MACQUARIE BANK LIMITED

PILLAR 3 DISCLOSURES SEPTEMBER 2008

MACQUARIE BANK

Contents

Introduction

Introduction

Introduction

Macquarie Bank Limited (MBL) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). In December 2007, Macquarie received accreditation from APRA to adopt the Foundation Internal Ratings Based Approach (FIRB) for the calculation of credit risk capital and the Advanced Measurement Approach (AMA) for operational risk under the Basel II regulatory capital framework. In addition, Macquarie received accreditation from APRA in September 2008 to use an internal model to calculate Interest Rate Risk in the Banking Book (IRRBB).

The requirements of Basel II are contained within three broad sections or 'pillars'.

Pillar 1 outlines the methodologies that must be used to determine the minimum regulatory capital requirements. The Risk Weighted Assets (RWAs) disclosed in this report in conjunction with the Tier 1 and Total Capital ratios have been calculated in accordance with those regulations.

Pillar 2 refers to the Supervisory Review Process which will assess the ADI's Internal Capital Adequacy Assessment Process (ICAAP) to ensure that all relevant risks have been identified and that sufficient capital has been allocated to their coverage.

Pillar 3 lays out the minimum level of both quantitative and qualitative disclosures that an ADI must make to enable the market to assess key information regarding its risk and capital management practices. This part of Basel II sets out the level and frequency of these disclosures together with the mechanisms by which they must be made available to the public.

This document comprises Macquarie's response to the requirements of Pillar 3 as laid out in the APRA Prudential Standard 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330) which became effective from 30 September 2008 and as such, this is the first Pillar 3 disclosure that Macquarie has made.

This report 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), market risk, operational risk and equity risk. Each of these risks are individually discussed in later sections of this report where the individual risk components, measurement techniques and management practices are detailed.

The Macquarie Banking Group quarterly capital ratios since the introduction of Basel II in Australia are set out in the table below.

Capital Ratios	30 September 2008	30 June 2008	31 March 2008
Level 2 Macquarie Banking Group Tier 1 capital ratio	11.0%	12.3%	12.4%
Level 2 Macquarie Banking Group Total capital ratio	15.2%	16.3%	17.7%

The Macquarie Banking Group Tier 1 capital ratio decrease over the last quarter was primarily due to internal restructures within the wider Macquarie Group. As a result the Banking Group has acquired a number of assets from the Non-Banking Group. These internal restructures do not impact the overall capital strength of the Macquarie Group. In addition, the Macquarie Banking Group has experienced an increase in deferred tax assets primarily due to increased impairment provisions recognised during the 3 months to 30 September 2008. These deferred tax assets are treated as a Tier 1 capital deduction. Despite these recent developments, the Macquarie Banking Group's capital ratios continue to remain well in excess of the regulatory minimum capital ratios required by APRA.

1.0 Overview

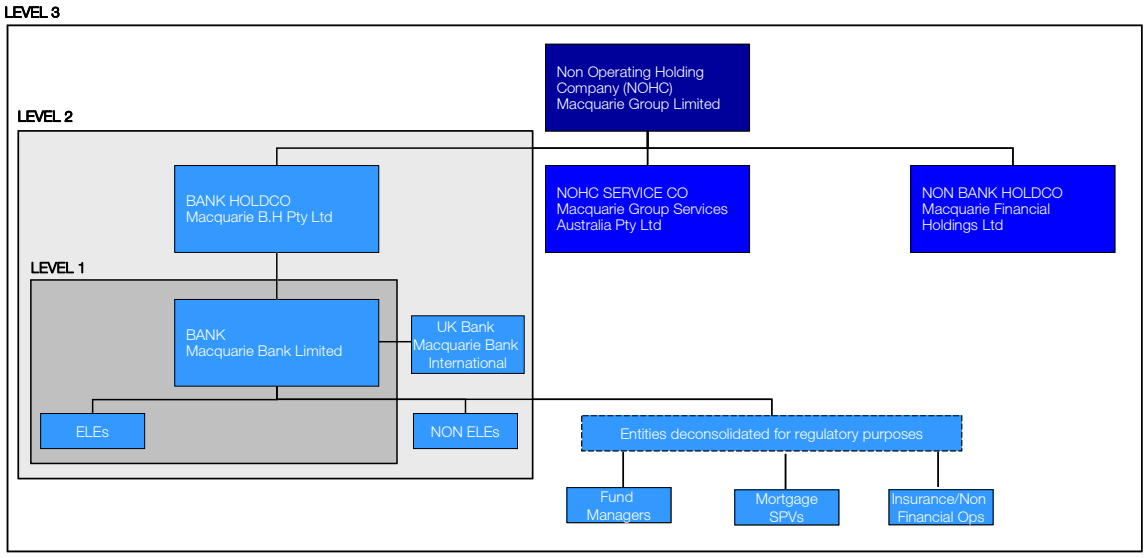
1.0
Overview

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 Prudential Standard APS 110: Capital Adequacy (APS 110).

MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities (ELE) are reported to APRA as 'Level 1'. 'Level 2' consists of MBL, its subsidiaries and its immediate parent (Macquarie BH Pty Limited) 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 capital under the APRA Prudential Standard APS 111: Capital Adequacy: Measurement of Capital. The subsidiaries which are deconsolidated for regulatory purposes include mortgage SPVs and entities conducting insurance, funds management and non-financial operations. These deconsolidated entities result in the Macquarie Level 2 group for regulatory purposes differing from the Macquarie Group for accounting purposes. Therefore, the disclosures made in this report are for a different group of entities to those made in the Macquarie Group financial statements. A list of entities deconsolidated from Level 1 and Level 2 is included in Appendix 2.

References in this report to Macquarie or Banking Group refers to the Level 2 regulatory group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group.

MBL is part of the larger Macquarie Group, which includes Macquarie Group Limited (MGL) and its subsidiaries. The entire Macquarie Group (MGL Group) is 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 sections 4.1 and 4.2 of this report).

1.0
Overview
(Continued)

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.

The Macquarie Group includes one other licensed bank. Macquarie Bank International Limited (MBI), a subsidiary of MBL, is a licensed bank in the United Kingdom and is regulated by the Financial Services Authority (FSA). MBI received its banking licence approval from the FSA in February 2008.

1.2 Frequency

The qualitative disclosures in this report will be updated on an annual basis and more frequently if significant changes to policies are made. The capital adequacy and summarised credit risk exposure quantitative disclosures will be published on a quarterly basis and all other quantitative disclosures will be published semi-annually in conjunction with Macquarie's half year (30 September) and annual reporting cycles (31 March).

1.3 Report Conventions

As this is the first report prepared in accordance with APS 330, generally no comparative information has been included. In future reporting periods the prior period comparative will be included in quantitative disclosures where relevant.

Similarly, averages have not been calculated for this report as it is the first reporting period and Macquarie's half year end. Weighted averages will be included from the 31 March 2009 year end report as required.

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

Appendix 1 includes a mapping table of quantitative disclosures required by APS 330 to the quantitative disclosures in this report

Appendix 3 includes a Glossary of Terms used through this document.

1.4 Overview of the Basel II Regulatory Capital Framework

Basel II seeks to introduce an increased sensitivity to risk into 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.

1.4.1 Pillar 1

The first section of the Basel II framework covers the rules by which RWAs and capital adequacy must be calculated.

The Standardised approach is broadly similar to the previous Basel I regulation but permits the use of external ratings where available and relevant.

Macquarie has adopted the FIRB Approach for credit risk capital. This approach revolves around 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 based on the nature of the exposure.

Operational Risk is calculated using the Advanced Measurement Approach.

1.4.2 Pillar 2

Pillar 2 (the Supervisory Review Process) of the Basel II 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 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

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

In this report, Macquarie will provide a breakdown of both its on- and off-balance sheet exposures as well as its risk weighted assets. The report consists of sections covering:

– Risk Management Framework
– Capital Management
– Credit Risk
– Market Risk
– Securitisation
– Equity Risk
– Operational Risk

2.0 Risk Management Policies and Objectives

2.0
Risk Management Policies and Objectives

2.1 Risk Management Framework

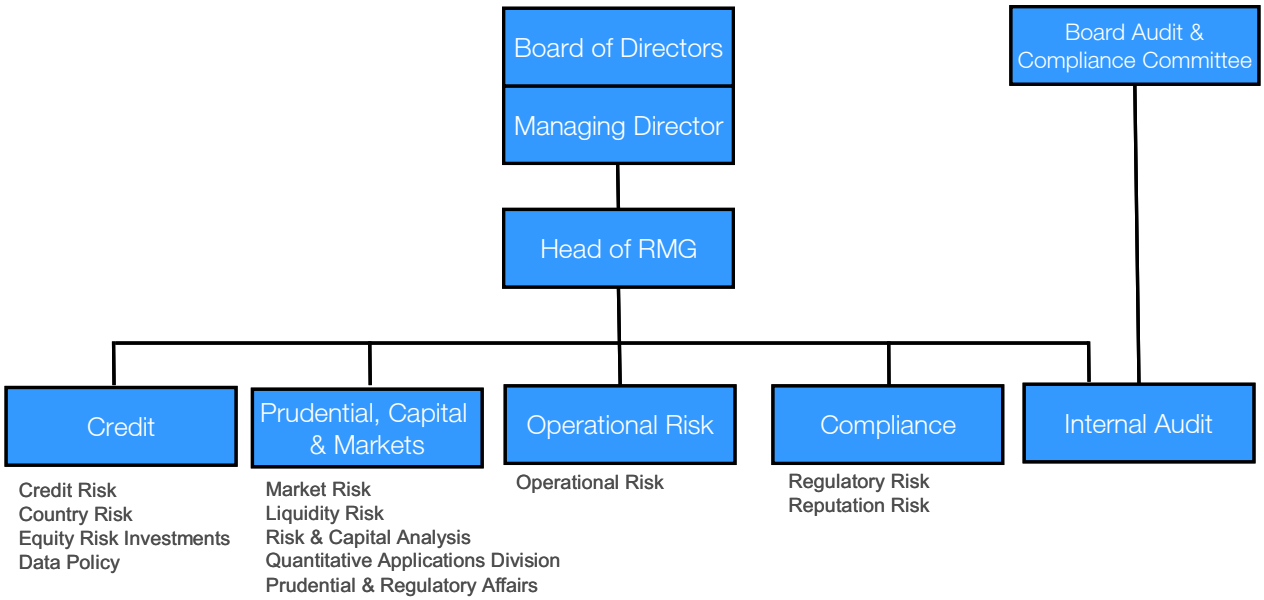
Risk is an integral part of Macquarie's businesses. The main risks faced by Macquarie are market risk, equity risk, credit risk and operational risk.

Primary responsibility for management of these risks resides with the individual businesses that originate risk. The Risk Management Group (RMG) is responsible for ensuring appropriate assessment and monitoring of these risks.

Risk is owned at the business level with business heads responsible for identifying risks within their businesses and ensuring that they are managed appropriately. The aim is to give business heads a high level of entrepreneurial freedom to develop and implement business strategy, new products and services, new market initiatives and domestic and international alliances. However, boundaries exist in relation to the key risk areas noted above. These areas have implications outside the businesses and are tightly controlled by RMG. This is referred to as the 'Freedom within Boundaries' philosophy.

RMG is independent of all other areas of Macquarie, reporting directly to the Managing Director and the Boards of MGL and MBL. The Head of RMG is a member of the Executive Committee of MGL and MBL and reports to the Managing Director of MBL and MGL and the Boards. RMG exercises centralised prudential management and ensures risks are assessed consistently across the Group. RMG is mandated with identifying, quantifying and assessing all risks and setting appropriate prudential limits consistent with the risk appetite of the Group. Where appropriate, these limits are approved by the Executive Committee and the Boards. RMG's authority is required for all material risk acceptance decisions.

Risk Management Group Structure:



2.0
Risk Management Policies and Objectives (Continued)

2.2 Risk Governance Structure

Risk management is sponsored by the Board and is a top priority for senior management. The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie. There are three board committees that assist the Board in ensuring that appropriate focus is placed on the risk management framework at both the Banking Group and MGL Group level:

– The Board Risk Committee (BRC) has responsibility for ensuring an appropriate risk management framework - including the establishment of policies for the control of risk, is in place. The BRC receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which may have an impact on the effectiveness of the risk management framework. It also approves significant changes to Risk Management policies and framework;

– The Board Audit and Compliance Committee (BACC) has responsibility for monitoring compliance with the risk management framework approved by the BRC for operational risk and compliance matters. In this role, the BACC oversee plans for the undertakings of the Internal Audit, Compliance and Credit Assurance functions;

– The Board Corporate Governance Committee has responsibility for the oversight of any ethical and governance matters.

Committees exist at the executive management level to ensure that the necessary expertise is focused on specific risk areas. Executive Committees operate at both the Banking Group and MGL Group level and focus on performance, strategic issues and operational matters. Beneath this level, other committees of senior specialists have been established to focus on specific risks as appropriate (such as the Market Risk Committee, Asset and Liability Committee).

2.3 Internal Audit

RMG Internal Audit Division (IAD) provides independent assurance to senior management and the BACC (and through it to the Board) on the adequacy and effectiveness of Macquarie's financial and risk management framework.

IAD achieve this through the application of a risk based audit methodology to review the design and effectiveness of internal controls. The methodology incorporates planning, execution, reporting and the processes for follow up and clearance of agreed management actions.

2.0
Risk Management Policies and Objectives
(Continued)

Audits of each business occur at varying frequencies (audit cycles are between one and three years) depending on the inherent risk rating of the business. Audit findings are reported directly to the BACC, management and the business. Issues raised as part of Internal Audit reviews are actively monitored.

The Head of IAD reports to the BACC, with a further reporting line to the Head of RMG for day to day matters.

Processes within RMG are themselves subject to regular review by Internal Audit. These audits cover the effectiveness of all of the RMG controls designed to identify and monitor exposures relating to credit, market, liquidity, operational and compliance risks.

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

3.0 Capital Structure

3.0
Capital Structure

The capital disclosures in this section of the report are calculated in accordance with APRA requirements under Pillar 1 of the Basel II Framework.

3.1 Total Available Capital

The Macquarie capital supply as at 30 September 2008 is detailed in the table below.

Macquarie Bank Group	$'M	$'M
Tier 1 capital		
Paid-up ordinary share capital		3,927
Reserves		180
Retained Earnings		884
Innovative Tier 1 capital		917
Gross Tier 1 capital		**5,908**
Deductions from Tier 1 capital		
Goodwill	121	
Deferred tax assets	269	
Net unrealised fair value gains (losses) from changes in the ADI's own creditworthiness	71	
Intangible component of investments in non-consolidated subsidiaries and other non-Level 2 entities	55	
Capitalised loan and lease origination fees and commissions paid	215	
Capitalised costs associated with debt raisings	17	
Other Tier 1 capital deductions	146	
Total deductions from Tier 1 capital		894
Deductions from Tier 1 Capital (50%) and Tier 2 Capital (50%)		
Non-subsidiary entities exceeding prescribed limits (50%)	70	
Deconsolidated subsidiaries (50%)	268	
All other deductions relating to securitisation (50%)	39	
Additional shortfall in provisions for credit losses	147	
Other 50/50 deductions from Tier 1 capital (50%)	194	
Total 50% deductions from Tier 1 Capital		718
Total Tier 1 capital deductions		**1,612**
Net Tier 1 capital		**4,296**
Upper Tier 2 capital		
Excess Tier 1 capital instruments	254	
Other Upper Tier 2 capital	89	
Total Upper Tier 2 capital		343
Lower Tier 2 capital		
Term Subordinated debt	2,047	
Total Lower Tier 2 capital		2,047
Gross Tier 2 capital		**2,390**
Deductions from Tier 2 capital		
Upper and lower Tier 2 capital deductions		-
50/50 deductions from Tier 2 capital		718
Other Tier 2 capital deductions as advised by APRA		-
Total Tier 2 capital deductions		**718**
Net Tier 2 capital		**1,672**
Total capital base		**5,968**

3.0
Capital Structure
(Continued)

3.2 Tier 1 Capital

Tier 1 capital comprises the highest quality components of capital that fully satisfy all the following essential characteristics:

- provide a permanent and unrestricted commitment of funds;
- are freely available to absorb losses;
- do not impose any unavoidable servicing charge against earnings; and
- rank behind the claims of depositors and other creditors in the event of winding up.

Macquarie's Tier 1 capital consists of ordinary share capital, retained earnings, certain reserves, Macquarie Income Securities (MIS) and Macquarie Income Preferred Securities (MIPS).

Reserves included in Tier 1 capital are the Share based payment reserve and Foreign currency translation reserve.

The Innovative Tier 1 capital includes MIS and MIPS. 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) on 19 October 1999 and became redeemable (in whole or in part) at Macquarie's discretion on 19 November 2004. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% p.a. and payment is subject to certain conditions including profitability of the bank.

MIPS were issued when the London branch of Macquarie issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a controlled entity of MBL. The convertible debentures currently pay a fixed return of 6.177% until April 2020.

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 to ensure compliance with these regulations.
- Where retained earnings are transferred from related entities, tax costs payable on repatriation will also 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, seek to minimise contagion risk.

3.3 Tier 2 Capital

Macquarie's Upper Tier 2 capital consists of the portion of MIS and MIPS not eligible for inclusion in Tier 1 capital and a portion of equity reserves.

Lower Tier 2 capital consists of subordinated debt issued to financial institutions, subject to limits imposed by APRA based on Tier 1 capital. Repayment of this debt is subordinated to the claims of depositors and other creditors but rank ahead of equity instruments.

3.0
Capital Structure
(Continued)

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4.0 Capital Adequacy

4.0
Capital Adequacy

4.1 Capital Management

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

The capital management objectives are to:

– continue to support Macquarie's credit rating;

– ensure sufficient capital resources to support Macquarie's business and operational requirements;

– maintain sufficient capital to exceed externally imposed capital requirements; and

– safeguard Macquarie's ability to continue as a going concern.

Macquarie has developed an economic capital model that is used to quantify the 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 the risk profile of the MGL Group.

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

1. Capital adequacy assessment;

2. Risk appetite setting;

3. Risk-adjusted performance measurement.

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

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

Economic capital adequacy means an internal assessment of capital adequacy, designed to ensure Macquarie has sufficient capital to absorb all but the most extreme losses, thereby providing 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. Earnings are also available to absorb losses, however, only a fraction of potential earnings are recognised as a buffer against losses.

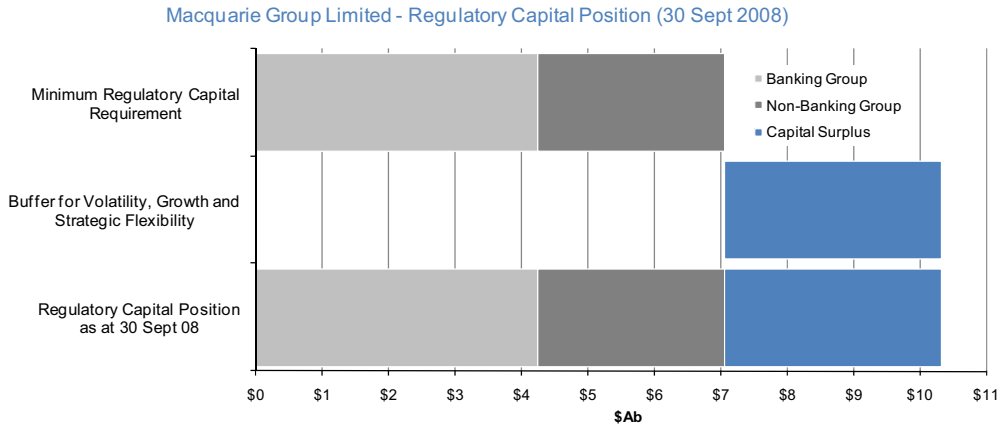
APRA has approved Macquarie's ECAM for use in calculating the regulatory capital requirement of the Non-Banking Group. The ECAM is based on similar principles and models as the Basel II regulatory capital framework for banks, as shown in the table below, with both calculating capital at a one year, 99.9%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

Risk [1]	Basel II	ECAM
Credit	Capital requirement determined by Basel II formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement determined by Basel II formula, but with internal estimates of some parameters
Equity	Simple risk-weight approach or deductions. Capital requirement between 24% and 50% of face value[2]	Extension of Basel II credit model to cover equity exposures. Capital requirement between 32% and 86% of face value; average 43%
Market	3 times 10 day 99.9% Value at Risk (VaR) plus a specific risk charge	Scenario-based approach. Greater capital requirement than under regulatory regime
Operational	Basel II Advanced Measurement Approach	Basel II Advanced Measurement Approach

[1]The ECAM also covers interest rate risk in the banking book, liquidity risk and risk on assets held as part of business operations, for example fixed assets, goodwill, intangible assets, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures.

[2]Assuming an 8% Tier 1 ratio, the 300% and 400% risk weightings for equity exposures under Basel II equate to a capital requirement of 24% or 32%. Any deductions required for equity exposures are 50/50 Tier 1 and Tier 2, hence a 50% Tier 1 capital requirement.

The regulatory capital adequacy of the MGL Group as at September 2008 is shown below. 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

Macquarie's risk appetite is expressed through the risk limit framework. This consists of the specific risk limits given to various businesses and products or industry sectors and also a Global Risk Limit which constrains the aggregate level of risk. The Global Risk Limit is set to protect earnings and ensure Macquarie emerges from a downturn with sufficient capital to operate.

Aggregate risk is broken down into two categories:

– Business risk, meaning decline in earnings through deterioration in volumes and margins due to market conditions; and

– Potential losses, meaning potential credit losses, write-downs of equity investments, operational risk losses and losses on trading positions.

Potential losses are quantified using the ECAM.

Business risk is captured via a group-wide scenario analysis process that produces an assessment of earnings capacity in a prolonged 3-year downturn scenario. This downturn scenario analysis is conducted as part of the annual strategy review process and considers the operating leverage of each business area in conjunction with revenue estimates under this stressed scenario. The results are endorsed by Executive Committee and reported to the MGL Board.

A principal use of the risk appetite test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any increases in the ERL are sized to ensure that even under full utilisation of this limit and allowing for growth in other risk types, the requirements of the risk appetite test will be met.

4.3 Risk-adjusted Performance Measurement

At Macquarie, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns, using the methodology set out by RMG. These returns are a key metric considered together with other relevant factors by Executive Committee and the Board in assessing these proposals and thus are one element of discipline in the risk acceptance process.

Risk-adjusted performance metrics for each business unit are prepared on a regular basis and reviewed by senior management and the Board. Risk-adjusted performance metrics for each business unit are a significant input into performance based remuneration.

4.0
Capital Adequacy
(Continued)

4.4 Risk Weighted Assets

Risk Weighted Assets (RWA) are a risk based measure of exposures used in assessing overall capital usage. 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 MBL Group as at 30 September 2008.

Macquarie Banking Group	RWA $'M
Credit risk - RWA	
Subject to FIRB approach	
Corporate	7,960
Sovereign	54
Bank	958
Residential mortgage	1,275
Qualifying revolving retail	-
Other retail	540
Other	-
Total RWA subject to FIRB approach **	**10,787**
Specialised lending (SL) exposures subject to slotting criteria*	**4,163**
Subject to Standardised approach	
Corporate	4,518
Sovereign	-
Bank	-
Residential mortgage	1,483
Other retail	2,039
Other	3,608
Total RWA subject to Standardised approach **	**11,648**
Credit risk RWA for securitisation exposures	**1,357**
Total Credit Risk RWA	**27,955**
Equity risk exposure RWA	**1,456**
Market risk RWA	**2,291**
Operational risk RWA	**6,720**
Interest rate risk in the banking book RWA	**98**
APRA Scaling factor (6%) applied to IRB exposures	**647**
Total RWA	**39,167**

* Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings

** Refer to section 6.0 for more details on exposures calculated under the FIRB and Standardised approaches.

4.0
Capital Adequacy
(Continued)

Ratios for Tier 1 and Total capital of Macquarie Banking Group and MBI are set out below as at the 30 September 2008.

Capital Ratios	30 September 2008
Level 2 Macquarie Banking Group Tier 1 capital ratio	11.0%
Level 2 Macquarie Banking Group Total capital ratio	15.2%
Macquarie Bank International Ltd* Tier 1 capital ratio	>100%
Macquarie Bank International Ltd* Total capital ratio	>100%

* MBI is a licensed bank in the United Kingdom and is regulated by the Financial Services Authority (FSA). Tier 1 and Total capital ratios for MBI are calculated in accordance with Basel II FSA Prudential Standards. MBI was recently established in February 2008 and as such has a significant level of excess capital relative to risk exposures.

APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level.

5.0 Credit Risk Measurement

5.0
Credit Risk Measurement

5.1 Credit Risk Overview

Credit risk is the risk of financial loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract once the settlement becomes due. In that situation, the credit exposure is a function of the movement of prices over the period of the contract.

Macquarie has a comprehensive and robust framework for the identification, analysis and monitoring of its credit risk exposure. This framework is detailed below.

5.2 Credit Risk

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

All approvals reflect two principles:

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

5.2.1 Analysis and Approval of Exposures

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

Business units are assigned modest levels of credit discretions. Credit exposures above those levels are assessed independently by RMG and approved by senior management and RMG staff, the Managing Director 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.

5.2.2 Macquarie Ratings

For wholesale portfolios, Macquarie has developed an internal credit rating framework to assess counterparty credit risk. This rating methodology has been in place since 2001 and is used consistently across all wholesale portfolios that generate credit risk.

Each Macquarie rating band is associated with an estimate of the PD by the counterparty on its financial obligations and provides a consistent measure across the Banking 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 of industry specific risk factors and a qualitative assessment based on expert judgement.

5.0
Credit Risk Measurement
(Continued)

Counterparties are assigned into industry groups which determine which set of factors will be evaluated in the rating process. A number of templates have been developed to specifically address the factors relevant to each counterparty's industry, geography and business activity. Additional factors such as parent or third party credit support or specific country risk can also be taken into account in the decision support matrix.

All limits and exposures are assigned a rating on a 1 to 13 scale, which has been developed to correspond broadly with Standard and Poor's (S&P), Fitch's and Moodys' credit ratings. Each Macquarie rating has been assigned a PD derived from the long term average of S&P 1 year default rates for similarly rated obligors. A LGD rate 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 (ECAIs) are considered throughout the rating process but are supplementary to the internal rating process. A material deviation between the internal rating and the external rating of any ECAI rated exposure is required to be sufficiently justified. At 30 September 2008, where a counterparty has been rated by S&P, in 94% of cases the Macquarie internal rating was more conservative than S&P rating.

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

	Rating System		
Macquarie	S&P	Fitch	Moodys
M1	AAA	AAA	AAA
M2	AA+	AA+	Aa1
	AA	AA	Aa2
	AA-	AA-	Aa3
M3	A+	A+	A1
	A	A	A2
	A-	A-	A3
M4	BBB+	BBB+	Baa1
M5	BBB	BBB	Baa2
M6	BBB-	BBB-	Baa3
M7	BB+	BB+	Ba1
M8	BB	BB	Ba2
M9	BB-	BB-	Ba3
M10	B+	B+	B1
	B	B	B2
	B-	B-	B3
M11	CCC+	CCC+	Caa1
	CCC	CCC	Caa2
	CCC-	CCC-	Caa3
M12	CC	CC	Ca
	C	C	Ca
M13	D	RD/D	C

For retail portfolios counterparties are placed into homogenous pools categorised by one or more of the following risk factors based on exposure type (mortgages or leasing): asset size; loan size; loan size relative to asset; level of documentation; or FICO score (a third party credit rating score widely used in the US market). PD and LGD estimates are produced for each pool based on long-run though-the-cycle default and loss data.

Macquarie Ratings, PDs and LGDs form the basis of both economic and regulatory capital calculations and are the key inputs for expected loss (EL) estimates. Macquarie has operated its own internal estimate of capital usage since 2003. Described in further detail in section 4.1 this economic capital model utilises the Macquarie Internal Rating as the measure of potential default risk.

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

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

5.2.3 Measuring and Monitoring Exposures

Credit exposures are calculated differently according to the nature of the obligation. Loan assets are reported at full face value whereas derivative contracts are monitored according to both internal and regulatory measures of Potential Credit Exposure (PCE). Each of these measures is based on mark-to-market values which are reported daily to RMG Credit.

– For regulatory purposes, PCE is calculated according to the methodology outlined in the APRA Prudential Standards which combines the revaluation with a percentage of the face value based on the type of contract and the contractual maturity. Credit Equivalent Amount (CEA) exposures are derived from the regulatory PCE figure and are used in daily calculations of Large Exposures in accordance with Prudential Standard APS 221: Large Exposures.
– The internal measure of PCE is calculated as a function of market movements. These values are assessed by assuming that low probability (worst case) stressed market movements occur and that Macquarie has to go to the market to replace a defaulting deal at the worst possible time during the term of the transaction. The level of stress that is applied to individual markets is set by RMG and is reviewed annually or when volatility or market conditions dictate. Credit limits are set in relation to the internal measure of potential credit exposure.

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.

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

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

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

All counterparties with credit exposures are subject to a full annual review to ensure any deterioration is identified and reflected in an adjustment to limits and/or their Macquarie rating. Furthermore, other indicators of deterioration in credit quality are monitored daily, such as share price and credit default swap spread movements, covenant breaches and credit ratings downgrades. Where appropriate, these are reported to senior management and where recoverability is in doubt, appropriate provisions are held.

Macquarie's policies to control credit risk include avoidance of unacceptable concentrations of risk either to an economic sector or to an individual counterparty. Policies are in place to limit large exposures to single counterparties or groups of counterparties. A review of the Credit Portfolio analysing credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to Macquarie's Boards semi-annually.

5.2.4 Credit Assurance

The Credit Assurance Function (CAF) is the centralised function within RMG charged with providing assurance and control over the effectiveness of credit risk management throughout Macquarie. This requires close liaison with all divisions to ensure credit risks are understood and properly managed and that credit discretions are being utilised appropriately.

CAF performs the above function by providing oversight and reporting on the quality of the credit decisions being made both within and outside RMG by way of back testing of credit decisions and exercise of discretions and review of ratings downgrades and losses incurred. Oversight and validation of the internal rating system and credit risk estimates for the retail portfolios is conducted through the monitoring of actual defaults and losses against all estimates. Additionally CAF performs annual reviews of ratings template usage, applicability and overrides so as to ensure that the industry templates remain appropriate.

CAF is constituted as a distinct unit within RMG with direct reporting to the Head of Credit. To ensure the independence of CAF, when performing reviews of RMG Credit, CAF will report directly to the Head of RMG, whereas reviews of all other groups within MGL are reported to the Head of Credit. In addition to regular reporting to senior management and the MGL Board, CAF is required to report quarterly to and have an annual private session with, the BACC.

5.0
Credit Risk Measurement
(Continued)

5.3 Macquarie's Credit Risk Exposures

Credit exposures are disclosed in the following pages broken by:

- geographic distribution;
- counterparty type;
- 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. These exposures exclude the impact of netting and credit risk mitigation. The gross credit risk exposures are calculated as the amount outstanding on drawn facilities and the exposure at default on undrawn facilities. The exposure at default is calculated in accordance with APRA Prudential Standards.

Exposures have been based on a regulatory Level 2 group as defined in section 1.1.1 and do not include equities exposures and securitisation exposures. The gross credit risk exposures in this section will differ from the disclosures in the Macquarie financial statements as gross credit risk exposures include off balance sheet exposures but exclude the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes. Securitisation and equity risk exposures are outlined in sections 9 and 11.

The tables below outline the Macquarie gross credit exposures as at 30 September 2008.

Portfolio Type	Gross Credit Exposure
	$'M
Corporate *	28,849
Sovereign	727
Bank	7,636
Residential Mortgages	10,497
Qualifying Revolving Retail	-
Other Retail	3,320
Other **	7,076
Total Gross Credit Exposure	58,105

* Includes $6.3 billion bridging loan to Macquarie's Non Banking Group.

** The major components of "Other" gross credit exposures are Margin Loans ($3.1 billion), Unsettled Trades ($2.0 billion) and Other Debtors ($1.2 billion).

5.0
Credit Risk Measurement
(Continued)

	As at 30 September 2008				For the 6 months to 30 September 2008	
Foundation IRB	Gross Credit Exposure	Impaired Loans *	Past Due loans > 90 days *^	Specific Provision Balance	Charges for Specific provisions	Write-offs
	$'M	$'M	$'M	$'M	$'M	$'M
Corporate	22,280	389	-	(157)	(89)	(9)
Sovereign	727	-	-	-	-	-
Bank	7,636	-	-	-	-	-
Residential Mortgage	4,823	15	4	(7)	(5)	-
Qualifying revolving retail	-	-	-	-	-	-
Other retail	1,181	-	-	-	-	-
Other	-	-	-	-	-	-
Total Foundation IRB	**36,647**	**404**	**4**	**(164)**	**(94)**	**(9)**

Standardised	Gross Credit Exposure	Impaired Loans *	Past Due loans > 90 days *^	Specific Provision Balance	Charges for Specific provisions	Write-offs
	$'M	$'M	$'M	$'M	$'M	$'M
Corporate	6,569	29	31	(9)	(3)	-
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	5,674	72	64	(20)	(16)	-
Qualifying revolving retail	-	-	-	-	-	-
Other retail	2,139	-	-	-	-	-
Other **	7,076	23	-	(18)	(8)	-
Total Standardised	**21,458**	**124**	**95**	**(47)**	**(27)**	**-**
Total	**58,105**	**528**	**99**	**(211)**	**(121)**	**(9)**

	Balance $'M
General reserve for credit losses ^^	**77**

* Impaired Loans and Past Dues form a subset of Gross Credit Exposures. Refer to section 7 for further details.
^ In accordance with APRA prudential definitions, past due loans do not form part of Impaired Loans.
** The major components of "Other" gross credit exposures are Margin Loans, Unsettled Trades and Other Debtors.
^^ The General reserve for credit losses is the equivalent to the collective provision stated net of tax. Refer to section 7 for details on collective provisions.

5.0
Credit Risk Measurement
(Continued)

To facilitate an understanding of the differences between the Macquarie Bank consolidated accounting group and the Macquarie Level 2 regulatory group, the table below provides a high level reconciliation between Total Assets as disclosed in the 30 September 2008 financial statements and the gross credit exposures disclosed above.

As at 30 September 2008	On Balance Sheet Exposures $'M	Off Balance Sheet Exposures $'M	Total Gross Exposures $'M
Consolidated Macquarie Bank Financial Statements	**153,094**		
Adjusted for the following:			
Deconsolidated Entities for APRA reporting purposes	(28,665)		
Segregated funds excluded for APRA reporting purposes *	(1,895)		
Trading Book Assets assessed for capital in Market Risk calculation	(57,313)		
Capital Deductions	(1,010)		
Equity Investments assessed for capital in Equity Risk calculations	(2,195)		
Derivative financial instruments – positive values **	(22,250)		
Other	737		
Total Gross On Balance Sheet Exposures	**40,503**		
Total Gross Credit Exposures	**40,503**	**17,602**	**58,105**

* Segregated funds represent monies receivable from exchanges or clearing houses on clients' futures trading accounts. Macquarie has no credit exposure to segregated funds.

** Derivative financial instruments – positive values form part of assets in the Macquarie Bank financial statements. In addition there are Derivative financial instruments – negative values which are liabilities in the Macquarie Bank financial statements. For regulatory purposes the derivative financial instruments are reduced to the extent there are master netting agreements. The netted position is converted to an equivalent risk exposure using APRA rules. The gross credit exposure on derivatives is included in the off balance sheet exposure in the table above.

5.4 Credit Risk by Geographic Distribution

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

	Geographic Distribution ($'M)					
Portfolio Type	Asia Pacific	Australia	Europe	North America	Other *	Total
Corporate	851	16,878	4,359	5,867	894	28,849
Sovereign	32	664	19	12	-	727
Bank	722	289	4,900	1,710	15	7,636
Residential Mortgages	5	3,715	1,903	4,874	-	10,497
Qualifying Revolving Retail	-	-	-	-	-	-
Other Retail	-	3,320	-	-	-	3,320
Other **	37	7,017	11	6	5	7,076
Total Gross Credit Exposure	1,647	31,883	11,192	12,469	914	58,105

* Other consists primarily of exposures to South Africa and Latin America
** The major components of "Other" gross credit exposures are Margin Loans, Unsettled Trades and Other Debtors.

5.5 Credit Risk distribution by Counterparty Type

The credit risk exposures by Basel II risk type below have been classified on a counterparty split consistent with the Macquarie Bank financial statements.

	Counterparty ($'M)				
Portfolio Type	Financial Institution	Government	Corporate	Retail	Total
Corporate	12,371	323	14,005	2,150	28,849
Sovereign	619	108	-	-	727
Bank	7,636	-	-	-	7,636
Residential Mortgages	-	-	208	10,289	10,497
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	-	-	249	3,071	3,320
Other *	-	122	4,034	2,920	7,076
Total Gross Credit Exposures	20,626	553	18,496	18,430	58,105

* The major components of "Other" gross credit exposures are Margin Loans, Unsettled Trades and Other Debtors.

5.6 Credit Risk by Maturity Profile

The maturity bandings below have been based upon residual contractual maturity from 30 September 2008.

Portfolio Type	< 12 months	1 < 5 years	≥ 5 years	Total
Corporate	12,880	13,192	2,777	28,849
Sovereign	616	74	37	727
Bank	5,739	1,588	309	7,636
Residential Mortgages	681	5,466	4,350	10,497
Qualifying Revolving Retail	-	-	-	-
Other Retail	360	1,605	1,355	3,320
Other *	6,930	113	33	7,076
Total Gross Credit Exposure	27,206	22,038	8,861	58,105

* The major components of "Other" gross credit exposures are Margin Loans, Unsettled Trades and Other Debtors.

6.0 Calculation of Credit Risk Exposures

6.0
Calculation of Credit Risk Exposures

As detailed in section 1, Macquarie received approval from APRA to use the Basel II Foundation Internal Ratings Based (FIRB) Approach for credit risk for its Corporate, Sovereign and Bank 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 non-retail portfolios APRA provided estimates must be used for LGD and EAD. Macquarie Ratings, PDs and LGDs are the key inputs for EL estimates.

Equally a number of businesses have been accredited to use the retail treatment set out in the APRA Prudential Standards, whereby assets 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 asset types in that pool.

Macquarie operates a number of businesses which currently do not qualify for the FIRB approach to credit risk and are therefore given Standardised treatment for capital calculations. The majority of these businesses are relatively new and have not incurred a statistically significant loss history that would justify PD estimates. These businesses will be re-assessed in coming years to determine if a change in treatment can be substantiated.

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

6.0
Calculation of Credit Risk Exposures
(Continued)

Summary of the applicable FIRB or Standardised treatment to the Macquarie credit portfolios set out in the table below.

Exposure Type	Approach	Migration to FIRB	FIRB Ratings Approach
All credit exposures to Corporate, Bank and Sovereign counterparties.	FIRB		Macquarie rating is mapped to the S&P ratings scale. S&P historical default data is used to estimate a PD for each rating grade.
All exposures subject to Supervisory Slotting Treatment.	FIRB		Exposures are subject to risk weights set by APRA and mapped according to assigned Macquarie Internal Ratings and LGDs.
All SME exposures. Some secured by commercial property.	Standardised	Not expected – APRA have approved a carve-out from FIRB for this portfolio.	N/A
Exposures to mortgage insured prime residential mortgages in Australia.	FIRB		Loans are pooled according to key risk drivers loan-to-value ratio, documentation type, loan purpose and balance-to-loan ratio. A PD for each pool is estimated using the historical average default rate. An adjustment is made to convert it into a through-the-cycle PD. LGD's are estimated using a scenario approach that assumes a market-value-decline, distressed sale discount and selling costs to estimate the recoverable value on each loan. The regulatory floor of 20% applies to the LGD in each pool.
Exposures to prime residential mortgages in the USA. Loans with higher Loan-to-Value ratios have mortgage insurance.	FIRB		A PD for each loan is estimated using assumptions based on Fitch RMBS ratings criteria. The key risk drivers are loan-to-value ratio and FICO score. Adjustments are also made for other variables such as documentation type and loan purpose. Loans are then pooled according to loan-to-value and FICO score. PDs are then validated against the portfolios historical average default rates each year. LGDs are estimated using a scenario approach that assumes a market-value-decline at regional level, distressed sale discount and selling costs to estimate the recoverable value on each loan. The regulatory floor of 20% applies to the LGD in each pool.
Exposures to mortgage insured prime residential mortgages in Canada. The insurance is guaranteed by the Canadian government.	Standardised	Sufficient historical data is not available. 5 yrs history will be available in 2010.	N/A
Exposures to prime residential mortgages in Italy.	Standardised	Business sold October 2008.	N/A
Credit card exposures in Australia.	Standardised	Sufficient historical data is not available. 5 yrs history will be available in 2012.	N/A
Personal loan exposures in Australia.	Standardised	Portfolio is in run-off. No migration planned.	N/A
Margin loan exposures in Australia.	Standardised		A 20% risk-weight prescribed in APS113: Internal Ratings-based Approach to Credit Risk is applied.
Retail investment loan exposures. The majority are capital protected.	Standardised	Sufficient historical data is not available.	N/A
Auto and equipment lease exposures in Australia.	FIRB		Through the cycle PDs and LGDs based on historic data.

6.0
Calculation of Credit Risk Exposures
(Continued)

6.1 Credit Risk exposures by measurement approach

The table below sets out the gross exposures by Basel II portfolio class as required by APRA under APS 330 as at 30 September 2008.

Portfolio Type	Foundation IRB $'M	Standardised $'M	Total $'M
Corporate	22,280	6,569	28,849
Sovereign	727	-	727
Bank	7,636	-	7,636
Residential Mortgage	4,823	5,674	10,497
Qualifying revolving retail	-	-	-
Other retail	1,181	2,139	3,320
Other	-	7,076	7,076
Total Gross Credit Exposure	**36,647**	**21,458**	**58,105**

The Specialised Lending portfolio subject to supervisory slotting is classified under Corporate and is measured utilising the FIRB approach. PDs and LGDs have been specified by APRA in determining credit exposures for this portfolio. Risk weightings applied to this portfolio are outlined in Table 6.2: 'Credit Risk exposures by risk weight'.

The 'Other' class measured under the Standardised approach consists primarily of Margin Lending exposures, unsettled trades and other debtors. Note that Margin Lending exposures are internally rated but for capital adequacy purposes, APRA have specified a 20% risk weighting on gross margin lending exposures.

6.0
Calculation of Credit Risk Exposures
(Continued)

6.2 Credit Risk exposures by risk weight

The table below details total credit exposures by risk weight bandings for the standardised portfolio and risk weightings for specialised lending and equity exposures as at 30 September 2008.

Standardised Approach Exposures	Total Gross Credit Exposure $'M
0% *	3,573
> 0% ≤ 20% **	3,168
> 20% ≤ 35%	-
> 35% ≤ 50%	6,021
> 50% ≤ 75%	1,120
> 75% ≤ 100%	7,576
> 100% ≤ 150%	-
> 150%	-
Total	21,458

* 0% - RWA includes Canadian Prime Residential Mortgages. These loans are mortgage insured, the insurance is guaranteed by the Canadian government.

** 0% ≤ 20% - includes margin lending at 20% risk weighting as required by APRA

FIRB Approach Exposures Specialised lending exposures subject to supervisory slotting Risk Weight	Total Gross Credit Exposure $'M
70%	116
90%	1,142
115%	1,438
250%	560
Default *	455
Total	3,711

* Default specialised lending exposures are assessed for impairment (refer section 7). Exposures in default are not risk weighted; rather a reduction in capital is made to the extent of the specific provision taken against the exposure.

Equity Exposures Risk Weight	Total Gross Credit Exposure $'M
300%	149
400%	252
Total	401

RWA on equity exposures is detailed in section 11 of this report.

6.0
Calculation of Credit Risk Exposures
(Continued)

6.3 Exposures by Risk Grade

This section sets out the FIRB gross credit exposures split by PD for Non-Retail portfolios and expected loss for Retail portfolios.

The table below provides a breakdown of gross credit exposures as at 30 September 2008 into each PD band for the Non-Retail portfolios under the Basel II FIRB classes of Corporate, Bank and Sovereign as shown in section 6.1: 'Credit Risk exposures by measurement approach'.

	PD Grade							
Non-Retail $'M	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total Gross Credit Exposures
Corporate	-	10,220	4,050	4,696	1,813	812	689	**22,280**
Sovereign	11	702	13	1	-	-	-	**727**
Bank	1	6,848	618	28	7	51	83	**7,636**
Total Gross Exposures	**12**	**17,770**	**4,681**	**4,725**	**1,820**	**863**	**772**	**30,643**

Included in the above Total Gross Credit Exposures are exposures for undrawn commitments. These undrawn commitment exposures as at 30 September 2008 are set out in the table below.

	PD Grade							
Undrawn Commitments $'M	0 < 0.03%	0.03% < 0.15%	0.15% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Default	Total Gross Credit Exposures
Corporate	1	382	190	1,415	417	188	69	**2,662**
Sovereign	64	-	-	-	-	-	-	**64**
Bank	-	21	-	27	3	4	8	**63**
Total Undrawn Commitments	**65**	**403**	**190**	**1,442**	**420**	**192**	**77**	**2,789**

6.0
Calculation of Credit Risk Exposures
(Continued)

The table below provides a breakdown of gross credit exposures as at 30 September 2008 into each Expected Loss category for the Retail portfolios under the Basel II FIRB classes of Residential Mortgage, Qualifying revolving retail, Other retail and Other as shown in section 6.1: 'Credit Risk exposures by measurement approach'

	Expected Loss Categories						
Retail $'M	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Total Gross Credit Exposures
Residential Mortgage	994	1,912	1,586	280	-	51	4,823
Qualifying revolving retail	-	-	-	-	-	-	-
Other retail	-	-	821	358	-	2	1,181
Total Gross Exposures	**994**	**1,912**	**2,407**	**638**	**-**	**53**	**6,004**

Included in the above Total Gross Credit Exposures are exposures for undrawn commitments. These undrawn commitment exposures as at 30 September 2008 are set out in the table below.

	Expected Loss Categories						
Undrawn Commitments $'M	0 < 0.1%	0.1% < 0.3%	0.3% < 0.5%	0.5% < 3%	3% < 10%	10% < 100%	Total Gross Credit Exposures
Residential Mortgage	97	67	193	17	-	-	374
Qualifying revolving retail	-	-	-	-	-	-	-
Other retail	-	-	-	-	-	-	-
Total Undrawn Commitments	**97**	**67**	**193**	**17**	**-**	**-**	**374**

	$'M
Non-Retail and Retail Total Exposures	36,647

6.0
Calculation of Credit Risk Exposures
(Continued)

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7.0 Provisioning

7.0
Provisioning

7.1 Impaired Loans 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 loans 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 on the loan 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:

– an impaired loan if the facility meets the criteria for impairment as detailed above; or
– a past due where the facility is assessed as well secured.

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

7.2 Specific Provisions

Facilities that are assessed as impaired are subject to a recoverability test. Specific provisions are recognised where the carrying value of the exposure is in excess of the present value of future cash flows. Specific provisions are taken through the Profit and Loss.

7.0
Provisioning
(Continued)

7.3 Collective Provisions

Collective provisions are calculated in accordance with accounting guidance and are representative of losses that have been incurred but not yet identified. To perform this collective assessment, assets are placed into portfolios with similar characteristics and assessed against parameters based on historical loss experience. The collective provision calculation takes the outstanding balance by portfolio and applies a set PD and LGD estimate. The LGDs are based on historical loss experience across a full credit cycle.

7.4 Expected Loss

Expected Loss (EL) represents the estimated future credit losses expected to be incurred in a portfolio. Similar to collective provisions, EL is calculated as a function of the outstanding exposure, PD and LGD. For Specialised Lending the LGD is defined by APRA, for other exposures the LGD is based on historical loss experience across a full credit cycle over the full life of a facility.

The difference between EL and eligible provisions is required by APRA to be deducted from capital, 50% from Tier 1 capital and 50% from Tier 2 capital. Eligible provisions include specific provisions and collective provisions, net of deferred tax assets. As at 30 September 2008, the total EL was $576m, with the excess of EL over eligible provisions resulting in a Tier 1 deduction of $147 million and a Tier 2 deduction of $147 million.

7.5 Provisions by Counterparty Type

The table below details Macquarie's impaired loans, past dues and specific provisions as at 30 September 2008 and charges and write-offs in the 6 month period to 30 September 2008. All amounts are reported in AUD millions.

Counterparty Type	As at 30 September 2008			For the 6 months to 30 September 2008	
	Impaired loans	Past due > 90 days	Specific provisions balance	Charges for specific provision	Write-offs
Government	-	-	-	-	-
Financial Institutions	-	-	-	-	-
Corporate	420	31	(166)	93	(9)
Retail	108	68	(45)	28	-
Total	**528**	**99**	**(211)**	**121**	**(9)**

In addition to impaired loans, as at 30 September 2008 MBL also has impaired debt investment securities of $304m (31 March 2008: $264m), with a specific provision of $114m (31 March 2008: $56m) held against this portfolio. This impairment is disclosed in both the MBL 30 September 2008 half year financial statements and MBL 31 March 2008 annual financial statements.

7.0 Provisioning (Continued)

The table below details Macquarie's impaired loans, past dues and specific provisions as at 31 March 2008, and charges and write-offs in the 6 month period to 31 March 2008. All amounts are reported in AUD millions.

Counterparty Type	As at 31 March 2008			For the 6 months to 31 March 2008	
	Impaired loans	Past due > 90 days	Specific provisions balance	Charges for specific provision	Write-offs
Government	-	-	-	-	-
Financial Institutions	-	-	-	-	-
Corporate	317	49	(86)	46	(12)
Retail	45	56	(14)	12	-
Total	**362**	**105**	**(100)**	**58**	**(12)**

The increase in impaired loans in the Corporate portfolio has been primarily driven by the deterioration in the global real estate market over the past twelve months marked by declines in property values and sales rates. This has resulted in a material increase in the level of impairments compared with prior periods. Macquarie has adjusted its collateral security to reflect current market conditions and taken appropriate specific provisions which are reviewed on a regular basis.

Within the retail portfolio, the bulk of impairments relate to the residential mortgage sectors in the United States (impaired loans $13 million, specific provisions $5 million) and Italy (impaired loans $72 million, specific provisions $20 million). The Italian mortgage business was sold in October 2008.

The reporting of impairments in Australian dollars has been impacted between March and September 2008 by a deteriorating Australian dollar. The declining AUD exchange rate has contributed to 8% of the increase in impaired loans over the 6 months to September 2008.

7.6 Provisions by Geographic Region

The table below splits Macquarie impaired loans, past dues and provisions by geographic region as at 30 September 2008. All amounts are reported in AUD millions. Note that geographic split has been based on the domicile of the risk counterparty.

Geographic Region	Impaired loans	Past due > 90 days	Specific provision balance	Collective Provisions
Australia	124	32	(55)	(64)
Europe	93	38	(31)	(18)
North America	248	4	(65)	(21)
Asia Pacific	-	-	-	-
Other *	63	25	(60)	(7)
Total	**528**	**99**	**(211)**	**(110)**

* Other consists primarily of exposures to South Africa and Latin America.

7.0 Provisioning (Continued)

The table below splits Macquarie impaired loans, past dues and provisions by geographic region as at 31 March 2008. All amounts are reported in AUD millions. Note that geographic split has been based on the domicile of the risk counterparty.

Geographic Region	Impaired loans	Past due > 90 days	Specific provision balance	Collective Provisions
Australia	158	42	(33)	(49)
Europe	41	31	(3)	(21)
North America	86	13	(15)	(25)
Asia Pacific	12	-	(12)	-
Other *	65	19	(37)	(17)
Total	**362**	**105**	**(100)**	**(112)**

* Other consists primarily of exposures to South Africa and Latin America.

7.7 Movement in Provisions

The table below shows the movement of provisions over the 6 months to 30 September 2008.

	$'M
Total Provisions as at 31 March 2008	**212**
Collective Provision	
Balance at start of period	112
Charge to income statement	(2)
Net transfer to specific provisions	-
Recoveries of amounts previously written off	-
Adjustments for exchange rate fluctuations	-
Write-offs	-
Total Collective Provision	**110**
Specific Provisions	**$'M**
Balance at start of period	100
Charge to income statement	121
Loan assets written off, previously provided for	(13)
Recovery of loans previously provided for	(4)
Adjustments for exchange rate fluctuations	7
Write-offs	-
Total Specific Provision	**211**
Total Provisions as at 30 September 2008	**321**

7.0
Provisioning
(Continued)

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8.0 Credit Risk Mitigation

8.0
Credit Risk Mitigation

8.1 Netting

Macquarie's credit exposures to individual counterparties are netted for capital adequacy and large exposure purposes to the extent permitted by transaction documentation and APRA requirements.

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 the APRA Prudential Standard APS 112: Capital Adequacy: Standardised Approach to Credit Risk, has been complied with.

8.1.1 Collateral Valuation and Management

RMG Credit limits are set and the related exposures are calculated at a gross level before taking any collateral into consideration. However, 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
- Commercial or residential property

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

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

8.1.2 Wrong Way Risk

Wrong way risk occurs when exposure to the client is adversely correlated with the credit quality of that client. This could arise through transactions where lending to a company or principal was collateralised by its own or related party shares. Macquarie actively considers these matters when approval is given and LGD estimates would be modified to reflect the increased risks associated with this. General wrong way risk can occur when a macroeconomic event affects both the creditworthiness of the counterparty as well as the value of their derivatives position. Once again, the credit assessment process looks to identify these correlations and the LGD values will be adjusted to reflect this relationship. These types of collateral are specifically ineligible under the APRA Prudential Standard APS112: Standardised Approach to Credit Risk.

8.2 Exposures Mitigated by Eligible Collateral

Eligible financial collateral is defined in Prudential Standard APS 112: Standardised Approach to Credit Risk as cash, certificates of deposit, bank bills, certain rated debt issues and listed equities. Other eligible collateral include claims secured by commercial or residential real estate (subject to certain APRA imposed restrictions) or eligible financial receivables.

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

Some types of collateral which are eligible by definition may be determined to be ineligible or adjusted with an appropriate haircut at the time of calculation due to mismatches of maturity or currency between the collateral and the underlying exposures.

For capital adequacy purposes, eligible cash collateral is deducted from the total gross credit exposure and this net balance used as the basis of calculating the capital requirement. For non-cash collateral, the exposure is assessed for capital purposes based on the credit quality of the collateral, rather than the credit quality of the actual gross credit exposure.

The table below shows gross credit exposures by Basel II portfolio (Corporate, Sovereign and Bank) under the FIRB and Standardised approach and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives as at 30 September 2008. All amounts are in AUD millions.

Measurement Approach	Total Gross Credit Exposure	Eligible Financial Collateral	Other Eligible Collateral	Exposures Covered by Guarantees
Foundation IRB				
Corporate	22,280	143	1,373	856
Sovereign	727	-	-	3
Bank	7,636	274	18	227
Total	30,643	417	1,391	1,086
Standardised				
Corporate	6,569	63	1,364	-
Sovereign	-	-	-	-
Bank	-	-	-	-
Total	6,569	63	1,364	-

8.0
Credit Risk Mitigation
(Continued)

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9.0 Securitisation

9.0
Securitisation

9.1 Overview

Macquarie has been a leading participant in the securitisation market since 1991. As an originator and issuer, Macquarie's objectives are to obtain funding for its assets and to achieve a transfer of credit risk on securitised assets to third parties including securitisation Special Purpose Vehicles (SPVs).

Macquarie has played the following roles in securitisations:

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

Macquarie has also established a warehouse SPV that issues and holds Residential Mortgage Backed Securities (RMBS) eligible for repurchase with the RBA.

RMG is responsible for overseeing the management of the risk arising from these securitisation activities. RMG approves all securitisation transactions and exposures arising from securitisation activity. RMG Prudential reviews transactions to ensure compliance with APRA's Prudential Standard APS 120 Securitisation 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. Macquarie's primary risk mitigant is the limit framework and approval process governing exposures to securitisations.

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

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

– the Ratings Based approach;
– the Inferred Ratings Based approach; and
– the approach for eligible facilities under APS 120 Attachment D paragraph 37 for eligible facilities.

If the exposure is not covered by one of the above approaches it is deducted from capital, although in all cases the capital charge is capped at the on-balance sheet equivalent.

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

9.0
Securitisation
(Continued)

9.1.1 Accounting for Securitisations

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

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

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

Securitised assets consolidated by Macquarie are held on the balance sheet at amortised cost. Macquarie transacts securitisations at fair value, and no gain or loss is booked on the sale of the mortgage assets to the SPVs.

9.2 Securitisation activity

The tables below set out the securitisation activity by Macquarie as at 30 September 2008. Assets underlying these securitisations do not form part of the Level 2 regulatory group exposures as they meet the operational requirements for regulatory capital relief in accordance with APS 120: Securitisation.

9.2.1 Originating ADI Securitisation Exposures

The table below sets out the securitisations originated by Macquarie as at 30 September 2008. These exposures have subsequently been securitised and are excluded from the MBL Level 2 regulatory group as described above. There are no synthetic securitisations nor any subject to early amortisation.

	Total outstanding exposures securitised ($'M)			
Underlying asset	ADI originated assets	Third party originated assets	Facilities provided	Other
Residential mortgage	20,394	-	118	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	3,135	-	-	-
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	23,529	-	118	-

9.0 Securitisation (Continued)

9.2.2 Performance of assets securitised

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

	Total outstanding exposures securitised ($'M)			
Underlying Asset	Total outstanding exposure	Impaired	Past due	Losses recognised
Residential mortgage	20,394	16	197	1
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance *	3,135	-	15	6
Commercial loans	-	-	-	-
Other	-	-	-	-
Total	23,529	16	212	7

* Assets were acquired from the Macquarie Non Banking Group, who originated the assets.

9.2.3 Securitisation activity

Over the 6 months to September 2008, Macquarie has undertaken the following securitisation activity. These exposures have been excluded from the Level 2 regulatory group as described above.

	Book Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Underlying Asset	ADI originated $'M	Third party originated $'M	$'M
Residential mortgage	1,529	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	1,435	-	-
Commercial loans	-	-	-
Other	-	-	-
Total	2,964	-	-

9.0
Securitisation
(Continued)

9.3 Exposures arising from Securitisation Activity

9.3.1 Exposure by Type of Asset

In addition to securitising Macquarie originated assets, Macquarie also provides various facilities to external securitisation participants and holds other securitisation assets. The table below shows the nature of securitisation exposures as at 30 September 2008. As described in section 9.1, Macquarie undertakes various roles in securitisations which result in exposure to the following types of assets.

Securitisation Exposure Type	Gross Credit Exposure ($'M)
Liquidity facilities	24
Funding facilities	1,370
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Derivative transactions	34
Holdings of securities (excluding trading book)	1,525
Other	-
Total	2,953

9.3.2 Exposure by Risk Weight

This table sets out the aggregate amount of securitisation exposures and after risk weighting, the RWA by Risk Weight banding as at 30 September 2008.

Securitisation Exposure Type	Gross Credit Exposure $'M	Risk Weighted Assets $'M
25%	1,325	206
>25 35%	56	19
>35 50%	1,297	648
>50 75%	71	53
>75 100%	20	20
>100 650%	106	411
1250% (Deduction)	78	-
Total	2,953	1,357

9.0 Securitisation (Continued)

9.3.3 Deductions from Capital

The table below highlights securitisation exposures that have been deducted from capital as at 30 September 2008, split by underlying asset class.

	Deductions relating to ADI originated assets securitised		
Securitisation exposures deducted from capital	Residential mortgage $'M	Auto and equipment finance $'M	Total $'M
Deductions from Tier 1 capital	9	30	**39**
Deductions from Tier 2 capital	9	30	**39**
Total	**18**	**60**	**78**

9.3.4 Securitisation Activity over the 6 months to 30 September 2008

The tables below summarises securitisation activity over the past 6 months by facility type.

Securitisation type	Exposure ($'M)
Liquidity facilities	-
Funding facilities	5
Underwriting facilities	-
Lending facilities	-
Credit enhancements	-
Derivative transactions	1,681
Other	-
Total	**1,686**

* The above exposures have been calculated using the face value or notional amount (derivatives) at the time of the transaction.

10.0 Market Risk Exposures

10.0
Market Risk Exposures

10.1 Market Risk

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

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

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

10.1.1 Trading Market Risk

RMG monitors positions within Macquarie according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate, so that the risk profile approved for each business remains within Macquarie's aggregate level of risk. Limits are set at levels appropriate to the management of customer trades and underlying business activities. Only limited proprietary trading activity is allowed, primarily centred upon trading around positions that result from customer flows. Limits are approved by members of management with appropriate authority for the size and nature of the risk, and remain the ultimate responsibility of the business. Macquarie adheres to a "No Limits, No Trading" policy. If a product or position has not been authorised by RMG; that product or position cannot be traded. Material breaches of the approved limit structure, for both businesses and in aggregate, are communicated monthly to the Boards.

RMG sets three complementary limit structures:

- Contingent Loss Limits: over 13,000 price and volatility scenarios, including comprehensive worst case, or stress, scenarios, are calculated daily. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives;
- Position Limits: volume, maturity and open position limits are set on a large number of market instruments and securities in order 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.

10.1.2 Aggregate Measures of Market Risk

Aggregate market risk is constrained by two risk measures, Value at Risk (VaR) and the Macro-Economic-Linkages (MEL) scenario. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days at a given confidence level. The MEL scenario captures simultaneous, worst case contingent loss movements across all major markets. Whereas MEL focuses on extremely large price movements which are considered worst case, VaR focuses on unexceptional price movements so that it does not account for losses that could occur beyond the 99 per cent level of confidence.

10.1.3 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 1000 benchmarks, based on three to ten years of historical data. 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 energy products traded at different locations. Exposures to individual equities within a national market are captured by equity specific risk modelling incorporated into the VaR model. The benchmarks are correlated based on the same historical data.

The integrity of the VaR model is tested against daily profit or loss and reported to APRA quarterly.

10.1.4 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.

10.2 Market Risk Capital Requirement

The regulatory capital requirement is based upon:

- Value at Risk using a 10 day time horizon at a 99% confidence level. In determining the capital charge required for prudential purposes VaR excluding Equity Specific risk is scaled at 3:1 and Equity Specific Risk is scaled at 4:1 in accordance with APRA policy.
- Regulatory capital for debt security specific risk is calculated using the APRA standardised method (see section 10.2.2).
- The sum of the VaR and debt security specific risk amounts are scaled by 12.5 in accordance with APRA policy and added to the non-banking interest rate risk to arrive at the regulatory capital requirement.

The market risk regulatory capital requirement or RWAs as at 30 September 2008 is $2,291 million.

10.0
Market Risk Exposures
(Continued)

10.2.1 Value at Risk figures

	VaR over the current reporting period ($'M)				VaR over the previous reporting period ($'M)			
	Mean value	Max value	Min value	VaR 30 September 2008	Mean value	Max value	Min value	VaR 31 March 2008
Commodities	25	43	16	23	39	48	25	34
Equities	13	24	7	19	15	24	10	17
Foreign Exchange	11	24	5	7	8	16	4	6
Interest Rates	16	23	9	11	9	13	6	9
Aggregate	33	47	24	33	38	51	26	38

Note:
The VaR figures are based upon a 10 day time horizon at a 99% confidence level.
The current reporting period relates to a 6 month trading period to 30 September 2008.
The Equity figure incorporates the Equity specific risk amount.

There were no actual trading losses that exceeded the 1-day 99% calculated VaR for the period ending 30 September 2008.

10.2.2 Debt Security Specific Risk figures

Regulatory capital for Macquarie's debt security specific risk is calculated using the APRA standardised method.

30 September 2008	$'M
Interest rate risk	88

The interest rate risks referred to above arise from movements in interest rates in the Macquarie trading book. Capital requirements for interest rate risks arising from the banking book are separately disclosed in section 10.2.3.

10.2.3 Interest Rate Risk in the Banking Book

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

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

10.0
Market Risk Exposures
(Continued)

The total interest rate risk arising from the banking book (IRRBB) capital is calculated by adding the change in economic value derived from the worst-case of a 200 basis point increase and 200 basis point decrease in interest rates for each currency to the embedded gains and losses (as defined in ARF 117) for each currency. In the event that an embedded loss for a particular currency is greater than the change in economic value derived from the worst-case of the 200 basis point increase or decrease, a capital charge of zero is applied. The total capital charge for Macquarie is equal to the sum of the capital charge for each currency.

Stress testing: interest rate shock applied	Change in economic value ('M)
AUD	
200 basis point parallel increase	7.1
200 basis point parallel decrease	(7.4)
CAD	
200 basis point parallel increase	(0.7)
200 basis point parallel decrease	0.8
EUR	
200 basis point parallel increase	(2.2)
200 basis point parallel decrease	2.7
HKD	
200 basis point parallel increase	0.0
200 basis point parallel decrease	0.0
USD	
200 basis point parallel increase	3.7
200 basis point parallel decrease	(3.8)
IRRBB regulatory capital requirement - AUD	(7.8)

Note that the brackets in the above table indicate a loss in economic value due to movements in interest rates.
The IRRBB RWA for 30 September 2008 is $98m.

10.0
Market Risk Exposures
(Continued)

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11.0 Equity Risk

11.0
Equity Risk

The Macquarie Banking Group is exposed to equity risk on non-trading equity-like positions including:

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

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

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

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

11.1 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;
– investments in subsidiaries and held for sale (HFS) associates held at lower of cost of net realisable value; and
– available for sale equity investments.

Equity accounting is applied to investments in which Macquarie has significant influence or joint control. These equity investments are described as Investments in Associates. Equity accounting is applied such that Macquarie's share of its investee's post acquisition profit or losses are recorded in Macquarie's Income Statement. Investments accounted for using equity accounting are subject to recurring review and assessment for possible impairment, to the extent that the carrying value of the equity investment must not exceed its recoverable amount.

Where the 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 available for sale (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 will be recognised in Macquarie's income statement. 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.

HFS assets are those that have a high probability of being sold in the next 12 months to external parties. HFS investments are carried at the lower of carrying value and fair value less costs to sell.

11.0
Equity Risk
(Continued)

All equity investments, regardless of accounting treatment, are subject to ongoing impairment testing, resulting in the balance sheet value being written down to fair value where such impairment exists. Any write down for impairment is reflected in the profit and loss.

11.2 Equity Investments

The table below details the 30 September 2008 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.

Equity investments	Carrying value $'M	Fair value $'M
Value of listed (publicly traded) equities	654	654
Value of unlisted (privately held) equities	1,337	1,337
Total	**1,991**	**1,991**

11.3 Capital requirements arising from equity risks

The RWA equivalent of the equity exposures as at 30 September 2008 are stated below.

RWA requirements	Risk Weighted Assets $'M
Equity investments subject to a 300% risk weight	447
Equity investments subject to a 400% risk weight	1,009
Total RWA requirement for equity exposures	**1,456**

Equity investments are subject to the above risk weighting to the extent of an APRA imposed limit. The limit is:

- 15% of Macquarie's Level 1 total capital base before deductions for an individual investment; and
- 5% of Macquarie's Level 1 total capital base before deductions in aggregate.

Equity investments above these limits are taken as capital deductions. As at 30 September 2008 equity investment related deductions are included in the following line items in section 3.1 of this report:

- Other Tier 1 capital deductions
- Non-subsidiary entities exceeding prescribed limits (50%)
- 50/50 deductions from Tier 2 capital

In addition, some other equity exposures are included in the RWA table (refer section 4.4) as 'Subject to Standardised Approach – Other'.

11.0
Equity Risk
(Continued)

11.4 Gains and losses on equity investments

Gains / (losses) on equity investments	$'M
Cumulative realised gains / (losses) in 6 months to 30 September 2008	5
Total unrealised gains / (losses) *	63
Total unrealised gains / (losses) included in Tier 1 / Tier 2 Capital *	(8)

* Includes impairment write down and equity accounted profits and losses.

12.0 Operational Risk

12.0
Operational Risk

Operational risk is an integral part of Macquarie's business. Operational risk is the risk of loss from inadequate or failed internal processes, people, systems or from external events. This includes the failure or inadequate management of other risk types.

Macquarie has developed an Operational Risk Management Framework designed to identify, assess and manage operational risks. The framework is also designed to monitor risks, report and escalate information. Operational risks are managed by monitoring through regular self-assessments, the recording and analysis of internal incidents, the use of indicators and a robust change management process to ensure risks associated with new activities or products are identified, addressed and managed prior to implementation. Consistent with Macquarie's philosophy of 'freedom within boundaries', the framework includes a number of Macquarie wide policies which require a consistent approach and minimum standards on specific operational risk matters. External operational risk events are also monitored in order to learn lessons from other organisations.

RMG is responsible for ensuring an appropriate framework exists to identify, assess and manage operational risk and that dedicated skilled resources are available to support it. It is also responsible for Macquarie's operational risk capital measurement methodology. In general, Macquarie's operational risk profile increases as a result of greater innovation and growth which is offset by constant gradual adaptation and development of the control environment to new risks. Macquarie's risk profile can also change as a result of external changes such as new legislation or market conditions.

12.1 Macquarie's Operational Risk Capital Framework

Macquarie received APRA approval for use of the Advanced Measurement Approach (AMA) for assessing operational risk capital in December 2007. Macquarie's operational risk capital is calculated using a scenario based approach together with statistical modelling of potential losses. Operational risk scenarios identify key risks that, while low in probability, may result in high impact losses. In identifying and quantifying such events, consideration is given to individual statistical distributions for each scenario, external loss data, internal loss data, risk and control factors determined by the operational risk self assessments, and the contribution of expert opinion from businesses. Scenarios are updated annually.

Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9th percentile confidence level. Monte Carlo techniques are used to aggregate individual scenario distributions to determine a group-wide operational risk loss distribution.

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

Over time operational risk capital changes to reflect:

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

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

12.0
Operational Risk
(Continued)

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

The operational risk regulatory requirement or RWA as at 30 September 2008 is $6,720 million.

Disclaimer

General areas of disclaimer:

- The Information has been prepared purely for the purpose of explaining the basis on which Macquarie has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. It therefore does not constitute any form of financial statement on the Business nor does it constitute any form of contemporary or forward looking record or opinion of any of the Businesses.
- 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
    - The different waivers applied for and allowed by regulators
    - Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the bank and any surplus capital available.

Appendices

Appendix

1 List of APRA Quantitative Tables

APS 330 Table	Title	Section No.
1 (d)	Aggregate amount of undercapitalised non-consolidated subsidiaries	n/a
2 (b) to (d)	Regulatory capital breakdown	3.1
3 (b) to (g)	Risk Weighted assets by risk type	4.4
4 (b)	Credit risk exposure by portfolio type	5.3
4 (c)	Credit risk exposure by geographic distribution and portfolio type	5.4
4 (d)	Credit risk exposure by industry sector and portfolio type	5.5
4 (e)	Credit risk exposure by contractual maturity and portfolio type	5.6
4 (f)	Impaired and past due exposures, specific provisions and actual losses by counter party	7.5
4 (g)	Impaired and past due exposures, specific provisions by geographic region	7.6
4 (h)	Movement in provisioning for impairment	7.7
4 (i)	Credit risk exposure by Basel II approach (Foundation/standardised)	6.1
5 (b)	Standardised, specialised lending and equity exposure by risk weight	6.2
6 (d)	Non-retail credit risk exposure by PD band and portfolio type	6.3
6 (d)	Retail credit risk exposure by EL band and portfolio type	6.3
6 (e) *	Analysis of credit risk exposure losses by portfolio type	5.3
6 (f) **	Historical loss analysis by portfolio type	**
7 (b) & (c)	Credit risk mitigation by Basel II approach	8.2
9 (d) & (e)	Securitisation exposures by asset type	9.2.1
9 (d) & (e)	Analysis of past due and impaired securitisation exposures	9.2.2
9 (f)	Analysis of securitisation exposure by risk facility type	9.3.1
9 (g)	Analysis of securitisation exposure by risk weighting	9.3.2
9 (g)	Analysis of securitisation exposure deductions by asset type	9.3.3
9 (h)	Analysis of securitisation exposure subject to early amortisation	n/a
9 (i)	Risk weighted assets securitisation exposure under the standardised approach	9.3.2
9 (j)	Analysis of new securitisation exposure by facility type since 1 April 2008	9.3.4
10	Market risk capital under the standardised approach	10.2
11	Value at risk analysis for trading portfolios under the internal models approach	10.2.1
13 (b) to (f)	Analysis of equity investments	11.2, 11.3, 11.4
14	Internal Rate Risk in the Banking Book	10.2.3
17 (b) & (c)	Credit Risk Provisions by portfolio type	5.3

* The data required for table 6(e) has been included within table 17(b) & (c)

** Table 6(f) is not required until year end March 2009

n/a – Not applicable as the Macquarie table would contain only nil values

Appendix
(Continued)

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

#	Legal Enitity
1	Avenal Power Center, LLC
2	Belike Nominees Pty Limited
3	Bond Street Custodians Limited
4	Brook Asset Management Limited
5	Brook Asset Management Pty Limited
6	Capital Meters Limited
7	CF Macquarie investment Funds
8	Coin Software Pty Limited
9	Corona Energy Limited
10	Corona Energy Retail 1 Limited
11	Corona Energy Retail 2 Limited
12	Corona Energy Retail 3 Limited
13	Corona Energy Retail 4 Limited
14	Corona Gas Management Limited
15	Generator Bonds Limited
16	Generator Investments Australia Limited
17	Hemisphere Services Pty Limited
18	Macquarie Index Linked Property Securities Fund
19	Macquarie Alternative Assets Management Limited
20	Macquarie Capital Products (NZ) Limited
21	Macquarie Commercial Real Estate Debt Fund GP Ltd
22	Macquarie Commercial Real Estate Debt Fund L.P.
23	Macquarie Financial Products Management Limited
24	Macquarie Global Resources Master Hedge Fund LP
25	Macquarie Global Resources Offshore Hedge Fund Limited
26	Macquarie Investment Management (NZ) Limited

#	Legal Enitity
27	Macquarie Martin Place Finance Pty Limited
28	Macquarie Capital Investment Management (Australia) Limited
29	Macquarie Australian Pure Indexed Equities Fund
30	Macquarie Corona Energy Holdings Limited
31	Macquarie Enhanced Global Bond Fund
32	Macquarie Enhanced Properties Securities Fund
33	Macquarie Farm Assets and Resources Management Limited
34	Macquarie Fortress Investments Limited
35	Macquarie Funds Management SPC
36	Macquarie Funds Management Hong Kong Limited
37	Macquarie Agricultural Services Pty Limited
38	Macquarie Income Investments Limited
39	Macquarie Infrastructure Opportunities Fund Ltd
40	Macquarie Investment Management SARL
41	Macquarie Media Fund Management Pty Limited
42	Macquarie Office Investments Pty Limited
43	Macquarie Parking Infrastructure Pty Limited
44	Macquarie Pastoral Management Ltd
45	Macquarie Pastoral Services Ltd
46	Macquarie Private Capital Management Limited
47	Macquarie Private Portfolio Management (NZ) Pty Limited
48	Macquarie Private Portfolio Management Limited
49	Macquarie Real Estate Korea Limited
50	Macquarie Property Investment Management 5 Limited
51	Macquarie Property Investment Management 6 Limited
52	Macquarie Securities Management Pty Limited

Appendix
(Continued)

#	Legal Enitity
53	Macquarie True Index Australian Share Fund
54	Macquarie True Index Australian Equities Fund
55	Macquarie True Index Cash Fund
56	Macquarie True Index Global Bond Fund
57	Macquarie True Index Listed Property
58	Macquarie True Index Plus Australian Equity
59	Macquarie-Globalis Bric Advantage Fund (Unhedged)
60	Macquarie Admin Services Pty Limited
61	Macquarie Australia Securities Limited
62	Macquarie Bank Superannuation Pty. Limited
63	Macquarie Barnett LLC
64	Macquarie Commodities Fund Ltd
65	Macquarie Countrywide Management Limited
66	Macquarie Direct Property Management Limited
67	Macquarie Structured And Specialist Investments Holdings Pty Limited
68	Macquarie Funds Management (USA) Inc.
69	Macquarie Global Property Funds Limited
70	Macquarie Management GmbH
71	Macquarie International Office Pty Limited
72	Macquarie Investment Management Ltd
73	Macquarie Investment Services Limited
74	Macquarie Leisure Management Limited
75	Macquarie Life Limited
76	Macquarie Office Management Limited
77	Macquarie Prism Pty Limited
78	Macquarie Syndicate Management Pty Ltd
79	Macquarie Treuvermoegen GmbH
80	Macquarie True Index Fixed Interest
81	MQ Capital Pty Limited
82	MQ Portfolio Management Limited
83	MQ Specialist Investment Management (Singapore) Pte Limited
84	MQ Specialist Investment Management Limited
85	MMUSA Warehouse No 1 LLC
86	Omni Leisure Operations Pty Limited
87	Omni Sports Management Pty Ltd
88	Parents@Work Freehold unit Trust
89	Parents at Work Investment Unit Trust
90	Parents at Work Operative Unit Trust
91	Parents@Work Pty Limited
92	PUMA Subfund Commbank
93	POLAR Finance Limited
94	Pulse 24 Limited
95	PUMA Finance Pty Limited
96	PUMA Global Trust No. 1
97	PUMA Global Trust No. 2
98	PUMA Global Trust No. 3
99	PUMA Global Trust No. 4
100	PUMA Global Trust No. 5
101	PUMA Global Trust No. 6
102	PUMA Global Trust No. S1
103	PUMA Masterfund E-3
104	PUMA Masterfund H-1
105	PUMA Masterfund P-6
106	PUMA Masterfund P-7
107	PUMA Masterfund P-8
108	PUMA Masterfund P-9
109	PUMA Masterfund P-10
110	PUMA Masterfund P-11
111	PUMA Masterfund P-12
112	PUMA Masterfund P-13

Appendix
(Continued)

#	Legal Enitity
113	PUMA Masterfund S-2
114	PUMA Masterfund S-3
115	PUMA Masterfund S-5
116	PUMA Sub Fund ACHM
117	PUMA Sub Fund CP
118	PUMA Sub Fund CP2
119	PUMA Sub Fund CP3
120	PUMA Sub Fund CP4
121	PUMA Sub Fund CRS
122	PUMA Sub Fund GSF
123	PUMA Sub Fund Sabre
124	PUMA Sub Fund Span
125	Queen Street Partners Pty Limited
126	Secure Australia Management Pty Limited
127	SMART Series 2007-1 Trust
128	SMART Series 2007-2 Trust
129	SMART Series 2007-3E Trust
130	SMART Series 2008-1E Trust
131	SMART Series 2008-2 Trust
132	Sydicated Asset management Pty Limited
133	Warathan Aircraft Leasing Pte Ltd

3 Glossary of Terms

ADI	Australian Deposit-taking Institution
AMA	Advanced Measurement Approach for determining operational risk
APRA	Australian Prudential Regulation Authority
Associates	Entities over which Macquarie has significant influence, but not control
Available for sale (AVS) assets	Investments over which Macquarie does not have significant influence nor control and are intended to be held for an indefinite period of time
BACC	Board Audit and Compliance Committee
Credit Equivalent Amount (CEA)	The on balance sheet equivalent value of an off balance sheet transaction
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.
Deconsolidated entities (for APRA purposes)	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV)
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor
ECAI	External Credit Assessment Institution
ECAM	Economic Capital Adequacy Model
EL	Expected Loss, which is a function of PD and LGD
ELE	Extended Licensed Entity are entities that are 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.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed
FIRB	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA
Gross credit risk exposures	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
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor
Level 2 MBL Regulatory Group	MBL, its parent Macquarie BH Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes
Level 3 Regulatory Group	MGL and its subsidiaries
MBL	Macquarie Bank Limited
MGL	Macquarie Group Limited

Appendix
(Continued)

Macquarie Income Preferred Securities (MIPS)	On 22 September 2004, Macquarie Capital Funding L.P., a Macquarie Group entity established to facilitate capital raising, issued £350 million of Tier 1 Capital-Eligible Securities (Macquarie Income Preferred Securities). The securities – guaranteed non-cumulative step-up perpetual preferred securities – will pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at Macquarie's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five-year benchmark sterling gilt rate. The securities may be redeemed on each fifth anniversary thereafter at Macquarie's discretion. The first coupon was paid on 15 April 2005. The issue is reflected in Macquarie's financial statements as an outside equity interest of the economic entity, with distributions being recorded to the outside equity interest.
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, MIS qualify as Tier 1 Capital. MIS are treated as equity in the Macquarie financial statements.
Probability of Default (PD)	Likelihood of default by an obligor on its financial obligations
Potential Credit Exposure (PCE)	Potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy
SPVs	Special purpose vehicle or securitisation vehicles
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial statements and may be included in Tier 2 Capital.
Tier 1 Capital	A capital measure defined by APRA in paragraphs 4 and 5 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.1, net of any applicable Tier 1 Capital Deductions
Tier 1 Capital Deductions	An amount deducted in determining Tier 1 Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Tier 1 Capital Ratio	Tier 1 Capital expressed as a percentage of RWA
Tier 2 Capital	A capital measure defined by APRA in paragraphs 6 (Upper Tier 2) and 7 (Lower Tier 2) of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.2
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions
Total Capital Deductions	An amount deducted in determining Total Capital, as defined in paragraph 9 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.4
Total Capital Ratio	Total Capital expressed as a percentage of RWA
Upper Tier 2 Capital	Refer Tier 2 Capital

Appendix
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