall of provisions to expected losses                                                                                                                                                                                                                         | 380                         |                    |
| 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                                                                                                                                                                                      | 12                          |                    |
| 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)                                                                                                                                                         | 1,593                       |                    |
| 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                                                                                                                                                                          | 628                         | Table c            |
| 26e                                                                | of which: deferred tax assets not reported in rows 10, 21 and 25                                                                                                                                                                                                   | 91                          | Table a            |
| 26f                                                                | of which: capitalised expenses                                                                                                                                                                                                                                     | 174                         |                    |
| 26g                                                                | of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements                                                                                                                                                  | 679                         | Table c            |
| 26h                                                                | of which: covered bonds in excess of asset cover in pools                                                                                                                                                                                                          | –                           |                    |
| 26i                                                                | of which: undercapitalisation of a non-consolidated subsidiary                                                                                                                                                                                                     | –                           |                    |

# Appendix 1 Regulatory Capital Reconciliation

## continued

|     |                                                                                                                                                                                                                                                                           | As at<br>31 Mar 2014<br>\$m | Table<br>Reference |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------|
| 26j | of which: other national specific regulatory adjustments not reported in rows 26a to 26i                                                                                                                                                                                  | 21                          |                    |
| 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>2,721</b>                |                    |
| 29  | <b>Common Equity Tier 1 Capital (CET1)</b>                                                                                                                                                                                                                                | <b>6,318</b>                |                    |
|     | <b>Additional Tier 1 Capital: instruments</b>                                                                                                                                                                                                                             |                             |                    |
| 30  | Directly issued qualifying Additional Tier 1 instruments                                                                                                                                                                                                                  | –                           |                    |
| 31  | of which: classified as equity under applicable accounting standards                                                                                                                                                                                                      | –                           |                    |
| 32  | of which: classified as liabilities under applicable accounting standards                                                                                                                                                                                                 | –                           |                    |
| 33  | Directly issued capital instruments subject to phase out from Additional Tier 1                                                                                                                                                                                           | 643                         | 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>643</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>643</b>                  |                    |
| 45  | <b>Tier 1 Capital (T1=CET1+AT1)</b>                                                                                                                                                                                                                                       | <b>6,961</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                                                                                                                                                                                                      | 1,379                       | 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                                                                                                                                                                                                                                                                | 33                          |                    |
| 51  | <b>Tier 2 Capital before regulatory adjustments</b>                                                                                                                                                                                                                       | <b>1,412</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) | 69                          |                    |
| 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                                                                                                                      | –                           |                    |

|     |                                                                                                                                                                                                      | As at<br>31 Mar 2014<br>\$m | Table<br>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>                                                                                                                                                | <b>69</b>                   |                    |
| 58  | <b>Tier 2 capital (T2)</b>                                                                                                                                                                           | <b>1,343</b>                |                    |
| 59  | <b>Total capital (TC=T1+T2)</b>                                                                                                                                                                      | <b>8,304</b>                |                    |
| 60  | <b>Total risk-weighted assets based on APRA standards</b>                                                                                                                                            | <b>65,698</b>               |                    |
|     | <b>Capital ratios and buffers</b>                                                                                                                                                                    |                             |                    |
| 61  | <b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>                                                                                                                                | 9.6%                        |                    |
| 62  | <b>Tier 1 (as a percentage of risk-weighted assets)</b>                                                                                                                                              | 10.6%                       |                    |
| 63  | <b>Total capital (as a percentage of risk-weighted assets)</b>                                                                                                                                       | 12.6%                       |                    |
| 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                                                                                                                               | 16                          | Table c            |
| 73  | Significant investments in the ordinary shares of financial entities                                                                                                                                 | 612                         | 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)                                                                                                                | 91                          | 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)                                                                   | 33                          |                    |
| 77  | Cap on inclusion of provisions in Tier 2 under standardised approach                                                                                                                                 | 93                          |                    |
| 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                                                                                                                      | 234                         |                    |
|     | <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                                                                                                                                     | 643                         |                    |
| 83  | Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)                                                                                                   | 91                          |                    |
| 84  | Current cap on T2 instruments subject to phase out arrangements                                                                                                                                      | 1,379                       |                    |
| 85  | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)                                                                                                                | 585                         |                    |

# Appendix 1 Regulatory Capital Reconciliation

## continued

### 1.2 Regulatory Balance Sheet as at 31 March 2014

|                                                                                     | Macquarie<br>Bank Group<br>Consolidated <sup>1</sup><br>\$m | Adjustment <sup>2</sup><br>\$m | Level 2<br>Regulatory<br>Balance<br>Sheet \$m | Template/<br>Reconciliation<br>Table Reference |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------|-----------------------------------------------|------------------------------------------------|
| <b>Assets</b>                                                                       |                                                             |                                |                                               |                                                |
| Receivables from financial institutions                                             | 16,151                                                      | (262)                          | 15,889                                        |                                                |
| Trading portfolio assets                                                            | 21,640                                                      | –                              | 21,640                                        |                                                |
| Derivative assets                                                                   | 12,468                                                      | (96)                           | 12,372                                        |                                                |
| Investment securities available for sale                                            | 12,182                                                      | (20)                           | 12,162                                        |                                                |
| Other assets                                                                        | 8,302                                                       | (1,366)                        | 6,936                                         |                                                |
| Loan assets held at amortised cost                                                  | 57,170                                                      | (1,893)                        | 55,277                                        |                                                |
| Other financial assets at fair value through profit or loss                         | 2,195                                                       | (39)                           | 2,156                                         |                                                |
| Due from related body corporate entities                                            | 2,244                                                       | 506                            | 2,750                                         |                                                |
| Property, plant and equipment                                                       | 6,045                                                       | (229)                          | 5,816                                         |                                                |
| Interests in associates and joint ventures accounted for using the equity method    | 551                                                         | (123)                          | 428                                           |                                                |
| Intangible assets <sup>3</sup>                                                      | 785                                                         | (126)                          | 659                                           | Table b                                        |
| Deferred tax assets                                                                 | 178                                                         | 11                             | 189                                           | Table a                                        |
| Investments in regulatory non-consolidated subsidiaries                             | –                                                           | 522                            | 522                                           | Table c                                        |
| <b>Total Assets</b>                                                                 | <b>139,911</b>                                              | <b>(3,115)</b>                 | <b>136,796</b>                                |                                                |
| <b>Liabilities</b>                                                                  |                                                             |                                |                                               |                                                |
| Trading portfolio liabilities                                                       | 2,459                                                       | –                              | 2,459                                         |                                                |
| Derivative liabilities                                                              | 11,748                                                      | (76)                           | 11,672                                        |                                                |
| Deposits                                                                            | 42,302                                                      | –                              | 42,302                                        |                                                |
| Other liabilities                                                                   | 8,521                                                       | (1,682)                        | 6,839                                         |                                                |
| Payables to financial institutions                                                  | 16,573                                                      | (160)                          | 16,413                                        |                                                |
| Other financial liabilities at fair value through profit or loss                    | 937                                                         | –                              | 937                                           |                                                |
| Due to related body corporate entities                                              | 7,443                                                       | 788                            | 8,231                                         |                                                |
| Debt issued at amortised cost                                                       | 37,255                                                      | (1,767)                        | 35,488                                        |                                                |
| Provisions                                                                          | 86                                                          | (8)                            | 78                                            |                                                |
| Deferred tax liabilities                                                            | 625                                                         | (217)                          | 408                                           |                                                |
| <b>Total liabilities excluding loan capital</b>                                     | <b>127,949</b>                                              | <b>(3,122)</b>                 | <b>124,827</b>                                |                                                |
| <b>Loan capital</b>                                                                 |                                                             |                                |                                               |                                                |
| Subordinated debt at amortised cost                                                 | 2,464                                                       | –                              | 2,464                                         | Table d                                        |
| <b>Total loan capital</b>                                                           | <b>2,464</b>                                                | <b>–</b>                       | <b>2,464</b>                                  |                                                |
| <b>Total liabilities</b>                                                            | <b>130,413</b>                                              | <b>(3,122)</b>                 | <b>127,291</b>                                |                                                |
| <b>Net Assets</b>                                                                   | <b>9,498</b>                                                | <b>7</b>                       | <b>9,505</b>                                  |                                                |
| <b>Equity</b>                                                                       |                                                             |                                |                                               |                                                |
| Contributed equity                                                                  | 8,101                                                       | –                              | 8,101                                         | Table f                                        |
| Reserves                                                                            | (68)                                                        | 26                             | (42)                                          | Row 3                                          |
| Retained earnings                                                                   | 1,388                                                       | (17)                           | 1,371                                         | Row 2                                          |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 9,421                                                       | 9                              | 9,430                                         |                                                |
| <b>Non-controlling Interests</b>                                                    | <b>77</b>                                                   | <b>(2)</b>                     | <b>75</b>                                     |                                                |
| <b>Total equity</b>                                                                 | <b>9,498</b>                                                | <b>7</b>                       | <b>9,505</b>                                  |                                                |

<sup>1</sup> Macquarie Bank Limited Consolidated Group as per audited financial statements.

<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.

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

| Table a                                                                                                                                       | 31 March<br>2014<br>\$m | Template<br>Reference |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Deferred Tax Assets</b>                                                                                                                    |                         |                       |
| Total Deferred Tax Assets per level 2 Regulatory Balance Sheet                                                                                | 189                     |                       |
| Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | (98)                    | Row 10                |
| Less: Deferred tax assets (temporary differences) - Amounts below prescribed threshold                                                        | (91)                    | Row 26e, 75           |
| <b>Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold</b>                                            | <b>–</b>                | <b>Row 21 / 25</b>    |

| Table b                                                         | 31 March<br>2014<br>\$m | Template<br>Reference |
|-----------------------------------------------------------------|-------------------------|-----------------------|
| <b>Intangible Assets</b>                                        |                         |                       |
| Total Intangible Assets as per level 2 Regulatory Balance Sheet | 659                     |                       |
| Less: capitalised software disclosed under intangibles          | (112)                   | Row 9                 |
| Less: intangible component of deconsolidates subsidiaries       | (443)                   | Row 9                 |
| <b>Total per Common Disclosure Template – Goodwill</b>          | <b>104</b>              | <b>Row 8</b>          |

| Table c                                                          | 31 March<br>2014<br>\$m | Template<br>Reference |
|------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Equity Investments</b>                                        |                         |                       |
| Investment in significant financial entities <sup>1,2</sup>      | 612                     | Row 73                |
| Investment in non-significant financial entities <sup>1</sup>    | 16                      | Row 72                |
| Total Investments in financial institutions                      | 628                     | Row 26d               |
| Investment in commercial entities <sup>1,2</sup>                 | 679                     | Row 26g               |
| Total Equity Investments before applying prescribed threshold    | 1,307                   |                       |
| Less: amounts risk weighted under Internationally Harmonised     | (1,307)                 |                       |
| <b>Total per Common Disclosure Template – Equity Investments</b> | <b>–</b>                | <b>Row 18, 19, 23</b> |

| Table d                                                                         | 31 March<br>2014<br>\$m | Template<br>Reference |
|---------------------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Additional Tier 1 Capital</b>                                                |                         |                       |
| Total Loan Capital per Level 2 Regulatory Balance Sheet                         | 2,464                   |                       |
| Less: Accrued interest                                                          | (7)                     |                       |
| Add: Capitalised expenses deducted in Common Equity Tier 1 Capital <sup>3</sup> | 3                       | Included in Row 26f   |
| Less: Tier 2 capital instruments reported in Table e                            | (2,190)                 |                       |
| Additional Tier 1 Capital ECS                                                   | 270                     |                       |
| <br>Add: Other Equity Instruments (MIS) included in contributed equity          | <br>400                 |                       |
| Add: Other Equity Instruments (MIPS) included in non-controlling Interests      | 76                      |                       |
| Less: Basel III transitional amortisation for MIS and MIPS                      | (80)                    |                       |
| Add: Capitalised expenses deducted in Common Equity Tier 1 Capital <sup>3</sup> | 1                       | Included in Row 26f   |
| Less: Foreign Exchange Gain Included in Level 2 Regulatory Balance Sheet        | (24)                    |                       |
| <b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>         | <b>643</b>              | <b>Row 36</b>         |

<sup>1</sup> 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.

<sup>2</sup> Included in investment in significant financial entities is \$478m of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is \$44m of equity investments in regulatory non-consolidated subsidiaries.

<sup>3</sup> 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.

# Appendix 1 Regulatory Capital Reconciliation

## continued

|                                                                         | 31 March<br>2014<br>\$m | Template<br>Reference |
|-------------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Table d cont</b>                                                     |                         |                       |
| <b>Additional Tier 1 Capital Instruments</b>                            |                         |                       |
| Macquarie Income Preferred Securities                                   | 53                      |                       |
| Macquarie Income Securities                                             | 320                     |                       |
| Macquarie Exchangeable Capital Securities                               | 270                     |                       |
| <b>Total per Common Disclosure Template – Additional Tier 1 Capital</b> | <b>643</b>              | <b>Row 36</b>         |

|                                                                    | 31 March<br>2014<br>\$m | Template<br>Reference |
|--------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Table e</b>                                                     |                         |                       |
| <b>Total Tier 2 Capital per Balance Sheet</b>                      |                         |                       |
| Total Tier 2 Capital                                               | 2,190                   | Table d               |
| Less: Fair value hedge adjustments <sup>1</sup>                    | (163)                   |                       |
| Less: Accrued Interest                                             | (62)                    |                       |
| Less: Foreign Exchange Gain Included in Balance Sheet <sup>2</sup> | (193)                   |                       |
| Less: Basel III transitional amortisation <sup>2</sup>             | (393)                   |                       |
| <b>Total per Common Disclosure Template – Tier 2 Capital</b>       | <b>1,379</b>            | <b>Row 47</b>         |
| <b>Tier 2 Capital Instruments</b>                                  |                         |                       |
| Subordinated Debt - EUR600m <sup>2</sup>                           | 609                     |                       |
| Subordinated Debt – USD1.0bn <sup>2</sup>                          | 770                     |                       |
| <b>Total per Common Disclosure Template – Tier 2 Capital</b>       | <b>1,379</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<br>2014<br>\$m | Template<br>Reference |
|---------------------------------------------------------------------|-------------------------|-----------------------|
| <b>Table f</b>                                                      |                         |                       |
| <b>Contributed Equity</b>                                           |                         |                       |
| Total Contributed Equity as per level 2 Regulatory Balance Sheet    | 8,101                   |                       |
| Less: Additional tier 1 instruments (MIS) included in share capital | (400)                   |                       |
| Add: Capitalised expenses deducted in Common Equity Tier 1 Capital  | 9                       | Included in Row 26f   |
| <b>Total per Common Disclosure Template – Contributed Equity</b>    | <b>7,710</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 2014 is calculated at 80% of the Subordinated debt at the 1 January 2013 foreign exchange rate.

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

| 31 March 2014                                               | Total Assets <sup>1,2,3</sup> | Total Liabilities <sup>1,2,3</sup> |
|-------------------------------------------------------------|-------------------------------|------------------------------------|
| <b>Securitisation</b>                                       |                               |                                    |
| Mornington Funding 2012-1 PLC                               | 18                            | (18)                               |
| PUMA GLOBAL TRUST NO.5                                      | 515                           | (515)                              |
| PUMA Master Fund P-11                                       | 366                           | (366)                              |
| PUMA Master Fund S-2                                        | 1                             | (1)                                |
| PUMA MASTERFUND H-1                                         | 138                           | (138)                              |
| PUMA MASTERFUND P12                                         | 356                           | (356)                              |
| PUMA MASTERFUND P-13                                        | 107                           | (107)                              |
| PUMA MASTERFUND S3                                          | 1                             | (1)                                |
| PUMA MASTERFUND S-5                                         | 47                            | (47)                               |
| PUMA MASTERFUND S-8                                         | 394                           | (394)                              |
| Value Loan Mortgage LLC                                     | 78                            | (80)                               |
| <b>Funds Management</b>                                     |                               |                                    |
| Brook Asset Management Limited                              | 4                             | (4)                                |
| Delaware Alternative Strategies                             | 0                             | (1)                                |
| Delaware Asset Advisers                                     | 24                            | (7)                                |
| Delaware Capital Management                                 | 18                            | (5)                                |
| Delaware Capital Management Advisers, Inc.                  | 0                             | 0                                  |
| Delaware Distributors, Inc.                                 | 0                             | 0                                  |
| Delaware Distributors, L.P.                                 | 52                            | (29)                               |
| Delaware Investment Advisers                                | 315                           | (230)                              |
| Delaware Investments Distribution Partner, Inc.             | 0                             | 0                                  |
| Delaware Investments Fund Advisers                          | 13                            | (5)                                |
| Delaware Investments Fund Services Company                  | 0                             | 0                                  |
| Delaware Investments Real Estate Absolute Return Fund, L.P. | 17                            | 0                                  |
| Delaware Management Business Trust                          | 65                            | 0                                  |
| Delaware Management Company                                 | 436                           | (76)                               |
| Delaware Management Company, Inc.                           | 450                           | (239)                              |
| Delaware Management Holdings, Inc.                          | 250                           | (189)                              |
| Delaware Management Trust Company                           | 3                             | 0                                  |
| Delaware Real Estate Absolute Return Partners               | 0                             | 0                                  |
| Delaware Service Company, Inc.                              | 25                            | (12)                               |
| Delaware Structured Assets Partners, Inc.                   | 0                             | 0                                  |
| Four Corners Capital Management, LLC                        | 16                            | (1)                                |
| Macquarie Allegiance Capital, LLC                           | 1                             | 0                                  |
| Macquarie Alternative Assets Management Limited             | 45                            | (27)                               |
| Macquarie Asia Pacific Private Equity Offshore Fund, L.P.   | 12                            | 0                                  |
| Macquarie Asset Management Inc.                             | 4                             | 0                                  |
| Macquarie Capital Investment Management (Australia) Limited | 3                             | 0                                  |
| Macquarie Capital Investment Management LLC                 | 3                             | (2)                                |
| Macquarie Equipment Leasing Fund II, LLC                    | 0                             | 0                                  |
| Macquarie Financial Products Management Limited             | 33                            | 0                                  |
| Macquarie Forestry Management Limited                       | 0                             | 0                                  |
| Macquarie Funds Management (USA) Inc.                       | 7                             | (3)                                |
| Macquarie Funds Management Hong Kong Limited                | 37                            | (3)                                |
| Macquarie Generation Management I, Inc.                     | 1                             | 0                                  |

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

### continued

| 31 March 2014                                            | Total Assets <sup>1,2,3</sup> | Total Liabilities <sup>1,2,3</sup> |
|----------------------------------------------------------|-------------------------------|------------------------------------|
| Macquarie Generation Management II, Inc.                 | 1                             | 0                                  |
| Macquarie HiTIP Management I, Inc.                       | 1                             | 0                                  |
| Macquarie Investment Management (NZ) Limited             | 11                            | (7)                                |
| Macquarie Investment Management Austria Kapitalanlage AG | 15                            | (6)                                |
| Macquarie Investment Management Korea Co., Ltd           | 48                            | (5)                                |
| Macquarie Investment Management Ltd                      | 237                           | (101)                              |
| Macquarie Investment Management S.à r.l.                 | 0                             | 0                                  |
| Macquarie Investment Services Limited                    | 3                             | 0                                  |
| Macquarie Management GmbH                                | 1                             | 0                                  |
| Macquarie Master Geared Growth Fund                      | 1                             | (1)                                |
| Macquarie Master Small Companies Fund                    | 3                             | (3)                                |
| Macquarie NM Management I, Inc                           | 1                             | 0                                  |
| Macquarie NM Management II, Inc.                         | 0                             | 0                                  |
| Macquarie PA TAP Management I, Inc.                      | 1                             | (1)                                |
| Macquarie Prism Pty Limited                              | 5                             | (2)                                |
| Macquarie Private Capital Management Limited             | 2                             | 0                                  |
| Macquarie Private Markets Fund GP S.à r.l.               | 0                             | 0                                  |
| Macquarie Private Portfolio Management Limited           | 6                             | (1)                                |
| Macquarie Securities Management Pty Limited              | 3                             | 0                                  |
| Macquarie Treuvermoegen GmbH                             | 0                             | 0                                  |
| MQ Absolute Return Strategies - Asia                     | 0                             | 0                                  |
| MQ Capital Pty Limited                                   | 6                             | 0                                  |
| MQ Portfolio Management Limited                          | 11                            | 0                                  |
| MQ Specialist Investment Management Limited              | 5                             | (1)                                |
| Retirement Financial Services, Inc.                      | 1                             | 0                                  |
| <b>Insurance</b>                                         |                               |                                    |
| Macquarie Life Limited                                   | 1,390                         | (1,193)                            |
| <b>Non-Financial Operations</b>                          |                               |                                    |
| Avenal Power Center, LLC                                 | 21                            | (8)                                |
| Belike Nominees Pty. Limited                             | 1                             | 0                                  |
| Bond Street Custodians Limited                           | 16                            | 0                                  |
| Capital Meters Limited                                   | 169                           | (145)                              |
| CMC Industries Inc.                                      | 86                            | (57)                               |
| CMC Railroad III, Inc.                                   | 6                             | (3)                                |
| CMC Railroad III-A, Inc.                                 | 7                             | (4)                                |
| CMC Railroad III-B, Inc.                                 | 7                             | (3)                                |
| CMC Railroad III-C, Inc.                                 | 73                            | (42)                               |
| CMC Railroad III-D, Inc.                                 | 29                            | (15)                               |
| CMC Railroad Inc.                                        | 54                            | (5)                                |
| Corona Energy Limited                                    | 33                            | 0                                  |
| Corona Energy Retail 1 Limited                           | 52                            | (34)                               |
| Corona Energy Retail 2 Limited                           | 67                            | (42)                               |
| Corona Energy Retail 3 Limited                           | 7                             | (1)                                |
| Corona Energy Retail 4 Limited                           | 84                            | (71)                               |
| Corona Energy Retail 5 Limited                           | 1                             | (3)                                |
| Corona Gas Management Limited                            | 2                             | (1)                                |

| 31 March 2014                                                        | Total Assets <sup>1,2,3</sup> | Total Liabilities <sup>1,2,3</sup> |
|----------------------------------------------------------------------|-------------------------------|------------------------------------|
| Elise Nominees Pty Limited                                           | 0                             | 0                                  |
| Keba Energy LLC                                                      | 6                             | (4)                                |
| Levantera Developments Limited                                       | 9                             | 0                                  |
| Liberty Green Renewables Indiana, LLC                                | 0                             | 0                                  |
| Macquarie Agricultural Services Pty Limited                          | 5                             | (5)                                |
| Macquarie Australia Securities Pty Limited                           | 2                             | (2)                                |
| Macquarie Barnett LLC                                                | 6                             | 0                                  |
| Macquarie Business Solutions Pty Limited                             | 1                             | 0                                  |
| Macquarie Corona Energy Holdings Limited                             | 32                            | (4)                                |
| Macquarie Farm Assets and Resources Management Pty Limited           | 75                            | (67)                               |
| Macquarie NRAS Trust                                                 | 0                             | 0                                  |
| Macquarie Precision Marketing Pty Ltd                                | 2                             | 0                                  |
| Macquarie Rotorcraft Leasing, Inc.                                   | 2                             | (4)                                |
| Macquarie Structured and Specialist Investments Holdings Pty Limited | 94                            | (70)                               |
| Outplan Pty Limited                                                  | 0                             | 0                                  |
| PT Macquarie Commodities Indonesia                                   | 2                             | (1)                                |
| PT MPM Indonesia                                                     | 1                             | 0                                  |
| Relational Technology Services, Inc.                                 | 1                             | 0                                  |
| Shelby Energy Holdings, LLC                                          | 3                             | 0                                  |
| Texas Rail Terminal LLC                                              | 118                           | (93)                               |

<sup>1</sup> 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 2014. Financial statements under local GAAP of certain entities are subjected to separate audits from the Macquarie Bank Group audit and these audits may not be complete as at the date of this report.

<sup>2</sup> The total assets and liabilities should not be aggregated as certain entities are holding companies for other entities in the table shown above.

<sup>3</sup> Numbers are rounded to the nearest A\$ million. Asset balances are shown as positive and liability balances are shown as negative.

## Appendix 3 List of APRA Quantitative Tables

| APS 330 Table       | Title                                                               | Section No |
|---------------------|---------------------------------------------------------------------|------------|
| <b>Attachment A</b> | Capital Disclosures Template                                        | Appendix 1 |
| <b>Attachment D</b> |                                                                     |            |
| 6 (b) to (f)        | Risk Weighted Assets (RWA)                                          | 4.3        |
| 7 (b)               | Macquarie's Credit Risk Exposures                                   | 5.3        |
| 7 (c)               | Credit Risk by Geographic Distribution                              | 5.4        |
| 7 (d)               | Credit Risk distribution by Counterparty Type                       | 5.5        |
| 7 (e)               | Credit Risk by Maturity Profile                                     | 5.6        |
| 7 (f)               | Provisions by Counterparty Type                                     | 7.6        |
| 7 (g)               | Provisions by Geographic Region                                     | 7.7        |
| 7 (h)               | Movement in Provisions                                              | 7.9        |
| 7 (i)               | Credit Risk exposures by measurement approach                       | 5.3 & 6.1  |
| 7 (j)               | General reserve for credit losses                                   | 7.8        |
| 8 (b)               | Credit Risk exposures by risk weight                                | 6.2        |
| 9 (d)               | Credit risk exposures by Risk Grade                                 | 6.3        |
| 9 (e)               | Provisions by Counterparty Type                                     | 7.6        |
| 9 (f)               | Analysis of expected credit model performance versus actual results | 7.10       |
| 10 (b) & (c)        | Exposures Mitigated by Eligible Collateral                          | 8.2        |
| 12 (g) & (o)        | Originating ADI Securitisation Exposures                            | 9.2.1      |
| 12 (h)              | Performance of assets securitised                                   | 9.2.2      |
| 12 (i) & (p)        | Summary of outstanding exposures intended to be securitised         | 9.2.3      |
| 12 (j), (q) & (r)   | Securitisation activity                                             | 9.2.4      |
| 12 (k) & (s)        | Exposure by Type of Asset                                           | 9.3.1      |
| 12 (l)              | Exposure by Risk Weight band – Banking Book                         | 9.3.2      |
| 12 (t)              | Exposure by Risk Weight band – Trading Book                         | 9.3.2      |
| 12 (u)              | RWA by Risk Weight band – Trading Book                              | 9.3.3      |
| 12 (n) & (w)        | Resecuritisation exposure                                           | 9.3.4      |
| 13 (b)              | Debt Security Specific Risk figures                                 | 12.2.3     |
| 14 (d)              | Value at Risk figures                                               | 12.2.1     |
| 14 (d)              | Stressed Value at Risk figures                                      | 12.2.2     |
| 16 (b) & (c)        | Equity Investments                                                  | 13.2       |
| 16 (d) & (e)        | Gains and losses on equity investments                              | 13.4       |
| 16 (f)              | Capital Requirements arising from equity risks                      | 13.3       |
| 17 (b)              | Interest Rate Risk in the Banking Book                              | 12.2.4     |

## Appendix 4 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<br>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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## Appendix 4 Glossary of terms

### continued

|                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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.                                                                                                                                                                                                                                                                                                                                                                                                                          |