

# Pillar 3 disclosures

Macquarie Bank  
March 2018



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## **ASX Release**

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

18 May 2018 - The Macquarie Bank Limited March 2018 Pillar 3 disclosure document was released today. These disclosures have been prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330: Public Disclosure.

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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 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.

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 APS 330: Public Disclosure as at 31 March 2018 together with the 31 March 2017 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, operational risk and interest rate risk in the banking book. 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 Level 2 regulatory group capital, liquidity coverage and leverage ratios and relevant comparatives are set out in the table below.

<b>Capital, Liquidity and Leverage Ratios</b>	<b>As at 31 March 2018</b>	As at 31 March 2017
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio <sup>1</sup>	<b>11.0%</b>	11.1%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio <sup>1</sup>	<b>12.8%</b>	13.3%
Macquarie Level 2 regulatory group Total capital ratio <sup>1</sup>	<b>14.6%</b>	15.4%
Macquarie Level 2 regulatory group Leverage ratio	<b>6.0%</b>	6.4%
Macquarie Level 2 regulatory group Liquidity coverage ratio <sup>1,2,3</sup>	<b>162%</b>	168%

<sup>1</sup> The Macquarie Level 2 regulatory group capital and liquidity coverage ratios are well above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.

<sup>2</sup> For liquidity coverage ratio, Macquarie Level 2 regulatory group includes Special Purpose Vehicles (SPVs), which are deconsolidated for Capital adequacy purposes.

<sup>3</sup> The LCR for the 3 months to 31 March 2018 is calculated from 62 daily LCR observations (3 months to 31 March 2017 was calculated from 63 daily LCR observations).

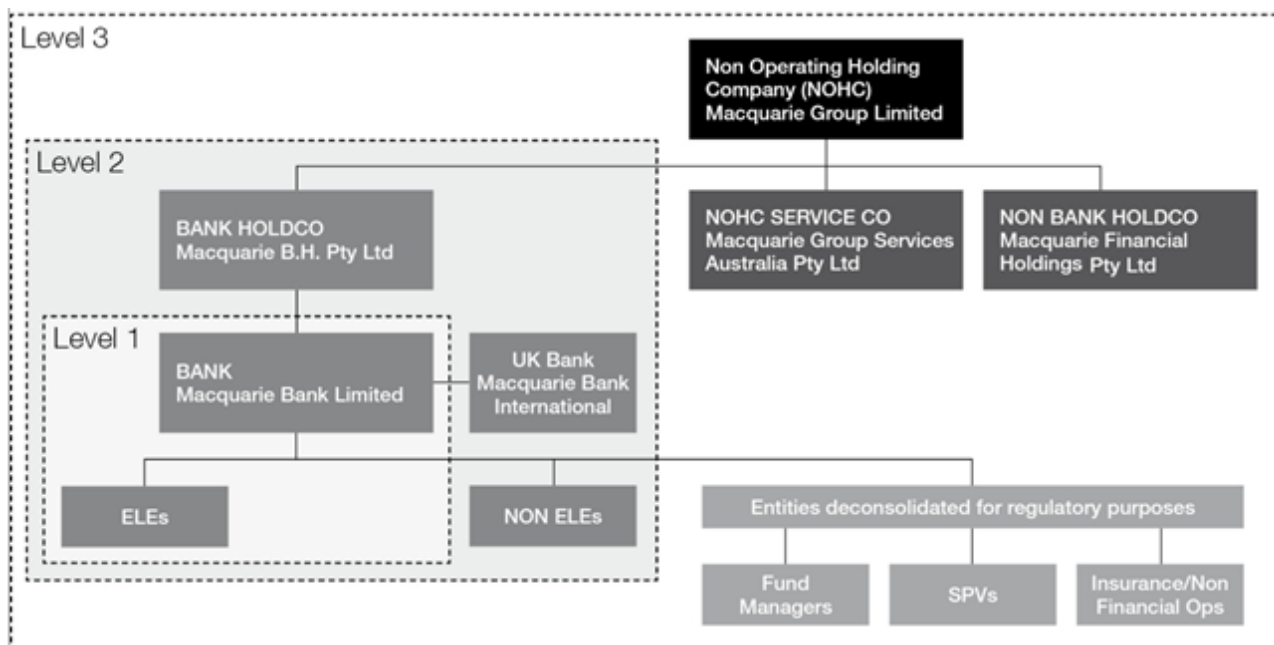
# 1.0 Overview

## 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 APRA Prudential Standard APS 110: Capital Adequacy.

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 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 MBL and its subsidiaries for accounting purposes. Therefore, the disclosures made in this report are for a different group of entities to those made in the financial report of MBL and its subsidiaries. A list of entities deconsolidated for Level 2 reporting purposes is included in Appendix 2.

References in this report to Macquarie 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 2018 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
- Provisioning
- Credit Risk Mitigation
- Securitisation
- Credit Valuation Adjustment
- Exposures to Central Counterparties
- Market Risk
- Equity Risk
- Operational Risk
- Leverage Ratio
- Liquidity Coverage Ratio



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## 2.0 Risk Management Governance and Framework

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### 2.1 Risk Governance at Macquarie

The primary role of the Board is to promote Macquarie's long-term health and prosperity. The Board is ultimately responsible for Macquarie's risk management framework including oversight of its operation by management.

Macquarie's robust risk management framework supports the Board in its role and 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.

### 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 risk management framework incorporates active management and monitoring of regulatory, compliance, reputation, credit, market, equity, operational, liquidity, legal, tax, model, cyber, and environmental and social – including climate change – risks. It also includes risk culture and conduct risk management frameworks. The risk management framework applies to all business activities across Operating and Central Service Groups. 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':

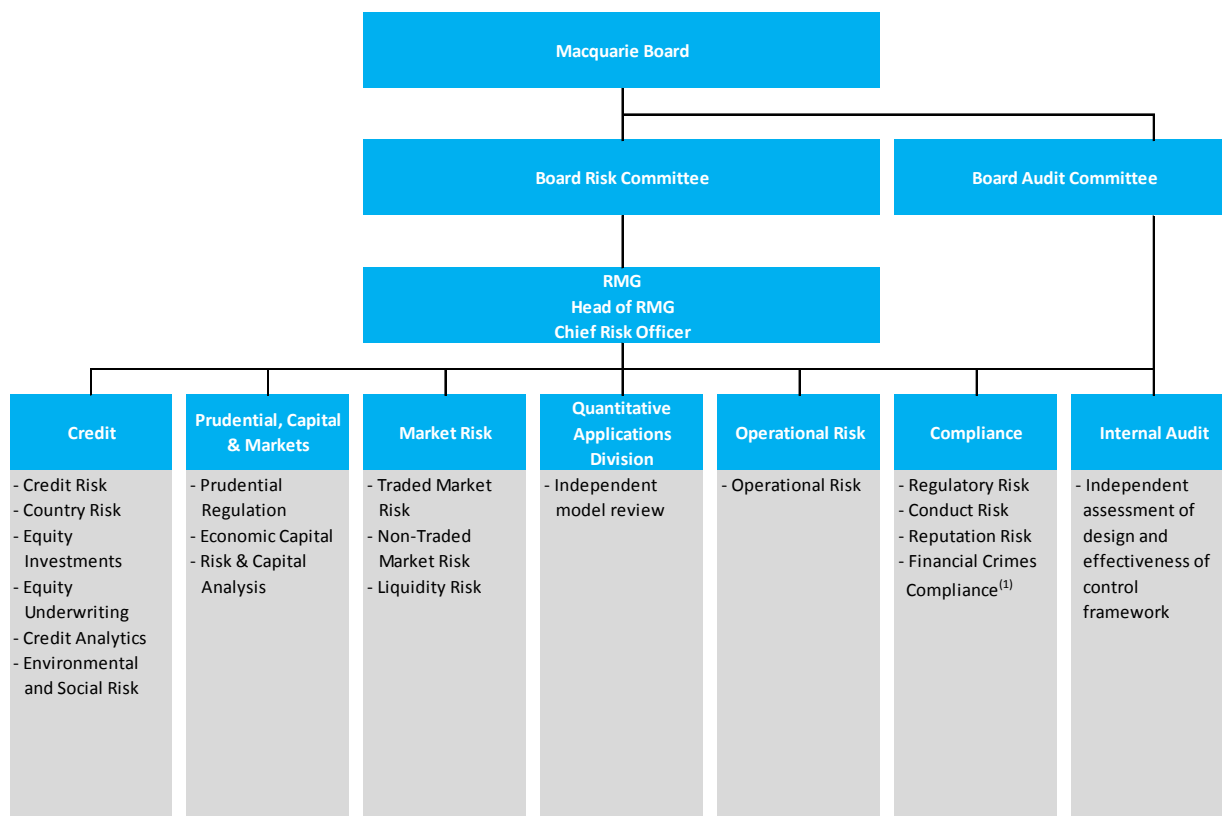
- primary responsibility for risk management lies at the business level. This is the first line of defence. Part of the role of all business managers throughout Macquarie is to ensure they manage risks appropriately.
- the risk management function forms the second line of defence and independently assesses 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 caliber 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.



<sup>1</sup> 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 controls, risk management, and governance systems and processes. Internal Audit provides an objective assessment on whether risks have been adequately identified, appropriate internal controls are in place to manage those risks and whether those controls are working effectively.

A specialist Risk Mindset and Behaviours team, composed of risk culture specialists, performs reviews across Macquarie using a well-established assessment methodology.

The prevailing risk management attitudes and behaviours of selected functions in Operating and Central Service Groups are assessed. Areas of relative strengths are highlighted. Areas for improvement and required actions are identified.

Findings from all Internal Audit work are followed up to ensure remediation.

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 Level 2 regulatory group capital supply is detailed in the table below.

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
<b>Common Equity Tier 1 capital</b>		
Paid-up ordinary share capital	9,537	9,520
Retained earnings	2,647	2,354
Reserves	478	411
Gross Common Equity Tier 1 capital	12,662	12,285
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	40	37
Deferred tax assets	142	157
Net other fair value adjustments	12	(104)
Intangible component of investments in subsidiaries and other entities	63	51
Loan and lease origination fees and commissions paid to mortgage originators and brokers	397	349
Shortfall in provisions for credit losses	428	338
Equity exposures	1,201	1,179
Other Common Equity Tier 1 capital deductions	251	254
Total Common Equity Tier 1 capital deductions	2,534	2,261
<b>Net Common Equity Tier 1 capital</b>	<b>10,128</b>	<b>10,024</b>
<b>Additional Tier 1 capital</b>		
Additional Tier 1 capital instruments	1,592	1,970
Gross Additional Tier 1 capital	1,592	1,970
Deductions from Additional Tier 1 capital	-	-
Net Additional Tier 1 capital	1,592	1,970
<b>Total Net Tier 1 capital</b>	<b>11,720</b>	<b>11,994</b>
<b>Tier 2 capital</b>		
Tier 2 capital instruments and other	1,697	1,889
<b>Total capital base</b>	<b>13,417</b>	<b>13,883</b>

## 3.0 Capital Structure

### continued

#### 3.2 Common Equity Tier 1 Capital

Macquarie's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

Macquarie's Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids).

Macquarie's Additional Tier 1 capital consists of Macquarie Income Securities (MIS), Bank Capital Notes (BCN) and Macquarie Additional Capital Securities (MACS).

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 eligible for transitional arrangements under Basel III rules.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. 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 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that BCN are eligible for inclusion as Additional Tier 1 capital.

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support). APRA has confirmed that MACS are eligible for inclusion as Additional Tier 1 capital.

#### 3.3 Tier 2 Capital

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 APRA Prudential Standard 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's capital management strategy uses both internal and external measures of capital. Internally, Macquarie has developed an economic capital model that is used to quantify MGL Group'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 Group's risk profile.

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

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

Capital adequacy is assessed for both MGL Group and the Level 2 regulatory 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
Level 2 regulatory group	Internal model, covering exposures of the Level 2 regulatory group	Capital to cover RWA and regulatory deductions, according to APRA's ADI prudential standards
MGL Group	Internal model, covering all exposures of the MGL Group	Level 2 regulatory group capital requirement plus economic capital requirement of the Non-Bank Group

## 4.0 Capital Adequacy

### continued

<b>Risk</b>	<b>Basel III</b>	<b>ECAM</b>
Credit	Capital requirement determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. LGD)	Capital requirement determined by Basel III IRB formula, with internal estimates of key parameters
Equity	100% Common Equity Tier 1 deduction	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	Advanced Measurement Approach	Advanced Measurement Approach

Macquarie Level 3 regulatory group is currently well capitalised. The remaining capital surplus is available to support growth, provide strategic flexibility and accommodate capital volatility. In order to reduce volatility in Macquarie's capital position, Macquarie actively manages the sensitivity of its capital position to foreign currency movements.

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 without creating unknown or unwanted risks for Macquarie. All relevant risks 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 months of an acquisition or launch. It 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 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 Level 2 regulatory 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 Level 2 regulatory group.

##### APS 330 Table 6 (b) to (f)

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate	27,136	27,473
SME Corporate	3,234	2,830
Sovereign	182	227
Bank	1,576	1,175
Residential Mortgages <sup>1,2</sup>	12,654	10,545
Other Retail	4,466	3,642
Retail SME <sup>1</sup>	3,101	2,961
<b>Total RWA subject to IRB approach<sup>3</sup></b>	<b>52,349</b>	<b>48,853</b>
<b>Specialised lending exposures subject to slotting criteria<sup>4</sup></b>	<b>5,392</b>	<b>6,277</b>
Subject to Standardised approach		
Corporate	701	794
Residential Mortgages	1,630	1,634
Other Retail <sup>5</sup>	3,771	5,755
<b>Total RWA subject to Standardised approach<sup>3</sup></b>	<b>6,102</b>	<b>8,183</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>609</b>	<b>441</b>
<b>Credit Valuation Adjustment RWA</b>	<b>3,712</b>	<b>2,457</b>
<b>Exposures to Central Counterparties RWA</b>	<b>1,274</b>	<b>1,232</b>
<b>RWA for Other Assets</b>	<b>8,276</b>	<b>8,554</b>
<b>Total Credit risk RWA</b>	<b>77,714</b>	<b>75,997</b>
<b>Market risk RWA</b>	<b>3,303</b>	<b>3,958</b>
<b>Operational risk RWA</b>	<b>9,960</b>	<b>9,979</b>
<b>Interest rate risk in the banking book RWA<sup>6</sup></b>	<b>753</b>	<b>82</b>
<b>Total RWA</b>	<b>91,730</b>	<b>90,016</b>

<sup>1</sup> Includes APRA approved changes for the treatment of SME loans secured by mortgages.

<sup>2</sup> Includes changes for the classification of mortgage commitments.

<sup>3</sup> Refer to section 6.0 for more details on exposures calculated under the IRB and Standardised approaches.

<sup>4</sup> Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

<sup>5</sup> RWA on standardised "other retail" has decreased pursuant to amortisation of Corporate and Asset Finance (CAF) Retail Leasing portfolio.

<sup>6</sup> Model changes to include basis and optionality risk for March 2018.

Ratios for Common Equity Tier 1, Total Tier 1, and Total capital are set out below.

**APS 330 Table 6 (g)**

<b>Capital Ratios</b>	<b>As at 31 March 2018</b>	As at 31 March 2017
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio	<b>11.0%</b>	11.1%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio	<b>12.8%</b>	13.3%
Macquarie Level 2 regulatory group Total capital ratio	<b>14.6%</b>	15.4%
Macquarie Level 1 regulatory group Common Equity Tier 1 capital ratio	<b>11.2%</b>	10.6%
Macquarie Level 1 regulatory group Total Tier 1 capital ratio	<b>13.0%</b>	12.9%
Macquarie Level 1 regulatory group Total capital ratio	<b>14.9%</b>	15.1%

APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of total capital to risk weighted assets (RWA) of 8% at both Level 1 and Level 2, with at least 6% of this capital in the form of Tier 1 capital and at least 4.5% of this minimum capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. From 1 January 2016, APRA further imposes ADI capital buffer requirements which include a 2.5% capital conservation buffer above the minimum Common Equity Tier 1 capital.

At 31 March 2018, the countercyclical capital buffer requirement for Macquarie Level 2 regulatory group is less than 0.01%.

## 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 initial credit limits is delegated to specific individuals.

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 experienced 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 on next page 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 Level 2 regulatory 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.

## 5.2.2 Macquarie Ratings (continued)

### Rating System

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

## 5.0 Credit Risk Measurement

### continued

For wholesale counterparties, Macquarie utilises a number of industry templates and a sovereign template to assess the appropriate MQ ratings. These industry templates are designed to ensure that Macquarie ratings take into account the different risk factors that affect different industries. Analysts are required to input a range of quantitative and qualitative factors and then consider the MQ rating output. At the same time as considering the appropriate MQ rating, analysts are also required to consider the appropriate LGD. For economic capital purposes, LGDs are stressed estimates, taking into account the security, jurisdiction, seniority and quality of the balance sheet. For regulatory capital, MBL uses the APRA supervisory estimates for LGDs.

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

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

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

All templates and models are validated annually by RMG Credit with oversight from the Credit Models Review Committee. The following annual validation activities are undertaken:

- 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 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.

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 based on Regulatory Capital and 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 amortised cost 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.

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For regulatory purposes, CEA (Credit Equivalent Amount) is calculated according to the methodology outlined in the APRA 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 regularly monitored, such as share price and credit default swap spread movements, covenant breaches and external 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 and sectoral concentrations.

#### **5.2.4 Credit Assurance**

Credit Assurance (CA) is a centralised function within RMG which independently verifies the effectiveness of Macquarie's credit risk management. The role of the CA is to provide an independent assurance of analysis and process to support credit quality and the effectiveness of credit controls.

Key responsibilities are:

- assuring the quality of wholesale credit approvals through sample testing;
- reporting on the effectiveness (design and performance) of RMG Credit's critical controls including sample testing to ensure compliance with key Credit policies and the effectiveness of critical controls; and
- overseeing Business (Retail) CA functions in Banking and Financial Services (BFS) and Corporate and Asset Finance Group (CAF).

RMG CA reports to the RMG Head of Operational Risk to ensure independence. In addition to regular reporting to senior management and the Chief Risk Officer, CA is required to report at least annually to the Board. In the interim, matters that require Board attention are reported via the Chief Risk Officer.

## 5.0 Credit Risk Measurement

### continued

#### 5.3 Macquarie's Credit Risk Exposures

Credit exposures are disclosed in the following pages based on:

- 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 along with derivatives and repurchase agreements. The exposure at default is calculated in a manner consistent with APRA Prudential Standards.

Exposures have been based on a Level 2 regulatory 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 report 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 2018 \$m	As at 31 March 2017 \$m
Corporate <sup>1</sup>	44,987	44,462
SME Corporate <sup>2</sup>	4,365	3,863
Sovereign	2,583	2,941
Bank	8,821	7,020
Residential Mortgages <sup>3, 4</sup>	43,565	37,561
Other Retail	11,786	12,702
Retail SME <sup>3</sup>	4,609	4,835
Other Assets <sup>5</sup>	12,729	11,551
<b>Total Gross Credit Exposure</b>	<b>133,445</b>	<b>124,935</b>

<sup>1</sup> Corporate includes specialised lending exposure of \$5,142 million as at 31 March 2018 (31 March 2017: \$6,246 million).

<sup>2</sup> SME Corporate includes specialised lending exposure of \$587 million as at 31 March 2018 (31 March 2017: \$530 million).

<sup>3</sup> Includes APRA approved changes for the treatment of SME loans secured by mortgages.

<sup>4</sup> Includes changes for the classification of mortgage commitments.

<sup>5</sup> 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 2018			Total \$m	For the 12 months to 31 March 2018  Average Exposures \$m
	On Balance Sheet \$m	Off Balance sheet			
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	21,382	3,694	14,068	39,144	38,284
SME Corporate	3,201	577	-	3,778	3,555
Sovereign	1,633	-	950	2,583	2,762
Bank	3,543	46	5,232	8,821	7,920
Residential Mortgages	33,437	7,825	-	41,262	38,056
Other Retail	7,973	-	-	7,973	7,444
Retail SME	4,590	19	-	4,609	4,723
<b>Total IRB approach</b>	<b>75,759</b>	<b>12,161</b>	<b>20,250</b>	<b>108,170</b>	<b>102,744</b>
<b>Specialised Lending</b>	<b>4,320</b>	<b>829</b>	<b>580</b>	<b>5,729</b>	<b>6,252</b>
<b>Subject to Standardised approach</b>					
Corporate	-	701	-	701	747
Residential Mortgages	2,303	-	-	2,303	2,507
Other Retail	3,813	-	-	3,813	4,800
<b>Total Standardised approach</b>	<b>6,116</b>	<b>701</b>	<b>-</b>	<b>6,817</b>	<b>8,054</b>
<b>Other Assets</b>	<b>12,169</b>	<b>213</b>	<b>347</b>	<b>12,729</b>	<b>12,140</b>
<b>Total Gross Credit Exposures</b>	<b>98,364</b>	<b>13,904</b>	<b>21,177</b>	<b>133,445</b>	<b>129,190</b>

## 5.0 Credit Risk Measurement

### continued

APS 330 Table 7(b) (continued)

	As at 31 March 2017				For the 12 months to 31 March 2017
	Off Balance sheet			Total \$m	Average Exposures \$m
	On Balance Sheet \$m	Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	21,528	3,930	11,964	37,422	37,845
SME Corporate	2,788	545	-	3,333	3,140
Sovereign	2,135	-	806	2,941	2,828
Bank	2,993	-	4,027	7,020	8,100
Residential Mortgages	28,820	6,031	-	34,851	32,650
Other Retail	6,916	-	-	6,916	6,270
Retail SME	4,708	127	-	4,835	4,528
<b>Total IRB approach</b>	<b>69,888</b>	<b>10,633</b>	<b>16,797</b>	<b>97,318</b>	<b>95,361</b>
<b>Specialised Lending</b>	<b>4,708</b>	<b>1,588</b>	<b>480</b>	<b>6,776</b>	<b>7,197</b>
<b>Subject to Standardised approach</b>					
Corporate	-	794	-	794	775
Residential Mortgages	2,710	-	-	2,710	4,752
Other Retail	5,786	-	-	5,786	6,978
<b>Total Standardised approach</b>	<b>8,496</b>	<b>794</b>	<b>-</b>	<b>9,290</b>	<b>12,505</b>
<b>Other Assets</b>	<b>11,299</b>	<b>95</b>	<b>157</b>	<b>11,551</b>	<b>11,952</b>
<b>Total Gross Credit Exposures</b>	<b>94,391</b>	<b>13,110</b>	<b>17,434</b>	<b>124,935</b>	<b>127,015</b>

APS 330 Table 7(f) & (i)

	As at 31 March 2018				For the 12 months to 31 March 2018	
	Gross Credit Exposure \$m	Impaired Facilities \$m	Past Due > 90 days <sup>1</sup> \$m	Individually Assessed Provisions \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	44,286	255	43	(58)	(88)	(11)
SME Corporate <sup>2</sup>	4,365	40	42	(24)	(4)	-
Sovereign	2,583	-	-	-	-	-
Bank	8,821	-	-	-	-	-
Residential Mortgages	41,262	190	97	(4)	(1)	-
Other Retail	7,973	89	-	(17)	3 <sup>6</sup>	(37)
Retail SME	4,609	40	-	(8)	1 <sup>6</sup>	(25)
<b>Total IRB approach</b>	<b>113,899</b>	<b>614</b>	<b>182</b>	<b>(111)</b>	<b>(89)</b>	<b>(73)</b>
<b>Subject to Standardised approach</b>						
Corporate	701	-	-	-	-	-
Residential Mortgages <sup>3</sup>	2,303	-	223	-	-	-
Other Retail	3,813	62	7	(12)	(4)	(61)
<b>Total Standardised approach</b>	<b>6,817</b>	<b>62</b>	<b>230</b>	<b>(12)</b>	<b>(4)</b>	<b>(61)</b>
<b>Other Assets</b>	<b>12,729</b>	<b>120<sup>4</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>133,445</b>	<b>796</b>	<b>412</b>	<b>(123)</b>	<b>(93)</b>	<b>(134)</b>

As at  
31 March  
2018  
\$m

General reserve for credit losses<sup>5</sup>

249

<sup>1</sup> 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.

<sup>2</sup> IRB Corporate and SME Corporate includes specialised lending.

<sup>3</sup> Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF Lending business.

<sup>4</sup> Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.

<sup>5</sup> The General reserve for credit losses is equivalent to the collective provisions for regulatory purposes.

<sup>6</sup> Includes write-back of provision.

## 5.0 Credit Risk Measurement

### continued

APS 330 Table 7(f) &amp; (i)

	As at 31 March 2017				For the 12 months to 31 March 2017	
	Gross Credit Exposure \$m	Impaired Facilities \$m	Past Due > 90 days <sup>1</sup> \$m	Individually Assessed Provisions \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	43,668	820	132	(300)	(139)	(58)
SME Corporate <sup>2</sup>	3,863	62	29	(21)	(17)	-
Sovereign	2,941	-	-	-	-	-
Bank	7,020	-	-	-	-	-
Residential Mortgages	34,851	175	94	(5)	(1)	-
Other Retail	6,916	71	-	(21)	(10)	(28)
Retail SME	4,835	39	-	(9)	(2)	(24)
<b>Total IRB approach</b>	<b>104,094</b>	<b>1,167</b>	<b>255</b>	<b>(356)</b>	<b>(169)</b>	<b>(110)</b>
<b>Subject to Standardised approach</b>						
Corporate	794	-	-	-	-	-
Residential Mortgages <sup>3</sup>	2,710	-	283	-	-	-
Other Retail	5,786	103	10	(17)	(12)	(37)
<b>Total Standardised approach</b>	<b>9,290</b>	<b>103</b>	<b>293</b>	<b>(17)</b>	<b>(12)</b>	<b>(37)</b>
Other Assets <sup>4</sup>	11,551	55	-	-	-	-
<b>Total</b>	<b>124,935</b>	<b>1,325</b>	<b>548</b>	<b>(373)</b>	<b>(181)</b>	<b>(147)</b>

As at  
31 March  
2017  
\$m

General reserve for credit losses<sup>5</sup>

344

<sup>1</sup> 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.

<sup>2</sup> IRB Corporate and SME Corporate includes specialised lending.

<sup>3</sup> Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF Lending business.

<sup>4</sup> Other assets impaired facilities include other real estate owned subsequent to facility foreclosure.

<sup>5</sup> The General reserve for credit losses is equivalent to the collective provisions for regulatory purposes.

#### 5.4 Credit Risk by Geographic Distribution

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

APS 330 Table 7(c)

Portfolio Type	As at 31 March 2018				
	Asia Pacific \$m	Australia \$m	EMEA* \$m	Americas \$m	Total \$m
Corporate	4,185	7,700	16,331	16,771	44,987
SME Corporate	-	4,365	-	-	4,365
Sovereign	187	1,128	825	443	2,583
Bank	722	2,167	4,445	1,487	8,821
Residential Mortgages	102	42,454	981	28	43,565
Other Retail	-	11,127	566	93	11,786
Retail SME	-	4,609	-	-	4,609
Other Assets	1,637	1,970	7,586	1,536	12,729
<b>Total Gross Credit Exposure</b>	<b>6,833</b>	<b>75,520</b>	<b>30,734</b>	<b>20,358</b>	<b>133,445</b>

\*EMEA represents Europe, Middle East and Africa

Portfolio Type	As at 31 March 2017				
	Asia Pacific \$m	Australia \$m	EMEA* \$m	Americas \$m	Total \$m
Corporate	3,834	7,458	17,758	15,412	44,462
SME Corporate	-	3,862	1	-	3,863
Sovereign	63	1,729	524	625	2,941
Bank	699	1,820	3,154	1,347	7,020
Residential Mortgages	101	35,942	1,048	470	37,561
Other Retail	-	11,717	466	519	12,702
Retail SME	2	4,833	-	-	4,835
Other Assets	1,303	1,461	7,275	1,512	11,551
<b>Total Gross Credit Exposure</b>	<b>6,002</b>	<b>68,822</b>	<b>30,226</b>	<b>19,885</b>	<b>124,935</b>

\*EMEA represents Europe, Middle East and Africa

## 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 report.

APS 330 Table 7(d)

Portfolio Type	As at 31 March 2018				
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	Total \$m
Corporate	11,490	503	32,357	637	44,987
SME Corporate	249	-	3,593	523	4,365
Sovereign	1,521	1,059	3	-	2,583
Bank	8,766	-	55	-	8,821
Residential Mortgages	1,431	-	1,304	40,830	43,565
Other Retail	47	-	1,227	10,512	11,786
Retail SME	5	-	2,990	1,614	4,609
Other Assets	3,326	241	9,153	9	12,729
<b>Total Gross Credit Exposure</b>	<b>26,835</b>	<b>1,803</b>	<b>50,682</b>	<b>54,125</b>	<b>133,445</b>

Portfolio Type	As at 31 March 2017				
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	Total \$m
Corporate	9,296	427	34,412	327	44,462
SME Corporate	247	-	3,130	486	3,863
Sovereign	2,099	802	40	-	2,941
Bank	6,622	-	398	-	7,020
Residential Mortgages	916	-	1,115	35,530	37,561
Other Retail	29	-	1,536	11,137	12,702
Retail SME	319	-	3,089	1,427	4,835
Other Assets	2,046	441	8,993	71	11,551
<b>Total Gross Credit Exposure</b>	<b>21,574</b>	<b>1,670</b>	<b>52,713</b>	<b>48,978</b>	<b>124,935</b>

## 5.6 Credit Risk by Maturity Profile

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

APS 330 Table 7(e)

Portfolio Type	As at 31 March 2018			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	23,811	15,362	5,814	44,987
SME Corporate	737	2,985	643	4,365
Sovereign	2,240	304	39	2,583
Bank	6,335	1,803	683	8,821
Residential Mortgages	113	375	43,077	43,565
Other Retail	1,594	8,864	1,328	11,786
Retail SME	534	4,011	64	4,609
Other Assets	5,876	5,081	1,772	12,729
<b>Total Gross Credit Exposure</b>	<b>41,240</b>	<b>38,785</b>	<b>53,420</b>	<b>133,445</b>

Portfolio Type	As at 31 March 2017			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	21,806	15,410	7,246	44,462
SME Corporate	678	2,625	560	3,863
Sovereign	1,950	763	228	2,941
Bank	4,879	1,601	540	7,020
Residential Mortgages	342	626	36,593	37,561
Other Retail	1,560	9,503	1,639	12,702
Retail SME	484	3,543	808	4,835
Other Assets	4,599	4,437	2,515	11,551
<b>Total Gross Credit Exposure</b>	<b>36,298</b>	<b>38,508</b>	<b>50,129</b>	<b>124,935</b>



## 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	Exposure is slotted based on a combination of its MQ rating and LGD, with APRA determined supervisory risk weights assigned to each exposure
Macquarie originated auto and equipment lease exposures in Australia	IRB	Through-the-cycle pool PDs and downturn LGDs
Macquarie originated and purchased Residential Mortgages in Australia <sup>1</sup>	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

<sup>1</sup> Excludes loans to self-managed superannuation funds secured by residential property and reverse mortgages, which are considered as other residential mortgages under standardised approach.

## 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 2018 \$m	As at 31 March 2017 \$m
<b>Subject to IRB approach</b>		
Corporate	44,286	43,668
SME Corporate	4,365	3,863
Sovereign	2,583	2,941
Bank	8,821	7,020
Residential Mortgages	41,262	34,851
Other Retail	7,973	6,916
Retail SME	4,609	4,835
<b>Total IRB approach</b>	<b>113,899</b>	104,094
<b>Subject to Standardised approach</b>		
Corporate	701	794
Residential Mortgages	2,303	2,710
Other Retail	3,813	5,786
<b>Total Standardised approach</b>	<b>6,817</b>	9,290
<b>Other Assets<sup>1</sup></b>	<b>12,729</b>	11,551
<b>Total Gross Credit Exposure</b>	<b>133,445</b>	124,935

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

## 6.0 Calculation of Credit Risk Exposures

### continued

#### 6.2 Credit Risk Exposures by Risk Weight

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

The disclosure of Standardised exposures below shows gross credit exposures before and after the impact of risk mitigation by collateral and guarantees.

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

Risk Weight	As at 31 March 2018		As at 31 March 2017	
	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m
0%	29	-	427*	-
> 0% ≤ 20%	-	-	-	-
> 20% ≤ 35%	75	75	108	108
> 35% ≤ 50%	954	954	955	955
> 50% ≤ 75%	592	592	470	470
> 75% ≤ 100%	5,167	5,167	7,330	7,330
> 100% ≤ 150%	-	-	-	-
> 150%	-	-	-	-
<b>Total</b>	<b>6,817</b>	<b>6,788</b>	<b>9,290</b>	<b>8,863</b>

\* RWA in March 2017 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	
	As at 31 March 2018 \$m	As at 31 March 2017 \$m
Risk Weight		
70%	442	553
90%	2,036	2,466
115%	2,709	2,838
250%	54	163
Default <sup>1</sup>	488	756
<b>Total</b>	<b>5,729</b>	<b>6,776</b>

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

### 6.3 Credit Risk Exposures by Risk Grade

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

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

APS 330 Table 9(d)

Non-Retail	As at 31 March 2018 PD Grade							Total Gross Credit Exposure \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
Corporate	972	11,764	8,212	13,265	6,214	2,836	1,023	44,286
SME Corporate	-	6	32	2,946	1,024	280	77	4,365
Sovereign	2,089	406	52	36	-	-	-	2,583
Bank	2,971	5,261	474	67	48	-	-	8,821
<b>Total Gross Credit Exposure</b>	<b>6,032</b>	<b>17,437</b>	<b>8,770</b>	<b>16,314</b>	<b>7,286</b>	<b>3,116</b>	<b>1,100</b>	<b>60,055</b>

Non-Retail	As at 31 March 2017 PD Grade							Total Gross Credit Exposure \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
Corporate	720	10,741	6,684	13,576	7,478	2,645	1,824	43,668
SME Corporate	-	-	31	2,616	899	224	93	3,863
Sovereign	2,769	140	3	21	8	-	-	2,941
Bank	2,498	3,667	539	179	132	5	-	7,020
<b>Total Gross Credit Exposure</b>	<b>5,987</b>	<b>14,548</b>	<b>7,257</b>	<b>16,392</b>	<b>8,517</b>	<b>2,874</b>	<b>1,917</b>	<b>57,492</b>

## 6.0 Calculation of Credit Risk Exposures

### continued

#### 6.3 Credit Risk Exposures by Risk Grade (continued)

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

APS330 Table 9(d) (continued)

Undrawn Commitments	As at 31 March 2018 PD Grade							Total \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
Corporate	31	906	896	1,030	400	105	2	3,370
SME Corporate	-	-	5	365	106	15	-	491
Bank	-	-	-	10	-	-	-	10
<b>Total Undrawn Commitments</b>	<b>31</b>	<b>906</b>	<b>901</b>	<b>1,405</b>	<b>506</b>	<b>120</b>	<b>2</b>	<b>3,871</b>

Undrawn Commitments	As at 31 March 2017 PD Grade							Total \$m
	0 < 0.03% \$m	0.03% < 0.15% \$m	0.15% < 0.5% \$m	0.5% < 3% \$m	3% < 10% \$m	10% < 100% \$m	Default \$m	
Corporate	28	1,274	496	1,969	379	157	245	4,548
SME Corporate	-	-	2	371	86	12	4	475
<b>Total Undrawn Commitments</b>	<b>28</b>	<b>1,274</b>	<b>498</b>	<b>2,340</b>	<b>465</b>	<b>169</b>	<b>249</b>	<b>5,023</b>

### 6.3 Credit Risk Exposures by Risk Grade (continued)

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

APS330 Table 9(d) (continued)

Retail	As at 31 March 2018 Expected Loss Categories					Total Gross Credit Exposure \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m <sup>1</sup>	
Residential Mortgages	16,239	19,826	4,440	475	282	41,262
Other Retail	-	3,330	3,680	874	89	7,973
Retail SME	190	205	3,437	723	54	4,609
<b>Total Gross Credit Exposure</b>	<b>16,429</b>	<b>23,361</b>	<b>11,557</b>	<b>2,072</b>	<b>425</b>	<b>53,844</b>

<sup>1</sup> Includes best estimates expected loss for retail IRB defaulted exposures.

Retail	As at 31 March 2017 Expected Loss Categories					Total Gross Credit Exposure \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m <sup>1</sup>	
Residential Mortgages	13,421	15,637	5,098	432	263	34,851
Other Retail	-	3,030	3,154	659	73	6,916
Retail SME	364	604	3,137	674	56	4,835
<b>Total Gross Credit Exposure</b>	<b>13,785</b>	<b>19,271</b>	<b>11,389</b>	<b>1,765</b>	<b>392</b>	<b>46,602</b>

<sup>1</sup> Includes best estimates expected loss for retail IRB defaulted exposures.

## 6.0 Calculation of Credit Risk Exposures

### continued

#### 6.3 Credit Risk Exposures by Risk Grade (continued)

Included within Total Gross Credit Exposures in the previous page 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 2018 Expected Loss Categories					Total \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
<b>Undrawn Commitments</b>						
Residential Mortgages	5,927	1,625 <sup>1</sup>	244	27	-	7,823
Retail SME	18	-	-	-	-	18
<b>Total Undrawn Commitments</b>	<b>5,945</b>	<b>1,625</b>	<b>244</b>	<b>27</b>	<b>-</b>	<b>7,841</b>

<sup>1</sup> Includes changes for the classification of mortgage commitments.

	As at 31 March 2017 Expected Loss Categories					Total \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
<b>Undrawn Commitments</b>						
Residential Mortgages	5,451	294	260	23	-	6,028
Retail SME	102	5	19	1	-	127
<b>Total Undrawn Commitments</b>	<b>5,553</b>	<b>299</b>	<b>279</b>	<b>24</b>	<b>-</b>	<b>6,155</b>

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## 7.0 Provisioning

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### 7.1 Impaired Facilities and Past Due

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

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

The estimation of expected future cash flows takes into consideration:

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

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

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

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

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

### 7.2 Individually Assessed Provisions

Facilities that are assessed as impaired are subject to a recoverability test. Individually assessed provisions are calculated in accordance with Australian Accounting Standards and represent 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 primarily 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 credit related provisions, partial write-offs, and discounts on defaulted assets. As at 31 March 2018, the total REL was \$1,153 million (31 March 2017: \$1,527 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of \$428 million (31 March 2017: \$338 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 report – impaired loans and other financial assets is provided below:

	As at 31 March 2018		As at 31 March 2017	
	Impaired Facilities \$m	Individually Assessed Provisions \$m	Impaired Facilities \$m	Individually Assessed Provisions \$m
Total - APS220 impaired facilities	796	123	1,325	373
Impaired exposures without provisions <sup>1</sup>	(216)	-	(315)	-
Real estate and other assets acquired through security enforcement	(118)	-	(50)	-
Off balance sheet exposures	(3)	-	(93)	-
Other exposures	8	4	8	6
<b>Total – Impaired loans &amp; other financial assets with individually assessed provisions for impairment per MBL consolidated financial report</b>	<b>467</b>	<b>127</b>	<b>875</b>	<b>379</b>

<sup>1</sup> Comprises secured exposures where no loss is anticipated, and which are not impaired in the MBL consolidated financial report. Collective provisions of \$11 million (\$63 million as at 31 March 2017) 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).

## 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 2018			As at 31 March 2017		
	Impaired Facilities \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m	Impaired Facilities \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
<b>Subject to IRB approach</b>						
Corporate	255	43	(58)	820	132	(300)
SME Corporate	40	42	(24)	62	29	(21)
Residential Mortgages	190	97	(4)	175	94	(5)
Other Retail	89	-	(17)	71	-	(21)
Retail SME	40	-	(8)	39	-	(9)
<b>Total IRB approach</b>	<b>614</b>	<b>182</b>	<b>(111)</b>	<b>1,167</b>	<b>255</b>	<b>(356)</b>
<b>Subject to Standardised approach</b>						
Residential Mortgages <sup>1</sup>	-	223	-	-	283	-
Other Retail	62	7	(12)	103	10	(17)
<b>Total Standardised approach</b>	<b>62</b>	<b>230</b>	<b>(12)</b>	<b>103</b>	<b>293</b>	<b>(17)</b>
<b>Other Assets</b>	<b>120<sup>2</sup></b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>796</b>	<b>412</b>	<b>(123)</b>	<b>1,325</b>	<b>548</b>	<b>(373)</b>

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

<sup>2</sup> Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.

## 7.0 Provisioning

### continued

APS 330 Table 9(e)

	For the 12 months to 31 March 2018		For the 12 months to 31 March 2017	
	Charges for Individually Assessed provisions \$m	Write-offs \$m	Charges for Individually Assessed provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>				
Corporate	(88)	(11)	(139)	(58)
SME Corporate	(4)	-	(17)	-
Residential Mortgages	(1)	-	(1)	-
Other Retail	3 <sup>1</sup>	(37)	(10)	(28)
Retail SME	1 <sup>1</sup>	(25)	(2)	(24)
<b>Total IRB approach</b>	<b>(89)</b>	<b>(73)</b>	<b>(169)</b>	<b>(110)</b>
<b>Subject to Standardised approach</b>				
Other Retail	(4)	(61)	(12)	(37)
<b>Total Standardised approach</b>	<b>(4)</b>	<b>(61)</b>	<b>(12)</b>	<b>(37)</b>
<b>Total</b>	<b>(93)</b>	<b>(134)</b>	<b>(181)</b>	<b>(147)</b>

<sup>1</sup> Includes write-back of provision.

## 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 counterparty.

APS 330 Table 7(g)

Geographic Region	As at 31 March 2018			
	Impaired Facilities \$m	Past due > 90 days \$m	Individually Assessed Provisions \$m	Collective Provisions \$m
Australia	455	146	(77)	(169)
EMEA	16	229	(1)	(41)
Americas	321	35	(44)	(49)
Asia Pacific	4	2	(1)	(1)
<b>Total</b>	<b>796</b>	<b>412</b>	<b>(123)</b>	<b>(260)</b>

Geographic Region	As at 31 March 2017			
	Impaired Facilities \$m	Past due > 90 days \$m	Individually Assessed Provisions \$m	Collective Provisions \$m
Australia	660	133	(127)	(239)
EMEA	48	286	(16)	(50)
Americas	591	125	(221)	(114)
Asia Pacific	26	4	(9)	(4)
<b>Total</b>	<b>1,325</b>	<b>548</b>	<b>(373)</b>	<b>(407)</b>

## 7.0 Provisioning

### continued

#### 7.8 General Reserve for Credit Losses

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

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
Collective provisions	260	407
Collective provisions treated as individually assessed provisions for regulatory purposes	(11)	(63)
Net collective provisions for regulatory purposes <sup>1</sup>	249	344
Tax effect	(58)	(88)
<b>General reserve for credit losses</b>	<b>191</b>	<b>256</b>

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

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## 7.9 Movement in Provisions

The table below shows the movement of provisions over the 12 months to 31 March 2018.

APS 330 Table 7(h)

	\$m
<b>Total Provisions as at 31 March 2017</b>	<b>780</b>
<b>Collective Provisions</b>	
Balance at start of the period	407
Reversed during the period	(138)
(Sale)/Acquisitions during the period	(7)
Net transfer (to specific)/from other provisions	(5)
Adjustments for foreign exchange fluctuations	3
<b>Total Collective Provisions</b>	<b>260</b>
<b>Individually Assessed Provisions</b>	
Balance at start of the period	373
Charge to income statement	93
Assets written off or sold, previously provided for	(316)
Recovery of loans, previously provided for	(33)
Net transfer from Collective Provisions	5
Adjustments for foreign exchange fluctuations	1
<b>Total Individually Assessed Provisions</b>	<b>123</b>
<b>Total Provisions as at 31 March 2018</b>	<b>383</b>

## 7.0 Provisioning

### continued

#### 7.10 Analysis of Expected Credit Model Performance versus Actual Results

The table below relates only to Macquarie's portfolios measured under the IRB approach and compares actual results to the average estimate over the January 2008 to March 2018 period.

APS 330 Table 9(f)

Portfolio Type	PD		Exposure at default	LGD	
	Estimated %	Actual %	Estimate to Actual Ratio	Estimated %	Actual %
Corporate	1.58%	0.84%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
SME Corporate	2.31%	1.76%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Sovereign	0.12%	0.00%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Bank	0.11%	0.00%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Residential Mortgages <sup>2</sup>	1.16%	1.17%	100%	20.31%	4.61%
Other Retail <sup>2</sup>	1.63%	1.55%	112%	48.43%	27.79%

<sup>1</sup> 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.

<sup>2</sup> Includes exposures disclosed as Retail SME.

## 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 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 normally 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. As part of the OTC Margining reforms in various jurisdictions in which Macquarie operates, limits have been imposed on thresholds, minimum transfer amounts and rounding for affected counterparties. Documents have been renegotiated with these counterparties in order to be compliant with these regulations. Margining thresholds are incorporated into 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, be it on an asset specific basis or a market assessment across a pool of assets, such as residential mortgages. 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 requirements 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 approach and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives.

APS 330 Table 10(b) & (c)

Measurement Approach	As at 31 March 2018			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate	44,286	1,862	50	1,942
SME Corporate	4,365	80	806	-
Sovereign	2,583	-	-	-
Bank	8,821	1,044	-	26
<b>Total IRB approach</b>	<b>60,055</b>	<b>2,986</b>	<b>856</b>	<b>1,968</b>

Measurement Approach	As at 31 March 2017			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate	43,668	1,594	28	1,132
SME Corporate	3,863	83	683	-
Sovereign	2,941	100	-	39
Bank	7,020	930	-	461
<b>Total IRB approach</b>	<b>57,492</b>	<b>2,707</b>	<b>711</b>	<b>1,632</b>

#### 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 MGL 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.

Regulatory capital is allocated to CCR exposures using the current exposure method, which reflects expected exposure to the counterparty and its risk-rating. Economic capital also reflects correlations and diversification impacts across risk types.

As at 31 March 2018, a unilateral one-notch and two-notch downgrade in the MBL's rating would have resulted in a further \$516 million and \$572 million (credit rating downgrade postings are cumulative) 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)

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
<b>Credit equivalent amounts for counterparty exposures</b>		
Replacement cost	11,253	10,574
Potential future exposure	14,382	12,160
Gross credit equivalent amount	25,635	22,734
Comprising:		
Interest rate contracts	2,312	2,565
Credit derivative contracts	206	166
Equity contracts	1,932	1,564
Foreign exchange and gold contracts	8,249	6,874
Commodities and precious metals contracts	12,936	11,565
Gross credit equivalent amount	25,635	22,734
Less: Effect of netting arrangements	11,606	11,047
Credit equivalent amount after netting	14,029	11,687
Less: Collateral amount		
Eligible financial collateral	2,139	1,910
Other eligible collateral	-	-
Net credit equivalent amount	11,890	9,777

#### APS 330 Table 11(c)

	As at 31 March 2018		As at 31 March 2017	
<b>Notional amount of credit derivatives</b>	Protection Bought \$m	Protection Sold \$m	Protection Bought \$m	Protection Sold \$m
Own credit portfolio	1,670	2,421	1,442	3,077
Client intermediation activities	-	-	-	-
<b>Total</b>	1,670	2,421	1,442	3,077
Credit default swaps (CDS)	1,559	1,966	1,368	2,574
Total return swaps	111	455	74	503
<b>Total</b>	1,670	2,421	1,442	3,077

## 9.0 Securitisation

### 9.1 Overview

The revised APS 120 Securitisation (APS 120) became effective 1 January 2018. A securitisation is defined as “a financing structure where the cash flow from a pool is used to make payments on obligations to at least two tranches or classes of creditors (typically holders of debt securities), with each tranche or class entitled to receive payments from the pool before or after another class of creditors, thereby reflecting different levels of credit risk.”

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 the MGL group manages or advises and which can invest either in the securitisation exposures that Macquarie has securitised or in SPVs for whom Macquarie is a sponsor (i.e. manager, adviser, dealer or liquidity and/or credit enhancement provider):

- Macquarie Australian Diversified Income (High Grade) Fund
- Macquarie Australian Diversified Income Fund
- Macquarie Core Australian Fixed Interest Fund
- Macquarie Dynamic Bond Fund
- Macquarie Enhanced Australian Fixed Interest Fund
- Macquarie Enhanced Global Bond Fund
- Macquarie Global Income Opportunities Fund
- Macquarie Life Superannuation Approved Deposit Fund
- Macquarie True Index Sovereign Bond Fund
- Macquarie True Index Cash 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 APS 116 and APS 120.

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

- the External Ratings Based approach (ERBA); or
- the Supervisory Formula Approach (SFA).

If one of the above approaches does not apply to an exposure, then the exposure will be deducted from Common Equity Tier 1 Capital (CET1).

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

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

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### 9.1.2 Accounting for Securitisation

Securitisation transactions undertaken by Macquarie are accounted for in accordance with Australian Accounting Standards. As noted, 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 Australian Accounting Standards to determine whether these SPVs should be considered part of the accounting consolidated group.

In Macquarie's case, it has been determined that under Australian 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 on the basis Macquarie controls those SPVs. Control exists when the parent is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over that entity.

Banking book securitised assets consolidated by Macquarie are held on the balance sheet at amortised cost. Securitised exposures consolidated by Macquarie in the trading book are held at fair 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 a liability does not currently exist, but could arise in the future as a result of uncertain events not wholly within Macquarie's control, the likelihood of an outflow of resources is assessed and a contingent liability disclosed as required. A contingent liability 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 and Macquarie's policies on accounting consolidation, can be found in the Macquarie Bank Limited financial 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.

Macquarie has not undertaken any synthetic securitisation in the banking and trading book.

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

Exposure Type	As at 31 March 2018		
	Total outstanding exposures securitised		
	ADI originated assets <sup>1</sup> \$m	ADI as sponsor <sup>2</sup> \$m	Other \$m
<b>Banking Book</b>			
Residential Mortgages	20,644	173	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,708	-	-
<b>Total Banking Book</b>	<b>26,352</b>	<b>173</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>26,352</b>	<b>173</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

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

Exposure Type	As at 31 March 2017		
	Total outstanding exposures securitised		
	ADI originated assets <sup>1</sup> \$m	ADI as sponsor <sup>2</sup> \$m	Other \$m
<b>Banking Book</b>			
Residential Mortgages	23,468	223	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	9,067	-	-
<b>Total Banking Book</b>	<b>32,535</b>	<b>223</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>32,535</b>	<b>223</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$32,320 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

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

## 9.2.2 Performance of Assets Securitised

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

APS 330 Table 12(h)

Exposure Type	As at 31 March 2018			ADI recognised loss from exposures securitised \$m
	Total outstanding exposures <sup>1</sup> \$m	Impaired <sup>2</sup> \$m	Past due <sup>3</sup> \$m	
Residential Mortgages	20,644	151	82	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	5,708	87	-	-
<b>Total</b>	<b>26,352</b>	<b>238</b>	<b>82</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

<sup>2</sup> Included in the above are impaired facilities of \$233 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

<sup>3</sup> Included in the above are past due >90 days facilities of \$80 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

Exposure Type	As at 31 March 2017			ADI recognised loss from exposures securitised \$m
	Total outstanding exposures <sup>1</sup> \$m	Impaired <sup>2</sup> \$m	Past due <sup>3</sup> \$m	
Residential Mortgages	23,468	177	106	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	9,067	73	-	-
<b>Total</b>	<b>32,535</b>	<b>250</b>	<b>106</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$32,320 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

<sup>2</sup> Included in the above are impaired facilities of \$244 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

<sup>3</sup> Included in the above are past due >90 days facilities of \$103 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 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.

<b>Exposure Type</b>	<b>As at 31 March 2018 \$m</b>	<b>As at 31 March 2017 \$m</b>
<b>Banking Book</b>		
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	882
<b>Total Banking Book</b>	<b>-</b>	<b>882</b>
<b>Trading Book</b>		
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>

#### 9.2.4 Securitisation Activity

Over the 12 months to 31 March 2018, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

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

Exposure Type	For the 12 months to 31 March 2018		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	4,483	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	2,633	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>7,116</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

Exposure Type	For the 12 months to 31 March 2017		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	7,180	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	8,132	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>15,312</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

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



## 9.0 Securitisation

### continued

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

Exposure Type	As at 31 March 2018			
	Total outstanding exposures securitised			
	Standard Method		IMA Method	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
<b>Total</b>	-	-	-	-

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

Exposure Type	As at 31 March 2017			
	Total outstanding exposures securitised			
	Standard Method		IMA Method	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
<b>Total</b>	-	-	-	-

### 9.3 Exposures Arising from Securitisation Activity by Asset Type

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

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

Exposure Type	As at 31 March 2018		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	22,307	22	22,329
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,784	125	5,909
Other	144	146	290
<b>Total Banking Book</b>	<b>28,235</b>	<b>293</b>	<b>28,528</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.

Exposure Type	As at 31 March 2017		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	24,717	87	24,804
Credit cards and other personal loans	-	-	-
Auto and equipment finance	9,147	-	9,147
Other	201	3	204
<b>Total Banking Book</b>	<b>34,065</b>	<b>90</b>	<b>34,155</b>
<b>Trading Book</b>			
Residential Mortgages	-	2	2
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>2</b>	<b>2</b>

<sup>1</sup> Included in the above are assets of \$32,320 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.

## 9.0 Securitisation

### continued

#### 9.3.2 Exposure by Risk Weight Band

The table below sets out the Securitisation exposures by Risk Weight Band for Macquarie.

The revised APS 120 have changed the applicable rating approach for calculation of RWA on Securitisation Exposure. The new approach is not comparable to the previous calculation, hence comparative figures are not provided. Prior period figures under the previous approach is shown in a separate table over the page.

#### Banking Book

#### APS 330 Table 12(I)

Risk weight band	As at 31 March 2018	
	Securitisation exposure subject to ERBA	
	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=< 20%	1,701	335
>20% - 50%	5	2
>50% - 100%	367	239
>100% - 140%	-	-
<b>Total</b>	<b>2,073</b>	<b>576</b>

Risk weight band	As at 31 March 2018	
	Securitisation exposure subject to SFA	
	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=< 20%	125	19
>20% - 50%	69	14
>50% - 100%	-	-
>100% - 150%	-	-
>150% - 650%	-	-
>650% - <1250%	-	-
<b>Total</b>	<b>194</b>	<b>33</b>

Exposure Type	As at March 2018 <sup>1</sup>
	CET1 Deduction \$m
Residential Mortgages	2
Credit cards and other personal loans	33
Auto and equipment finance	6
Other	-
<b>Total</b>	<b>41</b>

<sup>1</sup> Includes Resecuritisation Exposures of \$2m.

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

Risk Weight Band	As at 31 March 2018		
	Gross Credit Exposure		
	ERBA Approach \$m	SFA Approach \$m	Total \$m
=< 20%			
>20% - 50%	-	-	-
>50% - 100%	-	-	-
>100% 650%	-	-	-
>650% =<1250%	-	-	-
CET1 deduction	-	-	-
<b>Total</b>	-	-	-

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

Risk weight band	As at 31 March 2017					
	Gross Credit Exposure			Risk Weighted Assets		
	Securitisation \$m	Resecuritisation \$m	Total \$m	Securitisation \$m	Resecuritisation \$m	Total \$m
=< 25%	1,664	6	1,670	120	1	121
>25%=<35%	8	-	8	3	-	3
>35%=<50%	6	-	6	3	-	3
>50%=<75%	80	-	80	60	-	60
>75%=<100%	9	1	10	9	1	10
>100%=<650%	57	-	57	244	-	244
1250%	-	-	-	-	-	-
CET1 deduction <sup>1</sup>	17	-	17	-	-	-
<b>Total</b>	<b>1,841</b>	<b>7</b>	<b>1,848</b>	<b>439</b>	<b>2</b>	<b>441</b>

<sup>1</sup> \$17 million of exposures and credit enhancements were deducted entirely from CET1, being \$7 million of subordinated notes in third party securitisations exposed to the first 10% of credit losses in the initial structure of those securitisations and \$10 million of other securitisation deductions.

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

Risk weight band	Gross Credit Exposures				
	As at 31 March 2017				
	IAA Approach \$m	RBA Approach \$m	SFA Approach \$m	Standardised Approach \$m	Total Exposures \$m
=< 25%	-	2	-	-	2
>25%=<35%	-	-	-	-	-
>35%=<50%	-	-	-	-	-
>50%=<75%	-	-	-	-	-
>75%=<100%	-	-	-	-	-
>100%=<650%	-	-	-	-	-
1250%	-	-	-	-	-
<b>Total</b>	-	<b>2</b>	-	-	<b>2</b>

## 9.0 Securitisation

### continued

#### 9.3.3 RWA by Risk Weight Band

The revised APS 120 have changed the applicable rating approach for calculation of RWA on Trading Book Securitisation Exposure. The new approach is not comparable to the previous calculation, hence comparative figures are not provided. Prior period figures under the previous approach is shown in a separate table.

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

Risk Weight Band	As at 31 March 2018		
	Risk Weight Assets		
	ERBA Approach \$m	SFA Approach \$m	Total \$m
=< 20%			
>20% - 50%		-	-
>50% - 100%		-	-
>100% - 650%		-	-
>650% =<1250%		-	-
CET1 deduction		-	-
<b>Total</b>		-	-

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

Risk weight band	Risk Weight Assets As at 31 March 2017			
	IAA Approach		RBA Approach	
	Securitisation \$m	Resecuritisation \$m	Securitisation \$m	Resecuritisation \$m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250% (Deduction)	-	-	-	-
<b>Total</b>	-	-	-	-

Risk weight band	Risk Weight Assets As at 31 March 2017			
	SFA Approach		Standardised Approach	
	Securitisation \$m	Resecuritisation \$m	Securitisation \$m	Resecuritisation \$m
=< 25%	-	-	-	-
>25%=<35%	-	-	-	-
>35%=<50%	-	-	-	-
>50%=<75%	-	-	-	-
>75%=<100%	-	-	-	-
>100%=<650%	-	-	-	-
1250% (Deduction)	-	-	-	-
<b>Total</b>	-	-	-	-

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### 9.3.4 Resecuritisation Exposure

#### APS 330 Table 12(n) and (w)

<b>Exposure Type</b>	<b>As at 31 March 2018 Gross Credit Exposure<sup>1</sup> \$m</b>	<b>As at 31 March 2017 Gross Credit Exposure \$m</b>
<b>Banking book</b>		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	2	7
<i>Exposure to Guarantors by ratings:</i>	-	-
<b>Total banking book</b>	<b>2</b>	<b>7</b>
<b>Trading book</b>		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	-	-
<i>Exposures to Guarantors by ratings:</i>	-	-
<b>Total trading book</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Exposures deducted from CET1 capital.

## 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 2018 is \$3,712 million. The CVA capital requirement is shown in the table below.

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
<b>CVA capital treatment</b>		
Total CVA capital charge (standardised formula)	297	197
Total CVA RWA <sup>1</sup>	3,712	2,457

<sup>1</sup> Change in Credit Valuation Adjustment RWA is primarily aligned with OTC derivatives exposure combined with credit quality of the derivative counterparties.

## 11.0 Exposures to Central Counterparties

### 11.1 Exposures to Central Counterparties

Under Basel III, and in accordance with APS 112 Capital Adequacy: Standardised Approach to Credit ADI's are required to hold capital against exposures arising from trades cleared by central counterparties. This includes outstanding trade exposures, collateral placed with the clearing house (which is included in the definition of trade exposures), and default fund contributions.

The RWA on exposures arising from cleared trades as at 31 March 2018 is \$1,274 million. Details of the components of these exposures are shown in the tables below.

	As at 31 March 2018		
	Trade Exposure \$m	Prefunded Default Fund Contribution \$m	RWA \$m
<b>Central counterparty trade exposure</b>			
Exposures to qualifying central counterparty	4,252	263	591
Exposures to non-qualifying central counterparty	-	-	-
Bilateral exposures from cleared trades <sup>1</sup>	1,052	-	683
<b>Total central counterparty exposures</b>	<b>5,304</b>	<b>263</b>	<b>1,274</b>

<sup>1</sup> This represents exposure to clients arising from the provision of clearing services and broker exposures subject to bilateral treatment.

	As at 31 March 2017		
	Trade Exposure \$m	Prefunded Default Fund Contribution \$m	RWA \$m
<b>Central counterparty trade exposure</b>			
Exposures to qualifying central counterparty	4,317	209	632
Exposures to non-qualifying central counterparty	-	-	-
Bilateral exposures from cleared trades <sup>1</sup>	1,923	-	600
<b>Total central counterparty exposures</b>	<b>6,240</b>	<b>209</b>	<b>1,232</b>

<sup>1</sup> This represents exposure to clients arising from the provision of clearing services and broker exposures subject to bilateral treatment.



## 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
- **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 volatilities 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
- **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) stress scenarios. 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.

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

VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 5,000 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

APRA has approved the use of Macquarie's internal model to calculate regulatory capital for market risk under APS116.

The internal model calculation 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 standard 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 \$3,303 million as at 31 March 2018 (31 March 2017: \$3,958 million).

There were 2 hypothetical and 2 actual trading losses that exceeded the 1-day 99% VaR calculated for the 12 months ended 31 March 2018. 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(f)

	For the 12 months to 31 March 2018				For the 12 months to 31 March 2017			
	VaR over the current reporting period				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	22	41	9	40	21	54	10	13
Equities <sup>1</sup>	12	18	7	10	17	24	9	18
Foreign Exchange	4	8	1	4	6	20	1	5
Interest Rates	8	12	6	6	12	18	8	8
Aggregate	23	42	13	41	26	59	14	19

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

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

APS 330 Table 14(f)

	For the 12 months to 31 March 2018				For the 12 months to 31 March 2017			
	VaR over the current reporting period				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	41	61	24	38	44	64	20	42
Equities <sup>1</sup>	36	55	12	18	48	65	27	52
Foreign Exchange	9	28	1	5	12	56	1	6
Interest Rates	35	44	26	27	30	37	24	28
Aggregate	51	76	19	38	61	88	41	56

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

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### 12.2.3 Debt Security Specific Risk Figures

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

#### APS 330 Table 13(b)

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
Debt specific risk	43	45

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 (IRRBB)

Interest rate exposures, where possible, are transferred into the trading books of Commodities and Global 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 for each currency in accordance with APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs). Macquarie's internal model sums the change in economic value arising from the following risk categories:

- Repricing & yield curve (parallel and non-parallel moves);
- Basis and optionality risks (breakdowns in assumptions used for hedging); and
- Embedded gains and losses (difference between the fair-value and book-value arising from past interest rate movements).

The IRRBB RWA as at 31 March 2018\* is \$753 million (31 March 2017: \$82 million).

\*Includes model changes to include basis and optionality risk for the March 2018 number.

# 12.0 Market Risk

## continued

### APS 330 Table 17(b)

	As at 31 March 2018 Change in economic value \$m	As at 31 March 2017 Change in economic value \$m
Stress testing: interest rate shock applied		
<b>AUD</b>		
200 basis point parallel increase	(28.0)	(39.1)
200 basis point parallel decrease	27.4	41.3
<b>CAD</b>		
200 basis point parallel increase	-	(3.1)
200 basis point parallel decrease	-	1.9
<b>EUR</b>		
200 basis point parallel increase	3.2	3.9
200 basis point parallel decrease	(2.6)	2.9
<b>GBP</b>		
200 basis point parallel increase	(4.3)	(1.7)
200 basis point parallel decrease	5.1	3.8
<b>USD</b>		
200 basis point parallel increase	(25.6)	(10.1)
200 basis point parallel decrease	27.8	16.9

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

	As at 31 March 2018 \$m	As at 31 March 2017 \$m
<b>IRRBB regulatory capital requirement – AUD</b>	<b>60.2</b>	<b>6.6</b>

## 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;
- property equity, including property trusts and direct property equity investments; and
- 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 4. 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; and
- investments in the resources sector.

### 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
- held for sale (HFS) measured at the lower of the carrying amount and fair value less costs to sell.

In addition to equity investment positions in the Banking Book, Macquarie has equity investments held at Fair Value through Profit and Loss, which are generally 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 (joint ventures). 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, and the share of its post-acquisition movements in reserves in Macquarie's Consolidated Statement of Comprehensive Income. 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. Impairment losses recognised in the income statement for investments in associates are subsequently reversed through the income statement if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

#### 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, associates and 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. Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale. Assets classified as HFS investments are measured at the lower of their carrying amount and fair value less costs to sell. These assets are not depreciated.

## 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)

Equity investments	As at 31 March 2018		As at 31 March 2017	
	Carrying value <sup>2</sup> \$m	Fair value <sup>3</sup> \$m	Carrying value <sup>2</sup> \$m	Fair value <sup>3</sup> \$m
Value of listed (publicly traded) equities <sup>1</sup>	18	18	56	47
Value of unlisted (privately held) equities <sup>1</sup>	846	846	777	777
<b>Total</b>	<b>864</b>	<b>864</b>	<b>833</b>	<b>824</b>

<sup>1</sup> At MBL accounting consolidated group purposes.

<sup>2</sup> Net of any impairment charges recognised

<sup>3</sup> Fair value is:

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

#### 13.3 Capital Requirements Arising from Equity Risks

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

##### APS 330 Table 16(f)

Deduction amount	As at 31 March 2018 \$m	As at 31 March 2017 \$m
Equity investments <sup>1</sup>	864	833

<sup>1</sup> At Level 2 regulatory group.

#### 13.4 Gains and Losses on Equity Investments

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

Gains / (losses) on equity investments	As at 31 March 2018 \$m	As at 31 March 2017 \$m
Cumulative realised gains in 12 months to the period end <sup>1</sup>	58	153
Total unrealised gains/(losses) <sup>2</sup>	5	106
Total unrealised gains/(losses) included in Tier 1	5	106

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

<sup>2</sup> 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 99.9<sup>th</sup> 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.

### 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 2018 is \$9,960 million (31 March 2017: \$9,979 million).



## 15.0 Leverage Ratio Disclosures

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 acts as a supplementary measure to create a back-stop for the risk-based capital requirements. As of March 2018, Basel III APRA leverage ratio is a disclosure requirement and APRA has not proposed a minimum leverage ratio requirement.

Macquarie Level 2 regulatory group's March 2018 APRA leverage ratio has decreased by 0.1% from September 2017 APRA leverage ratio of 6.1% due to profit for the period offset by payment of an interim dividend and increased leverage exposures.

### Summary leverage ratio

Capital and total exposures	31 March 2018	31 December 2017	30 September 2017	30 June 2017
Tier 1 Capital	11,720	11,306	11,518	11,310
Total exposures	194,668	196,577	190,150	191,891
<b>Leverage ratio</b>				
Macquarie Level 2 regulatory group Leverage ratio	6.0%	5.8%	6.1%	5.9%

### 15.1 Leverage Ratio Disclosure Template

#### APS 330 Table 18

Item	As at 31 March 2018
<b>On-balance sheet exposures</b>	
	<b>\$m</b>
1 On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	126,906
2 (Asset amounts deducted in determining Tier 1 capital)	(1,989)
3 <b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)</b>	<b>124,917</b>
<b>Derivative exposures</b>	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	9,457
5 Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	17,941
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)	(1,312)
8 (Exempted central counterparty (CCP) leg of client-cleared trade exposures)	(6,506)
9 Adjusted effective notional amount of written credit derivatives	2,421
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(838)
11 <b>Total derivative exposures (sum of rows 4 to 10)</b>	<b>21,163</b>
<b>SFT exposures</b>	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	32,568
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 CCR exposure for SFT assets	1,650
15 Agent transaction exposures	-
16 <b>Total SFT exposures (sum of rows 12 to 15)</b>	<b>34,218</b>
<b>Other off-balance sheet exposures</b>	
17 Off-balance sheet exposure at gross notional amount	17,290
18 (Adjustments for conversion to credit equivalent amounts)	(2,920)
19 <b>Other off-balance sheet exposures (sum of rows 17 and 18)</b>	<b>14,370</b>
<b>Capital and total exposures</b>	
20 <b>Tier 1 Capital</b>	<b>11,720</b>
21 <b>Total exposures (sum of rows 3, 11, 16 and 19)</b>	<b>194,668</b>
<b>Leverage ratio</b>	
22 <b>Leverage ratio</b>	<b>6.0%</b>

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## 15.2 Summary Comparison of Accounting Assets versus Leverage Ratio Exposure Measure

APS 330 Table 19

<b>Item</b>	<b>As at 31 March 2018 \$m</b>
1 Total consolidated assets as per published financial report	173,218
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(1,064)
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	8,483
5 Adjustment for SFTs (i.e. repos and similar secured lending)	1,650
6 Adjustment for off-balance sheet exposures (i.e. Conversion to credit equivalent amounts of off-balance sheet exposures)	14,370
7 Other adjustments	(1,989)
8 <b>Leverage ratio exposure</b>	<b>194,668</b>

# 16.0 Liquidity Coverage Ratio Disclosures

## Liquidity Coverage Ratio disclosure template APS 330 Table 20

	For the 3 months to 31 March 2018		For the 3 months to 31 December 2017	
	Total unweighted value (average) \$m	Total weighted value (average) \$m	Total unweighted value (average) \$m	Total weighted value (average) \$m
<b>Liquidity Coverage Ratio disclosure template</b>				
Liquid assets, of which:				
1	*	11,446	*	13,818
2	*	7,276	*	4,560
3	*	-	*	-
<b>Cash outflows</b>				
4				
4				
5	34,240	3,218	34,753	3,307
5	12,371	619	12,159	608
6	21,869	2,599	22,594	2,699
7	15,844	10,862	15,211	10,121
8				
8	4,512	1,120	4,868	1,209
9	8,167	6,577	6,880	5,449
10	3,165	3,165	3,463	3,463
11	*	1,019	*	1,681
12	20,196	9,922	18,663	9,103
13				
13	8,536	8,536	7,819	7,819
14	361	361	295	295
15	11,299	1,025	10,549	989
16	14,244	14,192	14,412	14,354
17	6,458	357	7,851	428
18	*	39,570	*	38,994
<b>Cash Inflows</b>				
19	24,747	7,495	23,749	8,549
20	3,841	3,408	3,715	3,286
21	17,095	17,095	15,154	15,154
22	45,683	27,998	42,618	26,989
23	*	18,722	*	18,378
24	*	11,572	*	12,005
25	*	162%	*	153%

\* Undisclosed

<sup>1</sup> The LCR for the 3 months to 31 March 2018 is calculated from 62 daily LCR observations (3 months to 31 December 2017 was calculated from 61 daily LCR observations).

### 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 2018 was 162% (based on 62 daily observations).

Macquarie sets internal management and Board-approved minimum limits for the LCR above the regulatory minimum level and monitors 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 Macquarie name-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 2018, Macquarie's HQLA portfolio was comprised of qualifying AUD and non-AUD HQLA 1, qualifying non-AUD HQLA 2, as well as AUD CLF eligible collateral.

Macquarie's CLF allocation for calendar year 2018 is \$7,700 million, which is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Note the disclosed balance of \$7,276 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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- 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.
  - Difference in implementation of Basel III framework i.e. APRA has introduced stricter requirements (APRA superequivalence).

# Appendix 1 Regulatory Capital Reconciliation

## 1.1 Common Disclosures Template

The capital disclosures detailed in the template below represents Basel III common disclosure requirements. These tables should be read in conjunction with section 1.2 Regulatory Balance sheet and section 1.3 Reconciliation between common disclosures template and the Regulatory Balance Sheet.

		As at 31 March 2018 \$m	Table Reference
<b>Common Equity Tier 1 capital: instruments and reserves \$m</b>			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	9,537	Table f
2	Retained earnings	2,647	
3	Accumulated other comprehensive income (and other reserves)	478	
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	-	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	12,662	
<b>Common Equity Tier 1 capital : regulatory adjustments</b>			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	40	Table b
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	174	Table b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	65	Table a
11	Cash-flow hedge reserve	(27)	
12	Shortfall of provisions to expected losses	401	
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	39	
15	Defined benefit superannuation fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	Table c
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	Table c
20	Mortgage service rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	Table a
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the ordinary shares of financial entities	-	Table c
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	Table a
<b>APRA Specific Regulatory Adjustments</b>			
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	1,842	
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	318	Table c
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	76	Table a
26f	of which: capitalised expenses	500	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	883	Table c
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	65	

# Appendix 1 Regulatory Capital Reconciliation

## continued

	As at 31 March 2018 \$m	Table Reference
<b>Common Equity Tier 1 capital: instruments and reserves \$m</b>		
27	-	
	-	
28	2,534	
29	10,128	
<b>Additional Tier 1 Capital: instruments</b>		
30	1,406	
31	-	
32	1,406	
33	186	
34	-	
35	-	
36	1,592	Table d
<b>Additional Tier 1 Capital: Regulatory adjustments</b>		
37	-	
38	-	
39	-	
40	-	
41	-	
41a	-	
41b	-	
41c	-	
42	-	
43	-	
44	1,592	
45	11,720	
<b>Tier 2 Capital: instruments and provisions</b>		
46	976	Table e
47	689	Table e
48	-	
49	-	
50	32	
51	1,697	
<b>Tier 2 Capital: regulatory adjustments</b>		
52	-	
53	-	
54	-	
55	-	
56	-	
56a	-	
56b	-	

		As at 31 March 2018 \$m	Table Reference
56c	<i>of which: other national specific regulatory adjustments not reported in rows 56a and 56b</i>	-	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58	<b>Tier 2 capital (T2)</b>	1,697	
59	<b>Total capital (TC=T1+T2)</b>	13,417	
60	<b>Total risk-weighted assets based on APRA standards</b>	91,730	
<b>Capital ratios and buffers</b>			
61	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	11.0%	
62	<b>Tier 1 (as a percentage of risk-weighted assets)</b>	12.8%	
63	<b>Total capital (as a percentage of risk-weighted assets)</b>	14.6%	
64	<b>Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 2.5% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)</b>	7.0%	
65	<i>of which: capital conservation buffer requirement</i>	2.5%	
66	<i>of which: ADI-specific countercyclical buffer requirements</i>	0.0% <sup>1</sup>	
67	<i>of which: G-SIB buffer requirement (not applicable)</i>	N/A	
68	<b>Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)</b>	11.0%	
<b>National minima (if different from Basel III)</b>			
69	<i>National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)</i>	N/A	
70	<i>National Tier 1 minimum ratio (if different from Basel III minimum)</i>	N/A	
71	<i>National total capital minimum ratio (if different from Basel III minimum)</i>	N/A	
<b>Amount below thresholds for deductions (not risk-weighted)</b>			
72	<i>Non-significant investments in the capital of other financial entities</i>	78	Table c
73	<i>Significant investments in the ordinary shares of financial entities</i>	240	Table c
74	<i>Mortgage servicing rights (net of related tax liability)</i>	N/A	
75	<i>Deferred tax assets arising from temporary differences (net of related tax liability)</i>	76	Table a
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	<i>Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)</i>	32	
77	<i>Cap on inclusion of provisions in Tier 2 under standardised approach</i>	139	
78	<i>Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)</i>	-	
79	<i>Cap for inclusion of provisions in Tier 2 under internal ratings-based approach</i>	396	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	N/A	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	N/A	
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	186	
83	<i>Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)</i>	214	
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	689	
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	1,109	

<sup>1</sup> At 31 March 2018, the countercyclical capital buffer requirement for Macquarie Level 2 regulatory group is less than 0.01%.



# Appendix 1 Regulatory Capital Reconciliation

## continued

### 1.2 Regulatory Balance Sheet as at 31 March 2018

	Macquarie Bank Group Consolidated <sup>1</sup> \$m	Adjustment <sup>2</sup> \$m	Level 2 Regulatory Balance Sheet \$m	Template/ Reconciliation Table Reference
<b>Assets</b>				
Receivables from financial institutions	36,629	(45)	36,584	
Trading portfolio assets	14,894	-	14,894	
Derivative assets	12,695	(14)	12,681	
Investment securities available for sale	5,322	(31)	5,291	
Other assets	9,287	(1,313)	7,974	
Loan assets held at amortised cost	80,143	(58)	80,085	
Other financial assets at fair value through profit or loss	707	-	707	
Due from related body corporate entities	1,383	644	2,027	
Property, plant and equipment	11,074	(575)	10,499	
Interests in associates and joint ventures accounted for using the equity method	727	-	727	
Intangible assets <sup>3</sup>	214	-	214	Table b
Investments in regulatory non-consolidated subsidiaries	-	330	330	Table c (Footnote 2)
Deferred tax assets	143	(2)	141	Table a
<b>Total Assets</b>	<b>173,218</b>	<b>(1,064)</b>	<b>172,154</b>	
<b>Liabilities</b>				
Trading portfolio liabilities	7,938	-	7,938	
Derivative liabilities	11,788	(61)	11,727	
Deposits	59,379	(1)	59,378	
Other liabilities	8,845	(1,498)	7,347	
Payables to financial institutions	11,653	(28)	11,625	
Due to related body corporate entities	13,993	678	14,671	
Debt issued at amortised cost	39,685	(118)	39,567	
Other financial liabilities at fair value through profit or loss	1,992	-	1,992	
Deferred tax liabilities	586	6	592	
<b>Total liabilities excluding loan capital</b>	<b>155,859</b>	<b>(1,022)</b>	<b>154,837</b>	
<b>Loan capital</b>	<b>4,256</b>	<b>-</b>	<b>4,256</b>	Table d
<b>Total liabilities</b>	<b>160,115</b>	<b>(1,022)</b>	<b>159,093</b>	
<b>Net Assets</b>	<b>13,103</b>	<b>(42)</b>	<b>13,061</b>	
<b>Equity</b>				
Contributed equity	9,928	-	9,928	Table f
Reserves	477	1	478	Row 3
Retained earnings	2,686	(39)	2,647	Row 2
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	13,091	(38)	13,053	
<b>Non-controlling Interests</b>	<b>12</b>	<b>(4)</b>	<b>8</b>	Table g
<b>Total equity</b>	<b>13,103</b>	<b>(42)</b>	<b>13,061</b>	

<sup>1</sup> As per Macquarie Bank Limited financial report as at 31 March 2018.

<sup>2</sup> Reflects the deconsolidation of certain subsidiaries for APRA reporting purposes. The subsidiaries which are deconsolidated for regulatory purposes include mortgage and leasing special purpose vehicles (SPV) for which Macquarie has made Para 31 election as per new APS120, and entities conducting insurance, funds management and non-financial operations. Asset and Liabilities of mortgage and leasing special purpose vehicles (SPV) where Macquarie has not made Para 31 election are included in the Level 2 regulatory group.

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

### 1.3 Reconciliation between Common Disclosures Template and Level 2 Regulatory Balance Sheet

Table a	31 March 2018 \$m	Template Reference
<b>Deferred Tax Assets</b>		
Total Deferred Tax Assets per Level 2 Regulatory Balance Sheet	141	
Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(65)	Row 10
Less: Deferred tax assets (temporary differences) - Amounts below prescribed threshold	(76)	Row 26e, 75
<b>Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold</b>	-	<b>Row 21 / 25</b>

Table b	31 March 2018 \$m	Template Reference
<b>Intangible Assets</b>		
Total Intangible Assets as per Level 2 Regulatory Balance Sheet	214	
Less: capitalised software and other intangibles	(111)	Row 9
Less: intangible component of deconsolidated subsidiaries	(63)	Row 9
<b>Total per Common Disclosure Template – Goodwill</b>	<b>40</b>	<b>Row 8</b>

Table c	31 March 2018 \$m	Template Reference
<b>Equity Investments</b>		
Significant investment in financial entities <sup>1,2</sup>	240	Row 73
Non-significant investment in financial entities <sup>1</sup>	78	Row 72
Total Investments in financial institutions	318	Row 26d
Investment in commercial entities <sup>1,2</sup>	883	Row 26g
Total Equity Investments before applying prescribed threshold	1,201	
Less: amounts risk weighted under Harmonised Basel III guidelines	(1,201)	
<b>Total per Common Disclosure Template – Equity Investments</b>	<b>-</b>	<b>Row 18, 19, 23</b>

Table d	31 March 2018 \$m	Template Reference
<b>Additional Tier 1 Capital</b>		
Total Loan Capital per Level 2 Regulatory Balance Sheet	4,256	
Less: Accrued interest	(4)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital <sup>3</sup>	13	Included in Row 26f
Less: Tier 2 capital instruments reported in Table e	(2,859)	Table e
Additional Tier 1 Capital (MACS and BCN)	1,406	
Add: Other Equity Instruments (MIS) included in contributed equity	400	Table f
Less: Basel III transitional amortisation	(214)	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	<b>1,592</b>	<b>Row 36</b>

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

<sup>2</sup> Included in significant investment in financial entities is \$160 million of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is \$170 million of equity investments in regulatory non-consolidated subsidiaries.

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

# Appendix 1 Regulatory Capital Reconciliation

## continued

<b>Table d (continued)</b>	<b>31 March 2018 \$m</b>	<b>Template Reference</b>
<b>Additional Tier 1 Capital Instruments</b>		
Macquarie Income Securities	186	
Macquarie Bank Capital Notes	430	
Macquarie Additional Capital Securities	976	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	<b>1,592</b>	<b>Row 36</b>

<b>Table e</b>	<b>31 March 2018 \$m</b>	<b>Template Reference</b>
<b>Total Tier 2 Capital per Balance Sheet</b>		
Total Tier 2 Capital per Balance Sheet	2,859	Table d
Less: Fair value hedge adjustments <sup>1</sup>	(14)	
Less: Accrued Interest	(71)	
Less: Foreign Exchange Gain Included in Balance Sheet	(30)	
Less: Basel III transitional amortisation	(1,079)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>1,665</b>	<b>Row 46+47</b>

<b>Tier 2 Capital Instruments</b>		
Subordinated Debt - EUR600m – eligible for transition	(305)	
Subordinated Debt - USD1.0bn – eligible for transition	(384)	
Subordinated Debt - USD750m – fully qualified Tier 2 instruments	(976)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>(1,665)</b>	<b>Row 46+47</b>

<b>Table f</b>	<b>31 March 2018 \$m</b>	<b>Template Reference</b>
<b>Contributed Equity</b>		
Total Contributed Equity as per Level 2 Regulatory Balance Sheet	9,928	
Less: Additional tier 1 instruments (MIS) included in share capital	(400)	Table d
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	9	Included in Row 26f
<b>Total per Common Disclosure Template – Contributed Equity</b>	<b>9,537</b>	<b>Row 1</b>

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

<b>Table g</b>	<b>31 March 2018 \$m</b>	Template Reference
<b>Non Controlling Interests</b>		
Total Non Controlling Interests as per Level 2 Regulatory Balance Sheet	8	
Less: other non controlling interests not included in capital	(8)	
<b>Total per Common Disclosure Template – Non Controlling Interests</b>	<b>-</b>	<b>Row 5</b>

## Appendix 2 List of Entities Deconsolidated from the Level 1 and Level 2 Regulatory Group for APRA Reporting Purposes

31 March 2018	Total Assets <sup>1,2,3,4</sup>	Total Liabilities <sup>1,2,3,4</sup>
<b>Securitisation</b>		
PUMA Master Fund S-8	132	(132)
<b>Funds Management</b>		
Elise Nominees Pty Limited	-	-
Macquarie Alternative Assets Management Limited	29	(16)
Macquarie Asset Management Inc.	7	(4)
Macquarie Australia Securities Pty Limited	1	(1)
Macquarie Financial Products Management Limited	18	-
Macquarie Fonds GmbH	-	-
Macquarie Fondsmanagement GmbH	-	-
Macquarie Global Bond Fund	-	-
Macquarie Investment Management (NZ) Limited	-	-
Macquarie Investment Management Ltd	158	(21)
Macquarie Investment Services Limited	1	-
Macquarie Management GmbH	1	-
Macquarie Master Geared Growth Fund	-	-
Macquarie Master Small Companies Fund	4	(4)
Macquarie NRAS Trust	-	-
Macquarie Prism Pty Limited	2	-
Macquarie Private Capital Management Limited	-	-
Macquarie Private Portfolio Management Limited	-	-
Macquarie Securities Management Pty Limited	1	-
Macquarie Treuermögen GmbH	-	-
Macquarie Vermögenstreuhand GmbH	-	-
MIDF UK1 Guernsey GP Limited	2	(2)
MIDF UK1 LLP	-	-
MIDF UK1B Guernsey GP Limited	-	-
MGIDF Guernsey GP Limited	1	(1)
MIDF UK2 Guernsey GP Limited	-	-
Macquarie Private Debt Europe Limited	2	(1)
Southeast Apartment Holdings Inc	12	-
Macquarie Professional Series Global Equity Fund	1	(1)
<b>Non-Financial Operations</b>		
Advantage Funding Services LLC	-	-
Avenal Power Center, LLC	22	(10)
Arbor Village Property Owner LLC	44	(28)
Bella Holdings LLC	21	(8)
Bella Property Owner LLC	87	(61)
Capital Meters Limited	75	(59)
Cheeryble Developments Limited	37	(28)
CMC Railroad, Inc.	65	(22)
Comercializadora Energia de la Reforma S. de R.L. de C.V.	21	(16)
Corona Energy Limited	45	(12)
Corona Energy Retail 1 Limited	52	(32)

<b>31 March 2018</b>	<b>Total Assets<sup>1,2,3,4</sup></b>	<b>Total Liabilities<sup>1,2,3,4</sup></b>
Corona Energy Retail 2 Limited	73	(47)
Corona Energy Retail 3 Limited	6	-
Corona Energy Retail 4 Limited	166	(152)
Corona Energy Retail 5 Limited	-	(3)
Corona Gas Management Limited	3	(1)
East Inwood Arbor, LLC	50	(29)
Energetics Design & Build Limited	97	(83)
Energetics Electricity Limited	72	(55)
Energetics Gas Limited	57	(42)
Energetics Holdco Limited	117	(88)
Energetics Midco Limited	44	-
Energetics Topco Limited	47	(1)
Energetics Networked Energy Ltd.	84	(48)
Keba Energy LLC	-	-
Liberty Green Renewables Indiana, LLC	2	-
Macquarie Commodities (Singapore) PTE. Limited	2	-
Macquarie Agricultural Services Pty Limited	-	-
Macquarie Business Solutions Pty Limited	1	-
Macquarie Corona Energy Holdings Limited	21	(1)
Macquarie Farm Assets and Resources Management Pty Limited	10	-
Macquarie Rotorcraft Leasing, Inc.	1	(1)
Outplan Pty Limited	-	-
PT Macquarie Commodities Indonesia	1	(1)
PT MPM Indonesia	1	-
RESOURCE MARINE PTE. LIMITED	10	(3)
Shelby Energy Holdings, LLC	-	-
Sterling TC Holdings LLC	9	-
Sterling TC Property Owner LLC	68	(47)
Summerset Holdings LLC	109	(66)
Summerset Property Owner LLC	35	(17)
Integra Springs Property Owner LLC	61	(47)
Energetics Networks UK Limited	1	(1)
Energetics Asset Management UK Limited	2	(4)
Macquarie (Bermuda) Limited	26	(24)
NASU Energy Storage Limited	-	(1)
Property IQ PTY LIMITED	10	(5)
Macquarie Electronics USA INC	25	-
Property IQ Strata PTY Limited	1	-
ADL Software PTY Limited	1	(1)
Sonne Solar Limited	-	-
ION Energy PTE Limited	-	-
Northeast Property Owner INC.	55	-
Alchemy Telco Solutions Limited	5	-
<b>Insurance</b>		
Macquarie Life Limited	678	(646)

## Appendix 2 List of Entities Deconsolidated from the Level 1 and Level 2 Regulatory Group for APRA Reporting Purposes

continued

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- <sup>1</sup> These balances, along with any Australian GAAP adjustment where required, are included in Macquarie Bank Group's audited Australian GAAP financial report for the year ended 31 March 2018. The financial report 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.
- <sup>2</sup> The total assets and liabilities should not be aggregated as certain entities are holding companies for other entities in the table shown above.
- <sup>3</sup> Numbers are rounded to the nearest A\$ million. Asset balances are shown as positive and liability balances are shown as negative.
- <sup>4</sup> The assets and liabilities for deconsolidated subsidiaries includes receivable from and payable to related entities.

# 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 2018 and 31 March 2017 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 the Macquarie Group. Whilst subject to the remuneration framework determined by the Macquarie Group, the Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this disclosure document, for consistency, references are made to the Macquarie Group's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

The qualitative remuneration disclosures (sections 1 to 4) outline the remuneration framework consistent with the Macquarie Group's Remuneration Policy. Macquarie Group'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 2018 and 31 March 2017. 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 2018 and 31 March 2017 respectively:

Roles		Number of individuals	
		2018	2017
Senior managers	the MBL Executive Committee <sup>(1)</sup>	13 <sup>(3)</sup>	12
Material risk takers	Executive Directors who are MBL Designated Executive Directors <sup>(2)</sup>	26 <sup>(4)</sup>	31

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

(2) 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.

(3) During the year two senior managers resigned from Executive Committee with one being included as a material risk taker from that time.

(4) During the year one material risk taker was appointed to the Executive Committee and is included as a senior manager from that time.

## 1 Remuneration Governance

The MGL Board oversees Macquarie Group's remuneration framework. The MGL Board has a BRC whose objective is to assist the MGL Board and the Board of Macquarie Bank, a key operating subsidiary, with Macquarie Group's remuneration policies and practices.

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

Board Remuneration Committee members	
Michael Hawker	Chairman
Gary Banks	Member
Gordon Cairns	Member
Diane Grady	Member
Peter Warne	Member

The BRC members have the required experience and expertise in human resources, remuneration and risk that enable them to achieve effective governance of the Macquarie Group's remuneration framework. The BRC has a regular meeting cycle and it met seven times over the last financial year. Strict processes are in place to ensure that conflicts of interest are appropriately managed.



# Appendix 3 Annual Remuneration Disclosures

## continued

The BRC pays close attention to the design and the operation of remuneration practices for all of the Macquarie Group, not just for the most senior executives. The responsibilities of the BRC are outlined in its Charter, which is reviewed and approved annually by the MGL Board. Some of the responsibilities include:

- recommending to the Board the remuneration outcomes for all Executive KMP, Designated Executive Directors as well as other senior executives
- assessing the effectiveness of the *Remuneration Policy* to ensure compliance with legal and regulatory requirements, as well as to support the alignment of remuneration with prudent risk taking and professional conduct across the organisation
- recommending the *Remuneration Policy* to the Boards of Macquarie Group and Macquarie Bank for approval, and
- overseeing the process for the annual performance review of the CEOs' by the Macquarie Group and Macquarie Bank Boards.

The BRC has retained Pay Governance as its independent remuneration consultant, for the use of the MGL Board to obtain advice on the appropriateness of Macquarie Group's remuneration framework.

The only service that Pay Governance provides to the Macquarie Group is executive compensation consulting to the BRC. This year, Pay Governance provided information on global remuneration and regulatory trends, considered alignment with shareholder interests, compared individual remuneration for Executive KMP where relevant comparator company information was available and considered Macquarie Group's overall remuneration approach compared to comparator company organisations.

Board and Committee fees are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. An internal review of NEDs' remuneration was completed during the year. Following this review, the Boards determined that Board and Committee fees should remain unchanged.

## 2 Remuneration Design and Structure

During the year, the MGL Board and the BRC have reviewed the Macquarie Group's remuneration framework to ensure it continues to support its overarching objective of delivering superior company performance over both the short and long-term, while prudently managing risk and reinforcing the *Code of conduct* and the long-held foundations of the Macquarie Group's risk culture, the principles of *What We Stand For* – Opportunity, Accountability and Integrity.

The Macquarie Group has a longstanding and consistent approach to remuneration which has evolved over time. Our approach to remuneration is a partnership where profits are shared between our shareholders and our staff. No significant changes have been made to the Macquarie Group's remuneration structure for this year.

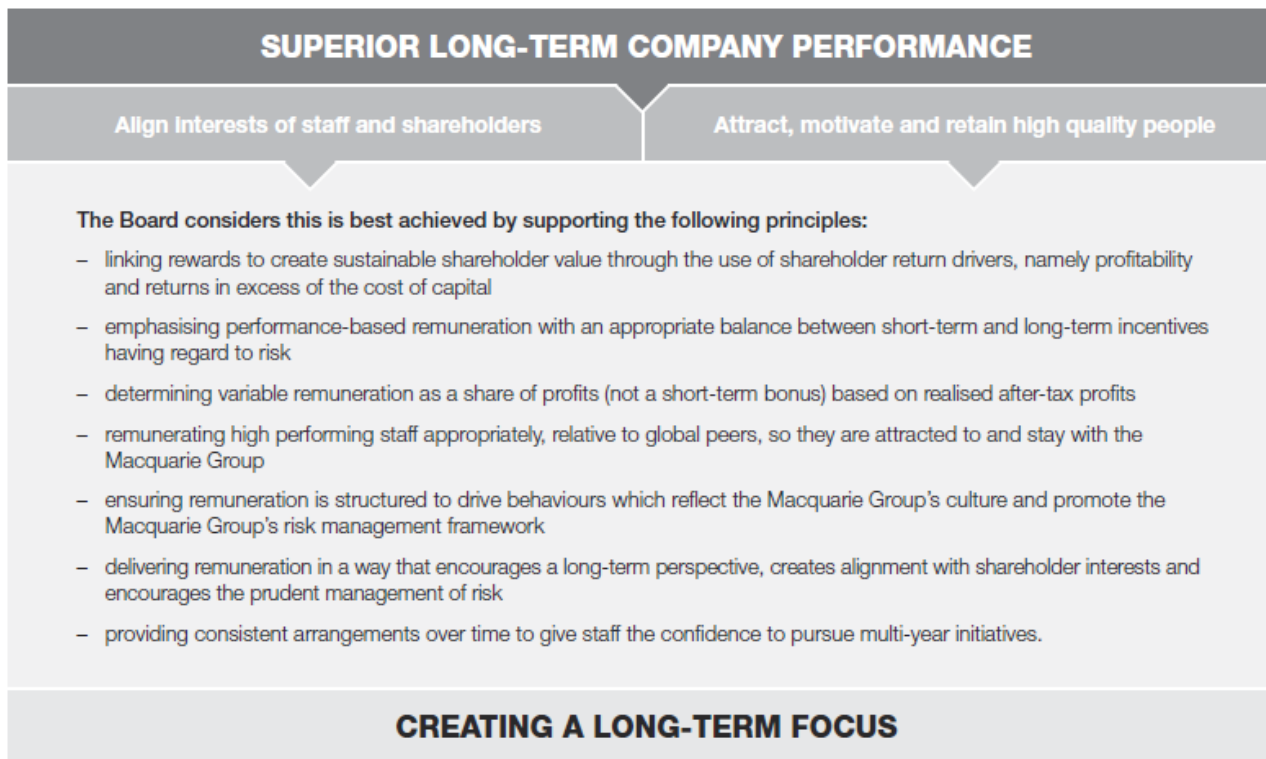
The Board believes this approach is integral to the Macquarie Group's sustained success and creates a strong alignment between staff and shareholders.

Our approach is characterised by:

- an emphasis on performance-based remuneration including consideration for the following factors: financial performance, risk management and compliance, business leadership, people leadership and professional conduct
- comparatively low fixed remuneration
- profit share based on realised after-tax profits
- significant retention and long deferral periods (for example, for the MGL CEO, 80% is retained, vesting over three to seven years). Including Performance Share Units (PSU), the effective deferral rate for the MGL CEO is 82% for the year.

### Overall remuneration objectives and principles

The Macquarie Group's remuneration framework 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 this objective, the Macquarie Group must attract, motivate and retain exceptional people, while aligning their interests with those of shareholders.



## Appendix 3 Annual Remuneration Disclosures

### continued

Macquarie Group's remuneration framework works as an integrated whole. An individual's remuneration comprises fixed remuneration, profit share and, for Executive committee members (our Executive KMP), PSUs.

FIXED REMUNERATION	
<b>Fixed</b>	<ul style="list-style-type: none"> <li>– comparatively low compared to similar roles in other organisations but sufficient to avoid inappropriate risk-taking</li> <li>– for risk and financial control staff, generally a higher proportion of total remuneration than for front office staff.</li> </ul>
PERFORMANCE BASED REMUNERATION	
<b>Profit share</b>	<ul style="list-style-type: none"> <li>– all permanent employees are eligible to participate</li> <li>– significant portion of profit share is retained (80% for the MGL CEO) with a long deferral period (three to seven years for Executive Committee members)</li> <li>– retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity to strengthen alignment with future performance</li> <li>– Malus provisions apply to certain senior employees</li> <li>– retained profit share is subject to forfeiture upon leaving the Macquarie Group except in limited circumstances (such as retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).</li> </ul>
<b>PSUs</b>	<ul style="list-style-type: none"> <li>– only awarded to Executive Committee members to drive company-wide performance</li> <li>– are a meaningful incentive but not the major element of total remuneration</li> <li>– vesting of PSUs is subject to achievement of performance hurdles measured equally against ROE relative to an international reference group (50%) and absolute EPS growth (50%) <ul style="list-style-type: none"> <li>– PSU awards vest in two equal tranches after three and four years</li> <li>– no retesting of hurdles</li> </ul> </li> <li>– an international reference group recognises the extent of the Macquarie Group's diversification and internationalisation.</li> <li>– Malus provisions apply from 2018</li> <li>– unvested PSUs are subject to forfeiture upon leaving the Macquarie Group except in limited circumstances (such as retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).</li> </ul>

The MGL Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments.

#### 2.1 Risk and Financial Control Personnel

The Board and management seek to ensure that remuneration for risk and financial control personnel, including the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Group General Counsel, is structured so that it does not compromise the independence of these personnel in carrying out their functions and is determined in a way that maintains Macquarie's robust risk management framework.

The proportion of fixed compensation for risk and financial control staff is generally higher than for other staff, with profit share allocations being less variable than those awarded to staff performing front office functions. The CRO, CFO and Group General Counsel are each responsible for reviewing the remuneration of all staff across Macquarie whose primary role is risk and financial control and for alerting the BRC to any pay discrepancies. Each of the CRO, CFO and General Counsel provide written confirmation to the BRC each year that remuneration for such staff has been determined in such a way that preserves the independence of the function and maintains Macquarie's robust risk management framework.

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### 3 Remuneration and Risk

#### Risk Culture

A sound risk culture has been integral to Macquarie's risk management framework since inception. Staff are made aware that Macquarie Group's *What We Stand For* principles of Opportunity, Accountability and Integrity must form the basis of all behaviours and actions. These behavioural expectations are outlined in the Board approved *Code of conduct*, which is actively promoted by Management and cascaded through the organisation.

The Board and the BRC take risk and behavioural matters very seriously. There are consistent and transparent practices in place for managing non-compliance with the Macquarie Group's policies.

#### Alignment of remuneration with prudent risk taking

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*.

The Macquarie Group's remuneration framework is characterised by significant retention and long deferral periods, which enable risk outcomes to be taken into account over a longer period. There are robust processes in place to ensure that risk, reputation and conduct related matters, as well as financial losses and impairments, and other breaches of the risk management framework are specifically considered when assessing performance and determining remuneration outcomes. These processes may result in downward adjustment to group and/or individual profit share allocations where appropriate.

To assist the Board/BRC:

- The Board receives regular reports to assist Board members in assessing the Macquarie Group's risk culture as well as through personal observation including visits to the Macquarie Group's overseas offices
- 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
- the General Counsel, in conjunction with HR, considers whether there are any incidents that should be brought to the attention of the BRC which might lead to a Malus determination and reports to the BRC at year end.

The BRC conducts a detailed review of all the material presented and uses this information when considering remuneration outcomes for relevant businesses and individuals.

#### Consequence Management

Macquarie Group operates a robust consequence management process whereby incidents, breaches of policy or regulation or conduct issues are managed and regularly reported to senior management. The Macquarie Group's Consequence Management Guideline applies whenever a breach of internal policy, including the *Code of conduct*, or regulatory requirement is identified. Consequences may include requirements to undergo further training, removal of delegated authorities or permissions, adjustment to performance-based remuneration, impact on promotion, formal warnings or termination.

In any given year, each of these different types of consequences may be imposed on individuals working for the Macquarie Group. The most serious consequences are formal warnings and terminations. Where an employee receives a formal warning, in most cases the discretionary component of their remuneration will be impacted. In the event an individual's employment is terminated on account of a compliance or conduct concern (or they resign), The Macquarie Group standard policy would apply, whereby retained and unvested remuneration is forfeited.

To assist the BRC:

- RMG and HR routinely provide information based on identified breaches of policies and regulatory rules to (amongst other purposes) ensure that appropriate consequence management is applied. RMG and HR data relating to employee conduct, including individual employee warnings, incidents and breaches, is collated from various sources and regularly reported to senior management.
- The Global Head of HR annually reports to the BRC on the outcomes from the consequence management process and confirms these matters have been considered in determining remuneration and promotion outcomes where appropriate.

# Appendix 3 Annual Remuneration Disclosures

## continued

### 4 Approach to determining remuneration outcomes

FIXED REMUNERATION	
Fixed	<ul style="list-style-type: none"> <li>– Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.</li> </ul>
PERFORMANCE-BASED REMUNERATION	
Profit share	<p>The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level:</p> <p><b>Allocation to business groups</b></p> <ul style="list-style-type: none"> <li>– Considers overall remuneration levels in the market in which each business operates</li> <li>– Reflects each business' contribution to company-wide profits taking into account capital and funding usage</li> <li>– For support groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability.</li> </ul> <p><b>Allocation to individuals</b></p> <ul style="list-style-type: none"> <li>– Considers individual remuneration levels in the market in which each business operates</li> <li>– Primarily based on business profits and individual contribution to profits for front office staff</li> <li>– Primarily based on contribution to high quality control functions for risk management and financial control staff</li> <li>– For other support staff, based on their contribution to delivering high quality services to support the businesses</li> <li>– Other factors considered include risk management and compliance, business leadership, people leadership and professional conduct</li> <li>– May be adjusted downwards based on an assessment of risk or conduct issues that have arisen during the year.</li> </ul> <p><b>Company-wide profit share pool</b></p> <ul style="list-style-type: none"> <li>– Is an aggregate of the bottom-up assessment conducted at the business and individual level which is compared to an internal formula based on Macquarie's after-tax profits and its earnings over and above the estimated cost of capital to ensure it is appropriate</li> <li>– The Chief Financial Officer (CFO) confirms that payment of the profit share pool would not result in elimination of capital surpluses</li> <li>– The Board retains discretion to determine the final amount of profit share allocated to reflect internal or external factors if deemed in the interests of the Macquarie Group and shareholders.</li> </ul>
PSUs	<ul style="list-style-type: none"> <li>– Pool determined with reference to profits over recent years</li> <li>– The Board retains discretion to award PSUs</li> <li>– Awards are made based on a fair value methodology</li> <li>– Individual allocations reflects role and complexity, and contribution to driving the collective performance of the Macquarie Group</li> <li>– PSUs are granted in August each year.</li> </ul>

#### 4.1 Standard profit share arrangements – retention levels, investment of retained profit share and vesting periods

The Macquarie Group retains a percentage of certain individuals' annual profit share allocation (retained profit share) which is invested in a combination of MGL ordinary shares under the MEREP and Macquarie-managed fund equity notionally invested under the Post-2009 Director's Profit Share (DPS) Plan<sup>(1)</sup>. Whilst they are employed, an individual's retained profit share vests and is released over a period that reflects the scope and nature of their role and responsibilities. Retention and vesting arrangements are determined by the BRC according to prevailing market conditions, having regard to regulatory and remuneration trends. For each year's allocation, once the vesting period has been determined it remains fixed for that allocation.

The following table summarises the standard retention and vesting arrangements applicable for FY2018

Role	Profit share retention (%)	Retained profit share investment		Vesting and release of profit share
		MEREP (MGL ordinary shares) %	Post-2009 DPS Plan (Macquarie-managed fund equity) %	
CEO Macquarie Group	80	90	10	One-fifth in each of years 3 – 7
CEO Macquarie Bank	60	90	10	
Executive Committee members with Funds responsibilities	70	50	50	
Other Executive Committee members	60	80 – 90	10 – 20	
Designated Executive Directors <sup>(2)</sup>	50 – 60	80 – 90	10 – 20	
Other Executive Directors	40 – 60	80 – 90	10 – 20	One-third in each of years 3 – 5
Executive Directors with Funds responsibilities	40 – 60	25 – 50	50 – 75	As above
Staff other than Executive Directors	25 – 60 <sup>(3)</sup>	100 <sup>(4)</sup>	0 <sup>(4)</sup>	One-third in each of years 2 – 4

The MGL Board's discretion to change remuneration arrangements, as noted above, includes changes to profit share retention levels provided that the retention percentage is at least 30% for Executive Directors.

In addition to the arrangements set out in the table above, different arrangements may apply in certain circumstances:

- Retention rates, vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example the EU, to ensure compliance with local regulatory requirements
- 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 staff with those of their clients.

<sup>(1)</sup> Both the MEREP and DPS Plan are fundamental tools in the Macquarie Group's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. 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 MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs).

The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts 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.

<sup>(2)</sup> Executive Directors who have a significant management or risk responsibility in the organisation.

<sup>(3)</sup> Above certain monetary thresholds.

<sup>(4)</sup> For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of Macquarie equity and Macquarie-managed fund equity.

## Appendix 3 Annual Remuneration Disclosures

### continued

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#### 4.2 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 onwards to certain senior employees if it determined 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 the Macquarie Group
- acted or failed to act in a way that contributed to the Macquarie Group, Macquarie Bank or any Operating Group within the Macquarie Group incurring:
  - significant reputational harm
  - a significant unexpected financial loss, impairment charge, cost or provision
- 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 certain jurisdictions to ensure compliance with local regulations. This includes, for example, staff in the EU who are required to comply with local regulatory requirements. These individuals are subject to additional Malus and clawback provisions under EU regulations.

The Macquarie Group 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.

#### 4.3 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 retirement from the Macquarie Group, redundancy, death, serious incapacitation, 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 Group businesses) or when an employee resigns to fulfil a public service 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 one executive due to the sale of the business, to which they provided services.

#### 4.3.1 Conditions of Early Release of Retained Profit Share to Departing Executive Directors

In addition to the Malus provisions set out in section 4.2, 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 of the Macquarie Group or otherwise participated in a business that competes with the Macquarie Group

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
<b>Time post-departure</b>	Six months	Six months to one year	One year to two years
<b>Unvested retained profit share released</b>	From all but the last two years of employment	From the second year prior to the end of employment	From the year prior to the end of employment
<b>Subject to</b>	No Malus Event as set out on the previous page or Post Employment Event as set out above	No Malus Event or Post Employment Event during the First Period, and	No Malus Event or Post Employment Event during the First Period, and
		No Malus Event or Post Employment Event a) above during Second Period	No Malus Event or Post Employment Event a) during the Second Period, and
			No Malus Event during the Third Period
<b>Where the release is by reason of retirement from the Macquarie Group</b>	As above	As above and in addition, the release is subject to no Post Employment Event b) during the Second Period	As above and in addition, the release is subject to no Post Employment Event b) during the Second and/or Third Period

As set out in the table above, the release provisions for retirement from the Macquarie Group were enhanced during FY2018, whereby the release of retention post termination at six months, one year and two years is subject to the Executive Director not having joined a competitor or otherwise participated in a business that competes with the Macquarie Group (Post Employment Event b).

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.

#### 4.4 Performance Share Units (PSUs)

Executive Committee members are the only group of staff eligible to receive PSUs which are subject to forward-looking performance hurdles and are determined with reference to the Macquarie Group's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive overall company-wide performance over the long-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<sup>(5)</sup> with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

<sup>(5)</sup> A DSU is a Deferred Share Unit and is one of the award types under the MEREP.



## Appendix 3 Annual Remuneration Disclosures

### continued

#### 4.4.1 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 market practice. No change has been made to the hurdles for FY2018.

	EPS CAGR hurdle	ROE hurdle
<b>Application</b>	50% of PSU award	50% of PSU award
<b>Performance measure</b>	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)	Average annual ROE over the vesting period (three to four years) relative to a reference group of global financial institutions <sup>(6)</sup>
<b>Hurdle</b>	Sliding scale applies: <ul style="list-style-type: none"> <li>– 50% becoming exercisable at EPS CAGR of 7.5%</li> <li>– 100% at EPS CAGR of 12%</li> </ul> For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.	Sliding scale applies: <ul style="list-style-type: none"> <li>– 50% becoming exercisable above the 50th percentile</li> <li>– 100% at the 75th percentile</li> </ul> For example, if ROE achievement was at the 60 <sup>th</sup> percentile, 70% of the relevant awards would become exercisable.

#### Rationale for hurdles

- ROE and EPS drive long-term company performance and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control.
- The approach is consistent with that advocated by APRA in not using TSR as a measure.
- Can be substantiated using information that is disclosed in audited financial statements.
- A sliding scale diversifies the risk of not achieving the hurdles and 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.
- Designed to 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.
- An international reference group recognises the extent of the Macquarie Group's diversification and internationalisation. At 31 March 2018, total international income represented approximately 67% of Macquarie Group's total income with approximately 54% of Macquarie Group's staff located outside Australia.

#### Forfeiture

- Malus provisions apply from 2018.
- The standard policy is that unvested PSUs will be forfeited upon termination.
- To ensure continued alignment with shareholders post termination, in the case of retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health, or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles.
- Should a change of control occur, the MGL Board or the BRC has discretion to determine how unvested PSUs should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.

#### Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

<sup>(6)</sup> The reference group for awards made from 2013 is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

#### 4.5 Other features of Macquarie's Remuneration Structure

<b>Minimum shareholding requirement</b>	Executive Directors are required to hold a relevant interest in MGL ordinary shares which have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy.
<b>Promotion Awards</b>	Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from \$A25,000 to \$A175,000 depending on the promotion level.
<b>Hedging</b>	The Macquarie Group 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 CEO:

<b>Length of contract</b>	Permanent open-ended.
<b>Remuneration review period</b>	1 April to 31 March annually.
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs.
<b>Termination of employment</b>	Requires no more than four weeks' notice <sup>(7)</sup> by Macquarie or the Executive Committee member (Post-employment restrictions apply).
<b>Post-employment restrictions</b>	Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination.

<sup>(7)</sup> Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by the Macquarie Group 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.

# Appendix 3 Annual Remuneration Disclosures

## continued

### 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 2018 and 31 March 2017. These tables are prepared on a different basis than those required by Australian Accounting Standards and the Corporations Act, as disclosed in Macquarie Bank's Annual Report.

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

#### 5.1 Total Value of Remuneration Awards for Senior Managers and Material Risk Takers<sup>(1)</sup>

The following table sets out the total value of remuneration awarded to senior managers and material risk takers in respect of their performance for the financial years ended 31 March 2018 and 31 March 2017 respectively. 12 senior managers (FY2017:12) and 25 material risk takers (FY2017: 25) received a variable remuneration award in respect of services to MBL in FY2018.

\$A'000	Senior managers				Material risk takers			
	Non-Deferred		Deferred		Non-Deferred		Deferred	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Fixed remuneration<sup>(2)</sup></b>								
Cash-based	5,566	6,085	-	-	18,345	20,398	-	-
Shares and share-linked instruments	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
<b>Variable remuneration<sup>(3)</sup></b>								
Cash-based	29,092	25,634	-	-	24,218	40,285	-	-
Shares and share-linked instruments <sup>(4)</sup>	-	-	61,426	56,134	2,741 <sup>(5)</sup>	3,466	27,542	34,706
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 2018 and 31 March 2017 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	
	2018	2017	2018	2017
<b>Outstanding deferred remuneration<sup>(6)</sup></b>				
Cash-based	-	-	-	-
Shares and share-linked instruments <sup>(7)</sup>	358,011	282,953	160,873	196,077
<b>Deferred remuneration vested during the financial year<sup>(8)</sup></b>	<b>71,818</b>	60,674	<b>39,731</b>	37,575
<b>Deferred remuneration adjustments during the financial year</b>				
Reductions due to ex post explicit adjustments <sup>(9)</sup>	-	(162)	-	-
Reductions due to ex post implicit adjustments	-	-	-	-

As set out below, no senior managers were awarded a guaranteed or sign-on award for the financial year ended 31 March 2018 (FY2017: Nil). No guarantee awards and no sign-on award were granted to material risk takers during FY2018 (FY2017: Nil). No payments associated with terminations were made to senior managers (FY2017: Nil). No (FY2017: one) termination payments were made to a material risk taker during FY2018.

\$A'000	Senior managers				Material risk takers			
	No. of individuals		Total amount		No. of individuals		Total amount	
	2018	2017	2018	2017	2018	2017	2018	2017
Termination payments <sup>(10)</sup>	-	-	-	-	-	1	-	96

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## Notes to the quantitative remuneration disclosures

- (1) Remuneration awarded in respect of FY2018 and FY2017 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
- (2) Fixed remuneration comprises current year salary, including superannuation and other cash allowances.
- (3) Variable remuneration awarded in respect of performance for FY2018 and FY2017 includes the total value of non-deferred and deferred components related to the FY2018 and FY2017 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 MGL ordinary 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 MGL ordinary shares in accordance with the Remuneration Code.
- (6) Value as at 31 March 2018 and 31 March 2017 of unvested deferred remuneration. For employees who were both a senior manager and a material risk taker during the year, the categorisation reflects the employee's position as at 31 March 2018.
- (7) Includes the value as at 31 March 2018 (for FY2018) and 31 March 2017 (for FY2017) of retained profit share invested in MGL ordinary 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 FY2018 has been calculated based on the 31 March 2018 share price of \$A102.90. For FY2017, the value of retained profit share invested in the MEREP has been calculated based on the 31 March 2017 share price of \$A90.20.
- (8) Value as at the date of vesting of deferred remuneration that vested during the financial years ended 31 March 2018 and 31 March 2017 for senior managers and material risk takers, including vesting for staff who terminated during FY2018. The value has been calculated based on the share price on the date of vesting which for FY2018 was in the range of \$A89.93 to \$A99.67 (FY2017: \$A67.00 to \$A83.51). For employees who were both a senior manager and a material risk taker during the year, the categorisation reflects the employee's position as at the date of vesting.
- (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) This amount reflects payments made in FY2018 and FY2017 associated with termination of employment with Macquarie Group in accordance with Macquarie Group 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 Group'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 Group policies, Executive Director remuneration arrangements and/or individual employment agreements.

## Appendix 4 List of APRA Quantitative Tables

APS 330 Table	Title	Section No
<b>Attachment A</b>	Common Disclosures Template	Appendix 1
<b>Attachment D</b>		
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	5.3 & 7.6
7 (g)	Provisions by Geographic Region	7.7
7 (h)	Movement in Provisions	7.9
7 (i)	Credit Risk Exposures by Measurement Approach	5.3 & 6.1
7 (j)	General Reserve for Credit Losses	7.8
8 (b)	Credit Risk Exposures by Risk Weight	6.2
9 (d)	Credit Risk Exposures by Risk Grade	6.3
9 (e)	Provisions by Counterparty Type	7.6
9 (f)	Analysis of Expected Credit Model Performance versus Actual Results	7.10
10 (b) & (c)	Exposures Mitigated by Eligible Collateral	8.2
11 (b)	Credit Equivalent Amounts for Counterparty Exposures	8.3
11 (c)	Notional Amount of Credit Derivatives	8.3
12 (g) & (o)	Originating ADI Securitisation Exposures	9.2.1
12 (h)	Performance of Assets Securitised	9.2.2
12 (i) & (p)	Summary of Outstanding Exposures Intended to be Securitised	9.2.3
12 (j), (q) & (r)	Securitisation Activity	9.2.4
12 (k) & (s)	Exposure by Type of Asset	9.3.1
12 (l)	Exposure by Risk Weight Band – Banking Book	9.3.2
12 (t)	Exposure by Risk Weight Band – Trading Book	9.3.2
12 (u)	RWA by Risk Weight Band – Trading Book	9.3.3
12 (n) & (w)	Re-securitisation Exposure	9.3.4
13 (b)	Debt Security Specific Risk Figures	12.2.3
14 (f)	Value at Risk Figures	12.2.1
14 (f)	Stressed Value at Risk Figures	12.2.2
16 (b) & (c)	Equity Investments	13.2
16 (d) & (e)	Gains and Losses on Equity Investments	13.4
16 (f)	Capital Requirements Arising from Equity Risks	13.3
17 (b)	Interest Rate Risk in the Banking Book	12.2.4
<b>Attachment E</b>		
18	Leverage Ratio Disclosure Template	15.1
19	Summary Comparison of Accounting Assets versus Leverage Ratio Exposure Measure	15.2
<b>Attachment F</b>		
20	Liquidity Coverage Ratio Disclosure Template	16.0
<b>Attachment G</b>		
21	Annual Remuneration Disclosure	Appendix 3

## Appendix 5 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds;</li> <li>– are freely available to absorb losses;</li> <li>– rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and</li> <li>– provide for fully discretionary capital distributions.</li> </ul>
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALA	Alternative Liquid Assets
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
ADI Prudential Standards (APS)	APRA's ADI Prudential Standards. For more information refer to APRA web site.
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 associates 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 and 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. 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.
Bank Group	MBL and its subsidiaries.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113- Capital Adequacy: Internal Ratings-based Approach to Credit risk.
BAC	Board Audit Committee.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BFS	Banking and Financial Services Group
The Board, Macquarie Bank Board	The Board of Voting Directors of Macquarie Bank Limited
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	Compound Annual Growth Rate
CEO	Managing Director and Chief Executive Officer
CET1	Common Equity Tier 1 capital
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer
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.

## Appendix 5 Glossary of Terms

### continued

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: <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds,</li> <li>– are freely available to absorb losses,</li> <li>– do not impose any unavoidable servicing charge against earnings; and</li> <li>– rank behind the claims of depositors and other creditors in the event of winding up.</li> </ul> Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
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.
Directors' Profit Share (DPS)	The 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. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
DSU	Deferred Share Unit issued under the MEREP
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.
ECS	On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of Exchangeable Capital Securities (ECS). ECS were subordinated, unsecured notes that paid discretionary, non-cumulative, semi-annual floating rate cash distributions. ECS were bought back on 20 June 2017.
EL	Expected Loss, which is a function of EAD, 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.
ERBA	External Rating Based Approach
Executive Key Management Personnel (Executive KMP)	Members of Executive Committee of MBL
Executive Voting Director	An Executive Board Member
FCS	Financial Claims Scheme
FICO	Fair Isaac Corporation
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk)
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.
GRCC	Group Risk and Compliance Committee
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 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 but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
LVRs	Loan to Value Ratio
Macquarie	Level 2 regulatory group
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.
Macquarie Group	MGL and its subsidiaries
Malus	The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused the Macquarie Group significant reputational harm, caused a significant or unexpected financial loss or caused the Macquarie Group to make a material financial restatement.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or each fifth anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (with the acquirer gaining control of MGL or MBL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAM	Macquarie Asset Management Group
MBL	Macquarie Bank Limited ABN 46 008 583 542
MBL Consolidated Group	MBL and its subsidiaries
MEREP	Macquarie Group Employee Retained Equity Plan
MFHPL	Macquarie Financial Holdings Pty Limited
MGL	Macquarie Group Limited ABN 94 122 169 279
NCO	Net Cash Outflows
Non-Bank Group	MGL, MFHPL and its subsidiaries
NPAT	Net Profit after Tax
Operating Group	The Operating Groups consist of MAM, CAF, CGM, BFS and Macquarie Capital
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.
Post-2009 DPS	Retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity.
PSU	Performance Share Unit issued under the MEREP
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.
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	Return on Ordinary Equity
RSU	Restricted Share Unit issued under the MEREP
RMBS	Residential Mortgage Backed Securities
Senior Executive	Macquarie Group's combined Division Director and Executive Director population.
Senior Management	Members of Macquarie Group's Executive Committee and Executive Directors who have significant management or risk responsibility in the organisation.
SFA	Supervisory Formula Approach
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.



## Appendix 5 Glossary of Terms

### continued

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 report and may be included in Tier 2 Capital.
Tier 1 Capital	Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions 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.
TSR	Total Shareholder Return
VAR	Value-at-Risk