Pillar 3 disclosures

Macquarie Bank
March 2016

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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES MARCH PILLAR 3 DISCLOSURE DOCUMENT

20 May 2016 - The Macquarie Bank Limited March 2016 Pillar 3 disclosure document was released today on the Macquarie website 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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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 (IMA) 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

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 APRA Prudential Standard 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330) as at 31 March 2016 together with the 31 March 2015 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, liquidity coverage and leverage ratios and relevant comparatives are set out in the table below.

Capital, Liquidity and Leverage Ratios	As at 31 March 2016	As at 31 March 2015
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio[1]	**10.7%**	9.7%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio[1]	**11.8%**	11.0%
Level 2 Macquarie Bank Group Total capital ratio[1]	**14.1%**	12.4%
Level 2 Macquarie Bank Group Leverage ratio	**5.5%**	N/A
Level 2 Macquarie Bank Group Liquidity coverage ratio[1,2,3]	**173%**	N/A

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

2 For liquidity coverage ratio, Level 2 Macquarie Bank Group includes Special Purpose Vehicles (SPVs), which are deconsolidated for Capital adequacy purposes.

3 The LCR at March 2016 is calculated as the simple average of the January, February and March month end LCR results.

In July 2015, APRA released the final versions of APS 110 Capital Adequacy and APS 330 Public Disclosure, which incorporate new disclosure requirements relating to Liquidity Coverage ratio and Leverage ratio for ADIs. These requirements came into effect from 1 July 2015.

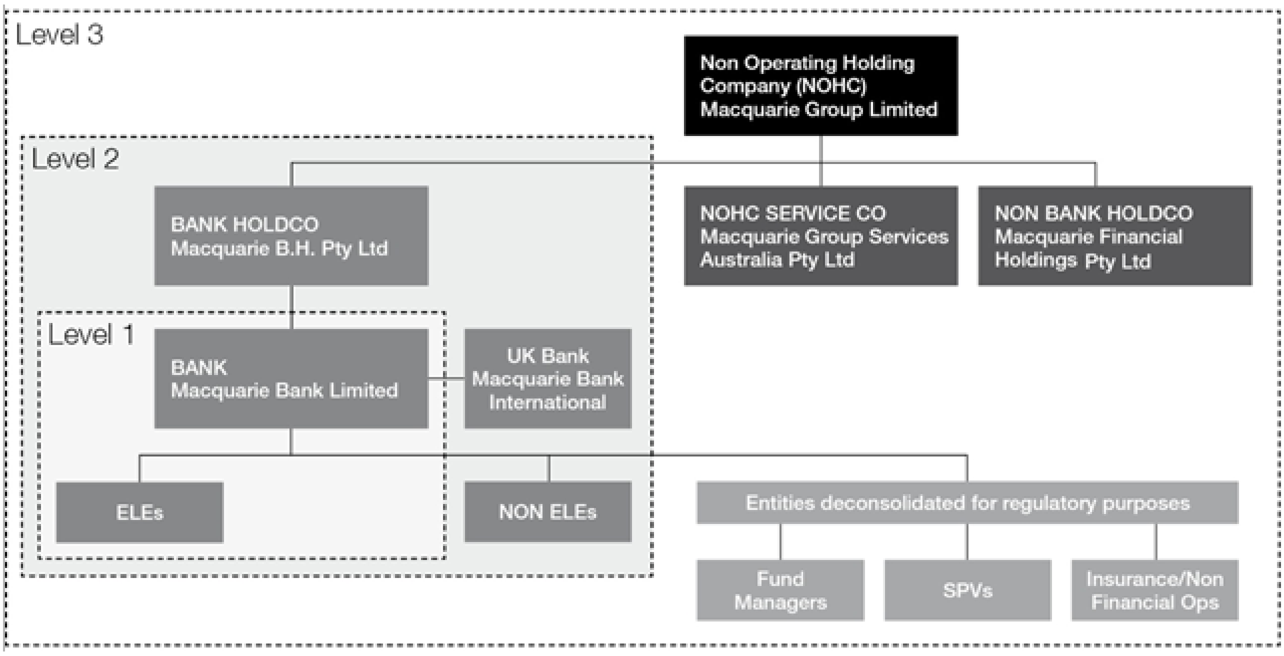
1.0 Overview

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 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. 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 2016 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 APS 310 Audit and Related Matters, the information submitted to APRA is required to be either audited or reviewed by an external auditor at Macquarie's year end, being 31 March.

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

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

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

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 Governance and Framework
– Capital Management
– Credit Risk Measurement
– Securitisation
– Credit Valuation Adjustment
– Exposures to Central Counterparties
– Market Risk
– Equity Risk
– Operational Risk
– Leverage ratio, and
– Liquidity coverage ratio

2.0 Risk Management Governance and Framework

2.1 Risk Governance at Macquarie

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

Macquarie recognises that a sound risk culture is a fundamental requirement of an effective risk management framework. The long-held foundations of Macquarie's risk culture are the principles of *What We Stand For* – Opportunity, Accountability and Integrity. Staff are made aware that these principles are expected to form the basis of all day-to-day behaviours and actions.

Board Committees, Management Committees and ultimately individuals support the Board in its oversight; for further detail refer to Macquarie's Corporate Governance Statement available at macquarie.com/leadership-corporate-governance

2.2 Macquarie's Risk Management Framework

Macquarie's risk management framework consists of its systems, structures, policies and processes. Under the framework staff are responsible for identifying, measuring, evaluating, monitoring, reporting and managing material risks.

The acceptance of risk is an integral part of Macquarie's business. The main risks faced by Macquarie are credit, market, equity, operational, liquidity, conduct, regulatory, compliance, reputation, legal, tax and insurance risks.

Strong independent prudential management has been a key to Macquarie's success and stability over many years. The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence'.

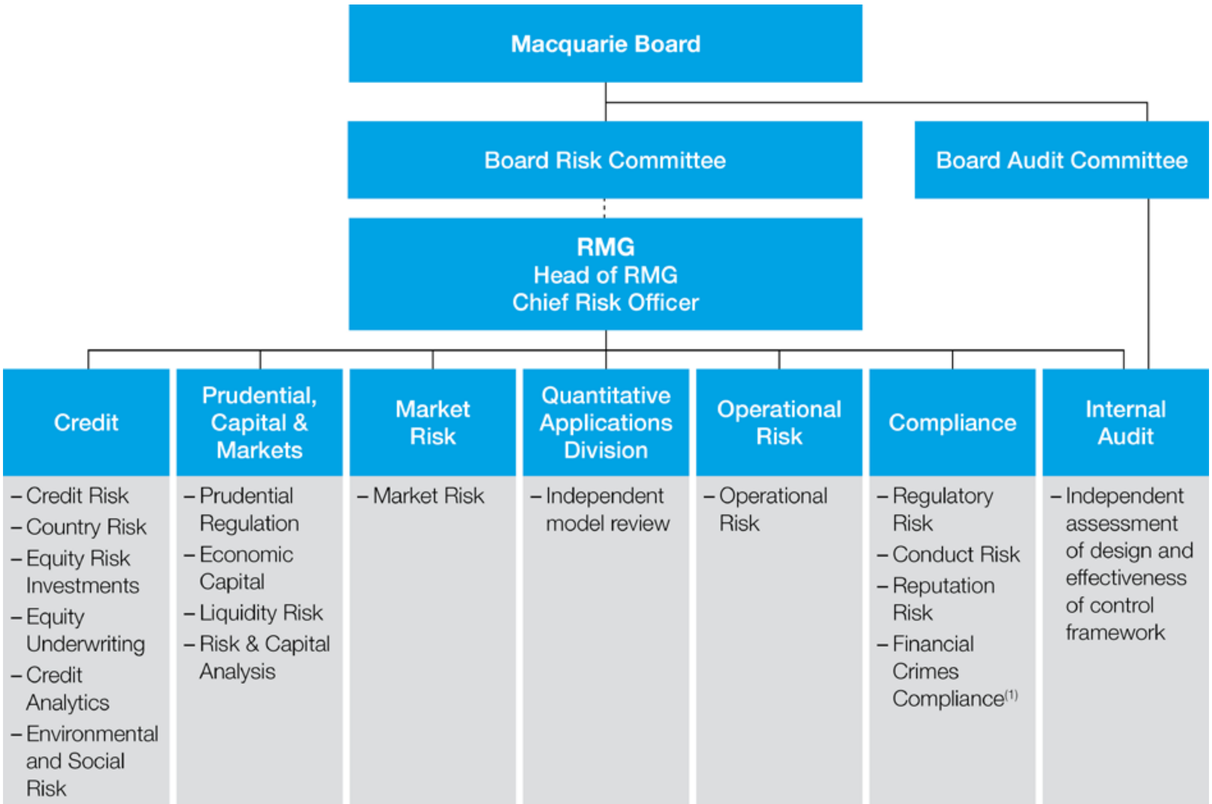
The first line of defence is at the business level, where primary responsibility for risk management lies. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately. The risk management function forms the second line of defence and independently assesses all material risks. The third line, which includes Internal Audit, independently reviews and challenges the Group's risk management controls, processes and systems.

2.0 Risk Management Governance and Framework
continued

2.3 Risk Management Group Structure:

Effective risk management is a function of both rigorous processes and the ability of experienced professionals to provide new perspectives on the risks they are considering. RMG attracts high calibre candidates. It recruits experienced individuals both from within Macquarie and externally. Conversely, Operating and Central Service Groups also source talent from RMG.

While RMG is structured into specialist teams as detailed below, it employs an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the teams to ensure that a detailed analysis takes place both at the individual and aggregate risk level.



[1] Financial Crimes Compliance includes anti-money laundering, anti-bribery & corruption and sanctions.

2.3.1 Internal Audit

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

The Head of Internal Audit is jointly accountable to the Board Audit Committee (BAC) and the Chief Risk Officer (CRO). The BAC approves the appointment and removal of the Head of Internal Audit who has unlimited access to the BAC.

3.0 Capital Structure

3.1 Total Available Capital

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

	As at 31 March 2016 $m	As at 31 March 2015 $m
Common Equity Tier 1 capital		
Paid-up ordinary share capital	**9,491**	8,690
Retained earnings	**2,410**	1,884
Reserves	**529**	639
Gross Common Equity Tier 1 capital	**12,430**	11,213
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	**46**	50
Deferred tax assets	**173**	243
Net other fair value adjustments	**(31)**	(66)
Intangible component of investments in subsidiaries and other entities	**36**	479
Loan and lease origination fees and commissions paid to mortgage originators and brokers	**278**	215
Shortfall in provisions for credit losses	**267**	263
Equity exposures	**1,345**	1,386
Other Common Equity Tier 1 capital deductions	**240**	228
Total Common Equity Tier 1 capital deductions	**2,354**	2,798
Net Common Equity Tier 1 capital	**10,076**	8,415
Additional Tier 1 capital		
Additional Tier 1 capital instruments	**1,035**	1,084
Gross Additional Tier 1 capital	**1,035**	1,084
Deductions from Additional Tier 1 capital:	**-**	-
Net Additional Tier 1 capital	**1,035**	1,084
Total Net Tier 1 capital	**11,111**	9,499
Tier 2 capital		
Tier 2 capital instruments	**2,096**	1,237
Total capital base	**13,207**	10,736

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.

Macquarie's additional Tier 1 capital, consists of Macquarie Income Securities (MIS), Bank Capital Notes (BCN) and Exchangeable Capital Securities (ECS). Macquarie Income Preferred Securities (MIPS) were fully redeemed by Macquarie Bank Group on 22 June 2015.

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. MIS are included under the Basel III transitional rules. The Basel III transitional rules allows recognition of all transitional Additional Tier 1 capital instruments at reporting date up to a threshold* under APS111.

*The transitional AT1 instrument threshold is calculated based on the base value and is amortised by 10% at 1 Jan each year starting from 1 January 2013. The base value is the balance of all transitional AT1 instruments as at 1 January 2013.

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. APRA has confirmed that the ECS will be 100% eligible hybrid capital until its first call date on 20 June 2017.

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

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 credit loss reserves plus subordinated debt instruments. A portion of 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.

MBL has issued cumulative convertible subordinated debt amounting to US$750m in June 2015 which is Basel III compliant and not subject to the transitional rules referred to above. This is reported at the value of liability at the period end date.

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 APS 222 Associations with Related Entities;
- 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.

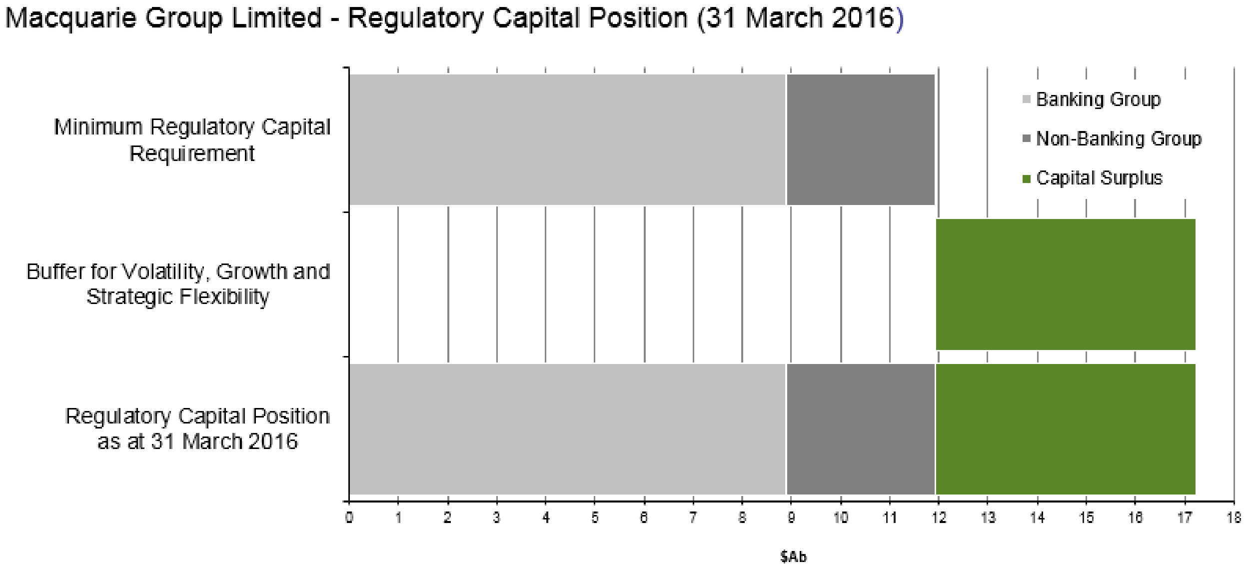
APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Bank Group. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for banks, as shown in the table which appears on the following page with both calculating 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 Bank 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 key parameters
Equity	Deduction from Common Equity Tier 1	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 49%
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*



* Calculated at the internal minimum Tier 1 ratio of the Bank Group, which is 7%.

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.

4.2 Risk Appetite Setting

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

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

The principles of the *RAS* are implemented primarily through the following four mechanisms:

4.2.1 New product and business approval process

All new businesses and significant changes to existing products or processes are subject to a rigorous and interactive approval process that adheres to the principles stated in the *RAS*. This results in constructive dialogue on risk matters between RMG and the relevant business.

This formal process is designed so that the proposed transaction or operation can be managed properly and does not create unknown or unwanted risks for Macquarie. All relevant risks (e.g. conduct, regulatory, compliance, reputation, credit, market, equity, operational, liquidity, legal, tax and insurance) are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, Finance Division, Taxation Division, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement.

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

The Operational Risk function within RMG oversees the New Product and Business Approval process.

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

4.2.2 Limits

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

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

Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn Macquarie's earnings and surplus capital cover losses and market confidence in Macquarie is maintained.

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

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

4.2.3 Relevant policies

Policies expand on the principles found in the *RAS* and often translate them into operational requirements for individuals and business activities.

Formalising practices and principles into policies assists in providing a framework for the consistent management of risks. It also promotes sharing of experience and expertise gained from managing risks in various business activities.

4.2.4 Communication and training

The *RAS* is accessible to all staff and is referred to in the *Code of conduct.* In addition, the principles in the *RAS* are communicated to relevant staff through formal and informal training programs. These include regular communication of policies to key staff, training programs for specific policies and mandatory Director-level staff training on the risk management framework.

The Risk Appetite Test – An aggregate stress test

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

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

Operating Groups and Divisions estimate downturn forward earnings capacity under a three-year downturn scenario provided to them by RMG. RMG reviews the estimates for consistency with scenario assumptions and across groups.

Aggregate risk breaks down into two categories:

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

Business risk is captured by the difference in base case and downturn forward earnings estimates. Potential losses are quantified using stress testing models, which translate scenario parameters (GDP, unemployment, interest rates etc) into loss and transition rates. 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 use 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 31 March 2016 $m	As at 31 March 2015 $m
Credit risk		
Subject to IRB approach		
Corporate	29,628	27,780
SME Corporate	2,498	2,211
Sovereign	363	350
Bank	1,350	1,726
Residential Mortgages	6,562	5,416
Other Retail	3,677	3,382
Retail SME	2,582	2,545
Total RWA subject to IRB approach[1]	46,660	43,410
Specialised lending exposures subject to slotting criteria[2]	7,234	7,044
Subject to Standardised approach		
Corporate	755	659
Residential Mortgages	3,271	3,008
Other Retail	8,130	1,265
Total RWA subject to Standardised approach[1]	12,156	4,932
Credit risk RWA for securitisation exposures	324	729
Credit Valuation Adjustment RWA	2,853	2,769
Exposures to Central Counterparties RWA	1,390	1,776
RWA for Other Assets	9,081	9,790
Total Credit risk RWA	79,698	70,450
Market risk RWA	3,926	6,650
Operational risk RWA	9,624	9,399
Interest rate risk in the banking book RWA[3]	576	-
Total RWA	93,824	86,499

[1] Refer to section 6.0 for more details on exposures calculated under the IRB and Standardised approaches.
[2] Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.
[3] Interest rate risk in the banking book RWA is now non zero due to a methodology change that transfers exposures previously captured in Market Risk.

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)

Capital Ratios	As at 31 March 2016	As at 31 March 2015
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	**10.7%**	9.7%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio	**11.8%**	11.0%
Level 2 Macquarie Bank Group Total capital ratio	**14.1%**	12.4%
Level 1 Macquarie ELE Common Equity Tier 1 capital ratio	**10.4%**	9.9%
Level 1 Macquarie ELE Total Tier 1 capital ratio	**11.6%**	11.3%
Level 1 Macquarie ELE Total capital ratio	**13.8%**	12.8%

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

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 repaid, or the loss incurred in replicating a trading contract with a new counterparty.

RMG Credit maintains a comprehensive and robust framework for the identification, analysis and monitoring of credit risks arising in each business. Key aspects of this framework are detailed below.

5.2 Credit Risk Management

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

The 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 prudently exercise authority has been assessed.

Operating groups are assigned modest levels of credit discretions. Credit exposures above these 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 PD derived from Standard and Poor's or Moody's long term average one year default rates for similarly rated obligors. A 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 AA-	AA+ AA AA-	Aa1 Aa2 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 CCC-	CCC+ CCC CCC-	Caa1 Caa2 Caa3
MQ16	CC C	CC C	Ca 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 reviews the following:

– validation of wholesale ratings templates;
– validation of wholesale PD estimates;
– validation of wholesale LGD estimates;
– wholesale ratings migration analysis;
– 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 review by CA.

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

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

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

5.2.3 Measuring and Monitoring Exposures

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

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

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

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

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

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

Where trading gives rise to settlement risk, this risk is normally assessed at full face value of the settlement amount. However, Macquarie utilises a number of market standard clearing mechanisms to ensure that the bulk of settlements are effected on a secured basis or through exchanges where a Delivery vs payment (DVP) 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 a centralised function within RMG which independently verifies the effectiveness of Macquarie’s credit risk management. It provides an independent assurance of the effectiveness of credit processes and controls.

CA’s key responsibilities:

– reporting on the effectiveness of RMG Credit's policies, controls and procedures including sample testing to ensure compliance with key Credit policies and the effectiveness of critical controls; and
– oversight and validation of the internal wholesale credit risk rating systems and validation of credit risk estimates for retail portfolios, to ensure ratings remain appropriate.

CA reports to the Co-Head of Credit Central, 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 Board. In the interim, matters that require Board attention are reported via the CRO.

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:

- 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 on balance sheet exposures (discussed in section 12); and
- equity exposures (discussed in section 13).

APS 330 Table 7(b)

Portfolio Type	**As at 31 March 2016 $m**	As at 31 March 2015 $m
Corporate[1]	**46,076**	44,486
SME Corporate[2]	**3,511**	3,154
Sovereign	**2,716**	2,691
Bank	**9,181**	11,373
Residential Mortgages	**37,245**	29,806
Other Retail	**13,792**	6,641
Retail SME	**4,221**	4,071
Other Assets[3]	**12,354**	14,560
Total Gross Credit Exposure	**129,096**	116,782

1 Corporate includes Specialised Lending exposure of $7,053 million as at 31 March 2016 (31 March 2015: $8,450 million).
2 SME Corporate includes Specialised Lending exposure of $565 million as at 31 March 2016 (31 March 2015: $519 million).
3 The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 7(b) (continued)

	As at 31 March 2016				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 12 months $m
Subject to IRB approach					
Corporate	20,169	4,727	13,372	38,268	36,823
SME Corporate	2,526	420	-	2,946	2,790
Sovereign	2,280	-	436	2,716	2,704
Bank	3,589	-	5,592	9,181	10,277
Residential Mortgages	25,380	5,070	-	30,450	25,936
Other Retail	5,623	-	-	5,623	5,446
Retail SME	4,092	129	-	4,221	4,146
Total IRB approach	63,659	10,346	19,400	93,405	88,122
Specialised Lending	6,809	511	298	7,618	8,293
Subject to Standardised approach					
Corporate	-	755	-	755	707
Residential Mortgages	6,653	142	-	6,795	7,590
Other Retail	8,169	-	-	8,169	4,770
Total Standardised approach	14,822	897	-	15,719	13,067
Other Assets	11,687	221	446	12,354	13,457
Total Gross Credit Exposures	96,977	11,975	20,144	129,096	122,939

5.0 Credit Risk Measurement
continued

APS 330 Table 7(b) (continued)

	As at 31 March 2015				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 12 months $m
Corporate	18,039	4,077	13,261	35,377	30,921
SME Corporate	2,338	297	-	2,635	2,385
Sovereign	2,246	-	445	2,691	3,115
Bank	4,463	-	6,910	11,373	10,446
Residential Mortgages	21,033	389	-	21,422	18,511
Other Retail	5,269	-	-	5,269	6,561
Retail SME	4,050	21	-	4,071	2,035
Total IRB approach	57,438	4,784	20,616	82,838	73,974
Specialised Lending	8,016	720	233	8,969	7,612
Subject to Standardised approach					
Corporate	-	659	-	659	790
Residential Mortgages	8,384	-	-	8,384	7,787
Other Retail	1,372	-	-	1,372	1,286
Total Standardised approach	9,756	659	-	10,415	9,863
Other Assets	10,003	3,828	729	14,560	12,593
Total Gross Credit Exposures	85,213	9,991	21,578	116,782	104,042

APS 330 Table 7(i)

	As at 31 March 2016				For the 12 months to 31 March 2016	
	Gross Credit Exposure $m	Impaired Facilities[1] $m	Past Due > 90 days[2] $m	Individually Assessed Provisions[1] $m	Charges for Individually Assessed Provisions[1] $m	Write-offs $m
Subject to IRB approach						
Corporate[3,4]	45,321	635	355	(264)	(403)	(9)
SME Corporate[3]	3,511	20	33	(9)	(4)	-
Sovereign	2,716	-	-	-	-	-
Bank	9,181	-	3	-	-	-
Residential Mortgages	30,450	176	73	(4)	(1)	-
Other Retail	5,623	87	-	(18)	(7)	(49)
Retail SME	4,221	-	-	-	-	-
Total IRB approach	101,023	918	464	(295)	(415)	(58)
Subject to Standardised approach						
Corporate	755	-	-	-	-	-
Residential Mortgages[4]	6,795	40	383	(11)	(2)	-
Other Retail[4]	8,169	54	54	(6)	(3)	(52)
Total Standardised approach	15,719	94	437	(17)	(5)	(52)
Other Assets[5]	12,354	23	-	(1)	-	-
Total	129,096	1,035	901	(313)	(420)	(110)

	As at 31 March 2016 $m
General reserve for credit losses[6]	447

1 In accordance with Attachment C (Paragraph 1) APS 330, the table above excludes securitisation exposures. As at 31 March 2016, Macquarie has impaired securitised facilities of $nil million with individually assessed provisions of $nil million, and charges for individually assessed provisions of $nil for the 12 months to 31 March 2016.

2 In accordance with APRA prudential definitions, Past Due > 90 days do not form part of impaired facilities as they are well secured, and represent the full amount outstanding, not just the amount that is past due.

3 IRB Corporate and SME Corporate includes Specialised Lending.

4 Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the Corporate and Asset Finance (CAF) lending business.

5 Other assets impaired facilities include other real estate owned subsequent to facility foreclosure.

6 The General reserve for credit losses is equivalent to the collective provisions for regulatory purposes.

5.0 Credit Risk Measurement
continued

APS 330 Table 7(i)

	As at 31 March 2015				For the 12 months to 31 March 2015	
	Gross Credit Exposure $m	Impaired Facilities[1] $m	Past Due > 90 days[2] $m	Individually Assessed Provisions[1] $m	Charges for Individually Assessed Provisions[1] $m	Write-offs $m
Subject to IRB approach						
Corporate[3,4]	43,827	1,106	755	(526)	(289)	(4)
SME Corporate[3]	3,154	22	7	(7)	(5)	-
Sovereign	2,691	-	-	-	-	-
Bank	11,373	-	46	-	-	-
Residential Mortgages	21,422	175	50	(4)	-	-
Other Retail	5,269	49	-	(13)	(5)	(39)
Retail SME	4,071	-	-	-	-	-
Total IRB approach	**91,807**	**1,352**	**858**	**(550)**	**(299)**	**(43)**
Subject to Standardised approach						
Corporate	659	-	-	-	-	-
Residential Mortgages[4]	8,384	47	101	(13)	(1)	-
Other Retail[4]	1,372	19	4	(5)	(7)	(33)
Total Standardised approach	**10,415**	**66**	**105**	**(18)**	**(8)**	**(33)**
Other Assets[5]	14,560	127	-	(7)	-	-
Total	**116,782**	**1,545**	**963**	**(575)**	**(307)**	**(76)**

	As at 31 March 2015 $m
General reserve for credit losses[6]	**319**

1 In accordance with Attachment C (Paragraph 1) APS 330, the table above excludes securitisation exposures. As at 31 March 2015, Macquarie has impaired securitised facilities of $nil million with individually assessed provisions of $nil million, and charges for individually assessed provisions of $nil for the 12 months to 31 March 2015.

2 In accordance with APRA prudential definitions, Past Due > 90 days do not form part of impaired facilities as they are well secured, and represent the full amount outstanding, not just the amount that is past due.

3 IRB Corporate and SME Corporate includes Specialised Lending.

4 Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the Corporate and Asset Finance (CAF) lending business.

5 Other assets impaired facilities include other real estate owned subsequent to facility foreclosure.

6 The General reserve for credit losses is equivalent to the collective provisions for regulatory purposes.

5.4 Credit Risk by Geographic Distribution

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

APS 330 Table 7(c)

	As at 31 March 2016				
Portfolio Type	**Asia Pacific $m**	**Australia $m**	**EMEA* $m**	**Americas $m**	**Total $m**
Corporate	**4,356**	**8,293**	**17,365**	**16,062**	**46,076**
SME Corporate	**4**	**3,500**	**7**	**-**	**3,511**
Sovereign	**124**	**2,216**	**323**	**53**	**2,716**
Bank	**563**	**2,423**	**3,964**	**2,231**	**9,181**
Residential Mortgages	**97**	**34,597**	**954**	**1,597**	**37,245**
Other Retail	**-**	**12,923**	**486**	**383**	**13,792**
Retail SME	**-**	**4,215**	**6**	**-**	**4,221**
Other Assets	**1,237**	**1,151**	**8,408**	**1,558**	**12,354**
Total Gross Credit Exposure	**6,381**	**69,318**	**31,513**	**21,884**	**129,096**

*EMEA represents Europe, Middle East and Africa

	As at 31 March 2015				
Portfolio Type	Asia Pacific $m	Australia $m	EMEA $m	Americas $m	Total $m
Corporate	2,784	7,098	18,339	16,265	44,486
SME Corporate	5	3,120	29	-	3,154
Sovereign	372	1,988	298	33	2,691
Bank	877	3,154	5,990	1,352	11,373
Residential Mortgages	57	25,189	690	3,870	29,806
Other Retail	53	6,307	281	-	6,641
Retail SME	-	4,071	-	-	4,071
Other Assets	2,430	2,097	9,265	768	14,560
Total Gross Credit Exposure	6,578	53,024	34,892	22,288	116,782

5.0 Credit Risk Measurement
continued

5.5 Credit Risk distribution by Counterparty Type

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

APS 330 Table 7(d)

	As at 31 March 2016				
Portfolio Type	**Financial Institution $m**	**Government $m**	**Corporate $m**	**Retail $m**	**Total $m**
Corporate	9,196	543	35,860	477	46,076
SME Corporate	-	-	3,011	500	3,511
Sovereign	2,308	408	-	-	2,716
Bank	8,897	-	284	-	9,181
Residential Mortgages	659	-	943	35,643	37,245
Other Retail	24	15	1,648	12,105	13,792
Retail SME	307	1	2,695	1,218	4,221
Other Assets	1,961	389	9,887	117	12,354
Total Gross Credit Exposure	**23,352**	**1,356**	**54,328**	**50,060**	**129,096**

	As at 31 March 2015				
Portfolio Type	Financial Institution $m	Government $m	Corporate $m	Retail $m	Total $m
Corporate	10,316	480	33,118	572	44,486
SME Corporate	-	-	2,645	509	3,154
Sovereign	2,194	497	-	-	2,691
Bank	10,931	20	422	-	11,373
Residential Mortgages	403	-	741	28,662	29,806
Other Retail	107	19	463	6,052	6,641
Retail SME	220	2	2,619	1,230	4,071
Other Assets	2,434	111	11,891	124	14,560
Total Gross Credit Exposure	26,605	1,129	51,899	37,149	116,782

5.6 Credit Risk by Maturity Profile

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

APS 330 Table 7(e)

	As at 31 March 2016			
Portfolio Type	**≤1 year $m**	**1 ≤ 5 years $m**	**> 5 years $m**	**Total $m**
Corporate	**21,195**	**16,299**	**8,582**	**46,076**
SME Corporate	**713**	**2,297**	**501**	**3,511**
Sovereign	**1,087**	**979**	**650**	**2,716**
Bank	**5,459**	**2,658**	**1,064**	**9,181**
Residential Mortgages	**894**	**889**	**35,462**	**37,245**
Other Retail	**1,590**	**10,316**	**1,886**	**13,792**
Retail SME	**448**	**2,997**	**776**	**4,221**
Other Assets	**5,520**	**4,123**	**2,711**	**12,354**
Total Gross Credit Exposure	**36,906**	**40,558**	**51,632**	**129,096**

	As at 31 March 2015			
Portfolio Type	≤1 year $m	1 ≤ 5 years $m	> 5 years $m	Total $m
Corporate	19,327	19,346	5,813	44,486
SME Corporate	387	2,290	477	3,154
Sovereign	1,268	643	780	2,691
Bank	6,989	2,362	2,022	11,373
Residential Mortgages	1,901	1,786	26,119	29,806
Other Retail	1,452	4,736	453	6,641
Retail SME	291	3,183	597	4,071
Other Assets	7,038	6,422	1,100	14,560
Total Gross Credit Exposure	38,653	40,768	37,361	116,782

5.0 Credit Risk Measurement
continued

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

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

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

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

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

Exposure Type	Approach	Treatment
Primarily 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.
Macquarie originated auto and equipment lease exposures in Australia.	IRB	Through-the-cycle pool PDs and downturn LGDs.
Macquarie originated prime Residential Mortgages in Australia.	IRB	Through-the-cycle pool PDs and downturn LGDs. The regulatory floor of 20% applies to the LGD of the portfolio.
Other Residential Mortgages	Standardised	Risk Weighted per APS 112.
Other auto and equipment lease exposures in Australia	Standardised	Risk Weighted per APS 112.
Credit card exposures in Australia.	Standardised	100% risk-weighted.
Personal loan exposures in Australia.	Standardised	100% risk-weighted.
Margin loan exposures in Australia.	IRB	A 20% risk-weight prescribed in APS113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk is applied.
Retail investment loan exposures. The majority are capital protected.	Standardised	100% risk-weighted.

6.0 Calculation of Credit Risk Exposures

6.1 Credit Risk exposures by measurement approach

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

APS 330 Table 7(i)

Portfolio Type	As at 31 March 2016 $m	As at 31 March 2015 $m
Subject to IRB approach		
Corporate	**45,321**	43,827
SME Corporate	**3,511**	3,154
Sovereign	**2,716**	2,691
Bank	**9,181**	11,373
Residential Mortgages	**30,450**	21,422
Other Retail	**5,623**	5,269
Retail SME	**4,221**	4,071
Total IRB approach	**101,023**	91,807
Subject to Standardised approach		
Corporate	**755**	659
Residential Mortgages	**6,795**	8,384
Other Retail	**8,169**	1,372
Total Standardised approach	**15,719**	10,415
Other Assets[1]	**12,354**	14,560
Total Gross Credit Exposure	**129,096**	116,782

1 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.

APS 330 Table 8(b) Standardised Approach Exposures

	As at 31 March 2016		As at 31 March 2015	
Risk Weight	**Total Gross Credit Exposure $m**	**Gross Credit Exposure after mitigation by eligible collateral & guarantees* $m**	Total Gross Credit Exposure $m	Gross Credit Exposure after mitigation by eligible collateral & guarantees* $m
0%*	**1,096**	**-**	3,064	-
> 0% ≤ 20%	**-**	**-**	-	-
> 20% ≤ 35%	**2,399**	**2,399**	2,464	2,464
> 35% ≤ 50%	**1,554**	**1,554**	1,428	1,428
> 50% ≤ 75%	**520**	**520**	355	355
> 75% ≤ 100%	**10,150**	**10,150**	3,104	3,104
> 100% ≤ 150%	**-**	**-**	-	-
> 150%	**-**	**-**	-	-
Total	**15,719**	**14,623**	10,415	7,351

* 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	**Gross Credit Exposure**	
Risk Weight	**As at 31 March 2016 $m**	As at 31 March 2015 $m
70%	**653**	1,057
90%	**2,018**	2,813
115%	**3,563**	3,015
250%	**345**	122
Default[1]	**1,039**	1,962
Total	**7,618**	8,969

[1] 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, SME Corporate, Bank and Sovereign as shown in section 6.1.

APS 330 Table 9(d)

	As at 31 March 2016 PD Grade							
Non-Retail	**0 < 0.03% $m**	**0.03% < 0.15% $m**	**0.15% < 0.5% $m**	**0.5% < 3% $m**	**3% < 10% $m**	**10% < 100% $m**	**Default $m**	**Total Gross Credit Exposure $m**
Corporate	**1,102**	**10,007**	**6,256**	**14,102**	**9,149**	**2,702**	**2,003**	**45,321**
SME Corporate	**-**	**-**	**-**	**2,543**	**711**	**171**	**86**	**3,511**
Sovereign	**2,397**	**159**	**132**	**26**	**2**	**-**	**-**	**2,716**
Bank	**3,594**	**4,773**	**440**	**112**	**66**	**2**	**194**	**9,181**
Total Gross Credit Exposure	**7,093**	**14,939**	**6,828**	**16,783**	**9,928**	**2,875**	**2,283**	**60,729**

	As at 31 March 2015 PD Grade							
Non-Retail	0 < 0.03% $m	0.03% < 0.15% $m	0.15% < 0.5% $m	0.5% < 3% $m	3% < 10% $m	10% < 100% $m	Default $m	Total Gross Credit Exposure $m
Corporate	1,111	9,143	6,814	13,896	8,013	2,167	2,683	43,827
SME Corporate	-	-	3	2,268	716	119	48	3,154
Sovereign	2,341	221	119	5	3	1	1	2,691
Bank	4,609	5,862	443	319	48	9	83	11,373
Total Gross Credit Exposure	8,061	15,226	7,379	16,488	8,780	2,296	2,815	61,045

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 31 March 2016 PD Grade							
Undrawn Commitments	**0 < 0.03% $m**	**0.03% < 0.15% $m**	**0.15% < 0.5% $m**	**0.5% < 3% $m**	**3% < 10% $m**	**10% < 100% $m**	**Default $m**	**Total $m**
Corporate	**37**	**1,496**	**399**	**977**	**314**	**62**	**-**	**3,285**
SME Corporate	**-**	**-**	**-**	**321**	**63**	**12**	**-**	**396**
Total Undrawn Commitments	**37**	**1,496**	**399**	**1,298**	**377**	**74**	**-**	**3,681**

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

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

APS330 Table 9(d) continued

	As at 31 March 2016 Expected Loss Categories					
Retail	**0 < 0.1% $m**	**0.1% < 0.3% $m**	**0.3% < 3% $m**	**3% < 10% $m**	**10% < 100% $m**	**Total Gross Credit Exposure $m**
Residential Mortgages	**11,522**	**13,331**	**5,066**	**330**	**201**	**30,450**
Other Retail	**-**	**-**	**5,608**	**-**	**15**	**5,623**
Retail SME	**379**	**418**	**3,314**	**77**	**33**	**4,221**
Total Gross Credit Exposure	**11,901**	**13,749**	**13,988**	**407**	**249**	**40,294**

	As at 31 March 2015 Expected Loss Categories					
Retail	0 < 0.1% $m	0.1% < 0.3% $m	0.3% < 3% $m	3% < 10% $m	10% < 100% $m	Total Gross Credit Exposure $m
Residential Mortgages	8,394	9,576	3,116	175	161	21,422
Other Retail	-	-	5,253	-	16	5,269
Retail SME	305	301	3,349	84	32	4,071
Total Gross Credit Exposure	8,699	9,877	11,718	259	209	30,762

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 31 March 2016 Expected Loss Categories					
Undrawn Commitments	**0 < 0.1% $m**	**0.1% < 0.3% $m**	**0.3% < 3% $m**	**3% < 10% $m**	**10% < 100% $m**	**Total $m**
Residential Mortgages	**4,536**	**260**	**257**	**17**	**-**	**5,070**
Retail SME	**99**	**4**	**23**	**1**	**-**	**127**
Total Undrawn Commitments	**4,635**	**264**	**280**	**18**	**-**	**5,197**

	As at 31 March 2015 Expected Loss Categories					
Undrawn Commitments	0 < 0.1% $m	0.1% < 0.3% $m	0.3% < 3% $m	3% < 10% $m	10% < 100% $m	Total $m
Residential Mortgages	326	62	1	-	-	389
Retail SME	17	-	-	-	-	17
Total Undrawn Commitments	343	62	1	-	-	406

7.0 Provisioning

7.1 Impaired Facilities and Past Due

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

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

The estimation of expected future cash flows takes into consideration:

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

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

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

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

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

7.2 Individually Assessed Provisions

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

7.3 Collective Provisions

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

7.4 Regulatory Expected Loss (REL)

REL represents the estimated future credit losses expected to be incurred in a portfolio. For non-defaulted exposures, similar to collective provisions, REL is calculated as a function of the outstanding exposure, PD and LGD whereas REL for defaulted corporate, sovereign and bank exposures under the FIRB approach is determined as the product of LGD and EAD. LGDs are defined by APRA for Corporate, Bank and Sovereign. Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings. For defaulted retail exposures under the IRB approach, REL is based on the best estimate of loss.

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 2016, the total REL was $1,705 million (31 March 2015: $1,959 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of $267 million (31 March 2015: $263 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 31 March 2016		As at 31 March 2015	
	Impaired Facilities $m	**Individually Assessed Provisions $m**	Impaired Facilities $m	Individually Assessed Provisions $m
Total - APS220 impaired facilities	**1,035**	**313**	1,545	575
Impaired debt investment securities[1]	**-**	**-**	(3)	(3)
Impaired loans without provisions[2]	**(317)**	**-**	(271)	-
Real estate and other assets acquired through security enforcement[3]	**(10)**	**-**	(79)	-
Off balance sheet exposures	**-**	**-**	(8)	-
Other exposures	**11**	**7**	6	5
Total – Impaired loans & other financial assets with individually assessed provisions for impairment per MBL consolidated financial statements	**719**	**320**	1,190	577

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

2 Comprises secured exposures where no loss is anticipated, and which are not impaired in the MBL consolidated financial statements. Collective provisions of $15 million ($73 million as at 31 March 2015) relating to these and other past due exposures which are treated as individually assessed provisions for regulatory purposes, are not presented in this table (refer to section 7.8).

3 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 31 March 2016			As at 31 March 2015		
	Impaired Facilities $m	**Past Due >90 days $m**	**Individually Assessed Provisions $m**	Impaired Facilities $m	Past Due >90 days $m	Individually Assessed Provisions $m
Subject to IRB approach						
Corporate[1]	**635**	**355**	**(264)**	1,106	755	(526)
SME Corporate	**20**	**33**	**(9)**	22	7	(7)
Bank	**-**	**3**	**-**	-	46	-
Residential Mortgages	**176**	**73**	**(4)**	175	50	(4)
Other Retail	**87**	**-**	**(18)**	49	-	(13)
Total IRB approach	**918**	**464**	**(295)**	1,352	858	(550)
Subject to Standardised approach						
Residential Mortgages[1]	**40**	**383**	**(11)**	47	101	(13)
Other Retail[1]	**54**	**54**	**(6)**	19	4	(5)
Total Standardised approach	**94**	**437**	**(17)**	66	105	(18)
Other Assets	**23**	**-**	**(1)**	127	-	(7)
Total	**1,035**	**901**	**(313)**	1,545	963	(575)

1 Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF lending business.

7.0 Provisioning
continued

APS 330 Table 9(e)

	For the 12 months to 31 March 2016		For the 12 months to 31 March 2015	
	Charges for Individually Assessed provisions $m	Write-offs $m	Charges for Individually Assessed provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	(403)	(9)	(289)	(4)
SME Corporate	(4)	-	(5)	-
Residential Mortgages	(1)	-	-	-
Other Retail	(7)	(49)	(5)	(39)
Total IRB approach	(415)	(58)	(299)	(43)
Subject to Standardised approach				
Residential Mortgages	(2)	-	(1)	-
Other Retail	(3)	(52)	(7)	(33)
Total Standardised approach	(5)	(52)	(8)	(33)
Total	(420)	(110)	(307)	(76)

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)

	As at 31 March 2016			
Geographic Region	**Impaired Facilities $m**	**Past due > 90 days $m**	**Individually Assessed Provisions $m**	**Collective Provisions $m**
Australia	**552**	**480**	**(96)**	**(242)**
EMEA	**60**	**384**	**(22)**	**(75)**
Americas	**350**	**32**	**(157)**	**(143)**
Asia Pacific	**73**	**5**	**(38)**	**(2)**
Total	**1,035**	**901**	**(313)**	**(462)**

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

7.0 Provisioning
continued

7.8 General reserve for credit losses

APS 330 Table 7(j)

	As at 31 March 2016 $m	As at 31 March 2015 $m
Collective provisions	**462**	392
Collective provisions treated as individually assessed provisions for regulatory purposes	**(15)**	(73)
Net collective provisions for regulatory purposes[1]	**447**	319
Tax effect	**(134)**	(96)
General reserve for credit losses	**313**	223

[1] 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 2016.

APS 330 Table 7(h)

	$m
Total Provisions as at 31 March 2015	967
Collective Provisions	
Balance at start of the period	392
Provided for during the period	8
Acquisitions during the period	66
Adjustments for foreign exchange fluctuations	(4)
Total Collective Provisions	462
Individually Assessed Provisions	
Balance at start of the period	575
Charge to income statement	420
Assets written off, previously provided for	(631)
Recovery of loans, previously provided for	(31)
Adjustments for foreign exchange fluctuations	(20)
Total Individually Assessed Provisions	313
Total Provisions as at 31 March 2016	775

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 2016 period.

APS 330 Table 9(f)

	PD		Exposure at default	LGD	
Portfolio Type	Estimated %	Actual %	Estimate to Actual Ratio	Estimated %	Actual %
Corporate	1.44	0.81	N/A*	N/A*	N/A*
SME Corporate	2.22	1.36	N/A*	N/A*	N/A*
Sovereign	0.08	-	N/A*	N/A*	N/A*
Bank	0.09	-	N/A*	N/A*	N/A*
Residential Mortgages	1.11	1.36	100%	20.56	5.80
Other Retail	1.46	1.34	113%	47.94	30.45

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

8.0 Credit Risk Mitigation

8.1 Netting

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

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

8.1.1 Collateral Valuation and Management

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

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

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

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

To mitigate credit risk Macquarie makes frequent use of margining arrangements. In these cases, counterparties post collateral daily in the form of cash or liquid securities to cover outstanding trading positions. Macquarie also engages in reciprocal margining agreements with counterparties under ISDA or similar agreements where the Credit Support Annex can contain provisions whereby margining thresholds may vary in relation to the credit ratings of the respective parties. These thresholds are incorporated into one of the scenarios considered under the MGL Group liquidity policy which assesses the collateral and funding requirements in the event of a credit downgrade. This is part of the general requirement of the MGL Group to be able to meet all obligations for a period of twelve months under both an individual and combined name and systemic challenge. The resultant increase in collateral requirements is included as an outflow in the scenarios - explicitly ensuring that Macquarie has sufficient funding coverage in this event.

Specific protocols surround the acceptance of real estate as collateral.

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

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

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

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

8.1.2 Wrong Way Risk

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

8.0 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 considered in 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)

	As at 31 March 2016			
Measurement Approach	**Total Gross Credit Exposure $m**	**Eligible Financial Collateral $m**	**Other Eligible Collateral $m**	**Exposures Covered by Guarantees $m**
Subject to IRB approach				
Corporate	**45,321**	**1,801**	**7**	**1,643**
SME Corporate	**3,511**	**40**	**693**	**-**
Sovereign	**2,716**	**-**	**-**	**2**
Bank	**9,181**	**1,639**	**-**	**354**
Total IRB approach	**60,729**	**3,480**	**700**	**1,999**

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

8.3 Counterparty Credit risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value for the Group at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

Economic capital is allocated to CCR exposures after taking into account the risk-rating and expected exposure to the counterparty, and correlations and diversification impacts across risk types.

As at 31 March 2016, a unilateral one-notch and two-notch downgrade in the MBL’s rating would have resulted in a further $469 million and $564 million of collateral being posted to other counterparties respectively. Collateral stress tests are also conducted on the MBL’s counterparties so that it can monitor for likely collateral stresses in the event of a counterparty downgrade.

APS 330 Table 11(b)

Credit equivalent amounts for counterparty exposures	**As at 31 March 2016 $m**
Replacement cost	16,376
Potential future exposure	10,780
Gross credit equivalent amount	27,156
Comprising:	
Interest rate contracts	4,078
Credit derivative contracts	245
Equity contracts	1,522
Foreign exchange and gold contracts	8,280
Commodities and precious metals contracts	13,031
Gross credit equivalent amount	27,156
Less: Effect of netting arrangements	12,840
Credit equivalent amount after netting	14,316
Less: Collateral amount	
Eligible financial collateral	2,815
Other eligible collateral	-
Net credit equivalent amount	**11,501**

APS 330 Table 11(c)

	As at 31 March 2016	
Notional amount of credit derivatives	**Protection Bought $m**	**Protection Sold $m**
Own credit portfolio	2,695	4,125
Client intermediation activities	-	-
Total	**2,695**	**4,125**
Credit default swaps (CDS)	2,548	3,760
Total return swaps	147	365
Total	**2,695**	**4,125**

9.0 Securitisation

9.1 Overview

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

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

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

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

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

– trusts, and
– special purpose companies,

issuing RMBS or asset-backed securities (ABS).

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

– Macquarie Life Superannuation Approved Deposit Fund;
– Macquarie True Index Cash Fund;
– Macquarie True Index Sovereign Bond Fund;
– Macquarie Global Income Opportunities Fund;

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

9.1.1 Securitisation Risk Management

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

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

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

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

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

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

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

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

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 standards, 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 generally there is no gain or loss booked on the sale of the mortgage assets to the SPVs. Securitised exposures in the trading book are held at market value. There has been no material change to the methods of valuation from the prior period.

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

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

9.0 Securitisation
continued

9.2 Securitisation Exposures

9.2.1 Originating ADI Securitisation Exposures

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

APS 330 Table 12(g) and (o)

	As at 31 March 2016		
	Total outstanding exposures securitised		
Exposure type – Traditional	ADI originated assets[1] $m	ADI as sponsor[2] $m	Other $m
Banking Book			
Residential Mortgages	22,843	300	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,046	-	-
Total Banking Book	30,889	300	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-
Total	30,889	300	-

1 Included in the above are assets of $30,525m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group

2 Included in the above are exposures held in third party warehouse funding facilities.

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

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

2 Included in the above are exposures held in third party warehouse funding facilities.

9.2.2 Performance of assets securitised

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

APS 330 Table 12(h)

	As at 31 March 2016			
	Total outstanding exposures securitised			
Exposure type	**Total outstanding exposures[1] $m**	**Impaired[2] $m**	**Past due > 90 days[3] $m**	**ADI recognised loss from exposures securitised $m**
Residential Mortgages	**22,843**	**185**	**84**	**-**
Credit cards and other personal loans	**-**	**-**	**-**	**-**
Auto and equipment finance	**8,046**	**66**	**-**	**-**
Total	**30,889**	**251**	**84**	**-**

[1] Included in the above are assets of $30,525m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

[2] Included in the above are impaired facilities of $237m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

[3] Included in the above are past due > 90 days facilities of $77m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

	As at 31 March 2015			
	Total outstanding exposures securitised			
Exposure type	Total outstanding exposures[1] $m	Impaired[2] $m	Past due < 90 days[3] $m	ADI recognised loss from exposures securitised $m
Residential Mortgages	19,064	202	63	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	7,786	32	-	-
Total	26,850	234	63	-

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

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

[3] Included in the above are past due > 90 days facilities of $50m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

9.0 Securitisation
continued

9.2.3 Summary of outstanding exposures intended to be securitised

APS 330 Table 12(i) and (p)

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

Exposure type	As at 31 March 2016 $m	As at 31 March 2015 $m
Banking Book		
Residential Mortgages	-	624
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Total Banking Book	-	624
Trading Book		
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Total Trading Book	-	-

9.2.4 Securitisation activity

Over the 12 months to 31 March 2016, 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)

	As at 31 March 2016		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages	14,238	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	6,534	-	-
Other	36	-	-
Total Banking Book	20,808	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

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

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

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

9.0 Securitisation
continued

Originating ADI Securitisation Exposures
APS 330 Table 12(r) – Trading Book

	As at 31 March 2016			
	Total outstanding exposures securitised			
	Standard Method		IMA Method	
Exposure type	**Traditional $m**	**Synthetic $m**	**Traditional $m**	**Synthetic $m**
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

Originating ADI Securitisation Exposures
APS 330 Table 12(r) – Trading Book

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

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)

	As at 31 March 2016		
	Total outstanding exposures securitised[1]		
Exposure type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	**24,354**	**444**	**24,798**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**8,119**	**1**	**8,120**
Other	**279**	**9**	**288**
Total Banking Book	**32,752**	**454**	**33,206**
Trading Book			
Residential Mortgages	**-**	**29**	**29**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**-**	**1**	**1**
Other	**-**	**-**	**-**
Total Trading Book	**-**	**30**	**30**

[1] Included in the above are assets of $30,525m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

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

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

9.0 Securitisation
continued

9.3.2 Exposure by Risk Weight band

Banking Book

APS 330 Table 12(l)

	As at 31 March 2016					
	Gross Credit Exposure			Risk Weighted Assets		
Risk weight band	Securitisation $m	Resecuritisation $m	Total $m	Securitisation $m	Resecuritisation $m	Total $m
=< 25%	2,389	174	2,563	176	35	211
>25%=<35%	45	-	45	16	-	16
>35%=<50%	8	-	8	4	-	4
>50%=<75%	39	-	39	29	-	29
>75%=<100%	4	2	6	4	2	6
>100%=<650%	14	-	14	58	-	58
1250%	-	-	-	-	-	-
CET1 deduction[1]	19	-	19	-	-	-
Total	2,518	176	2,694	287	37	324

1 $19m of exposures and credit enhancements were deducted entirely from CET1, being $7m of subordinated notes in third party securitisations exposed to the first 10% of credit losses in the initial structure of those securitisations and $12m of other securitisation deductions.

Trading Book

APS 330 Table 12(t)

	Gross Credit Exposures As at 31 March 2016				
Risk weight band	IAA Approach $m	RBA Approach $m	SFA Approach $m	Standardised Approach $m	Total Exposures $m
=< 25%	-	-	-	30	30
>25%=<35%	-	-	-	-	-
>35%=<50%	-	-	-	-	-
>50%=<75%	-	-	-	-	-
>75%=<100%	-	-	-	-	-
>100%=<650%	-	-	-	-	-
1250%	-	-	-	-	-
Total	-	-	-	30	30

Banking Book
APS 330 Table 12(l)

	As at 31 March 2015					
	Gross Credit Exposure			Risk Weighted Assets		
Risk weight band	Securitisation $m	Resecuritisation $m	Total $m	Securitisation $m	Resecuritisation $m	Total $m
=< 25%	2,600	217	2,817	191	43	234
>25%=<35%	57	2	59	20	1	21
>35%=<50%	31	-	31	15	-	15
>50%=<75%	61	-	61	46	-	46
>75%=<100%	15	2	17	15	2	17
>100%=<650%	52	-	52	216	-	216
1250%	8	6	14	102	78	180
CET1 deduction[1]	22	-	22	-	-	-
Total	2,846	227	3,073	605	124	729

[1] $22m of exposures and credit enhancements were deducted entirely from CET1, being $3m of subordinated notes in third party securitisations exposed to the first 10% of credit losses in the initial structure of those securitisations, and $19m of securitisation start up cost and excess spread income.

Trading Book
APS 330 Table 12(t)

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

9.0 Securitisation
continued

9.3.3 RWA by Risk Weight band

APS 330 Table 12(u) – Trading Book

	Risk Weight Assets As at 31 March 2016			
	IAA Approach		RBA Approach	
Risk weight band	Securitisation $m	Resecuritisation $m	Securitisation $m	Resecuritisation $m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250%	-	-	-	-
Total	-	-	-	-

	Risk Weight Assets As at 31 March 2016			
	SFA Approach		Standardised Approach	
Risk weight band	Securitisation $m	Resecuritisation $m	Securitisation $m	Resecuritisation $m
=< 25%	-	-	-	1
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250%	-	-	-	-
Total	-	-	-	1

APS 330 Table 12(u) – Trading Book continued

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

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

9.0 Securitisation
continued

9.3.4 Resecuritisation Exposure

APS 330 Table 12(n) and (w)

Resecuritisation type	As at 31 March 2016 Gross Credit Exposure $m	As at 31 March 2015 Gross Credit Exposure $m
Banking book		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	176	227
Exposure to Guarantors by ratings:	-	-
Total banking book	176	227
Trading book		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	6	-
Exposures to Guarantors by ratings:	-	-
Total trading book	6	-

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 2016 is $2,853 million. The CVA capital requirement is shown in the table below.

CVA capital treatment	**As at 31 March 2016 $m**	As at 31 March 2015 $m
Total CVA capital charge (standardised formula)	**228.3**	221.5
Total CVA RWA	**2,853.4**	2,769.0

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 2016 is $1,390 million. Details of the components of the exposures to central counterparties capital requirement is shown in the tables below.

	As at 31 March 2016		
Central counterparty trade exposure	**Trade Exposure $m**	**Risk Weight**	**RWA $m**
Exposures eligible for a 0% risk weight	-	-	-
Exposures eligible for a 2% risk weight	5,927	0.02	119
Exposures eligible for a 4% risk weight	2,930	0.04	117
Exposures eligible for a bilateral risk weight	607	-	295
Total central counterparty exposures	9,464	-	531

Qualifying central counterparty default fund guarantees	Prefunded Default fund Contribution $m	Unfunded Default fund Contribution $m	RWA $m
Qualifying central counterparty 1	71	1,832	330
Qualifying central counterparty 2	74	1,480	266
Qualifying central counterparty 3	25	1,077	194
Qualifying central counterparty 4	13	252	45
Qualifying central counterparty 5	18	126	23
Other qualifying central counterparties	7	54	1
Total	208	4,821	859

Non-qualifying central counterparty default fund guarantees	Prefunded Default fund Contribution $m	Unfunded Default fund Contribution $m	RWA $m
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	-	-	-

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

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

Non-qualifying central counterparty default fund guarantees	Prefunded Default fund Contribution $m	Unfunded Default fund Contribution $m	RWA $m
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	-	-	-

12.0 Market Risk

12.1 Market Risk

Market risk is the risk of adverse changes in the value of Macquarie's trading portfolios from 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 and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices;
– **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins;
– **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices; and
– **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products.

Macquarie is also exposed to the correlation of market prices and rates within and across markets.

Macquarie has long favoured transparent scenario analysis over complex statistical modelling as the cornerstone of risk measurement.

12.1.1 Traded Market Risk

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.

RMG monitors positions within Macquarie according to a limit structure that sets limits for all exposures in all markets. Limits are applied at a granular level to individual trading desks, through increasing levels of aggregation to Divisions and Operating Groups, and ultimately, Macquarie. This approach removes the need for future correlations or scenarios to be precisely predicted as all risks are stressed to the extreme and accounted for within the risk profile agreed for each business and Macquarie in aggregate.

Limits are approved by Senior Management with appropriate authority for the size and nature of the risk and Macquarie adheres to a strict 'no limit, no dealing' policy. If a product or position has not been authorised and given a limit structure by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Macquarie and Macquarie Bank Boards.

RMG sets three complementary limit structures:

– **contingent loss limits:** worst-case scenarios that shock prices and volatiles by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives;
– **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities 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 uses the contingent loss approach to capture simultaneous, worst case 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% level of confidence. Stress testing therefore remains the predominant focus of RMG as it is considered to be the most effective mechanism to reduce Macquarie's exposure to unexpected market events.

12.1.3 Value at Risk Model

VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 3,300 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 specific risk modelling incorporated directly into the VaR model.

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

12.1.4 Macro Economic Linkage Model

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

12.0 Market Risk
continued

12.2 Market Risk Capital Requirement

The regulatory capital requirement is based upon:

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

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

The sum of the VaR and debt security specific risk amounts is scaled by 12.5 in accordance with APRA policy to arrive at the traded market risk RWA, which was $3,926 million as at 31 March 2016 (31 March 2015: $6,650 million).

There were two hypothetical trading losses that exceeded the 1-day 99% VaR calculated for the twelve months ended 31 March 2016. There were no actual trading losses that exceeded the 1-day 99% VaR during this period. The observed number of back-testing exceptions indicates continued acceptable operation of the VaR model.

12.2.1 Value at Risk figures (10-day 99%)

APS 330 Table 14(d)

	For the 12 months to 31 March 2016 – VaR over the current reporting period				For the 12 months to 31 March 2015 – VaR over the previous reporting period			
	Mean value $m	**Max value $m**	**Min value $m**	**VaR (31-Mar) $m**	Mean value $m	Max value $m	Min value $m	VaR (31-Mar) $m
Commodities	**33**	**54**	**17**	**26**	28	43	17	26
Equities[1]	**18**	**31**	**10**	**13**	11	33	5	22
Foreign Exchange	**6**	**19**	**2**	**6**	8	15	2	13
Interest Rates	**15**	**21**	**9**	**9**	21	35	11	34
Aggregate	**37**	**57**	**17**	**29**	34	63	15	47

1 Equities figures incorporate the Equity specific risk amount.

12.2.2 Stressed Value at Risk figures (10-day 99%)

APS 330 Table 14(d)

	For the 12 months to 31 March 2016 – VaR over the current reporting period				For the 12 months to 31 March 2015 – VaR over the previous reporting period			
	Mean value $m	**Max value $m**	**Min value $m**	**VaR (31-Mar) $m**	Mean value $m	Max value $m	Min value $m	VaR (31-Mar) $m
Commodities	**60**	**100**	**35**	**35**	53	90	20	55
Equities[1]	**42**	**75**	**23**	**37**	27	80	9	64
Foreign Exchange	**12**	**44**	**2**	**7**	19	45	3	33
Interest Rates	**58**	**75**	**27**	**28**	80	116	52	77
Aggregate	**82**	**126**	**50**	**50**	80	128	38	123

1 Equities figures incorporate the Equity specific risk amount.

12.2.3 Debt Security Specific Risk figures

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

APS 330 Table 13(b)

	As at 31 March 2016 $m	As at 31 March 2015 $m
Debt specific risk	**38**	54

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

12.2.4 Interest Rate Risk in the Banking Book

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

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

The IRRBB RWA as at 31 March 2016 is $576 million (31 March 2015: $0 million). [1]

[1] Interest rate risk in the banking book RWA is now non zero due to a methodology change that transfers exposures previously captured in Market Risk.

12.0 Market Risk
continued

APS 330 Table 17(b)

Stress testing: interest rate shock applied	**As at 31 March 2016 Change in economic value $m**	As at 31 March 2015 Change in economic value $m
AUD		
200 basis point parallel increase	**(10.4)**	(11.6)
200 basis point parallel decrease	**10.4**	11.3
CAD		
200 basis point parallel increase	**(1.4)**	2.6
200 basis point parallel decrease	**0.1**	(3.9)
EUR		
200 basis point parallel increase	**0.1**	1.7
200 basis point parallel decrease	**2.3**	1.2
GBP		
200 basis point parallel increase	**(3.2)**	(5.0)
200 basis point parallel decrease	**4.2**	3.6
USD		
200 basis point parallel increase	**(13.3)**	(17.5)
200 basis point parallel decrease	**12.7**	10.8

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

	As at 31 March 2016 $m	As at 31 March 2015 $m
IRRBB regulatory capital requirement – AUD	**46.1**	-

13.0 Equity Risk

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

- holdings in specialised funds managed by Macquarie;
- principal exposures taken by Macquarie Capital, including direct investments in entities external to Macquarie;
- property equity, including property trusts and direct property equity investments;
- lease residuals;
- other equity investments.

All of the above equity risk positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board by reference to the Risk Appetite Test that is described further in the Capital Adequacy section above. When the Board sets the limit, it also considers the level of earnings, capital and market conditions. RMG reviews the limit semi-annually and reports the results of the review to the Group Risk and Compliance Committee (GRCC) and the Board.

Additional GRCC approved limits manage concentration risk in the equity portfolio. These include limits on:

- property equity investments;
- investments in the resources sector;
- lease residuals (by type of leased asset);
- co-investments and other assets of Macquarie Capital.

13.1 Accounting for Equity Holdings in the Banking Book

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

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

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

13.1.1 Investments in Associates

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

13.1.2 AVS equity investments

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

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

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

13.1.3 Held for sale (HFS) investments

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

13.0 Equity Risk
continued

13.2 Equity Investments

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

APS 330 Table 16(b) and (c)

	As at 31 March 2016		As at 31 March 2015	
Equity investments	**Carrying value[1] $m**	**Fair value[2] $m**	Carrying value[1] $m	Fair value[2] $m
Value of listed (publicly traded) equities	**112**	**127**	110	130
Value of unlisted (privately held) equities	**921**	**921**	872	872
Total	**1,033**	**1,048**	982	1,002

1 Net of any impairment charges recognised
2 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)

Deduction amount	**As at 31 March 2016 $m**	As at 31 March 2015 $m
Equity investments	**907**	765

13.4 Gains and losses on equity investments

APS 330 Table 16(d) and (e)

Gains / (losses) on equity investments	For the 12 months to 31 March 2016 $m	For the 12 months to 31 March 2015 $m
Cumulative realised gains in 12 months to the period end[1]	**37**	42
Total unrealised gains/ (losses)[2]	**106**	60
Total unrealised gains / (losses) included in Tier 1	**106**	60

1 Gains are defined as proceeds on sale less costs net of provisions and excludes gains relating to disposal of Macquarie Investment Management to the Non-Bank Group.

2 Includes gains / (losses) that have not gone through the Income Statement. These are primarily the amounts recognised in the Available for Sale Reserve.

14.0 Operational Risk

Operational risk is inherent in Macquarie's business. Macquarie defines operational risk as the risk of loss resulting from inadequate or failed internal processes, controls or systems or from external events.

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

14.1 Macquarie's Operational Risk Capital Framework

Operational Risk Objectives

Macquarie's *Operational Risk Management Framework (ORMF)* is designed to identify, assess and manage operational risks within the organisation. The key objectives of the framework are:

– risk identification, analysis and acceptance
– execution and monitoring of risk management practices
– reporting and escalation of risk information on a routine and exception basis.

Operational Risk Management Process

Operating and Central Service Groups carry out elements of the *ORMF* in a manner that is tailored to their specific operational risk profile. However, to ensure consistency and minimum standards the framework includes the following mandatory elements:

– A robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation
– An operational risk self-assessment process to identify operational risks at the business level, evaluate controls and develop action plans to address deficiencies
– Recording operational risk incidents in a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
– Allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behaviour in Macquarie's day-to-day management of operational risk
– Macquarie-wide policies that require a consistent approach and minimum standards on specific operational risk matters
– Embedded operational risk representatives in Operating Groups who act as delegates of the Operating Group Head. These representatives are required to assess whether operational risks are addressed appropriately and that the *ORMF* is executed within their area.

Structure and Organisation of the Operational Risk Function

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

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

RMG regularly reports on the operational risk profile and the effectiveness of the Framework to the BRiC and to senior management.

14.2 Operational Risk Capital Calculation

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

Macquarie holds operational risk capital to absorb potential losses arising from operational risk exposures.
Macquarie's operational risk capital framework has two main elements:

– an annual scenario approach for modelling operational risk losses and to determine operational risk capital
– a process for allocating capital to businesses based on risk exposures.

Operational risk scenarios identify key risks that, while very low in probability may, if they occurred, result in very high impact losses. When identifying the potential for such losses, consideration is given to the individual statistical distribution 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 Operating and Central Service Groups. Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9th percentile.

Over time, changes in operational risk capital reflect:

– new or significantly changed business activity or growth
– changes in the external environment such as new regulations or movements in the economic cycle.

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

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

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

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

Mitigation of Operational Risk through Insurance

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

Operational Risk - RWA

The operational risk RWA as at 31 March 2016 is $9,624 million (31 March 2015: $9,399 million).

15.0 Leverage ratio disclosures

In July 2015, APRA released the final version of APS 110 Capital Adequacy and APS 330 Public Disclosure, which include new disclosure requirements relating to leverage ratios for ADIs. The leverage ratio is a non-risk based ratio that is intended to restrict the build-up of excessive leverage in the banking system and act as a supplementary measure to create a back-stop for the risk-based capital requirements. As of March 2016, APRA has not proposed a minimum leverage ratio requirement and confirmed that Basel III leverage ratio is a disclosure requirement for March 2016.

Macquarie Bank Group's March 2016 APRA leverage ratio has increased by 0.3% from December 2015 APRA leverage ratio due to net capital generation and reduced leverage exposures during the quarter.

15.1 Leverage ratio disclosure template

APS 330 Table 18

Item		As at 31 March 2016
On-balance sheet exposures		**$m**
1	On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	135,242
2	(Asset amounts deducted in determining Tier 1 capital)	(2,004)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**133,238**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	11,793
5	Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	16,248
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Australian Accounting Standards	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	(5,196)
9	Adjusted effective notional amount of written credit derivatives	4,532
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(2,180)
11	**Total derivative exposures (sum of rows 4 to 10)**	**25,197**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	26,773
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(117)
14	CCR exposure for SFT assets	2,205
15	Agent transaction exposures	-
16	**Total SFT exposures (sum of rows 12 to 15)**	**28,861**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	17,728
18	(Adjustments for conversion to credit equivalent amounts)	(4,822)
19	Other off-balance sheet exposures (sum of rows 17 and 18)	12,906
Capital and total exposures		
20	**Tier 1 Capital**	**11,111**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**200,202**
Leverage ratio		
22	**Leverage ratio**	**5.5%**

15.0 Leverage ratio disclosures
continued

15.2 Summary comparison of accounting assets versus leverage ratio exposure measure

APS 330 Table 19

Item		As at 31 March 2016 $m
1	Total consolidated assets as per published financial statements	**181,609**
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(1,804)**
3	Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	**-**
4	Adjustments for derivative financial instruments	**7,407**
5	Adjustment for SFTs (i.e. repos and similar secured lending)	**2,088**
6	Adjustment for off-balance sheet exposures (i.e. Conversion to credit equivalent amounts of off-balance sheet exposures)	**12,906**
7	Other adjustments	**(2,004)**
8	**Leverage ratio exposure**	**200,202**

16.0 Liquidity coverage ratio disclosures

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

	Liquidity Coverage Ratio disclosure template	**For the 3 months to 31 March 2016**		**For the 3 months to 31 December 2015**	
		Total unweighted value (average)	**Total weighted value (average)**	**Total unweighted value (average)**	**Total weighted value (average)**
		$m	**$m**	**$m**	**$m**
	Liquid assets, of which:				
1	High-quality liquid assets (HQLA)	*	16,045	*	14,455
2	Alternative liquid assets (ALA)	*	4,194	*	4,592
3	Reserve Bank of New Zealand (RBNZ) securities	*	-	*	-
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	28,438	2,543	27,885	2,455
5	Stable deposits	11,271	564	11,089	554
6	Less stable deposits	17,167	1,979	16,796	1,901
7	Unsecured wholesale funding, of which:	14,037	10,089	12,650	8,688
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	3,451	848	3,730	916
9	Non-operational deposits (all counterparties)	6,468	5,123	6,417	5,269
10	Unsecured debt	4,118	4,118	2,503	2,503
11	Secured wholesale funding	*	2,423	*	2,726
12	Additional requirements, of which	13,287	7,932	13,950	8,835
13	Outflows related to derivatives exposures and other collateral requirements	6,273	6,273	6,753	6,753
14	Outflows related to loss of funding on debt products	-	-	142	142
15	Credit and liquidity facilities	7,014	1,659	7,055	1,940
16	Other contractual funding obligations	12,374	12,374	13,487	13,487
17	Other contingent funding obligations	7,431	382	7,345	382
18	**Total cash outflows**	*	35,743	*	36,573
	Cash Inflows				
19	Secured lending (e.g. reverse repos)	20,606	5,397	18,047	6,285
20	Inflows from fully performing exposures	2,131	1,864	1,826	1,620
21	Other cash inflows	16,801	16,801	17,460	17,460
22	**Total cash inflows**	39,538	24,062	37,333	25,365
23	**Total liquid assets**	*	20,239	*	19,047
24	**Total net cash outflows**	*	11,681	*	11,208
25	**Liquidity Coverage Ratio (%)**	*	173%	*	170%

The LCR for the 3 months to 31 March 2016 is calculated as the simple average of the January, February and March month end LCR results, and the LCR for the 3 months to 31 December 2015 is calculated as the simple average of the October, November and December month end LCR results.

16.0 Liquidity coverage ratio disclosures
continued

The Liquidity Coverage Ratio (LCR)

The LCR requires sufficient levels of unencumbered, high-quality liquid assets (HQLA) to be held to meet expected net cash outflows (NCOs) under a regulatory-defined stress scenario lasting 30 calendar days. Macquarie has been compliant with the LCR at all times since the ratio was introduced as a minimum requirement in January 2015. Macquarie's 3 month average LCR to 31 March 2016 was 173% (average based on month-end observations).

Macquarie sets internal management- and Board-approved minimum limits for the LCR above the regulatory minimum level and estimates its aggregate LCR position against these limits on a daily basis. Macquarie also monitors the LCR position on a standalone basis for all major currencies in which it operates, with the HQLA portfolio being denominated and held in both Australian Dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

Whilst the LCR is a regulatory minimum, Macquarie also models a number of additional internal liquidity scenarios covering both market-wide and firm-specific crises. The most binding of all scenarios (LCR and internal) determines Macquarie's absolute minimum required level of cash and liquid assets.

Macquarie actively considers the impact of business decisions on the LCR, as well as other internal liquidity metrics that form part of the broader liquidity risk management framework. Macquarie's LCR fluctuates on a daily basis as a result of normal business activities and, accordingly, ongoing fluctuations in the reported LCR are expected and are not necessarily indicative of a changing risk appetite. Some examples of factors that can influence the LCR include wholesale funding activities (such as upcoming maturities and pre-funding expected future asset growth), the degree of activity in Macquarie's capital markets facing businesses, the composition and nature of liquid asset holdings, and a variety of other external market considerations that could impact day-to-day collateral requirements.

High-Quality Liquid Assets (HQLA) and the Committed Liquidity Facility (CLF)

For the year ended 31 March 2016, Macquarie's HQLA portfolio was comprised only of Level 1 qualifying AUD and non-AUD HQLA, as well as AUD CLF eligible collateral.

Macquarie's CLF allocation for calendar year 2016 is $4,600 million, which is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Note the disclosed balance of $ 4,194 million reflects the required 'open-repo' of internal self-securitised RMBS with the RBA (which increases cash balances in the Exchange Settlement Account (ESA) with the RBA but is considered an ongoing 'utilisation' of the CLF).

Net Cash Outflows (NCOs)

Net Cash Outflows (NCOs) in the LCR include contractual and assumed cash outflows, offset by certain allowable contractual cash inflows. Some of the key drivers of Macquarie's NCOs include:

Retail and SME deposits: assumed regulatory outflow relating to deposits from retail and SME customers that are at-call or potentially callable within 30 days. Note that any superannuation deposits received through a self-managed trust are required by APRA to be classified as 'less stable', even though the majority of these deposits are covered by the FCS.

Unsecured wholesale funding: includes remaining deposits which are not received from retail or SME customers along with unsecured debt balances contractually maturing within 30 days.

Secured wholesale funding and lending: represent inflows and outflows from secured lending and borrowing activities contractually maturing within 30 days, such as repurchase and reverse repurchase agreements.

Outflows relating to derivative exposures and other collateral requirements: includes gross contractual cash outflows relating to contractually maturing derivative contracts (with gross inflows on maturing derivative contracts profiled in 'other cash inflows'). Further, contingent liquidity outflows such as potential collateral requirements from market movements, a 3-notch credit ratings downgrade and withdrawal of excess collateral placed with Macquarie are also included in this category.

Inflows from fully performing exposures: In Macquarie's LCR, a large component of this balance relates to excess liquidity placed on an overnight or very short-term basis with third parties (internally considered part of the cash and liquid asset portfolio).

Other contractual funding obligations and other cash inflows: includes other gross flows not profiled elsewhere in the LCR. The volumes in these categories are large relative to Macquarie's total cash outflows and inflows, however are comprised of two balances in particular:

Segregated client funds placed with Macquarie: Macquarie acts as a clearing agent for clients on various futures exchanges. Clients place margin with Macquarie and Macquarie places this margin either directly with the exchange, holds it in other segregated external asset accounts or retains a small portion on deposit with Macquarie. Although these funds are segregated from Macquarie, the balances are recorded on a gross basis on Macquarie's balance sheet and APRA require them to be profiled as offsetting gross inflows and outflows in the LCR.

Security and broker settlement balances: these represent securities that have been purchased or sold by Macquarie that have not yet settled and broker balances where stock has been bought or sold on behalf of clients but payment has not been made to / received from the client. APRA require these balances to be reflected on a gross basis in the LCR as 100% weighted inflows and outflows.

It is important to note that in both of the cases above, the profiled outflow must be viewed in conjunction with the profiled inflow and the net effect of these balances on Macquarie's LCR is negligible.

Disclaimer

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  Unless otherwise specified all information is at 31 March 2016.
- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with other banks. This may be due to a number of factors such as:
  - The mix of business exposures between banks
  - Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the bank and any surplus capital available.

Appendix 1 Regulatory Capital Reconciliation

1.1 Common Disclosures Template

The capital disclosures detailed in the template below represents the post 1 January 2018 Basel III common disclosure requirements. 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.

	Common Equity Tier 1 capital: instruments and reserves $m	**As at 31 March 2016 $m**	**Table Reference**
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	9,491	Table f
2	Retained earnings	2,410	
3	Accumulated other comprehensive income (and other reserves)	529	
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	**Common Equity Tier 1 capital before regulatory adjustments**	**12,430**	
	Common Equity Tier 1 capital : regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	46	Table b
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	177	Table b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	74	Table a
11	Cash-flow hedge reserve	(115)	
12	Shortfall of provisions to expected losses	249	
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	84	
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
	APRA Specific Regulatory Adjustments	-	
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	1,839	
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	544	Table c
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	99	Table a
26f	of which: capitalised expenses	369	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	801	Table c
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	

	Common Equity Tier 1 capital: instruments and reserves $m	As at 31 March 2016 $m	Table Reference
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	26	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common Equity Tier 1**	2,354	
29	**Common Equity Tier 1 Capital (CET1)**	10,076	
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	429	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	429	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	606	
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 ATI)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 Capital before regulatory adjustments**	1,035	**Table d**
	Additional Tier 1 Capital: Regulatory adjustments		
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	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	1,035	
45	**Tier 1 Capital (T1=CET1+AT1)**	11,111	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	977	Table e
47	Directly issued capital instruments subject to phase out from Tier 2	1,034	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	85	
51	**Tier 2 Capital before regulatory adjustments**	2,096	
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	-	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	-	

Appendix 1 Regulatory Capital Reconciliation
continued

		As at 31 March 2016 $m	Table Reference
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	2,096	
59	**Total capital (TC=T1+T2)**	**13,207**	
60	**Total risk-weighted assets based on APRA standards**	**93,824**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	10.7%	
62	**Tier 1 (as a percentage of risk-weighted assets)**	11.8%	
63	**Total capital (as a percentage of risk-weighted assets)**	14.1%	
64	**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)**	2.5%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: ADI-specific countercyclical buffer requirements	0.0%[1]	
67	of which: G-SIB buffer requirement (not applicable)	N/A	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)**	5.8%	
	National minima (if different from Basel III)		
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%	
	Amount below thresholds for deductions (not risk-weighted)		
72	Non-significant investments in the capital of other financial entities	44	Table c
73	Significant investments in the ordinary shares of financial entities	500	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)	99	Table a
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	85	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	205	
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	325	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
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	606	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	160	
84	Current cap on T2 instruments subject to phase out arrangements	1,034	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	929	

[1] At 31 March 2016, the countercyclical capital buffer requirement for Level 2 Macquarie Bank Group is less than 0.01%.

1.2 Regulatory Balance Sheet as at 31 March 2016

	Macquarie Bank Group Consolidated[1] $m	Adjustment[2] $m	Level 2 Regulatory Balance Sheet $m	Template/ Reconciliation Table Reference
Assets				
Receivables from financial institutions	30,956	(66)	30,890	
Trading portfolio assets	23,062	-	23,062	
Derivative assets	17,962	(172)	17,790	
Investment securities available for sale	9,008	-	9,008	
Other assets	6,918	(1,303)	5,615	
Loan assets held at amortised cost	78,913	(375)	78,538	
Other financial assets at fair value through profit or loss	1,057	-	1,057	
Due from related body corporate entities	1,610	342	1,952	
Property, plant and equipment	11,304	(509)	10,795	
Interests in associates and joint ventures accounted for using the equity method	426	(185)	241	
Intangible assets[3]	224	(1)	223	Table b
Deferred tax assets	169	4	173	Table a
Investments in regulatory non-consolidated subsidiaries	-	461	461	Table c (Footnote 2)
Total Assets	181,609	(1,804)	179,805	
Liabilities				
Trading portfolio liabilities	4,794	-	4,794	
Derivative liabilities	14,713	(21)	14,692	
Deposits	52,228	(14)	52,214	
Other liabilities	7,121	(1,394)	5,727	
Payables to financial institutions	20,555	(238)	20,317	
Other financial liabilities at fair value through profit or loss	2,307	-	2,307	
Due to related body corporate entities	7,555	67	7,622	
Debt issued at amortised cost	55,142	(326)	54,816	
Deferred tax liabilities	406	-	406	
Total liabilities excluding loan capital	164,821	(1,926)	162,895	
Loan capital				
Subordinated debt at amortised cost	4,078	-	4,078	Table d
Total loan capital	4,078	-	4,078	
Total liabilities	168,899	(1,926)	166,973	
Net Assets	12,710	122	12,832	
Equity				
Contributed equity	9,882	-	9,882	Table f
Reserves	483	46	529	Row 3
Retained earnings	2,333	77	2,410	Row 2
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	12,698	123	12,821	
Non-controlling Interests	12	(1)	11	Table g
Total equity	12,710	122	12,832	

1 Macquarie Bank Limited Consolidated Group as per financial statements as at 31 March 2016.

2 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.

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

Appendix 1 Regulatory Capital Reconciliation
continued

1.3 Reconciliation between Common Disclosures Template and Regulatory Balance Sheet

Table a	31 March 2016 $m	Template Reference
Deferred Tax Assets		
Total Deferred Tax Assets per level 2 Regulatory Balance Sheet	173	
Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(74)	Row 10
Less: Deferred tax assets (temporary differences) - Amounts below prescribed threshold	(99)	Row 26e, 75
Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold	**-**	**Row 21 / 25**

Table b	31 March 2016 $m	Template Reference
Intangible Assets		
Total Intangible Assets as per level 2 Regulatory Balance Sheet	223	
Less: capitalised software disclosed under intangibles	(141)	Row 9
Less: intangible component of deconsolidates subsidiaries	(36)	Row 9
Total per Common Disclosure Template – Goodwill	**46**	**Row 8**

Table c	31 March 2016 $m	Template Reference
Equity Investments		
Significant investment in financial entities[1,2]	500	Row 73
Non-significant investment in financial entities[1]	44	Row 72
Total Investments in financial institutions	544	Row 26d
Investment in commercial entities[1,2]	801	Row 26g
Total Equity Investments before applying prescribed threshold	1,345	
Less: amounts risk weighted under Harmonised Basel III guidelines	(1,345)	
Total per Common Disclosure Template – Equity Investments	**-**	**Row 18, 19, 23**

Table d	31 March 2016 $m	Template Reference
Additional Tier 1 Capital		
Total Loan Capital per Level 2 Regulatory Balance Sheet	4,078	
Less: Accrued interest	(9)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital[3]	8	Included in Row 26f
Less: Tier 2 capital instruments reported in Table e	(3,322)	Table e
Additional Tier 1 Capital (ECS and BCN)	755	
Add: Other Equity Instruments (MIS) included in contributed equity	400	
Less: Basel III transitional amortisation	(120)	
Total per Common Disclosure Template – Additional Tier 1 Capital	**1,035**	**Row 36**

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

2 Included in significant investment in financial entities is $343m of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is $131m of equity investments in regulatory non-consolidated subsidiaries.

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

Table d cont	31 March 2016 $m	Template Reference
Additional Tier 1 Capital Instruments		
Macquarie Income Securities	280	
Macquarie Bank Capital Notes	429	
Macquarie Exchangeable Capital Securities	326	
Total per Common Disclosure Template – Additional Tier 1 Capital	**1,035**	**Row 36**

Table e	31 March 2016 $m	Template Reference
Total Tier 2 Capital per Balance Sheet		
Total Tier 2 Capital per Balance Sheet	3,322	Table d
Less: Fair value hedge adjustments[1]	(299)	
Less: Accrued Interest	(78)	
Less: Foreign Exchange Gain Included in Balance Sheet	(144)	
Less: Basel III transitional amortisation	(790)	
Total per Common Disclosure Template – Tier 2 Capital	**2,011**	**Row 46+47**

Tier 2 Capital Instruments		
Subordinated Debt- EUR600m – eligible for transition	(457)	
Subordinated Debt – USD1.0bn – eligible for transition	(577)	
Subordinated Debt – USD750m– fully qualified Tier 2 instruments	(977)	
Total per Common Disclosure Template – Tier 2 Capital	**(2,011)**	**Row 46+47**

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.

Table f	31 March 2016 $m	Template Reference
Contributed Equity		
Total Contributed Equity as per level 2 Regulatory Balance Sheet	9,882	
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
Total per Common Disclosure Template – Contributed Equity	**9,491**	**Row 1**

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

Appendix 1 Regulatory Capital Reconciliation
continued

Table g	31 March 2016 $m	Template Reference
Non Controlling Interests		
Total Non Controlling Interests as per level 2 Regulatory Balance Sheet	**11**	
Less: other non controlling interests not included in capital	**(11)**	
Total per Common Disclosure Template – Non Controlling Interests	**-**	**Row 5**

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

31 March 2016	Total Assets[1,2,3]	Total Liabilities[1,2,3]
Securitisation		
PUMA Master Fund H-1	81	(81)
PUMA Master Fund P-13	68	(68)
PUMA Master Fund S-8	234	(234)
Funds Management		
Brook Asset Management Limited	-	-
Elise Nominees Pty Limited	-	-
Macquarie Alternative Assets Management Limited	44	(24)
Macquarie Asset Management Inc.	3	-
Macquarie Australia Securities Pty Limited	1	-
Macquarie Financial Products Management Limited	16	-
Macquarie Fonds GmbH	-	-
Macquarie Fondsmanagement GmbH	-	-
Macquarie Forestry Management Pty Limited	-	-
Macquarie Global Bond Fund	-	-
Macquarie Investment Management (NZ) Limited	4	-
Macquarie Investment Management Ltd	132	(5)
Macquarie Investment Management S.À R.L.	1	-
Macquarie Investment Services Limited	4	-
Macquarie Master Geared Growth Fund	1	(1)
Macquarie Master Small Companies Fund	3	(3)
Macquarie NRAS Trust	1	(1)
Macquarie Prism Pty Limited	3	-
Macquarie Private Capital Management Limited	1	-
Macquarie Private Portfolio Management Limited	4	-
Macquarie Securities Management Pty Limited	1	-
Macquarie Treuvermögen GmbH	-	-
Macquarie Vermögenstreuhand GmbH	-	-
MIDF UK1 Guernsey GP Limited	2	(2)
MIDF UK1 LLP	-	-
MIDF UK1B Guernsey GP Limited	-	-
Macquarie Professional Series Global Equity Fund	-	-
Insurance		
International Life Solutions (Pty) Limited	1	-
Macquarie Life Limited	1,082	(881)

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

31 March 2016	Total Assets[1,2,3]	Total Liabilities[1,2,3]
Non-Financial Operations		
Advantage Funding Services LLC	-	-
Arbor Village Property Owner LLC	43	(28)
Avenal Power Center, LLC	24	(10)
Bella Holdings LLC	21	(10)
Bella Property Owner LLC	82	(60)
Capital Meters Limited	121	(110)
Cheeryble Developments Limited	38	(30)
CMC Railroad, Inc.	43	(12)
Comercializadora Energia De La Reforma S. De R.L. De C.V.	-	-
Corona Energy Limited	45	(12)
Corona Energy Retail 1 Limited	53	(35)
Corona Energy Retail 2 Limited	59	(33)
Corona Energy Retail 3 Limited	6	(1)
Corona Energy Retail 4 Limited	77	(62)
Corona Energy Retail 5 Limited	11	(16)
Corona Gas Management Limited	3	(1)
East Inwood Arbor, LLC	40	(26)
Energetics Design & Build Limited	71	(79)
Energetics Electricity Limited	34	(23)
Energetics Gas Limited	28	(20)
Energetics Holdco Limited	51	(22)
Energetics Midco Limited	36	-
Energetics Networked Energy Ltd	2	(3)
Energetics Topco Limited	38	-
High Lonesome Holdings LLC	77	(61)
Keba Energy LLC	1	(1)
Levantera Developments Limited	77	(71)
Liberty Green Renewables Indiana, LLC	2	-
Macquarie Agricultural Services Pty Limited	-	-
Macquarie Business Solutions Pty Limited	1	-
Macquarie Commodities (Singapore) Pte. Limited	1	-
Macquarie Corona Energy Holdings Limited	29	-
Macquarie Farm Assets And Resources Management Pty Limited	2	-
Macquarie Rotorcraft Leasing, Inc.	1	(1)
Outplan Pty Limited	-	-
PT Macquarie Commodities Indonesia	1	-
PT MPM Indonesia	1	-
Relational Technology Services, Inc.	1	-
Resource Marine Pte. Limited	7	(10)
Shelby Energy Holdings, LLC	-	-
Sterling TC Holdings LLC	12	(7)
Sterling TC Property Owner LLC	53	(39)
Summerset Holdings LLC	42	(24)
Summerset Property Owner LLC	28	(18)

[1] These balances, along with any Australian GAAP adjustment where required, are included in Macquarie Bank Group's audited Australian GAAP financial statements for the year ended 31 March 2016. Financial statements under local GAAP of certain entities may be subjected to separate audits from the Macquarie Bank Group audit and these audits may not be complete as at the date of this report.

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

[3] Numbers are rounded to the nearest A$ million. Asset balances are shown as positive and liability balances are shown as negative.

Appendix 3 Annual remuneration disclosures

Introduction

This document has been prepared in accordance with the Australian Prudential Regulatory Authority (APRA) Prudential Standard APS 330 Public Disclosure (APS 330) for Authorised Deposit-taking Institutions (ADIs). The remuneration disclosures presented herein for the financial years ended 31 March 2016 and 31 March 2015 of Macquarie Bank Limited (MBL or Macquarie Bank) are separate to the requirements of the Corporations Act 2001 (Cth) and may not be comparable to other information disclosed by MBL.

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

The qualitative remuneration disclosures (sections 1 to 4) outline the remuneration framework consistent with Macquarie's Remuneration Policy. Macquarie's Remuneration Policy applies to all employees globally. The quantitative information (section 5) relates to senior managers and material risk takers of MBL for the financial years ended 31 March 2016 and 31 March 2015. The Board Remuneration Committee (the BRC or the Committee) has identified the following groups of employees as senior managers and material risk takers as defined in paragraph 21 of APS 330 for the financial year ended 31 March 2016 and 31 March 2015 respectively:

		Number of individuals	
Roles		**2016**	2015[(1)]
Senior managers	the MBL Executive Committee[(2)]	**12**	12
Material risk takers	Executive Directors who are MBL Designated Executive Directors[(3)]	**33**[(4)]	35

1 Three Executive Directors who were appointed to the Executive Committee with effect from 1 July 2014 are included in senior managers.
2 These individuals will be referred to as either senior managers or Executive Committee members throughout this document.
3 Executive Directors who have a significant management or risk responsibility in the organisation. These individuals will be referred to as either material risk takers (MRTs) or Designated Executive Directors (Designated EDs) throughout this document.
4 Includes two Designated EDs who terminated employment during FY2016.

1 Remuneration governance

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

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

Board Remuneration Committee members[(1)]	
Michael Hawker	Chairman[(2)]
Gary Banks	Member
Gordon Cairns	Member
Diane Grady	Member
Peter Warne	Member[(3)]

1 Kevin McCann retired from the BRC effective 31 March 2016.
2 Michael Hawker was appointed to the BRC effective 1 January 2016 and became Chairman effective 8 May 2016.
3 Peter Warne was Chairman of the BRC up to 7 May 2016 and remains a member of the BRC after 7 May 2016.

The BRC members have the required experience and expertise in human resources and risk that enable them to achieve effective governance of Macquarie's remuneration system. All members of the BRC also have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards. The BRC has a regular meeting cycle, and it met eight times over the last financial year. Strict processes are in place to ensure that conflicts of interest are appropriately managed.

During FY2016, the Board engaged Guerdon Associates to provide market data on international and domestic Board and Board Committee fees. After consideration of the information and relevant factors including the additional risk management and regulatory responsibilities given the global nature of Macquarie's activities, the Board determined that, from 1 October 2015 the Board Remuneration Committee annual chair and member fees be increased by $A5,000 each to $75,000 for the Chairman and $35,000 for members. Per diem fees may also be paid from time to time for approved additional work. These fees are in respect of the Committee's support to the Boards of both Macquarie Group and MBL.

The responsibilities of the BRC include reviewing the *Remuneration Policy* for compliance with legal and regulatory requirements and recommending it to the Board for approval. The BRC pays close attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives. This includes assessing the effectiveness of the *Remuneration Policy* and ensuring the alignment of remuneration with prudent risk taking and professional conduct across the organisation. Further detail of matters considered by the BRC is included in Section 3 below.

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

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

The full responsibilities of the BRC are outlined in their Charter, which is reviewed and approved annually by the Board. A copy of the charter is available on Macquarie's website.

The BRC reviews the Remuneration Policy at least annually and it was most recently approved by the Board in December 2015. There were no material changes to the Remuneration Policy in FY2016.

The BRC has access, as required, to Macquarie's Senior Management and has retained an independent consultant, Pay Governance, for the use of the Board to obtain advice on the appropriateness of Macquarie's remuneration system.

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

2 Remuneration design and structure

During the year, the Board and the BRC have reviewed Macquarie's remuneration framework to ensure it continues to meet its overriding objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct*[1] and the long-held foundations of Macquarie's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity. In undertaking this assessment, the Board and the BRC have considered factors including:

- the degree of alignment between staff and shareholders
- Macquarie's performance during the year and the performance of each business
- shareholder returns
- the need to balance short-term and long-term incentives
- feedback from shareholders
- the risk and conduct culture of Macquarie[2]
- the employment environment
- the evolving regulatory landscape
- market developments.

[1] Macquarie's Code of conduct and What We Stand For principles of Opportunity, Accountability and Integrity guide the way that staff are expected to manage their responsibilities and conduct themselves on a day to day basis.

[2] Business conduct and ethics are discussed further in the Corporate Governance Statement on the Macquarie website at macquarie.com/leadership-corporate-governance.

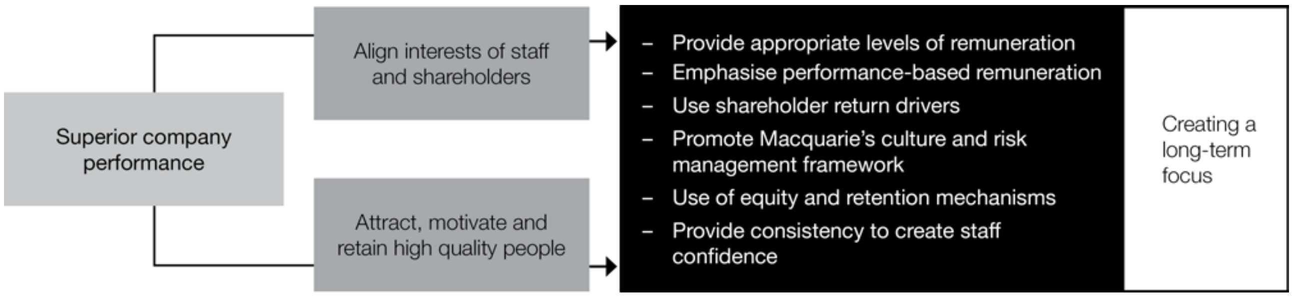
Appendix 3 Annual remuneration disclosures
continued

The Board believes that Macquarie's longstanding approach to remuneration continues to support the overarching objective of delivering superior company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and *What We Stand For*. Directors recognise that to achieve these objectives, Macquarie must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.

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

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

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



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

Fixed remuneration for senior staff remains low relative to comparable roles in other organisations, although it is sufficient to avoid inappropriate risk-taking. It is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements. Performance-based remuneration is described in section 4.

2.1 Risk and financial control personnel

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

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

3 Remuneration and risk

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

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Performance-based remuneration reflects an individual's performance, which includes an assessment of a range of factors including risk management and compliance as well as behavioural measures to promote good conduct and commitment to the *Code of conduct* and *What We Stand For*.

To assist the BRC:

- the CFO confirms to the BRC that the forecast profit share pool does not result in elimination of capital surpluses
- the CRO provides an independent annual report to the BRC detailing any material breaches of the risk management framework, losses and impairments, the residual risks associated with large transactions concluded during the current financial year, return on economic capital by business and the relationship between profitability and risk
- the Global Head of HR discusses the CRO's report with the Group Heads to ensure any matters listed in the report are appropriately reflected in remuneration outcomes for relevant staff. HR subsequently provides a report to the BRC detailing how this has been achieved
- Macquarie operates a robust consequence management process whereby incidents, breaches of policy or regulation or conduct issues are managed. The Global Head of HR reports to the BRC on the outcomes from the consequence management process and confirms that these matters have been considered in determining remuneration and promotion outcomes where appropriate.

The BRC uses this information when considering the remuneration allocated to businesses and individuals.

Since 2012, the Board or its delegate has had the ability to reduce or eliminate unvested profit share for certain senior employees in certain circumstances under Macquarie's Malus policy, as detailed in section 4.4 below.

Appendix 3 Annual remuneration disclosures
continued

4 Linking performance and remuneration

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

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

While performance-based remuneration in the form of profit share is aligned with company performance, Macquarie's approach to performance-based remuneration is driven by a detailed assessment at the business group and individual level. Each business group considers profit share allocations to teams and individuals in their business based on performance, market developments and the employment environment with reference to the company-wide profit share pool. The company-wide profit share pool is determined annually by reference to a proportion of Macquarie's after tax profits and its earnings over and above the estimated cost of capital.

The NEDs of the Board have the discretion to adjust the profit share pool up or down to reflect internal and external factors if deemed in the interests of Macquarie and shareholders. Such factors may include performance, risk and compliance considerations, the employment environment and staff retention risk. As has occurred in previous years, not all of the profit share pool has been paid to employees in the current year.

Profit share allocations to businesses and individuals are determined in the context of the overall company-wide pool. Consideration is given to each business' relative contribution to profits (not revenue) taking into account factors including capital usage, risk management, and compliance and competitor dynamics.

The criteria used to assess each individual's performance vary depending on their role and include:

- financial performance
- risk management and compliance
- business leadership
- people leadership and professional conduct consistent with the *Code of conduct and What We Stand For*.

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

- financial position and performance
- risk management and compliance
- people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*
- sustainability (planning and investment in the future)
- community.

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

The Board and the BRC also consider formal documentation for each Executive Committee member which covers financial performance, risk management and compliance, business leadership and people leadership and professional conduct consistent with the *Code of conduct* and *What We Stand For*.

This information helps the BRC and Board make decisions about remuneration.

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

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

Performance-based remuneration in the form of PSUs provide an additional incentive to Executive Committee members to drive overall company-wide performance over the longer-term over and above their business group responsibilities. They are allocated to Executive Committee members based on their performance, using criteria similar to those used for profit share. Further details on PSUs are provided in section 4.6 below.

4.1 Profit share retention levels

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

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

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

Standard retention rates by role

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

1 Executive Directors who have a significant management or risk responsibility in the organisation.

2 Dependent on certain thresholds.

4.2 Investment of retained profit share

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

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

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

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

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

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

Appendix 3 Annual remuneration disclosures
continued

4.3 Vesting and release of profit share

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

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

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

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

4.4 Forfeiture of retained profit share (Malus)

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

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

Each of the above is a Malus Event.

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

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

4.5 Early vesting and release of retained profit share

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

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

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

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

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

Each of the above is a Post Employment Event.

In the case of death or serious incapacitation, the Board or its delegate will typically accelerate the vesting of retained profit share and immediately release it to the Executive Director or, to the Executive Director's legal personal representative. In other circumstances, the release will occur over the period from six months to two years after the Executive Director leaves, in accordance with the following table:

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

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

Appendix 3 Annual remuneration disclosures
continued

4.6 Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs. These awards are subject to forward-looking performance hurdles and are determined with reference to Macquarie as a whole. As such, they provide an additional incentive to Executive Committee members to drive overall company-wide performance over the longer-term over and above their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

Since their introduction, PSUs have been structured as DSUs[1] with performance hurdles. Holders have no right to dividend equivalent payments. In all other respects, holders of these PSUs have the same rights as holders of DSUs. There is no exercise price for PSUs. The following table summarises the key terms of PSUs and the performance hurdles:

Determination	– The Board approves the value of PSUs to be allocated to Executive Committee members each year – The aggregate value of PSUs to be allocated is determined with reference to profits over recent years.
Allocation	– The allocation to individuals[2] is based on: – role scope and complexity – financial and non-financial performance assessment against a range of factors including financial results, risk management, business leadership and people leadership – upholding the *Code of conduct* and *What We Stand For*.
Vesting	– Since 2012, PSUs will vest in two equal tranches after years three and four from the deemed vesting commencement date (typically 1 July in the year of grant), and are exercisable on the achievement of performance hurdles (refer to section 4.6.1) – Grants made prior to 2012 vest in three equal tranches after two, three and four years.
Upon leaving Macquarie	To ensure continued alignment with shareholders post termination, in cases of genuine retirement, PSUs continue to vest in accordance with the above vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit PSUs, when an Executive Committee member leaves Macquarie. To date, this discretion has not been exercised.

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

2 The allocation of PSUs to the Macquarie CEO, who is an Executive Voting Director of Macquarie Group, is subject to shareholder approval.

4.6.1 Performance hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2016.

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

	EPS CAGR Hurdle	Return on Equity (ROE) Hurdle
Application to PSU awards	50 per cent	50 per cent
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)	Relative average annual return on ordinary equity over the vesting period (three to four years) compared to a reference group of global peers[1]
Hurdle	Sliding scale applies: – 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent – 100 per cent at EPS CAGR of 12 per cent. For example, if EPS CAGR was 9.75 per cent, 75 per cent of the relevant awards would become exercisable. For awards made prior to 2013, the EPS CAGR hurdle range was 9 per cent to 13 per cent.	Sliding scale applies: – 50 per cent becoming exercisable above the 50th percentile – 100 per cent at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70 per cent of the relevant awards would become exercisable.
Rationale for hurdles	– ROE and EPS are considered appropriate measures of performance as they drive longer-term company performance and are broadly similar to the performance measures Macquarie uses for determining the annual profit share pool – ROE and EPS are appropriate for the Executive Committee because they can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors, including market sentiment, over which executives have limited control – ROE and EPS can be substantiated using information that is disclosed in audited financial statements – the use of a sliding scale diversifies the risk of not achieving the hurdles, provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk taking – the approach is consistent with that advocated by APRA in not using TSR as a measure – Macquarie's performance hurdles reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee. Use of an international peer group recognises the extent of Macquarie's internationalisation. At 31 March 2016 approximately 68 per cent of Macquarie's income and approximately 54 per cent of Macquarie's staff were offshore.	

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

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

Appendix 3 Annual remuneration disclosures
continued

4.7 Other features of Macquarie's remuneration structure

Promotion awards

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

Minimum Shareholding requirement

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

Hedging

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

Employment contracts

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

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

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

5 Quantitative disclosures for senior managers and material risk takers

The following tables have been prepared in accordance with APS 330 for the financial years ended 31 March 2016 and 31 March 2015. These tables are prepared on a different basis than those required by Australian Accounting Standards and the Corporations Act, as disclosed in Macquarie Bank's Annual Report.

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

5.1 Total value of remuneration awards for senior managers and material risk takers (1)

The following table sets out the total value of remuneration awarded to senior managers and material risk takers in respect of their performance for the financial years ended 31 March 2016 and 31 March 2015 respectively. 11 senior managers (FY2015:12) and 29 material risk takers (FY2015: 29) received a variable remuneration award in respect of services to MBL in FY2016.

$A'000	Senior managers				Material risk takers			
	Non-Deferred		Deferred		Non-Deferred		Deferred	
	2016	2015	2016	2015	2016	2015	2016	2015
Fixed remuneration(2)								
Cash-based	6,219	5,966	-	-	16,894	15,616	-	-
Shares and share-linked instruments	-	-	-	-			-	-
Other								
Variable remuneration(3)								
Cash-based	25,888	28,055	-	-	33,448	38,726	-	-
Shares and share-linked instruments(4)		-	49,009	44,311	1,891(5)	1,334(5)	35,968	39,373
Other	-	-	-	-		-	-	-

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

The following table sets out the total value of deferred remuneration outstanding at 31 March 2016 and 31 March 2015 respectively, remuneration granted in previous years that vested during the current financial year and any realised reductions due to ex post explicit and implicit adjustments. All outstanding deferred remuneration is exposed to ex post explicit and implicit adjustments.

$A'000	Senior managers		Material risk takers	
	2016	2015	2016	2015
Outstanding deferred remuneration(6)				
Cash-based	-	-	-	-
Shares and share-linked instruments(7)	213,364	269,247	152,081	207,441
Deferred remuneration vested during the financial year(8)	55,545	25,410	51,907	56,708
Deferred remuneration adjustments during the financial year				
Reductions due to ex post explicit adjustments(9)	(821)	(2,259)	-	(478)
Reductions due to ex post implicit adjustments(10)		-		

No senior managers were awarded a guaranteed or sign-on award for the financial year ended 31 March 2016 (FY2015: Nil). One guarantee award and no sign-on awards were granted to material risk takers during FY2016. The amount of the guarantee award is considered confidential information and accordingly is not disclosed. No payments associated with terminations were made to senior managers (FY2015: Nil). There were two (FY2015: six) termination payments made to material risk takers during FY2016 as set out in the table below.

$A'000	Senior managers				Material risk takers			
	No. of individuals		Total amount		No. of individuals		Total amount	
	2016	2015	2016	2015	2016	2015	2016	2015
Termination payments(11)	-	-	-	-	2	6	399	446

Appendix 3 Annual remuneration disclosures
continued

Notes to the quantitative remuneration disclosures

(1) Remuneration awarded in respect of FY2016 and FY2015 performance reflects remuneration relating to services to MBL for the portion of the relevant periods that each individual was a senior manager or material risk taker of MBL. Effective 1 July 2014, three individuals, who were previously disclosed in the material risk taker category were appointed to the Executive Committee. Their remuneration is disclosed in the Material Risk Taker category until 30 June 2014 and in the Senior Manager category from 1 July 2014.

(2) Fixed remuneration comprises current year salary, including superannuation and other cash allowances.

(3) Variable remuneration awarded in respect of performance for FY2016 and FY2015 includes the total value of non-deferred and deferred components related to the FY2016 and FY2015 awards. The non-deferred (cash-based) components will be granted and paid in the following financial year and the payment of deferred components are deferred to a future period.

(4) Includes the value of retained profit share invested in Macquarie shares under the MEREP, retained profit share notionally invested in Macquarie managed-fund equity under the Post-2009 DPS Plan, and for Senior Managers, PSUs.

(5) This relates to EU Material Risk Takers in the UK for whom a portion of their non-deferred profit share is delivered in Macquarie shares in accordance with the Remuneration Code.

(6) Value as at 31 March 2016 and 31 March 2015 of unvested deferred remuneration.

(7) Includes the value as at 31 March 2016 (for FY2016) and 31 March 2015 (for FY2015) of retained profit share invested in Macquarie shares under the MEREP, retained profit share notionally invested in Macquarie-managed fund equity under the Post-2009 DPS Plan, and for senior managers, the fair value of PSUs at the same date. The value of retained profit share invested in the MEREP for FY2016 has been calculated based on the 31 March 2016 share price of $A66.09. For FY2015, the value of retained profit share invested in the MEREP has been calculated based on the 31 March 2015 share price of $A76.67.

(8) Value as at the date of vesting of deferred remuneration that vested during the financial years ended 31 March 2016 and 31 March 2015 for senior managers and material risk takers, including vesting for staff who terminated during FY2016. The value has been calculated based on the share price on the date of vesting which for FY2016 was in the range of $A77.25 to $A82.77 (FY2015: $A57.59 to $A76.67).

(9) Explicit adjustments include any realised reductions relating to forfeitures, lapses as a result of failure to meet performance hurdles, Malus and adjustments made under the disqualifying event provisions.

(10) Implicit adjustments include reductions in the value of awards that vested during the year due to a downward movement of Macquarie's share price from grant date to vesting date or realised notional losses on amounts retained under the Post-2009 DPS Plan.

(11) This amount reflects payments made in FY2016 and FY2015 associated with termination of employment with Macquarie in accordance with Macquarie policies, Executive Director remuneration arrangements, individual employment agreements, and/or local legal requirements. Payments associated with termination will typically include unused long-service and annual leave entitlements, and redundancy amounts, where applicable, but will exclude the release (in accordance with Macquarie's remuneration arrangements) of deferred remuneration awarded in prior years which is included in deferred remuneration vested during the relevant financial year. There are no ex-gratia termination payments. Individuals may also retain deferred remuneration held in the MEREP, the Post-2009 DPS Plan or as PSUs (senior managers only), which may be released in future years subject to the relevant restriction periods, DPS release provisions and performance hurdles per Macquarie policies, Executive Director remuneration arrangements and/or individual employment agreements.

Appendix 4 List of APRA Quantitative tables

APS 330 Table	Title	Section No
Attachment A	Common Disclosures Template	Appendix 1
Attachment D		
6 (b) to (f)	Risk Weighted Assets (RWA)	4.3
6 (g)	Capital Ratios	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
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Appendix 5 Glossary of terms

ADI	Authorised Deposit-taking Institution
ALA	Alternative Liquid Assets
AMA	Advanced Measurement Approach (for determining operational risk)
APRA	Australian Prudential Regulation Authority
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held For Sale ('HFS') associates. HFS investments are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity
AVC multiplier	Asset Value Correlation multiplier. A loading introduced as part of Basel III which is added to the correlation factor when calculating the RWA on exposures to certain financial institutions
AVS assets	Available-for-sale assets Available for sale. AVS assets are investments where Macquarie does not have significant influence or control and are intended to be held for an indefinite period. AVS investments are initially recognised at fair value and revalued in subsequent periods to recognise changes in the assets' fair value with these revaluations included in the AVS reserve in equity. If and when the AVS asset is derecognised or impaired, the cumulative gain or loss will be recognised in the income statement
BAC	Board Audit Committee
BRiC	Board Risk Committee
CA	Credit Assurance
Contingent liabilities	Defined in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* 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
CCR	Counterparty Credit Risk
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
CLF	Committed Liquidity Facility
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: - provide a permanent and unrestricted commitment of funds - are freely available to absorb losses - do not impose any unavoidable servicing charge against earnings - rank behind the claims of depositors and other creditors in the event of winding up Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves
CRO	Chief Risk Officer
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
DVP	Delivery versus Payment
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
FCS	Financial Claims Scheme
FICO	Fair Isaac Corporation
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA
GAAP	Generally Accepted Accounting Principles
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation
HQLA	High Quality Liquid Assets
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
ISDA	International Swaps and Derivatives Association
LCR	Liquidity Coverage Ratio
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. MIPS were fully redeemed by Macquarie Bank Group on 22 June 2015
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
NCO	Net Cash Outflows
ORMF	Operational Risk Management Framework
PCE, PFCE	Potential Credit Exposure (PCE) / Potential Future Credit Exposure (PFCE). 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
RMBS	Residential Mortgage Backed Securities
SFT	Securities Financing Transactions (SFT). SFTs are transactions such as repurchase agreements, reverse repurchase agreements and security lending and borrowing, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements
SME	Small – Medium Enterprises
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

Appendix 5 Glossary of terms
continued

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