

# Pillar 3 disclosures

Macquarie Bank  
March 2019



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## **ASX Release**

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

20 May 2019 - The Macquarie Bank Limited March 2019 Pillar 3 disclosure document was released today on the Macquarie website [www.macquarie.com](http://www.macquarie.com). These disclosures have been prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330: Public Disclosure.

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# Introduction

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

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

APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APRA Prudential Standard APS 330: Public Disclosure as at 31 March 2019 together with the 31 March 2018 comparatives where appropriate.

MBL has adopted Australian Accounting Standards AASB 9: Financial Instruments (AASB 9) from 1 April 2018. The March 2019 disclosures reflect the adoption of AASB 9. The comparative period has not been restated. Refer to the MBL Group's 2019 Annual Financial Report for the details of AASB 9 changes.

Effective 10 December 2018, Corporate and Asset Finance Group's Principal Finance and Transportation Finance businesses have been transferred from the Bank Group to the Non-Bank Group. The March 2019 disclosures include the impact of this transaction. The comparative period has not been restated.

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

The current Macquarie Level 2 regulatory group capital, liquidity and leverage ratios and relevant comparatives are set out in the table below.

	<b>As at 31 March 2019</b>	As at 31 March 2018
<b>Capital, Liquidity and Leverage Ratios</b>		
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio <sup>1</sup>	<b>11.4%</b>	11.0%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio <sup>1</sup>	<b>13.5%</b>	12.8%
Macquarie Level 2 regulatory group Total capital ratio <sup>1</sup>	<b>15.6%</b>	14.6%
Macquarie Level 2 regulatory group Leverage ratio	<b>5.3%</b>	6.0%
Macquarie Level 2 regulatory group Liquidity coverage ratio <sup>1,2</sup>	<b>154.0%</b>	161.8%
Macquarie Level 2 regulatory group Net stable funding ratio <sup>1</sup>	<b>112.9%</b>	112.4%

1. The Macquarie Level 2 regulatory group capital and liquidity ratios are well above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.
2. The Liquidity coverage ratio for the 3 months to 31 March 2019 is calculated from 61 daily LCR observations (31 March 2018 is calculated from 62 daily LCR observations).

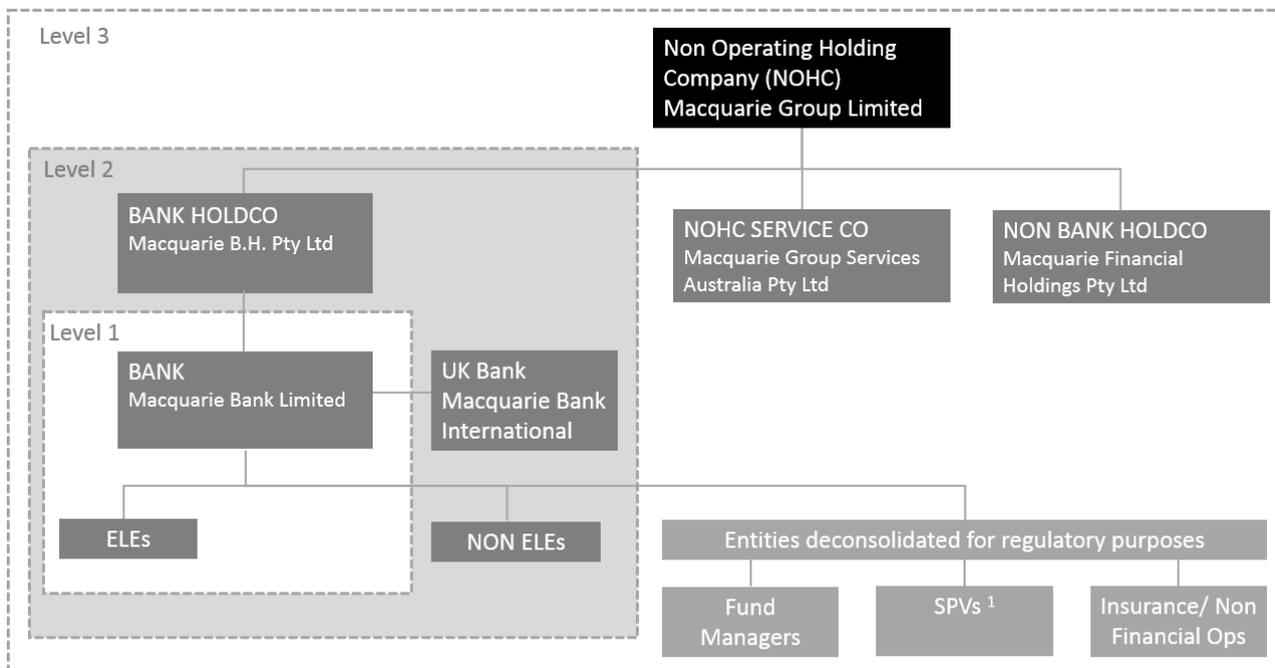
# 1.0 Overview

## 1.1 Scope of Application

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

### 1.1.1 Macquarie Regulatory Group

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



1. These are securitisation vehicles that achieve Regulatory Capital Relief per APS 120.

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

MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities (ELE) are reported to APRA as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent (Macquarie B.H. Pty Ltd) but excluding certain subsidiaries of MBL which are required by APRA to be deconsolidated for APRA reporting purposes. Equity investments into these entities by the Level 2 group are required to be deducted from Common Equity Tier 1 (CET1) capital under APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. The subsidiaries which are deconsolidated for regulatory purposes include mortgage and leasing special purpose vehicles (SPVs) for which Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief and entities conducting insurance, funds management and non-financial operations. These deconsolidated entities result in the Macquarie Level 2 group for regulatory purposes differing from MBL and its subsidiaries for accounting purposes. Therefore, the disclosures made in this report are for a different group of entities to those made in the financial report of MBL and its subsidiaries. A list of entities deconsolidated for Level 2 reporting purposes is included in Appendix 2.

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

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

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

# 1.0 Overview

## continued

### 1.2 Frequency

The qualitative disclosures in this report are required to be updated on an annual basis and more frequently if significant changes to policies are made. This report has been updated as at 31 March 2019 and policies disclosed within are effective at this time. The capital adequacy and summarised credit risk exposure quantitative disclosures are published on a quarterly basis. All other quantitative disclosures are published semi-annually in conjunction with Macquarie's half year (30 September) and annual (31 March) reporting cycles.

### 1.3 Report Conventions

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

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

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

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

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

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

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

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

#### 1.4.1 Pillar 1

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

Macquarie has been approved by APRA to apply the FIRB approach for credit risk capital calculation. This approach

utilises the PD and internal rating assigned to the obligor. The exposure is weighted using this internal PD and a Loss Given Default (LGD) value set by APRA. Credit Conversion Factors are applied to off balance sheet exposures based on the nature of the exposure.

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

#### 1.4.2 Pillar 2

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

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

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

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

#### 1.4.3 Pillar 3

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

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

- Risk Management Governance and Framework
- Capital Management
- Credit Risk Measurement
- Provisioning
- Credit Risk Mitigation
- Securitisation
- Credit Valuation Adjustment
- Exposures to Central Counterparties
- Market Risk
- Equity Risk
- Operational Risk
- Leverage Ratio
- Liquidity Coverage Ratio
- Net Stable Funding Ratio

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## 2.0 Risk Management Governance and Framework

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### 2.1 Risk Governance at Macquarie

#### Role of the Board

The primary role of the Board is to promote Macquarie's long-term health and prosperity. The Board is committed to oversight of Macquarie's performance, risk management and culture and to promoting the creation of enduring value. Macquarie's robust risk management framework supports the Board in its role. The Board is ultimately responsible for the framework, including oversight of its operation by Management.

#### Role of Management

The Group Heads of the Operating and Central Service Groups are responsible for implementation of the risk management framework in their Groups. They are required semi-annually to attest that key risks have been identified and are adequately controlled in their Groups. These management representations support the sign-off of the half year and the full year financial statements.

#### Three lines of defence

The assumption of risk is made within a calculated and controlled framework that assigns clear risk roles and responsibilities represented by 'three lines of defence':

- primary responsibility for risk management lies with the business. The risk owner is the first line of defence. Part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately.
- the Risk Management Group (RMG) forms the second line of defence and independently assesses all material risks.
- Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, the Group's financial and risk management framework.

### 2.2 Macquarie's Risk Management Framework

Macquarie's risk management framework is the totality of systems, structures, policies, processes and people within the Group that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on Macquarie. Macquarie's material risks include conduct, reputation, environmental and social (including climate change), credit, equity, market, liquidity, operational, cyber and information security, regulatory and compliance, legal and tax risks. The risk management framework applies to all business activities across Operating and Central Service Groups.

#### Core risk management principles

Macquarie's principles have remained stable and continue to be effective. These are:

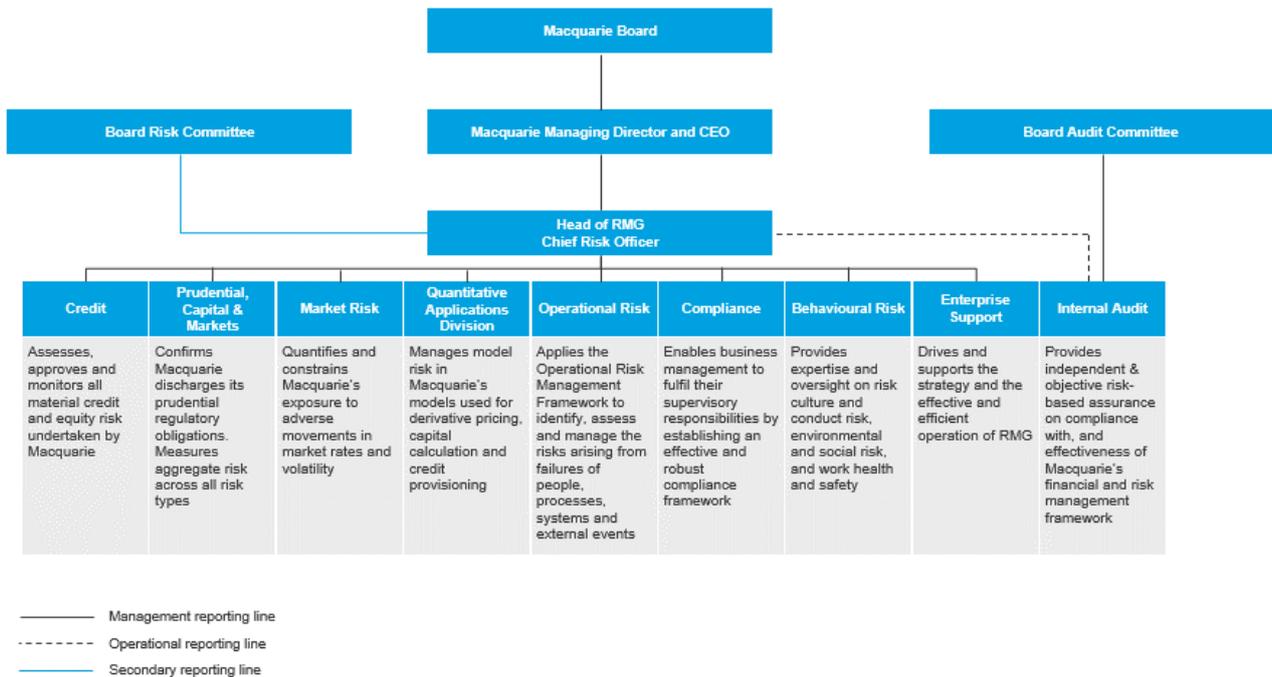
- **Ownership of risk at the business level:** Group Heads are responsible for ownership of material risks that arise in, or because of, the business' operations, including identification, measurement, control and mitigation of these risks. Before taking decisions, clear analysis of the risks is sought to ensure those taken are consistent with the risk appetite and strategy of Macquarie
- **Understanding worst case outcomes:** Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether these are acceptable and within Macquarie's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals
- **Requirement for an independent sign-off by risk management:** Macquarie places significant importance on having a strong, independent Risk Management Group charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals, many with trading or investment banking experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to Senior Management must include independent input from RMG on risk and return.

# 2.0 Risk Management Governance and Framework

## continued

### 2.3 Risk Management Group Structure

RMG, which forms the second line of defence, is an independent and centralised function responsible for assessing, accepting and managing risks across Macquarie. RMG designs and oversees the implementation of the risk management framework. RMG is structured into specialist teams, depicted below, and employs an integrated approach to risk analysis and management across risk classes. RMG’s assessment and monitoring of risks involves a collaborative effort across the teams to ensure a detailed analysis takes place both at the individual and aggregate risk level.



#### 2.3.1 Internal Audit

The Internal Audit Division, as the third line of defence, provides independent and objective risk-based assurance to the Board Audit Committee (BAC), other Board Committees and Senior Management on the compliance with, and effectiveness of, Macquarie’s financial and risk management framework. Internal Audit assesses whether material risks have been properly identified and key controls have been properly designed and are operating effectively and sustainably to mitigate those material risks.

The Head of Internal Audit reports to the BAC and has unrestricted access to the Committee and its Chairman. At each BAC meeting the Head of Internal Audit meets privately with the non-executive BAC members. The Head of Internal Audit reports operationally to the CRO for day-to-day management. The BAC and CRO jointly review and monitor the remuneration of the Head of Internal Audit. The BAC approves any appointment, replacement, reassignment or dismissal of the Head of Internal Audit.

## 3.0 Capital Structure

### 3.1 Total Available Capital

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

	As at 31 March 2019 \$m	As at 31 March 2018 \$m
<b>Common Equity Tier 1 capital</b>		
Paid-up ordinary share capital	7,507	9,537
Retained earnings	2,852	2,647
Reserves	515	478
Gross Common Equity Tier 1 capital	10,874	12,662
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	42	40
Deferred tax assets	420	142
Net other fair value adjustments	(61)	12
Intangible component of investments in subsidiaries and other entities	50	63
Loan and lease origination fees and commissions paid to mortgage originators and brokers	411	397
Shortfall in provisions for credit losses	269	428
Equity exposures	678	1,201
Other Common Equity Tier 1 capital deductions	226	251
Total Common Equity Tier 1 capital deductions	2,035	2,534
<b>Net Common Equity Tier 1 capital</b>	<b>8,839</b>	<b>10,128</b>
<b>Additional Tier 1 capital</b>		
Additional Tier 1 capital instruments	1,626	1,592
Gross Additional Tier 1 capital	1,626	1,592
Deductions from Additional Tier 1 capital	–	–
Net Additional Tier 1 capital	1,626	1,592
<b>Total Net Tier 1 capital</b>	<b>10,465</b>	<b>11,720</b>
<b>Tier 2 capital</b>		
Tier 2 capital instruments and other	1,598	1,697
<b>Total capital base</b>	<b>12,063</b>	<b>13,417</b>

## 3.0 Capital Structure

### continued

#### 3.2 Common Equity Tier 1 Capital

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

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

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

MIS are a perpetual instrument with no ordinary equity conversion rights. MIS were listed for trading on the Australian Stock Exchange (now known as the Australian Securities Exchange) in 1999. MIS distributions are paid quarterly at a floating rate of BBSW plus 1.7% per annum and payment is subject to certain conditions including profitability of the Bank. MIS are included in Additional Tier 1 capital under Basel III transitional rules.

BCN were issued by MBL in October 2014 and are quoted on the Australian Securities Exchange. The BCN pay discretionary, semi-annual floating rate cash distributions equal to six month BBSW plus 3.30% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 and 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

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

#### 3.3 Tier 2 Capital

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

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

#### 3.4 Restrictions on Capital

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

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

## 4.0 Capital Adequacy

### 4.1 Capital Management

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

The capital management objectives are to:

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

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

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

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

Capital adequacy is assessed for both MGL Group and the Level 2 regulatory group. In each case, capital adequacy is assessed on a regulatory basis and on an economic basis, with capital requirements assessed as follows:

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

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

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

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

## 4.0 Capital Adequacy continued

Risk <sup>1</sup>	Basel III	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250%, 300% or 400% risk weight, depending on the type of investment <sup>2</sup> Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction	Extension of Basel III credit model to cover equity exposures. Capital requirement between 36% and 82% of face value; average 51%
Market	3 times 10 day 99% Value at Risk (VaR) plus 3 times 10 day 99% Stressed Value at Risk (SVaR), plus a specific risk charge	Scenario-based approach
Operational	Advanced Measurement Approach	Advanced Measurement Approach

1. The ECAM also covers non-traded interest rate risk and the risk on assets held as part of business operations, including: fixed assets, goodwill, intangible assets, capitalised expenses.
2. Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

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

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

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## 4.2 Risk Appetite Setting

Macquarie's risk appetite is the degree of risk that the Group is prepared to accept in pursuit of its strategic objectives and business plan. This is detailed in Macquarie's Board approved *Risk Appetite Statement (RAS)*. The RAS describes Macquarie's risk appetite, being the nature and amount of risk that Macquarie is willing to accept in pursuit of an appropriate and resilient long-term return on its capital. The RAS states transactions must generate returns proportionate to the risks. Accordingly, a risk and return analysis is required for all significant new deals, products and businesses.

The RAS is accessible to all staff and is referred to in the *Code of Conduct*. The principles of the RAS are implemented primarily through the following mechanisms:

### Policies

Policies are a key tool to ensure that risks taken are consistent with the Board approved RAS. They set out the principles that govern the acceptance and management of risks. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

### Limits

In many cases, limits translate risk appetite principles into hard constraints on individual businesses. These consist of granular limits for specific risk types as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk. Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in Macquarie.

Under Macquarie's 'no limits, no dealing' approach, compliance with specific limits is monitored by the Business and RMG. These granular limits are set to allow businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

### New product and business approval process

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

This formal process is designed so that the proposed transaction or operation can be managed properly, without creating unwanted risks for Macquarie. All relevant risks are reviewed to ensure they are identified and addressed prior

to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, Financial Management Group, Legal and Governance and other relevant stakeholders within Macquarie are obtained. RMG also checks that all necessary internal approvals are obtained prior to commencement. The Operational Risk division within RMG oversees the new product and business approval process.

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

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

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

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

Aggregate risk breaks down into two categories:

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

Business risk is captured by the difference in base case and downturn forward earnings estimates. Potential losses are quantified using stress testing models, which translate scenario parameters (GDP, unemployment, interest rates etc) into loss and transition rates. A principal use of the Risk Appetite Test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments and other equity investments. Any changes to the ERL are sized to ensure that even under full use of this limit and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

## 4.0 Capital Adequacy

### continued

#### 4.3 Risk Weighted Assets (RWA)

RWA are a risk based measure of exposures used in assessing overall capital usage of the Level 2 regulatory group. When applied against eligible regulatory capital the overall capital adequacy is determined. RWA are calculated in accordance with APRA Prudential Standards.

The table below sets out the RWA exposures for the Macquarie Level 2 regulatory group.

APS 330 Table 6 (b) to (f)

	As at 31 March 2019 \$m	As at 31 March 2018 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate <sup>1</sup>	19,860	27,277
SME Corporate	3,573	3,234
Sovereign	211	182
Bank <sup>1</sup>	1,424	1,435
Residential Mortgages	13,890	12,654
Other Retail	4,375	4,466
Retail SME	3,695	3,101
<b>Total RWA subject to IRB approach<sup>2</sup></b>	<b>47,028</b>	<b>52,349</b>
<b>Specialised lending exposures subject to slotting criteria<sup>3</sup></b>	<b>3,847</b>	<b>5,392</b>
Subject to Standardised approach		
Corporate	333	701
Residential Mortgages	762	1,630
Other Retail	2,673	3,771
<b>Total RWA subject to Standardised approach<sup>2</sup></b>	<b>3,768</b>	<b>6,102</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>875</b>	<b>609</b>
<b>Credit Valuation Adjustment RWA</b>	<b>3,093</b>	<b>3,712</b>
<b>Exposures to Central Counterparties RWA</b>	<b>1,644</b>	<b>1,274</b>
<b>RWA for Other Assets</b>	<b>1,769</b>	<b>8,276</b>
<b>Total Credit risk RWA</b>	<b>62,024</b>	<b>77,714</b>
<b>Market risk RWA</b>	<b>5,382</b>	<b>3,303</b>
<b>Operational risk RWA</b>	<b>10,111</b>	<b>9,960</b>
<b>Interest rate risk in the banking book RWA</b>	<b>–</b>	<b>753</b>
<b>Total RWA</b>	<b>77,517</b>	<b>91,730</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

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

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

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

**APS 330 Table 6 (g)**

<b>Capital Ratios</b>	<b>As at 31 March 2019</b>	<b>As at 31 March 2018</b>
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio	<b>11.4%</b>	11.0%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio	<b>13.5%</b>	12.8%
Macquarie Level 2 regulatory group Total capital ratio	<b>15.6%</b>	14.6%
Macquarie Level 1 regulatory group Common Equity Tier 1 capital ratio	<b>11.4%</b>	11.2%
Macquarie Level 1 regulatory group Total Tier 1 capital ratio	<b>13.5%</b>	13.0%
Macquarie Level 1 regulatory group Total capital ratio	<b>15.6%</b>	14.9%

APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk weighted assets (RWA) of 8.5% at both Level 1 and Level 2, including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI specific minimum capital ratios which may be higher than these levels.

At 31 March 2019, the countercyclical capital buffer requirement for Macquarie Level 2 regulatory group is approximately 0.1%.

## 5.0 Credit Risk Measurement

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### 5.1 Credit Risk Overview

Credit risk is defined as the risk that a counterparty will fail to complete its contractual obligations when they fall due (default risk) or changes in the creditworthiness of the obligor (migration risk). The consequent loss is either the amount of the loan or financial obligation not paid back, the change in the value of a non-traded debt instrument, or the loss incurred in replicating a trading contract with a new counterparty.

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

### 5.2 Credit Risk Management

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

Credit risk approvals reflect two principles:

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

#### 5.2.1 Analysis and Approval of Exposures

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

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

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

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

### 5.2.2 Macquarie Ratings

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

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

The table on next page outlines the internal MQ Ratings relative to ECAI ratings.

## 5.2.2 Macquarie Ratings (continued)

MQ ratings are used to:

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

Each MQ rating band is associated with an estimate of the PD by the counterparty on its financial obligations and provides a consistent measure across the Level 2 regulatory group. Applicable at either the borrower or transaction level, a rating must be justified and set as part of the credit approval and review process.

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

### Rating System

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

## 5.0 Credit Risk Measurement continued

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

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

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

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

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

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

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

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

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

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

### 5.2.3 Measuring and Monitoring Exposures

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

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

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

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

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

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

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

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

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

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

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

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

#### **5.2.4 Credit Assurance**

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

Key responsibilities are:

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

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

## 5.0 Credit Risk Measurement

### continued

#### 5.3 Macquarie's Credit Risk Exposures

Credit exposures are disclosed in the following pages based on:

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

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

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

The exposures below exclude the impact of:

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

#### APS 330 Table 7(b)

Portfolio Type	As at 31 March 2019 \$m	As at 31 March 2018 \$m
Corporate <sup>1,2</sup>	41,844	45,684
SME Corporate <sup>3</sup>	4,844	4,365
Sovereign	3,776	2,583
Bank <sup>1</sup>	7,482	8,124
Residential Mortgages	48,708	43,565
Other Retail	10,844	11,786
Retail SME	5,308	4,609
Other Assets <sup>4</sup>	9,694	12,729
<b>Total Gross Credit Exposure</b>	<b>132,500</b>	<b>133,445</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.
2. Corporate includes specialised lending exposure of \$3,222 million as at 31 March 2019 (31 March 2018: \$5,142 million).
3. SME Corporate includes specialised lending exposure of \$626 million as at 31 March 2019 (31 March 2018: \$587 million).
4. The major components of Other Assets are other debtors and unsettled trades.

APS 330 Table 7(b) (continued)

	As at 31 March 2019			Total \$m	For the 12 months to 31 March 2019 Average Exposures \$m
	On Balance Sheet \$m	Off Balance sheet			
		Non- market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	18,265	3,093	16,931	38,289	39,065
SME Corporate	3,566	652	–	4,218	3,998
Sovereign	2,397	35	1,344	3,776	3,180
Bank	2,921	38	4,523	7,482	7,803
Residential Mortgages	39,449	7,987	–	47,436	44,349
Other Retail	8,042	–	–	8,042	8,008
Retail SME	5,295	13	–	5,308	4,958
<b>Total IRB approach</b>	<b>79,935</b>	<b>11,818</b>	<b>22,798</b>	<b>114,551</b>	<b>111,361</b>
<b>Specialised Lending</b>	<b>2,495</b>	<b>709</b>	<b>644</b>	<b>3,848</b>	<b>4,789</b>
<b>Subject to Standardised approach</b>					
Corporate	–	333	–	333	517
Residential Mortgages	1,272	–	–	1,272	1,787
Other Retail	2,802	–	–	2,802	3,308
<b>Total Standardised approach</b>	<b>4,074</b>	<b>333</b>	<b>–</b>	<b>4,407</b>	<b>5,612</b>
<b>Other Assets</b>	<b>5,580</b>	<b>3,572</b>	<b>542</b>	<b>9,694</b>	<b>11,211</b>
<b>Total Gross Credit Exposures</b>	<b>92,084</b>	<b>16,432</b>	<b>23,984</b>	<b>132,500</b>	<b>132,973</b>

## 5.0 Credit Risk Measurement

### continued

APS 330 Table 7(b) (continued)

	As at 31 March 2018				For the 12 months to 31 March 2018
	Off Balance sheet				Average Exposures \$m
	On Balance Sheet \$m	Non- market related \$m	Market related \$m	Total \$m	
<b>Subject to IRB approach</b>					
Corporate <sup>1</sup>	21,542	3,694	14,605	39,841	38,632
SME Corporate	3,201	577	–	3,778	3,556
Sovereign	1,633	–	950	2,583	2,762
Bank <sup>1</sup>	3,383	46	4,695	8,124	7,572
Residential Mortgages	33,437	7,825	–	41,262	38,056
Other Retail	7,973	–	–	7,973	7,444
Retail SME	4,590	19	–	4,609	4,722
<b>Total IRB approach</b>	<b>75,759</b>	<b>12,161</b>	<b>20,250</b>	<b>108,170</b>	<b>102,744</b>
<b>Specialised Lending</b>	<b>4,320</b>	<b>829</b>	<b>580</b>	<b>5,729</b>	<b>6,252</b>
<b>Subject to Standardised approach</b>					
Corporate	–	701	–	701	747
Residential Mortgages	2,303	–	–	2,303	2,507
Other Retail	3,813	–	–	3,813	4,800
<b>Total Standardised approach</b>	<b>6,116</b>	<b>701</b>	<b>–</b>	<b>6,817</b>	<b>8,054</b>
<b>Other Assets</b>	<b>12,169</b>	<b>213</b>	<b>347</b>	<b>12,729</b>	<b>12,140</b>
<b>Total Gross Credit Exposures</b>	<b>98,364</b>	<b>13,904</b>	<b>21,177</b>	<b>133,445</b>	<b>129,190</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

APS 330 Table 7(f) & (i)

	As at 31 March 2019				For the 12 months to 31 March 2019	
	Gross Credit Exposure \$m	Impaired Facilities \$m	Past Due > 90 days <sup>1</sup> \$m	Specific Provisions \$m	Charges for Specific Provisions \$m	Write-offs <sup>4</sup> \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	41,511	242	32	(38)	(48)	-
SME Corporate <sup>2</sup>	4,844	92	63	(24)	(18)	-
Sovereign	3,776	-	-	-	-	-
Bank	7,482	-	-	-	-	-
Residential Mortgages	47,436	258	115	(3)	(2)	-
Other Retail	8,042	110	-	(33)	(31)	-
Retail SME	5,308	56	-	(15)	(21)	-
<b>Total IRB approach</b>	<b>118,399</b>	<b>758</b>	<b>210</b>	<b>(113)</b>	<b>(120)</b>	<b>-</b>
<b>Subject to Standardised approach</b>						
Corporate	333	-	-	-	-	-
Residential Mortgages	1,272	-	-	-	-	-
Other Retail	2,802	72	-	(34)	(37)	-
<b>Total Standardised approach</b>	<b>4,407</b>	<b>72</b>	<b>-</b>	<b>(34)</b>	<b>(37)</b>	<b>-</b>
<b>Other Assets</b>	<b>9,694</b>	<b>21<sup>3</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>132,500</b>	<b>851</b>	<b>210</b>	<b>(147)</b>	<b>(157)</b>	<b>-</b>

1. In accordance with APRA prudential definitions, Past Due >90 days do not form part of impaired facilities as they are well secured, and represent the full amount outstanding, not just the amount that is past due.
2. IRB Corporate and SME Corporate includes specialised lending.
3. Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.
4. Under AASB 9, there are no longer direct write-offs to Profit & Loss.

## 5.0 Credit Risk Measurement

### continued

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

	As at 31 March 2018				For the 12 months to 31 March 2018	
	Gross Credit Exposure \$m	Impaired Facilities \$m	Past Due > 90 days <sup>1</sup> \$m	Individually Assessed Provisions \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2,3</sup>	44,983	255	43	(58)	(88)	(11)
SME Corporate <sup>2</sup>	4,365	40	42	(24)	(4)	–
Sovereign	2,583	–	–	–	–	–
Bank <sup>3</sup>	8,124	–	–	–	–	–
Residential Mortgages	41,262	190	97	(4)	(1)	–
Other Retail	7,973	89	–	(17)	3 <sup>6</sup>	(37)
Retail SME	4,609	40	–	(8)	1 <sup>6</sup>	(25)
<b>Total IRB approach</b>	<b>113,899</b>	<b>614</b>	<b>182</b>	<b>(111)</b>	<b>(89)</b>	<b>(73)</b>
<b>Subject to Standardised approach</b>						
Corporate	701	–	–	–	–	–
Residential Mortgages <sup>4</sup>	2,303	–	223	–	–	–
Other Retail	3,813	62	7	(12)	(4)	(61)
<b>Total Standardised approach</b>	<b>6,817</b>	<b>62</b>	<b>230</b>	<b>(12)</b>	<b>(4)</b>	<b>(61)</b>
<b>Other Assets</b>	<b>12,729</b>	<b>120<sup>5</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>133,445</b>	<b>796</b>	<b>412</b>	<b>(123)</b>	<b>(93)</b>	<b>(134)</b>

1. In accordance with APRA prudential definitions, Past Due >90 days do not form part of impaired facilities as they are well secured, and represent the full amount outstanding, not just the amount that is past due.
2. IRB Corporate and SME Corporate includes specialised lending.
3. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.
4. Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF Lending business.
5. Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.
6. Includes write-back of provision.

#### 5.4 Credit Risk by Geographic Distribution

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

##### APS 330 Table 7(c)

Portfolio Type	As at 31 March 2019				
	Asia Pacific \$m	Australia \$m	EMEA* \$m	Americas \$m	Total \$m
Corporate	3,197	8,500	16,959	13,188	41,844
SME Corporate	–	4,844	–	–	4,844
Sovereign	243	884	1,863	786	3,776
Bank	853	2,102	2,960	1,567	7,482
Residential Mortgages	152	48,431	84	41	48,708
Other Retail	–	10,109	630	105	10,844
Retail SME	–	5,308	–	–	5,308
Other Assets	1,623	5,350	1,314	1,407	9,694
<b>Total Gross Credit Exposure</b>	<b>6,068</b>	<b>85,528</b>	<b>23,810</b>	<b>17,094</b>	<b>132,500</b>

\* EMEA represents Europe, Middle East and Africa

Portfolio Type	As at 31 March 2018				
	Asia Pacific \$m	Australia \$m	EMEA* \$m	Americas \$m	Total \$m
Corporate <sup>1</sup>	4,185	7,700	17,028	16,771	45,684
SME Corporate	–	4,365	–	–	4,365
Sovereign	187	1,128	825	443	2,583
Bank <sup>1</sup>	722	2,167	3,748	1,487	8,124
Residential Mortgages	102	42,454	981	28	43,565
Other Retail	–	11,127	566	93	11,786
Retail SME	–	4,609	–	–	4,609
Other Assets	1,637	1,970	7,586	1,536	12,729
<b>Total Gross Credit Exposure</b>	<b>6,833</b>	<b>75,520</b>	<b>30,734</b>	<b>20,358</b>	<b>133,445</b>

\* EMEA represents Europe, Middle East and Africa

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

## 5.0 Credit Risk Measurement

### continued

#### 5.5 Credit Risk Distribution by Counterparty Type

The credit risk exposures by Basel III risk type (portfolio type) below have been classified based on counterparty split of the exposure.

APS 330 Table 7(d)

Portfolio Type	As at 31 March 2019				Total \$m
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	
Corporate	15,629	83	25,845	287	41,844
SME Corporate	242	–	4,058	544	4,844
Sovereign	1,908	1,858	10	–	3,776
Bank	7,482	–	–	–	7,482
Residential Mortgages	1,551	–	1,390	45,767	48,708
Other Retail	14	–	1,100	9,730	10,844
Retail SME	1	–	3,503	1,804	5,308
Other Assets	6,969	599	2,121	5	9,694
<b>Total Gross Credit Exposure</b>	<b>33,796</b>	<b>2,540</b>	<b>38,027</b>	<b>58,137</b>	<b>132,500</b>

Portfolio Type	As at 31 March 2018				Total \$m
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	
Corporate <sup>1</sup>	13,280	374	31,387	643	45,684
SME Corporate	249	–	3,593	523	4,365
Sovereign	1,521	1,056	6	–	2,583
Bank <sup>1</sup>	8,097	–	27	–	8,124
Residential Mortgages	1,431	–	1,304	40,830	43,565
Other Retail	47	–	1,227	10,512	11,786
Retail SME	5	–	2,990	1,614	4,609
Other Assets	3,352	259	9,109	9	12,729
<b>Total Gross Credit Exposure</b>	<b>27,982</b>	<b>1,689</b>	<b>49,643</b>	<b>54,131</b>	<b>133,445</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

## 5.6 Credit Risk by Maturity Profile

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

APS 330 Table 7(e)

Portfolio Type	As at 31 March 2019			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	27,778	10,889	3,177	41,844
SME Corporate	969	3,081	794	4,844
Sovereign	3,468	244	64	3,776
Bank	4,330	2,308	844	7,482
Residential Mortgages	106	225	48,377	48,708
Other Retail	1,552	8,210	1,082	10,844
Retail SME	586	4,687	35	5,308
Other Assets	5,067	4,019	608	9,694
<b>Total Gross Credit Exposure</b>	<b>43,856</b>	<b>33,663</b>	<b>54,981</b>	<b>132,500</b>

Portfolio Type	As at 31 March 2018			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate <sup>1</sup>	24,379	15,458	5,847	45,684
SME Corporate	737	2,985	643	4,365
Sovereign	2,240	304	39	2,583
Bank <sup>1</sup>	5,767	1,707	650	8,124
Residential Mortgages	113	375	43,077	43,565
Other Retail	1,594	8,864	1,328	11,786
Retail SME	534	4,011	64	4,609
Other Assets	5,876	5,081	1,772	12,729
<b>Total Gross Credit Exposure</b>	<b>41,240</b>	<b>38,785</b>	<b>53,420</b>	<b>133,445</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

## 5.0 Credit Risk Measurement continued

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

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

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

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

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

Exposure Type	Approach	Treatment
Primarily all credit exposures to Corporate (including SME Corporate), Bank and Sovereign counterparties	IRB	MQ rating is mapped to the S&P ratings scale S&P or Moody's historical default data is used to estimate a PD for each rating grade
All exposures subject to Supervisory Slotting Treatment	IRB	Exposure is slotted based on a combination of its MQ rating and LGD, with APRA determined supervisory risk weights assigned to each exposure
Macquarie originated auto and equipment lease exposures in Australia	IRB	Through-the-cycle pool PDs and downturn LGDs
Macquarie originated and purchased Residential Mortgages in Australia <sup>1</sup>	IRB	Through-the-cycle pool PDs and downturn LGDs The regulatory floor of 20% applies to the LGD of the portfolio
Other Residential Mortgages	Standardised	Risk Weighted per APS 112
Other auto and equipment lease exposures in Australia	Standardised	Risk Weighted per APS 112
Credit card exposures in Australia	Standardised	100% risk-weighted
Personal loan exposures in Australia	Standardised	100% risk-weighted
Margin loan exposures in Australia	IRB	A 20% risk-weight prescribed in APS113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk is applied
Retail investment loan exposures. The majority are capital protected	Standardised	100% risk-weighted

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

## 6.0 Calculation of Credit Risk Exposures

### 6.1 Credit Risk Exposures by Measurement Approach

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

APS 330 Table 7(i)

Portfolio Type	As at 31 March 2019 \$m	As at 31 March 2018 \$m
<b>Subject to IRB approach</b>		
Corporate <sup>1</sup>	41,511	44,983
SME Corporate	4,844	4,365
Sovereign	3,776	2,583
Bank <sup>1</sup>	7,482	8,124
Residential Mortgages	47,436	41,262
Other Retail	8,042	7,973
Retail SME	5,308	4,609
<b>Total IRB approach</b>	<b>118,399</b>	113,899
<b>Subject to Standardised approach</b>		
Corporate	333	701
Residential Mortgages	1,272	2,303
Other Retail	2,802	3,813
<b>Total Standardised approach</b>	<b>4,407</b>	6,817
<b>Other Assets<sup>2</sup></b>	<b>9,694</b>	12,729
<b>Total Gross Credit Exposure</b>	<b>132,500</b>	133,445

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.
2. The major components of Other Assets are other debtors and unsettled trades.

## 6.0 Calculation of Credit Risk Exposures continued

### 6.2 Credit Risk Exposures by Risk Weight

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

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

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

Risk Weight	As at 31 March 2019		As at 31 March 2018	
	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m
0%	51	–	29	–
> 0% ≤ 20%	–	–	–	–
> 20% ≤ 35%	66	66	75	75
> 35% ≤ 50%	692	692	954	954
> 50% ≤ 75%	483	483	592	592
> 75% ≤ 100%	3,115	3,115	5,167	5,167
> 100% ≤ 150%	–	–	–	–
> 150%	–	–	–	–
<b>Total</b>	<b>4,407</b>	<b>4,356</b>	<b>6,817</b>	<b>6,788</b>

#### IRB Approach Exposures

##### Specialised lending exposures subject to supervisory slotting

Risk Weight	Gross Credit Exposure	
	As at 31 March 2019 \$m	As at 31 March 2018 \$m
70%	407	442
90%	995	2,036
115%	2,249	2,709
250%	32	54
Default <sup>1</sup>	165	488
<b>Total</b>	<b>3,848</b>	<b>5,729</b>

1. Default specialised lending exposures are assessed for impairment (refer section 7).

### 6.3 Credit Risk Exposures by Risk Grade

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

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

APS 330 Table 9(d)

As at 31 March 2019 PD Grade								
Non-Retail	0 <= 0.03% \$m	0.03% <= 0.15% \$m	0.15% <= 0.5% \$m	0.5% <= 3% \$m	3% <= 10% \$m	10% <= 100% \$m	Default \$m	Total Gross Credit Exposure \$m
Corporate	925	14,434	9,429	10,226	4,400	1,346	751	41,511
SME Corporate	–	–	19	3,079	1,375	190	181	4,844
Sovereign	2,987	782	3	4	–	–	–	3,776
Bank	2,296	4,992	97	76	21	–	–	7,482
<b>Total Gross Credit Exposure</b>	<b>6,208</b>	<b>20,208</b>	<b>9,548</b>	<b>13,385</b>	<b>5,796</b>	<b>1,536</b>	<b>932</b>	<b>57,613</b>

As at 31 March 2018 PD Grade								
Non-Retail	0 <= 0.03% \$m	0.03% <= 0.15% \$m	0.15% <= 0.5% \$m	0.5% <= 3% \$m	3% <= 10% \$m	10% <= 100% \$m	Default \$m	Total Gross Credit Exposure \$m
Corporate <sup>1</sup>	972	12,461	8,212	13,265	6,214	2,836	1,023	44,983
SME Corporate	–	6	32	2,946	1,024	280	77	4,365
Sovereign	2,089	406	52	36	–	–	–	2,583
Bank <sup>1</sup>	2,971	4,564	474	67	48	–	–	8,124
<b>Total Gross Credit Exposure</b>	<b>6,032</b>	<b>17,437</b>	<b>8,770</b>	<b>16,314</b>	<b>7,286</b>	<b>3,116</b>	<b>1,100</b>	<b>60,055</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

## 6.0 Calculation of Credit Risk Exposures

### continued

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

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

##### APS330 Table 9(d) (continued)

Undrawn Commitments	As at 31 March 2019 PD Grade							Total \$m
	0 <= 0.03% \$m	0.03% <= 0.15% \$m	0.15% <= 0.5% \$m	0.5% <= 3% \$m	3% <= 10% \$m	10% <= 100% \$m	Default \$m	
<b>Corporate</b>	1	637	240	925	349	30	35	2,217
SME Corporate	-	-	3	417	140	4	4	568
Sovereign	35	-	-	-	-	-	-	35
Bank	-	-	-	-	-	-	-	-
<b>Total Undrawn Commitments</b>	<b>36</b>	<b>637</b>	<b>243</b>	<b>1,342</b>	<b>489</b>	<b>34</b>	<b>39</b>	<b>2,820</b>

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

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

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

#### APS330 Table 9(d) (continued)

Retail	As at 31 March 2019 Expected Loss Categories					Total Gross Credit Exposure \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m <sup>1</sup>	
<b>Residential Mortgages</b>	<b>19,867</b>	<b>22,624</b>	<b>4,087</b>	<b>518</b>	<b>340</b>	<b>47,436</b>
Other Retail	-	3,600	3,540	782	120	8,042
Retail SME	194	206	3,941	879	88	5,308
<b>Total Gross Credit Exposure</b>	<b>20,061</b>	<b>26,430</b>	<b>11,568</b>	<b>2,179</b>	<b>548</b>	<b>60,786</b>

1. Includes retail IRB defaulted exposures on which best estimate of expected loss is calculated.

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

1. Includes retail IRB defaulted exposures on which best estimate of expected loss is calculated.

## 6.0 Calculation of Credit Risk Exposures continued

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

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

#### APS330 Table 9(d) (continued)

Undrawn Commitments	As at 31 March 2019 Expected Loss Categories					Total \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
Residential Mortgages	6,232	1,484	240	29	–	7,985
Retail SME	11	–	–	–	–	11
<b>Total Undrawn Commitments</b>	<b>6,243</b>	<b>1,484</b>	<b>240</b>	<b>29</b>	<b>–</b>	<b>7,996</b>

Undrawn Commitments	As at 31 March 2018 Expected Loss Categories					Total \$m
	0 < 0.1% \$m	0.1% < 0.3% \$m	0.3% < 3% \$m	3% < 10% \$m	10% < 100% \$m	
Residential Mortgages	5,927	1,625	244	27	–	7,823
Retail SME	18	–	–	–	–	18
<b>Total Undrawn Commitments</b>	<b>5,945</b>	<b>1,625</b>	<b>244</b>	<b>27</b>	<b>–</b>	<b>7,841</b>

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## 7.0 Provisioning

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### 7.1 Impaired Facilities and Past Due

Facilities are classified as impaired when there is doubt regarding the collectability of some or all of the contractual payments due from a counterparty. The contractual payments include principal outstanding, interest and other related charges.

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

The estimation of expected future cash flows takes into consideration:

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

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

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

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

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

### 7.2 Specific Provisions and General Reserve for Credit Losses

#### Specific Provisions

Facilities that are assessed as impaired are subject to a recoverability test. Specific provisions are calculated as per the APRA Prudential Standard APS 220: Credit Quality (APS 220) and are generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate for that exposure.

#### General Reserve for Credit Losses

The General Reserve for Credit Losses (GRCL) is required under APS 220 to cover credit losses prudently estimated but not certain to arise over the full life of all individual facilities making up the credit risk portfolio.

Provisions representing 12 months expected credit loss (ECL) on performing loans (referred to as stage 1 provisions as per AASB 9), are allocated to GRCL as they are held against future, presently unidentified losses. ECL provisions are determined based on the probability of default (PD) over the next 12 months and the life time losses associated with such PD, adjusted for forward looking information.

#### Regulatory Specific Provisions

Lifetime ECL provisions on under-performing and non-performing loans (referred to as stage 2 and 3 provisions as per AASB 9) deemed ineligible to be included in the GRCL, are considered regulatory specific provisions. Lifetime ECL provisions are determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward looking information.

### 7.3 Regulatory Expected Loss (REL)

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

The excess of REL over eligible provisions is required by APRA to be deducted from Common Equity Tier 1 capital. Eligible provisions include credit related provisions, partial write-offs, and discounts on defaulted assets. As at 31 March 2019, the total REL was \$943 million (31 March 2018: \$1,153 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of \$269 million (31 March 2018: \$428 million).

## 7.0 Provisioning

### continued

#### 7.4 Provisions by Counterparty Type

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

##### APS 330 Table 7(f)

	As at 31 March 2019			As at 31 March 2018		
	Impaired Facilities \$m	Past Due >90 days \$m	Specific Provisions \$m	Impaired Facilities \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
<b>Subject to IRB approach</b>						
Corporate	242	32	(38)	255	43	(58)
SME Corporate	92	63	(24)	40	42	(24)
Residential Mortgages	258	115	(3)	190	97	(4)
Other Retail	110	–	(33)	89	–	(17)
Retail SME	56	–	(15)	40	–	(8)
<b>Total IRB approach</b>	<b>758</b>	<b>210</b>	<b>(113)</b>	<b>614</b>	<b>182</b>	<b>(111)</b>
<b>Subject to Standardised approach</b>						
Residential Mortgages	–	–	–	–	223	–
Other Retail	72	–	(34)	62	7	(12)
<b>Total Standardised approach</b>	<b>72</b>	<b>–</b>	<b>(34)</b>	<b>62</b>	<b>230</b>	<b>(12)</b>
<b>Other Assets<sup>1</sup></b>	<b>21</b>	<b>–</b>	<b>–</b>	<b>120</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>851</b>	<b>210</b>	<b>(147)</b>	<b>796</b>	<b>412</b>	<b>(123)</b>
Additional regulatory specific provisions <sup>2</sup>			<b>(228)</b>			

1. Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.
2. Includes stage 2 provisions deemed ineligible for GRCL. Combined with \$51 million of stage 3 provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Standardised Other Retail.

APS 330 Table 9(e)

	For the 12 months to 31 March 2019		For the 12 months to 31 March 2018	
	Charges for Specific provisions \$m	Write-offs <sup>1</sup> \$m	Charges for Individually Assessed provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>				
Corporate	(48)	–	(88)	(11)
SME Corporate	(18)	–	(4)	–
Residential Mortgages	(2)	–	(1)	–
Other Retail	(31)	–	3 <sup>2</sup>	(37)
Retail SME	(21)	–	1 <sup>2</sup>	(25)
<b>Total IRB approach</b>	<b>(120)</b>	<b>–</b>	<b>(89)</b>	<b>(73)</b>
<b>Subject to Standardised approach</b>				
Other Retail	(37)	–	(4)	(61)
<b>Total Standardised approach</b>	<b>(37)</b>	<b>–</b>	<b>(4)</b>	<b>(61)</b>
<b>Total</b>	<b>(157)</b>	<b>–</b>	<b>(93)</b>	<b>(134)</b>

1. Under AASB 9, there are no longer direct write-offs to Profit & Loss.

2. Includes write-back of provision.

## 7.0 Provisioning

### continued

#### 7.5 Provisions by Geographic Region

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

##### APS 330 Table 7(g)

Geographic Region	As at 31 March 2019			
	Impaired Facilities \$m	Past due > 90 days \$m	Specific Provisions \$m	GRCL \$m
Australia	630	184	(132)	(101)
EMEA	16	1	(5)	(20)
Americas	205	25	(10)	(27)
Asia Pacific	-	-	-	-
<b>Total</b>	<b>851</b>	<b>210</b>	<b>(147)</b>	<b>(148)</b>
Additional regulatory specific provisions			(228)	

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

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**7.6 General Reserve for Credit Losses**  
**APS 330 Table 7(j)**

	<b>As at 31 March 2019 \$m</b>	<b>As at 31 March 2018 \$m</b>
General reserve for credit losses before tax	<b>148</b>	249
Tax effect	<b>(40)</b>	(58)
<b>General reserve for credit losses</b>	<b>108</b>	191

## 7.0 Provisioning

### continued

#### 7.7 Movement in Provisions

The table below shows the movement of provisions over the 12 months to 31 March 2019.

APS 330 Table 7(h)

	\$m
<b>Total Provisions as at 31 March 2018</b>	<b>383<sup>1</sup></b>
<b>General Reserve for Credit Losses</b>	
Balance at start of the period	249
Change on initial application of AASB 9	(84)
Reversed during the period	(54)
(Sale)/Acquisitions during the period	(11)
Net transfer (to)/from other provisions	48 <sup>2</sup>
Adjustments for foreign exchange fluctuations	–
<b>Total General Reserve for Credit Losses (A)</b>	<b>148</b>
<b>Specific Provisions</b>	
Balance at start of the period	123
Change on initial application of AASB 9	6
Charge to income statement	157
Assets written off or sold, previously provided for	(109)
Recovery of loans previously provided for	(30)
Net transfer (to)/from other provisions	–
Adjustments for foreign exchange fluctuations	–
<b>Total Specific Provisions (B)</b>	<b>147</b>
Additional regulatory specific provisions (C)	228 <sup>2,3</sup>
<b>Total Regulatory Specific Provisions (B+C)</b>	<b>375</b>
<b>Total Provisions as at 31 March 2019 (A+B+C)</b>	<b>523</b>

1. Includes opening balance of \$11 million of regulatory specific provisions.

2. Transfer from additional regulatory specific provisions.

3. Includes stage 2 provisions deemed ineligible for GRCL. Combined with \$51 million of stage 3 provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Standardised Other Retail.

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

The table below relates only to Macquarie's portfolios measured under the IRB approach and compares actual results to the average estimate over the January 2008 to March 2019 period.

APS 330 Table 9(f)

Portfolio Type	PD		Exposure at default	LGD	
	Estimated %	Actual %	Estimate to Actual Ratio	Estimated %	Actual %
Corporate	1.68%	0.84%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
SME Corporate	2.40%	2.11%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Sovereign	0.13%	0.00%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Bank	0.12%	0.00%	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Residential Mortgages <sup>2</sup>	1.16%	1.14%	100%	20.24%	4.21%
Other Retail <sup>2</sup>	1.73%	1.64%	112%	47.86%	26.40%

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

## 8.0 Credit Risk Mitigation

### 8.1 Netting

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

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

#### 8.1.1 Collateral Valuation and Management

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

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

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

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

To mitigate credit risk Macquarie makes frequent use of margining arrangements. In these cases, counterparties post collateral daily in the form of cash or liquid securities to cover outstanding trading positions. Macquarie also engages in reciprocal margining agreements with counterparties under ISDA or similar agreements where the Credit Support Annex can contain provisions whereby margining thresholds may vary in relation to the credit ratings of the respective parties. As part of the OTC Margining reforms in various jurisdictions in which Macquarie operates, limits have been imposed on thresholds, minimum transfer amounts and rounding for affected counterparties. Documents have been renegotiated with these counterparties in order to be compliant with these regulations. Margining thresholds are incorporated into the scenarios considered under the MGL Group liquidity policy which assesses the collateral and funding requirements in the event of a credit downgrade.

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

Specific protocols surround the acceptance of real estate as collateral.

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

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

The value of all real estate collateral is assessed regularly and is re-valued where appropriate, be it on an asset specific basis or a market assessment across a pool of assets, such as residential mortgages. The interval between re-valuation is contingent on the type of property, extent of the property's encumbrance, the LVR at origination and the market conditions that have prevailed since the valuation was conducted. All prior claims on the property collateral are recorded and taken into consideration when calculating the available security value.

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

#### 8.1.2 Wrong Way Risk

Specific wrong-way risk occurs when exposure to the counterparty is positively correlated with the counterparty's probability of default. RMG Credit runs a monthly monitoring process to ensure that all instances of specific wrong-way risk are identified and appropriately escalated. General wrong-way risk occurs when the probabilities of counterparty defaults are positively correlated with market risk factor movements. Macquarie considers these correlations as part of the credit assessment process.

## 8.2 Exposures Mitigated by Eligible Collateral

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

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

Some types of collateral which are eligible by definition may be determined to be ineligible or adjusted with an

**APS 330 Table 10(b) & (c)**

appropriate haircut at the time of calculation due to mismatches of maturity or currency between the collateral and the underlying exposures.

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

The tables below show gross credit exposures by Basel III portfolio under the IRB approach and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives.

Measurement Approach	As at 31 March 2019			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate	41,511	1,866	78	2,905
SME Corporate	4,844	73	896	–
Sovereign	3,776	4	–	1
Bank	7,482	1,339	–	–
Residential Mortgages	47,436	N/A	N/A	–
Other Retail	8,042	N/A	N/A	–
Retail SME	5,308	N/A	N/A	196
<b>Total IRB approach</b>	<b>118,399</b>	<b>3,282</b>	<b>974</b>	<b>3,102</b>

Measurement Approach	As at 31 March 2018			
	Total Gross Credit Exposure \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
<b>Subject to IRB approach</b>				
Corporate <sup>1</sup>	44,983	1,888	50	1,942
SME Corporate	4,365	80	806	–
Sovereign	2,583	–	–	–
Bank <sup>1</sup>	8,124	1,018	–	26
Residential Mortgages	41,262	N/A	N/A	–
Other Retail	7,973	N/A	N/A	–
Retail SME	4,609	N/A	N/A	170
<b>Total IRB approach</b>	<b>113,899</b>	<b>2,986</b>	<b>856</b>	<b>2,138</b>

1. Certain counterparties previously classified as Bank have been reclassified as Corporate, resulting in restatement of March 2018.

## 8.0 Credit Risk Mitigation

### continued

#### 8.3 Counterparty Credit risk

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

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

As at 31 March 2019, a unilateral one-notch and two-notch downgrade in the MBL's rating would have resulted in a further \$252 million and \$293 million (credit rating downgrade postings are cumulative) of collateral being posted to other counterparties respectively. Collateral stress tests are also conducted on the MBL's counterparties so that it can monitor for likely collateral stresses in the event of a counterparty downgrade.

#### APS 330 Table 11(b)

	As at 31 March 2019 \$m	As at 31 March 2018 \$m
<b>Credit equivalent amounts for counterparty exposures</b>		
Replacement cost	12,299	11,253
Potential future exposure	16,146	14,382
Gross credit equivalent amount	28,445	25,635
Comprising:		
Interest rate contracts	2,500	2,312
Credit derivative contracts	204	206
Equity contracts	1,812	1,932
Foreign exchange and gold contracts	8,902	8,249
Commodities and precious metals contracts	15,027	12,936
Gross credit equivalent amount	28,445	25,635
Less: Effect of netting arrangements	12,664	11,606
Credit equivalent amount after netting	15,781	14,029
Less: Collateral amount		
Eligible financial collateral	2,921	2,139
Other eligible collateral	-	-
Net credit equivalent amount	12,860	11,890

#### APS 330 Table 11(c)

	As at 31 March 2019		As at 31 March 2018	
	Protection Bought \$m	Protection Sold \$m	Protection Bought \$m	Protection Sold \$m
<b>Notional amount of credit derivatives</b>				
Own credit portfolio	1,968	1,522	1,670	2,421
Client intermediation activities	-	-	-	-
<b>Total</b>	1,968	1,522	1,670	2,421
Credit default swaps (CDS)	933	1,522	1,559	1,966
Total return swaps	1,035	-	111	455
<b>Total</b>	1,968	1,522	1,670	2,421

## 9.0 Securitisation

### 9.1 Overview

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

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

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

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

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

- trusts, and
- special purpose companies,

issuing RMBS or asset-backed securities (ABS).

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

- Macquarie Enhanced Australian Fixed Interest Fund
- Macquarie Australian Diversified Income Fund
- Macquarie Core Australian Fixed Interest Fund
- Macquarie Dynamic Bond Fund
- Macquarie Global Income Opportunities Fund
- Macquarie Income Opportunities Fund
- Macquarie True Index Sovereign Bond Fund
- Macquarie True Index Cash Fund
- Macquarie Debt Market Opportunity Fund

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

#### 9.1.1 Securitisation Risk Management

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

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

Securitisation exposures are measured daily and monitored by RMG. RMG completes an annual review of all securitisation exposures and limits. Regulatory capital is calculated on all securitisation exposures using the available approaches in APS 116 and APS 120.

Macquarie applies the following approaches to the calculation of regulatory capital for securitisation exposures under APS 120:

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

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

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

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

## 9.0 Securitisation

### continued

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#### 9.1.2 Accounting for Securitisation

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

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

Control exists when the parent is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over that entity. In Macquarie's case, it has been determined that under Australian Accounting Standards, Macquarie consolidates Macquarie mortgage SPVs and auto and equipment finance SPVs. The assets and liabilities in these SPVs detailed in the tables within this section are consolidated into the Macquarie accounting consolidated group on the basis Macquarie controls those SPVs.

Banking book securitised assets consolidated by Macquarie are held on the balance sheet at amortised cost. Securitised exposures in the trading book are held at fair value. There has been no material change to the methods of valuation from the prior period.

If there are circumstances where Macquarie is required to provide financial support for securitised assets, a relevant liability is recognised on the Bank's balance sheet. Where a liability does not currently exist but could arise in the future as a result of uncertain events not wholly within Macquarie's control, a contingent liability is disclosed to the extent such an obligation may, but probably will not, require an outflow of resources. A contingent liability does not give rise to an actual liability being recognised on the Bank's balance sheet.

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

## 9.2 Securitisation Exposures

### 9.2.1 Originating ADI Securitisation Exposures

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

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

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

Exposure Type	As at 31 March 2019		
	Total outstanding exposures securitised		
	ADI originated assets <sup>1</sup> \$m	ADI as sponsor <sup>2</sup> \$m	Other \$m
<b>Banking Book</b>			
Residential Mortgages	24,461	139	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,850	-	-
<b>Total Banking Book</b>	<b>30,311</b>	<b>139</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>30,311</b>	<b>139</b>	<b>-</b>

1. Included in the above are assets of \$30,311 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
2. Included in the above are exposures held in third party warehouse funding facilities.

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

1. Included in the above are assets of \$26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
2. Included in the above are exposures held in third party warehouse funding facilities.

## 9.0 Securitisation

### continued

#### 9.2.2 Performance of Assets Securitised

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

##### APS 330 Table 12(h)

Exposure Type	As at 31 March 2019			
	Total outstanding exposures securitised			
	Total outstanding exposures <sup>1</sup> \$m	Impaired <sup>2</sup> \$m	Past due <sup>3</sup> \$m	ADI recognised loss from exposures securitised \$m
Residential Mortgages	24,461	193	90	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	5,850	85	–	–
<b>Total</b>	<b>30,311</b>	<b>278</b>	<b>90</b>	<b>–</b>

1. Included in the above are assets of \$30,311 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
2. Included in the above are impaired facilities of \$278 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
3. Included in the above are past due >90 days facilities of \$90 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

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

1. Included in the above are assets of \$26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
2. Included in the above are impaired facilities of \$233 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.
3. Included in the above are past due >90 days facilities of \$80 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group.

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### 9.2.3 Summary of Outstanding Exposures Intended to be Securitised

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

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

<b>Exposure Type</b>	<b>As at 31 March 2019 \$m</b>	<b>As at 31 March 2018 \$m</b>
<b>Banking Book</b>		
Residential Mortgages	650 <sup>1</sup>	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
<b>Total Banking Book</b>	<b>650</b>	<b>–</b>
<b>Trading Book</b>		
Residential Mortgages	–	–
Credit cards and other personal loans	–	–
Auto and equipment finance	–	–
<b>Total Trading Book</b>	<b>–</b>	<b>–</b>

1. This exposure is intended for self-securitisation.

## 9.0 Securitisation

### continued

#### 9.2.4 Securitisation Activity

Over the 12 months to 31 March 2019, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

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

Exposure Type	For the 12 months to 31 March 2019		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	12,490	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	2,895	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>15,385</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

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

Exposure Type	As at 31 March 2019			
	Total outstanding exposures securitised			
	Standard Approach		IMA Approach	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	–	–	–	–
Credit cards and other personal loans	–	–	–	–
Auto and equipment finance	–	–	–	–
Other	–	–	–	–
<b>Total</b>	–	–	–	–

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

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

## 9.0 Securitisation

### continued

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

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

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

Exposure Type	As at 31 March 2019		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	26,525	209	26,734
Credit cards and other personal loans <sup>2</sup>	156	14	170
Auto and equipment finance	6,085	3	6,088
Other	193	175	368
<b>Total Banking Book</b>	<b>32,959</b>	<b>401</b>	<b>33,360</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	20	-	20
<b>Total Trading Book</b>	<b>20</b>	<b>-</b>	<b>20</b>

- Included in the above are assets of \$30,311 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.
- Relates to invested securitisation positions.

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

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

### 9.3.2 Exposure by Risk Weight Band

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

#### Banking Book

#### APS 330 Table 12(l)

Risk weight band	As at 31 March 2019		As at 31 March 2018	
	Securitisation exposure subject to ERBA			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=< 20%	1,954	387	1,701	335
>20% – 50%	62	25	5	2
>50% – 100%	336	219	367	239
>100% – 140%	62	66	–	–
<b>Total</b>	<b>2,414</b>	<b>697</b>	<b>2,073</b>	<b>576</b>

Risk weight band	As at 31 March 2019		As at 31 March 2018	
	Securitisation exposure subject to SFA			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=< 20%	225	34	125	19
>20% – 50%	398	145	69	14
>50% – 100%	–	–	–	–
>100% – 150%	–	–	–	–
>150% – 650%	–	–	–	–
>650% – <1250%	–	–	–	–
<b>Total</b>	<b>623</b>	<b>179</b>	<b>194</b>	<b>33</b>

Exposure Type	As at 31 March 2019	As at 31 March 2018
	CET1 Deduction <sup>1</sup>	
	\$m	\$m
Residential Mortgages	2	2
Credit cards and other personal loans	–	–
Auto and equipment finance	3	6
Other	10	33
<b>Total</b>	<b>15</b>	<b>41</b>

1. Includes Resecuritisation Exposures \$1 million as at 31 March 2019 (31 March 2018: \$2 million)

## 9.0 Securitisation

### continued

#### Trading Book

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

Risk weight band	As at 31 March 2019		As at 31 March 2018	
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
<b>Securitisation exposure subject to Standard Approach</b>				
=< 20%	-	-	-	-
>20% – 50%	-	-	-	-
>50% – 100%	-	-	-	-
>100% – 140%	-	-	-	-
<b>Total</b>	-	-	-	-

Risk weight band	As at 31 March 2019		As at 31 March 2018	
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
<b>Securitisation exposure subject to IMA Approach</b>				
=< 20%	-	-	-	-
>20% – 50%	-	-	-	-
>50% – 100%	-	-	-	-
>100% – 150%	-	-	-	-
>150% – 650%	-	-	-	-
>650% – <1250%	-	-	-	-
<b>Total</b>	-	-	-	-

Exposure Type	As at 30 March 2019	As at 31 March 2018
	<b>CET1 Deduction</b>	
	\$m	\$m
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Other	20	-
<b>Total</b>	20	-

**9.3.3 Resecuritisation Exposure**  
**APS 330 Table 12(n) and (w)**

<b>Exposure Type</b>	<b>As at 31 March 2019 Gross Credit Exposure<sup>1</sup> \$m</b>	<b>As at 31 March 2018 Gross Credit Exposure<sup>1</sup> \$m</b>
<b>Banking book</b>		
Exposures with Credit Risk Mitigation	–	–
Exposures without Credit Risk Mitigation	<b>1</b>	<b>2</b>
<i>Exposure to Guarantors by ratings:</i>	–	–
<b>Total banking book</b>	<b>1</b>	<b>2</b>
<b>Trading book</b>		
Exposures with Credit Risk Mitigation	–	–
Exposures without Credit Risk Mitigation	–	–
<i>Exposures to Guarantors by ratings:</i>	–	–
<b>Total trading book</b>	<b>–</b>	<b>–</b>

1. Exposures deducted from CET1 capital.

## 10.0 Credit Valuation Adjustment

### 10.1 Credit Valuation Adjustment

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

The Credit Valuation Adjustment RWA as at 31 March 2019 is \$3,093 million. The CVA capital requirement is shown in the table below.

<b>CVA capital treatment</b>	<b>As at 31 March 2019 \$m</b>	As at 31 March 2018 \$m
Total CVA capital charge (standardised formula)	<b>247</b>	297
Total CVA RWA <sup>1</sup>	<b>3,093</b>	3,712

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

## 11.0 Exposures to Central Counterparties

### 11.1 Exposures to Central Counterparties

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

The RWA on exposures arising from cleared trades as at 31 March 2019 is \$1,644 million. Details of the components of these exposures are shown in the tables below.

	As at 31 March 2019		
Central counterparty trade exposure	Trade Exposure \$m	Prefunded Default Fund Contribution \$m	RWA \$m
Exposures to qualifying central counterparty	4,921	427	798
Exposures to non-qualifying central counterparty	–	–	–
Bilateral exposures from cleared trades <sup>1</sup>	1,630	–	846
<b>Total central counterparty exposures</b>	<b>6,551</b>	<b>427</b>	<b>1,644</b>

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

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

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

## 12.0 Market Risk

### 12.1 Market Risk

Market risk is the risk of adverse changes in the value of Macquarie's trading positions as a result of changes in market conditions. Macquarie is exposed to the following risks:

- **Price:** The risk of loss due to changes in price of a risk factor (Interest rates, foreign exchange, commodities etc.)
- **Volatility:** The risk of loss due to changes in the volatility of a risk factor
- **Basis:** Risk of imperfect correlation between offsetting investments in a hedging strategy
- **Correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **Illiquid market:** Risk of inability to sell assets or close out positions in thinly-traded markets at close to the last market prices
- **Concentration:** Risk of over concentration of trading exposures in certain markets and products
- **Valuation adjustments (XVA):** Risk of valuation adjustments to derivative positions; specifically, Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA), Funding Valuation Adjustment (FVA) and Collateral Valuation Adjustment (CoVA)

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

#### 12.1.1 Traded Market Risk

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

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

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

RMG sets three complementary limit structures:

- **Contingent loss limits:** Worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **Position limits:** Volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value-at-Risk (VaR) limits:** Statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

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

#### 12.1.2 Aggregate Measures of Market Risk

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

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

VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 5,700 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example, one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded at different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

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

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

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

## 12.0 Market Risk

### continued

#### 12.2 Market Risk Capital Requirement

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

The internal model calculation is based upon:

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

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

The sum of the VaR and debt security specific risk amounts is scaled by 12.5 in accordance with APRA policy to arrive at the traded market risk RWA, which was \$5,382 million as at 31 March 2019 (31 March 2018: \$3,303 million).

There was 1 hypothetical and no actual trading loss that exceeded the 1-day 99% VaR calculated for the 12 months ended 31 March 2019. The observed number of back-testing exceptions indicates continued acceptable operation of the VaR model.

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

APS 330 Table 14(f)

	For the 12 months to 31 March 2019				For the 12 months to 31 March 2018			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m
Commodities	72	165	45	56	22	41	9	40
Equities <sup>1</sup>	11	17	7	13	12	18	7	10
Foreign Exchange	5	16	2	5	4	8	1	4
Interest Rates	7	8	6	6	8	12	6	6
Aggregate	70	159	39	52	23	42	13	41

1. Equities figures incorporate the Equity specific risk amount.

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

APS 330 Table 14(f)

	For the 12 months to 31 March 2019				For the 12 months to 31 March 2018			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m
Commodities	81	182	39	57	41	61	24	38
Equities <sup>1</sup>	25	47	13	39	36	55	12	18
Foreign Exchange	16	72	2	12	9	28	1	5
Interest Rates	28	35	19	20	35	44	26	27
Aggregate	79	168	31	65	51	76	19	38

1. Equities figures incorporate the Equity specific risk amount.

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### 12.2.3 Debt Security Specific Risk Figures

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

#### APS 330 Table 13(b)

	As at 31 March 2019 \$m	As at 31 March 2018 \$m
Debt specific risk	28	43

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

### 12.2.4 Interest Rate Risk in the Banking Book (IRRBB)

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

The total IRRBB capital is calculated for each currency in accordance with APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs). Macquarie's internal model sums the change in economic value arising from the following risk categories:

- Repricing & yield curve (parallel and non-parallel moves);
- Basis (imperfect correlation between indices of the same tenor)
- Optionality (breakdowns in assumptions used for hedging); and
- Embedded gains and losses (difference between the fair-value and book-value arising from past interest rate movements).

The IRRBB RWA as at 31 March 2019 is \$nil million (31 March 2018: \$753 million).

## 12.0 Market Risk

### continued

APS 330 Table 17(b)

	As at 31 March 2019 Change in economic value \$m	As at 31 March 2018 Change in economic value \$m
Stress testing: interest rate shock applied		
<b>AUD</b>		
200 basis point parallel increase	(10.1)	(28.0)
200 basis point parallel decrease	10.0	27.4
<b>CAD</b>		
200 basis point parallel increase	(0.3)	–
200 basis point parallel decrease	0.3	–
<b>EUR</b>		
200 basis point parallel increase	(1.1)	3.2
200 basis point parallel decrease	10.3	(2.6)
<b>GBP</b>		
200 basis point parallel increase	(2.6)	(4.3)
200 basis point parallel decrease	6.6	5.1
<b>USD</b>		
200 basis point parallel increase	(6.7)	(25.6)
200 basis point parallel decrease	7.1	27.8

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

	As at 31 March 2019 \$m	As at 31 March 2018 \$m
<b>IRRBB regulatory capital requirement – AUD</b>	–	60.2

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## 13.0 Equity Risk

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

- holdings in specialised funds managed by Macquarie;
- property equity, including property trusts and direct property equity investments; and
- other equity investments.

All of the above equity risk positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board by reference to the Risk Appetite Test that is described further in the Capital Adequacy section 4. When the Board sets the limit, it also considers the level of earnings, capital and market conditions. RMG reviews the limit semi-annually and reports the results of the review to the Group Risk and Compliance Committee (GRCC) and the Board.

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

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

- equity accounting for investments in associates;
- Investment fair valued through profit or loss. Macquarie has not elected to designate any equity positions as fair value through OCI.

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

#### 13.1.1 Investments in Associates

Equity accounting is applied to investments in which Macquarie has significant influence or joint control (joint ventures). These equity investments are described as Investments in Associates. Equity accounting is applied such that Macquarie's share of its investee's post acquisition profit or losses are recorded in Macquarie's income statement, and the share of its post-acquisition movements in reserves in Macquarie's Consolidated Statement of Comprehensive Income. Dividends or distributions from associates or joint ventures reduce the carrying amount of the investment. Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised as impairment charges as part of other operating income and charges. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

#### 13.1.2 Fair value Investments through Profit or Loss

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at the measurement date.

Gains and losses arising from subsequent changes in fair value of equity investments are recognised in the Income Statement within investment income under other operating income and charges.

## 13.0 Equity Risk

### continued

#### 13.2 Equity Investments

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

##### APS 330 Table 16(b) and (c)

Equity investments	As at 31 March 2019		As at 31 March 2018	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
Value of listed (publicly traded) equities <sup>1</sup>	53	53	18	18
Value of unlisted (privately held) equities <sup>1</sup>	386	386	846	846
<b>Total</b>	<b>439</b>	<b>439</b>	<b>864</b>	<b>864</b>

1. At MBL accounting consolidated group.

#### 13.3 Capital Requirements Arising from Equity Risks

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

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

Deduction amount	As at 31 March 2019 \$m	As at 31 March 2018 \$m
Equity investments <sup>1</sup>	418	864

1. At Level 2 regulatory group.

#### 13.4 Gains and Losses on Equity Investments

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

Gains/(losses) on equity investments	As at 31 March 2019 \$m	As at 31 March 2018 \$m
Cumulative realised gains <sup>1</sup>	87	58
Total unrealised gains/(losses)	27	5
Total unrealised gains/(losses) included in Tier 1	27	5

1. Gains are defined as proceeds on sale less costs net of provisions.

## 14.0 Operational Risk

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

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

### 14.1 Macquarie's Operational Risk Management Framework

#### Operational Risk Objectives

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

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

#### Operational Risk Management Process

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

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

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

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

RMG Operational Risk is a division of RMG and is managed separately from other risk disciplines within RMG. RMG Operational Risk is responsible for ensuring the *ORMF*

remains appropriate and that skilled resources are available to support it. It is also responsible for Macquarie's operational risk capital measurement methodology.

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

### 14.2 Operational Risk Capital Calculation

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

Macquarie holds operational risk capital to absorb potential losses arising from operational risk exposures.

Macquarie's operational risk capital framework has two main elements:

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

Operational risk scenarios identify key risks that, while very low in probability may, if they occurred, result in large losses. When identifying the potential for such losses, consideration is given to the individual statistical distribution for each scenario, external loss data, internal loss data, risk and control factors and the contribution of expert opinion from Operating and Central Service Groups. Scenario estimates are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9<sup>th</sup> percentile.

Over time, changes in operational risk capital reflect:

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

#### Mitigation of Operational Risk through Insurance

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

#### Operational Risk – RWA

The operational risk RWA as at 31 March 2019 is \$10,111 million (31 March 2018: \$9,960 million).

## 15.0 Leverage Ratio Disclosures

The leverage ratio is a non-risk based ratio that is intended to restrict the build-up of excessive leverage in the banking system and acts as a supplementary measure to create a back-stop for the risk-based capital requirements.

The Basel Committee on Banking Supervision (BCBS), in December 2017, confirmed that the leverage ratio will have a minimum regulatory requirement of 3%, effective from 1 January 2018. In November 2018, APRA released a draft standard on the Leverage ratio which included a minimum leverage ratio requirement of 3.5% for IRB banks. These changes are proposed to apply from 1 January 2022.

Macquarie Bank Group's March 2019 APRA leverage ratio has decreased by 0.3% from the September 2018 APRA leverage ratio of 5.6%, mainly due to a decrease in capital supply during the period.

### Summary leverage ratio

	31 March 2019 \$m	31 December 2018 \$m	30 September 2018 \$m	30 June 2018 \$m
<b>Capital and total exposures</b>				
Tier 1 Capital	10,465	10,669	11,633	11,235
Total exposures	196,602	215,848	209,494	201,416
<b>Leverage ratio</b>				
Macquarie Level 2 regulatory group Leverage ratio	5.3%	4.9%	5.6%	5.6%

### 15.1 Leverage Ratio Disclosure Template

#### APS 330 Table 18

Item	As at 31 March 2019 \$m
<b>On-balance sheet exposures</b>	
1 On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	124,562
2 (Asset amounts deducted in determining Tier 1 capital)	(1,685)
<b>3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)</b>	<b>122,877</b>
<b>Derivative exposures</b>	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8,512
5 Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	23,460
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Australian Accounting Standards	–
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(579)
8 (Exempted central counterparty (CCP) leg of client-cleared trade exposures)	(8,048)
9 Adjusted effective notional amount of written credit derivatives	1,522
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(433)
<b>11 Total derivative exposures (sum of rows 4 to 10)</b>	<b>24,434</b>
<b>SFT exposures</b>	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	31,228
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(682)
14 CCR exposure for SFT assets	1,765
15 Agent transaction exposures	–
<b>16 Total SFT exposures (sum of rows 12 to 15)</b>	<b>32,311</b>
<b>Other off-balance sheet exposures</b>	
17 Off-balance sheet exposure at gross notional amount	20,142
18 (Adjustments for conversion to credit equivalent amounts)	(3,162)
19 Other off-balance sheet exposures (sum of rows 17 and 18)	16,980
<b>Capital and total exposures</b>	
<b>20 Tier 1 Capital</b>	<b>10,465</b>
<b>21 Total exposures (sum of rows 3, 11, 16 and 19)</b>	<b>196,602</b>
<b>Leverage ratio</b>	
<b>22 Leverage ratio</b>	<b>5.3%</b>

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

APS 330 Table 19

Item	As at 31 March 2019 \$m
1 Total consolidated assets as per published financial report	169,422
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(346)
3 Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	–
4 Adjustments for derivative financial instruments	10,466
5 Adjustment for SFTs (i.e. repos and similar secured lending)	1,765
6 Adjustment for off-balance sheet exposures (i.e. Conversion to credit equivalent amounts of off-balance sheet exposures)	16,980
7 Other adjustments	(1,685)
<b>8 Leverage ratio exposure</b>	<b>196,602</b>

## 16.0 Liquidity Coverage Ratio Disclosures

### Liquidity Coverage Ratio disclosure template APS 330 Table 20

		For the 3 months to 31 March 2019		For the 3 months to 31 December 2018	
Liquidity Coverage Ratio disclosure template		Total unweighted value (average) \$m	Total weighted value (average) \$m	Total unweighted value (average) \$m	Total weighted value (average) \$m
<b>Liquid assets, of which:</b>					
1	High quality liquid assets (HQLA)	*	16,047	*	13,806
2	Alternative liquid assets (ALA)	*	7,976	*	7,276
3	Reserve Bank of New Zealand (RBNZ) securities	*	–	*	–
<b>Cash outflows</b>					
4	Retail deposits and deposits from small business customers, of which:	36,612	3,378	35,798	3,308
5	Stable deposits	13,457	673	13,297	665
6	Less stable deposits	23,155	2,705	22,501	2,643
7	Unsecured wholesale funding, of which:	18,882	13,481	15,623	9,928
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	4,638	1,153	4,812	1,196
9	Non-operational deposits (all counterparties)	8,988	7,072	9,263	7,184
10	Unsecured debt	5,256	5,256	1,548	1,548
11	Secured wholesale funding	*	1,478	*	1,962
12	Additional requirements, of which:	23,249	10,662	24,158	11,901
13	Outflows related to derivatives exposures and other collateral requirements	8,236	8,236	9,669	9,669
14	Outflows related to loss of funding on debt products	238	238	293	293
15	Credit and liquidity facilities	14,775	2,188	14,196	1,939
16	Other contractual funding obligations	14,042	14,004	14,776	14,742
17	Other contingent funding obligations	5,104	286	5,095	282
18	<b>Total cash outflows</b>	*	43,289	*	42,123
<b>Cash Inflows</b>					
19	Secured lending (e.g. reverse repos)	26,852	6,145	24,880	6,811
20	Inflows from fully performing exposures	3,923	3,425	4,204	3,679
21	Other cash inflows	18,122	18,122	18,676	18,676
22	<b>Total cash inflows</b>	48,897	27,692	47,760	29,166
23	<b>Total liquid assets</b>	*	24,023	*	21,082
24	<b>Total net cash outflows</b>	*	15,597	*	12,957
25	<b>Liquidity Coverage Ratio (%)<sup>1</sup></b>	*	154.0%	*	162.7%

\* Undisclosed

1. The LCR for the 3 months to 31 March 2019 is calculated from 61 daily LCR observations (3 months to 31 December 2018 was calculated from 63 daily LCR observations).

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### The Liquidity Coverage Ratio (LCR)

The LCR requires sufficient levels of unencumbered, high-quality liquid assets (HQLA) to be held to meet expected net cash outflows (NCOs) under a regulatory-defined stress scenario lasting 30 calendar days. Macquarie has been compliant with the LCR at all times since the ratio was introduced as a minimum requirement in January 2015. Macquarie's 3 month average LCR to 31 March 2019 was 154% (based on 61 daily observations).

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

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

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

For the year ended 31 March 2019, Macquarie's HQLA portfolio was comprised of qualifying AUD and non-AUD HQLA 1, qualifying non-AUD HQLA 2, as well as AUD CLF eligible collateral.

Macquarie's CLF allocation for calendar year 2019 is \$8,400 million, which is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Note the disclosed balance of \$7,976 million reflects the required 'open-repo' of internal self-securitised RMBS with the RBA (which increases cash balances in the Exchange Settlement Account (ESA) with the RBA but is considered an ongoing 'utilisation' of the CLF).

### Net Cash Outflows (NCOs)

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

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

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

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

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

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

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

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

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

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

## 17.0 Net Stable Funding Ratio Disclosures

### Net Stable Funding Ratio disclosure template APS 330 Table 21

		As At 31 March 2019				
		Unweighted value by residual maturity				
Net Stable Funding Ratio disclosure template		No maturity \$m	<6 months \$m	>=6 months to < 1yr \$m	>= 1yr \$m	Weighted value \$m
<b>Available Stable Funding (ASF) Item</b>						
1	<b>Capital</b>	11,014	–	–	3,084	14,098
2	Regulatory Capital	10,874	–	–	2,567	13,441
3	Other capital instruments	140	–	–	517	657
4	<b>Retail deposits and deposits from small business customers</b>	35,325	8,220	–	–	39,990
5	Stable deposits	12,787	3,235	–	–	15,220
6	Less stable deposits	22,538	4,985	–	–	24,770
7	<b>Wholesale funding</b>	9,830	30,763	7,148	24,647	33,225
8	Operational deposits	4,647	–	–	–	2,324
9	Other wholesale funding	5,183	30,763	7,148	24,647	30,901
10	<b>Liabilities with matching interdependent assets</b>	–	–	–	–	–
11	<b>Other Liabilities</b>	7,717	11,518	–	125	125
12	NSFR derivative liabilities	*		4,594		*
13	All other liabilities and equity not included in the above categories	7,717	6,924	–	125	125
14	<b>Total ASF</b>	*	*	*	*	87,438
<b>Required Stable Funding (RSF) Item</b>						
15(a)	<b>Total NSFR (HQLA)</b>	*	*	*	*	1,790
15(b)	<b>ALA</b>	*	*	*	*	840
15(c)	<b>RBNZ securities</b>	*	*	*	*	–
16	<b>Deposits held at other financial institutions for operational purposes</b>	–	–	–	–	–
17	<b>Performing loans and securities</b>	16,250	29,195	6,293	60,307	63,304
18	Performing loans to financial institutions secured by Level 1 HQLA	3,330	12,179	–	–	1,551
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	6,782	9,845	708	5,383	8,230
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	1,567	6,198	4,946	17,804	22,292
21	With a risk weight of less than or equal to 35% under APS 112	–	68	60	2,040	1,443
22	Performing residential mortgages	–	372	263	35,514	25,579
23	With a risk weight equal to 35%	–	331	232	30,748	21,738
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	4,571	601	376	1,606	5,652
25	<b>Assets with matching interdependent</b>	–	–	–	–	–
26	<b>Other assets:</b>	3,708	9,328	56	16,688	10,762
27	Physical traded commodities	2,554	*	*	*	2,171
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	*		3,187		2,709
29	NSFR derivative assets	*		5,676		1,081
30	NSFR derivative liabilities before deduction of variation margin	*		6,063		1,213
31	All other assets not included in the above categories	1,154	9,328	56	1,762	3,588
32	<b>Off-balance sheet items</b>	*		16,795		731
33	<b>Total RSF</b>	*	*	*	*	77,427
34	<b>Net Stable Funding Ratio (%)</b>	*	*	*	*	112.9%

\* Undisclosed

Net Stable Funding Ratio disclosure template  
 APS 330 Table 21

As At 31 December 2018

Net Stable Funding Ratio disclosure template		Unweighted value by residual maturity				Weighted value \$m
		No maturity \$m	<6 months \$m	>=6 months to < 1yr \$m	>= 1yr \$m	
<b>Available Stable Funding (ASF) Item</b>						
1	<b>Capital</b>	11,355	–	–	3,264	14,619
2	Regulatory Capital	11,168	–	–	2,585	13,753
3	Other capital instruments	187	–	–	679	866
4	<b>Retail deposits and deposits from small business customers</b>	34,350	7,357	–	–	38,314
5	Stable deposits	12,608	2,961	–	–	14,790
6	Less stable deposits	21,742	4,396	–	–	23,524
7	<b>Wholesale funding</b>	9,422	41,633	4,984	28,797	36,855
8	Operational deposits	4,654	–	–	–	2,327
9	Other wholesale funding	4,768	41,633	4,984	28,797	34,528
10	<b>Liabilities with matching interdependent assets</b>	–	–	–	–	–
11	<b>Other Liabilities</b>	10,872	13,186	1	276	292
12	NSFR derivative liabilities	*		6,808		*
13	All other liabilities and equity not included in the above categories	10,872	6,378	1	276	292
14	<b>Total ASF</b>	*	*	*	*	90,080
<b>Required Stable Funding (RSF) Item</b>						
15(a)	<b>Total NSFR (HQLA)</b>	*	*	*	*	2,303
15(b)	<b>ALA</b>	*	*	*	*	770
15(c)	<b>RBNZ securities</b>	*	*	*	*	–
16	<b>Deposits held at other financial institutions for operational purposes</b>	–	–	–	–	–
17	<b>Performing loans and securities</b>	16,152	36,383	6,904	58,888	63,690
18	Performing loans to financial institutions secured by Level 1 HQLA	2,707	12,930	–	–	1,564
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	7,889	14,876	1,328	5,161	9,240
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	1,555	7,025	4,964	17,675	22,497
21	With a risk weight of less than or equal to 35% under APS 112	–	56	270	1,913	1,465
22	Performing residential mortgages	–	343	256	34,716	25,102
23	With a risk weight equal to 35%	–	305	226	30,081	21,339
24	Securities that are not in default and do not qualify as HQLA, including exchange- traded equities	4,001	1,209	356	1,336	5,287
25	<b>Assets with matching interdependent</b>	–	–	–	–	–
26	<b>Other assets:</b>	5,483	8,604	94	23,503	13,911
27	Physical traded commodities	4,158	*	*	*	3,535
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	*		3,526		2,997
29	NSFR derivative assets	*		8,087		1,279
30	NSFR derivative liabilities before deduction of variation margin	*		9,935		1,987
31	All other assets not included in the above categories	1,325	8,604	94	1,955	4,113
32	<b>Off-balance sheet items</b>	*		17,074		751
33	<b>Total RSF</b>	*	*	*	*	81,425
34	<b>Net Stable Funding Ratio (%)</b>	*	*	*	*	110.6%

\* Undisclosed

## 17.0 Net Stable Funding Ratio Disclosures

### continued

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#### **The Net Stable Funding Ratio (NSFR)**

The NSFR is a regulatory metric that requires that “available stable funding” (ASF) be sufficient to cover “required stable funding” (RSF). Macquarie has been compliant with the NSFR at all times since the ratio was introduced as a minimum requirement in January 2018. Macquarie’s NSFR on 31 December 2018 and 31 March 2019 was 110.6% and 112.9% respectively.

The NSFR seeks to encourage ADIs to fund their activities with more stable sources of funding on an ongoing basis, and thereby promote greater balance sheet resilience. It also aims to reduce an ADI’s reliance on less stable sources of funding. These requirements are in line with Macquarie’s Board-approved Liquidity Policy and Risk Tolerance.

Macquarie sets internal management and Board-approved minimum limits for the NSFR above the regulatory minimum level and monitors its aggregate NSFR position against these limits on a daily basis.

Whilst the NSFR and LCR are regulatory minima, Macquarie also models a number of additional internal liquidity scenarios covering both market-wide and Macquarie name-specific crises. The most binding of all scenarios (LCR, NSFR and internal) determines Macquarie’s absolute minimum required level of cash and liquid assets. Macquarie actively considers the impact of business decisions on the NSFR and LCR, as well as other internal liquidity metrics that form part of its broader liquidity risk management framework.

Macquarie’s NSFR fluctuates as a result of normal business activities and, accordingly, ongoing fluctuations in the reported NSFR are expected and are not necessarily indicative of a changing risk appetite. Some examples of factors that influence the NSFR include wholesale funding activities (such as pre-funding expected future asset growth), the degree of activity in Macquarie’s capital markets facing businesses, and a variety of other external market considerations.

#### **Calculation of the Net Stable Funding Ratio**

Under the regulatory rules, Available Stable Funding factors are applied to Macquarie’s capital and liabilities; while Required Stable Funding factors are applied to assets and off-balance sheet exposures. This calculation is shown in table 21 on page 68.

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# Disclaimer

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- Although Pillar 3 disclosures are intended to provide transparent disclosures on a common basis the information contained in this document may not be directly comparable with other banks. This may be due to a number of factors such as:
  - The mix of business exposures between banks
  - Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the bank and any surplus capital available.
  - Difference in implementation of Basel III framework i.e. APRA has introduced stricter requirements (APRA superequivalence).

# Appendix 1 Regulatory Capital Reconciliation

## 1.1 Common Disclosures Template

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

		As at 31 March 2019 \$m	Table Reference
<b>Common Equity Tier 1 capital: instruments and reserves \$m</b>			
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	7,507	Table f
2	Retained earnings	2,852	
3	Accumulated other comprehensive income (and other reserves)	515	
4	Directly issued capital subject to phase out from CET1 (only applicable to mutually-owned companies)	–	
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>10,874</b>	
<b>Common Equity Tier 1 capital : regulatory adjustments</b>			
7	Prudential valuation adjustments	–	
8	Goodwill (net of related tax liability)	42	Table b
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	135	Table b
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	85	Table a
11	Cash-flow hedge reserve	(112)	
12	Shortfall of provisions to expected losses	237	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	51	
15	Defined benefit superannuation fund net assets	–	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in common equity	–	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–	Table c
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–	Table c
20	Mortgage service rights (amount above 10% threshold)	–	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–	Table a
22	Amount exceeding the 15% threshold	–	
23	of which: significant investments in the ordinary shares of financial entities	–	Table c
24	of which: mortgage servicing rights	–	
25	of which: deferred tax assets arising from temporary differences	–	Table a
<b>APRA Specific Regulatory Adjustments</b>			
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	1,597	
26a	of which: treasury shares	–	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	–	
26c	of which: deferred fee income	–	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	425	Table c
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	335	Table a
26f	of which: capitalised expenses	452	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	253	Table c
26h	of which: covered bonds in excess of asset cover in pools	–	
26i	of which: undercapitalisation of a non-consolidated subsidiary	–	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i <sup>1</sup>	132 <sup>1</sup>	

1. Includes \$99m also applicable for Basel III regulatory adjustments.

	As at 31 March 2019 \$m	Table Reference
<b>Common Equity Tier 1 capital: instruments and reserves \$m</b>		
27	–	
		Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions
28	2,035	
		<b>Total regulatory adjustments to Common Equity Tier 1</b>
29	8,839	
		<b>Common Equity Tier 1 Capital (CET1)</b>
<b>Additional Tier 1 Capital: instruments</b>		
30	1,486	
		Directly issued qualifying Additional Tier 1 instruments
31	–	
		of which: classified as equity under applicable accounting standards
32	1,486	
		of which: classified as liabilities under applicable accounting standards
33	140	
		Directly issued capital instruments subject to phase out from Additional Tier 1
34	–	
		Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)
35	–	
		of which: instruments issued by subsidiaries subject to phase out
36	1,626	Table d
		<b>Additional Tier 1 Capital before regulatory adjustments</b>
<b>Additional Tier 1 Capital: Regulatory adjustments</b>		
37	–	
		Investments in own Additional Tier 1 instruments
38	–	
		Reciprocal cross-holdings in Additional Tier 1 instruments
39	–	
		Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)
40	–	
		Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)
41	–	
		National specific regulatory adjustments (sum of rows 41a, 41b and 41c)
41a	–	
		of which: holdings of capital instruments in group members by other group members on behalf of third parties
41b	–	
		of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40
41c	–	
		of which: other national specific regulatory adjustments not reported in rows 41a and 41b
42	–	
		Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions
43	–	
		<b>Total regulatory adjustments to Additional Tier 1 capital</b>
44	1,626	
		<b>Additional Tier 1 capital (AT1)</b>
45	10,465	
		<b>Tier 1 Capital (T1=CET1+AT1)</b>
<b>Tier 2 Capital: instruments and provisions</b>		
46	1,056	Table e
		Directly issued qualifying Tier 2 instruments
47	518	Table e
		Directly issued capital instruments subject to phase out from Tier 2
48	–	
		Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)
49	–	
		of which: instruments issued by subsidiaries subject to phase out
50	24	
		Provisions
51	1,598	
		<b>Tier 2 Capital before regulatory adjustments</b>
<b>Tier 2 Capital: regulatory adjustments</b>		
52	–	
		Investments in own Tier 2 instruments
53	–	
		Reciprocal cross-holdings in Tier 2 instruments
54	–	
		Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)
55	–	
		Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions
56	–	
		National specific regulatory adjustments (sum of rows 56a, 56b and 56c)
56a	–	
		of which: holdings of capital instruments in group members by other group members on behalf of third parties
56b	–	
		of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55

## Appendix 1 Regulatory Capital Reconciliation continued

	As at 31 March 2019	Table Reference
	\$m	
56c	–	
57	–	
58	1,598	
59	12,063	
60	77,517	
61	11.4%	
62	13.5%	
63	15.6%	
64	7.1%	
65	2.5%	
66	0.1%	Table h
67	N/A	
68	11.4%	
69	N/A	
70	N/A	
71	N/A	
72	114	Table c
73	311	Table c
74	N/A	
75	335	Table a
76	24	
77	106	
78	–	
79	316	
80	N/A	
81	N/A	
82	140	
83	260	
84	518	
85	1,360	

## 1.2 Regulatory Balance Sheet as at 31 March 2019

	Macquarie Bank Group Consolidated <sup>1</sup> \$m	Adjustment <sup>2</sup> \$m	Level 2 Regulatory Balance Sheet \$m	Template/ Reconciliation Table Reference
<b>Assets</b>				
Cash and bank balances	7,693	(65)	7,628	
Cash collateral on securities borrowed and reverse repurchase agreements	29,148	1	29,149	
Trading assets	17,502	–	17,502	
Margin money and settlement assets	14,496	(22)	14,474	
Derivative assets	14,090	(122)	13,968	
Financial Investments	5,470	–	5,470	
Other assets	2,105	(594)	1,511	
Loan assets	73,821	27	73,848	
Due from related body corporate entities	1,522	253	1,775	
Property, plant and equipment	2,738	(42)	2,696	
Interests in associates and joint ventures	219	(17)	202	
Intangible assets <sup>3</sup>	177	–	177	Table b
Investments in regulatory non-consolidated subsidiaries	–	256	256	Table c (Footnote 2)
Deferred tax assets	441	(21)	420	Table a
<b>Total Assets</b>	<b>169,422</b>	<b>(346)</b>	<b>169,076</b>	
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	4,216	–	4,216	
Trading liabilities	7,757	1	7,758	
Margin money and settlement Liabilities	17,901	–	17,901	
Derivative liabilities	12,523	(24)	12,499	
Deposits	56,120	–	56,120	
Other liabilities	3,043	(720)	2,323	
Bank Borrowings	1,560	(14)	1,546	
Due to related body corporate entities	16,791	383	17,174	
Debt issued	33,587	1	33,588	
Deferred tax liabilities	134	–	134	
Total Liabilities excluding loan capital	153,632	(373)	153,259	
<b>Loan capital</b>	<b>4,550</b>	<b>–</b>	<b>4,550</b>	Table d
<b>Total liabilities</b>	<b>158,182</b>	<b>(373)</b>	<b>157,809</b>	
<b>Net Assets</b>	<b>11,240</b>	<b>27</b>	<b>11,267</b>	
<b>Equity</b>				
Contributed equity	7,898	–	7,898	Table f
Reserves	516	(1)	515	Row 3
Retained earnings	2,824	28	2,852	Row 2
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	11,238	27	11,265	
<b>Non-controlling Interests</b>	<b>2</b>	<b>–</b>	<b>2</b>	Table g
<b>Total equity</b>	<b>11,240</b>	<b>27</b>	<b>11,267</b>	

1. As per Macquarie Bank Limited financial report as at 31 March 2019.
2. Reflects the deconsolidation of certain subsidiaries for APRA reporting purposes. The subsidiaries which are deconsolidated for regulatory purposes include entities conducting insurance, funds management and non-financial operations. Assets and Liabilities of mortgage and leasing special purpose vehicles (SPV) where Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief are not included in the Level 2 regulatory group.
3. The intangible component of investments in non-consolidated subsidiaries is included in intangible assets.

# Appendix 1 Regulatory Capital Reconciliation

## continued

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

Table a	31 March 2019 \$m	Template Reference
<b>Deferred Tax Assets</b>		
Total Deferred Tax Assets per Level 2 Regulatory Balance Sheet	420	
Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(85)	Row 10
Less: Deferred tax assets (temporary differences) - Amounts below prescribed threshold	(335)	Row 26e, 75
<b>Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold</b>	–	<b>Row 21 / 25</b>

Table b	31 March 2019 \$m	Template Reference
<b>Intangible Assets</b>		
Total Intangible Assets as per Level 2 Regulatory Balance Sheet	177	
Less: capitalised software and other intangibles	(85)	Row 9
Less: intangible component of deconsolidated subsidiaries	(50)	Row 9
<b>Total per Common Disclosure Template – Goodwill</b>	42	<b>Row 8</b>

Table c	31 March 2019 \$m	Template Reference
<b>Equity Investments</b>		
Significant investment in financial entities <sup>1,2</sup>	311	Row 73
Non-significant investment in financial entities <sup>1</sup>	114	Row 72
Total Investments in financial institutions	425	Row 26d
Investment in commercial entities <sup>1,2</sup>	253	Row 26g
Total Equity Investments before applying prescribed threshold	678	
Less: amounts risk weighted under Harmonised Basel III guidelines	(678)	
<b>Total per Common Disclosure Template – Equity Investments</b>	–	<b>Row 18, 19, 23</b>

Table d	31 March 2019 \$m	Template Reference
<b>Additional Tier 1 Capital</b>		
Total Loan Capital per Level 2 Regulatory Balance Sheet	4,550	
Less: Accrued interest	(4)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital <sup>3</sup>	11	Included in Row 26f
Less: Fair value hedge adjustments <sup>4</sup>	(6)	
Less: Tier 2 capital instruments reported in Table e	(3,065)	Table e
Additional Tier 1 Capital (MACS and BCN)	1,486	
Add: Other Equity Instruments (MIS) included in contributed equity	400	Table f
Less: Basel III transitional amortisation	(260)	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	<b>1,626</b>	<b>Row 36</b>

- Equity Investments are classified in the Level 2 Regulatory Balance Sheet across Investments in Associates, Financial Investments and Investment in regulatory non-consolidated subsidiaries. In addition, the Level 2 regulatory group has undrawn commitments (off balance sheet) which are deemed in the nature of equity for Regulatory Capital purposes.
- Included in significant investment in financial entities is \$205 million of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is \$51 million of equity investments in regulatory non-consolidated subsidiaries.
- Unamortised issue cost relating to capital instruments are netted against each instrument on the Level 2 Regulatory Balance Sheet. For regulatory capital purposes, the unamortised costs are deducted at CET1 as part of capitalised expenses in row 26f of the Common Disclosures Template.
- For regulatory capital purposes, APRA requires these instruments to be included as if they were unhedged.

<b>Table d (continued)</b>	<b>31 March 2019 \$m</b>	<b>Template Reference</b>
<b>Additional Tier 1 Capital Instruments</b>		
Macquarie Income Securities	140	
Macquarie Bank Capital Notes	430	
Macquarie Additional Capital Securities	1,056	
<b>Total per Common Disclosure Template – Additional Tier 1 Capital</b>	<b>1,626</b>	<b>Row 36</b>

<b>Table e</b>	<b>31 March 2019 \$m</b>	<b>Template Reference</b>
<b>Total Tier 2 Capital per Balance Sheet</b>		
Total Tier 2 Capital per Balance Sheet	3,065	Table d
Less: Accrued Interest	(75)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	4	Included in Row 26f
Less: Fair value hedge adjustments <sup>1</sup>	(60)	
Less: Basel III transitional amortisation	(1,360)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>1,574</b>	<b>Row 46+47</b>

<b>Tier 2 Capital Instruments</b>		
Subordinated Debt – EUR600m – eligible for transition	(229)	
Subordinated Debt – USD1.0bn – eligible for transition	(289)	
Subordinated Debt – USD750m– fully qualified Tier 2 instrument	(1,056)	
<b>Total per Common Disclosure Template – Tier 2 Capital</b>	<b>(1,574)</b>	<b>Row 46+47</b>

Details on the main features of Capital instruments included in the Level 2 regulatory group's Regulatory Capital, (Ordinary Share Capital, Additional Tier 1 Capital and Tier 2 capital) as required by APS 330 Attachment B can be found at:

<https://www.macquarie.com/au/about/investors>

<b>Table f</b>	<b>31 March 2019 \$m</b>	<b>Template Reference</b>
<b>Contributed Equity</b>		
Total Contributed Equity as per Level 2 Regulatory Balance Sheet	7,898	
Less: Additional tier 1 instruments (MIS) included in share capital	(400)	Table d
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	9	Included in Row 26f
<b>Total per Common Disclosure Template – Contributed Equity</b>	<b>7,507</b>	<b>Row 1</b>

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

## Appendix 1 Regulatory Capital Reconciliation continued

Table g	31 March 2019 \$m	Template Reference
<b>Non Controlling Interests</b>		
Total Non Controlling Interests as per Level 2 Regulatory Balance Sheet	2	
Less: other non controlling interests not included in capital	(2)	
<b>Total per Common Disclosure Template – Non Controlling Interests</b>	<b>–</b>	<b>Row 5</b>

Table h

### Countercyclical Capital Buffer

The Countercyclical Capital Buffer (CCyB) is an extension of the capital conservation buffer which must be held in the form of CET1 capital, ranging from 0 to 2.5%. The CCyB is designed to ensure that ADIs build up capital buffers when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk. The CCyB is calculated as the weighted average of the jurisdictional buffers set by the relevant national authority where an ADI has private sector credit exposures, excluding exposures to Banks and Sovereigns.

	RWA \$m	Jurisdictional Countercyclical buffer buffer	Countercyclical buffer requirement <sup>1</sup>	Template Reference
United Kingdom	5,562	1.000%	0.0924%	
Hong Kong	195	2.500%	0.0081%	
Norway	69	2.000%	0.0023%	
Sweden	64	2.000%	0.0022%	
Others	54,302	0.000%	0.0000%	
<b>Total</b>	<b>60,192</b>		<b>0.1050%</b>	<b>Row 66</b>

1. Calculated as each country's share of total private sector credit exposures multiplied by the CCyB applicable to each country.

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

31 March 2019	Total Assets <sup>1,2,3,4</sup>	Total Liabilities <sup>1,2,3,4</sup>
<b>Funds Management</b>		
Elise Nominees Pty Limited	–	–
Macquarie Alternative Assets Management Limited	31	(11)
Macquarie Asset Management Inc.	5	(1)
Macquarie Australia Securities Pty Limited	1	(1)
Macquarie Financial Products Management Limited	44	–
Macquarie Fonds GmbH	–	–
Macquarie Fondsmanagement GmbH	–	–
Macquarie Global Bond Fund	–	–
Macquarie Investment Management Ltd	157	(23)
Macquarie Investment Services Limited	1	–
Macquarie Management GmbH	1	–
Macquarie Master Small Companies Fund	3	(3)
Macquarie NRAS Trust	–	–
Macquarie Prism Pty Limited	2	–
Macquarie Private Capital Management Limited	–	–
Macquarie Private Debt Europe Limited	5	(4)
Macquarie Private Portfolio Management Limited	–	–
Macquarie Professional Series Global Equity Fund	–	–
Macquarie Securities Management Pty Limited	1	–
Macquarie Treuermögen GmbH	–	–
Macquarie Vermögenstreuhand GmbH	–	–
MGIDF Guernsey GP Limited	–	–
MIDF UK1 Guernsey GP Limited	1	(1)
MIDF UK1 LLP	–	–
MIDF UK1B Guernsey GP Limited	–	–
MIDF UK2 Guernsey GP Limited	–	–
<b>Non-Financial Operations</b>		
Alchemy Telco Solutions Limited	12	(6)
Avenal Power Center, LLC	10	(7)
Capital Meters Limited	58	(45)
Comercializadora Energia de la Reforma S. de R.L. de C.V.	66	(66)
Corona Energy Limited	33	–
Corona Energy Retail 1 Limited	60	(41)
Corona Energy Retail 2 Limited	74	(49)
Corona Energy Retail 3 Limited	6	–
Corona Energy Retail 4 Limited	233	(218)
Corona Energy Retail 5 Limited	–	–
Corona Gas Management Limited	3	(1)
Integra Springs Property Owner LLC	7	(6)
Ion Energy Pte Limited	–	–

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

continued

31 March 2019	Total Assets <sup>1,2,3,4</sup>	Total Liabilities <sup>1,2,3,4</sup>
Keba Energy LLC	–	–
Liberty Green Renewables Indiana, LLC	3	(1)
Macquarie Business Solutions Pty Limited	2	–
Macquarie Commodities (Singapore) Pte. Limited	2	–
Macquarie Corona Energy Holdings Limited	21	(4)
Macquarie Electronics Usa Inc	27	(26)
Macquarie Energy Services Pty Limited	–	–
Macquarie Farm Assets and Resources Management Pty Limited	19	–
Propertyiq Pty Limited	13	(5)
Propertyiq Strata Pty Limited	1	–
PT Macquarie Commodities Indonesia	1	(1)
PT MPM Indonesia	1	–
Resource Marine Pte. Limited	23	(14)
Sterling TC Holdings LLC	–	–
Summer Housing SDA Trust	10	(10)
Summerset Property Owner LLC	–	–
Telco Two Pty Limited	3	–
<b>Insurance</b>		
Macquarie (Bermuda) Limited	45	(42)
Macquarie Life Limited	407	(384)

1. These balances, along with any Australian GAAP adjustment where required, are included in Macquarie Bank Group's audited Australian GAAP financial report for the year ended 31 March 2019. The financial report under local GAAP of certain entities may be subjected to separate audits from the Macquarie Bank Group audit and these audits may not be complete as at the date of this report.
2. The total assets and liabilities should not be aggregated as certain entities are holding companies for other entities in the table shown above.
3. Numbers are rounded to the nearest A\$ million. Asset balances are shown as positive and liability balances are shown as negative.
4. The assets and liabilities for deconsolidated subsidiaries includes receivable from and payable to related entities.

# Appendix 3 Annual Remuneration Disclosures

## Introduction

This document has been prepared in accordance with the Australian Prudential Regulatory Authority (APRA) Prudential Standard APS 330 Public Disclosure (APS 330) for Authorised Deposit-taking Institutions (ADIs). The remuneration disclosures presented herein for the financial years ended 31 March 2019 and 31 March 2018 of Macquarie Bank Limited (MBL or Macquarie Bank) are separate to the requirements of the Corporations Act 2001 (Cth) and may not be comparable to other information disclosed by MBL.

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

The qualitative remuneration disclosures (sections 1 to 4) outline the remuneration framework consistent with the Macquarie Group's Remuneration Policy. Macquarie Group's Remuneration Policy applies to all employees globally. The quantitative information (section 5) relates to senior managers and material risk takers of MBL for the financial years ended 31 March 2019 and 31 March 2018. The Board Remuneration Committee (the BRC or the Committee) has identified the following groups of employees as senior managers and material risk takers as defined in paragraph 21 of APS 330 for the financial year ended 31 March 2019 and 31 March 2018 respectively:

Roles	Number of individuals	
	2019	2018
Senior managers the MBL Executive Committee <sup>1</sup>	11 <sup>3</sup>	13
Material risk takers Executive Directors who are MBL Designated Executive Directors <sup>2</sup>	28 <sup>4</sup>	26

1. These individuals will be referred to as either senior managers or Executive Committee members throughout this document.
2. Executive Directors who have a significant management or risk responsibility in the organisation. These individuals will be referred to as either material risk takers (MRTs) or Designated Executive Directors (Designated EDs) throughout this document.
3. During the year two senior managers resigned from Executive Committee.
4. During the year one material risk taker ceased to be a material risk taker of MBL.

## 1 Remuneration Governance

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

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

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

## Appendix 3 Annual Remuneration Disclosures

### continued

The BRC members have the required experience and expertise in human resources, remuneration and risk to enable them to achieve effective governance of the Macquarie Group's remuneration framework. The BRC has a regular meeting cycle and it met six times during FY2019. Strict processes are in place to ensure conflicts of interest are appropriately managed.

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

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

The Charter is available on the Macquarie Group's website at [macquarie.com/leadership-corporate-governance](http://macquarie.com/leadership-corporate-governance).

Macquarie Group's strong remuneration governance framework provides the BRC with multiple opportunities to review and challenge both individual remuneration outcomes and the company-wide profit share pool. There is a consistent and robust process for the BRC to assess performance and determine remuneration outcomes for Macquarie Bank's most senior staff.

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

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

Board and Committee fees are reviewed annually. Per diem fees may also be paid from time to time for approved additional work. Guerdon Associates was engaged by the Board during FY2019 to provide trend and peer analysis against an Australian and international comparator group. The Board reviewed NED remuneration in the context of external market factors. To address the increasing demands on NEDs given the growth in the scale of the Macquarie Group's operations and regulatory initiatives that have increased the responsibilities and time commitment of NEDs, the Board determined to increase the Macquarie Bank Board member base fee from \$A72,500 to \$A78,000 while leaving Committee fees unchanged. The Macquarie Bank annual Board Chairman fee was also increased from \$A250,000 to \$A267,000. Both fee increases were effective from 1 July 2018.

Board fees were last changed in FY2016. This increase in Macquarie Bank fees of \$A66,500 per annum was accommodated within the current MGL cap.

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## 2 Remuneration Design and Structure

Macquarie Group's longstanding and consistent approach to remuneration continues to support the overarching objective of delivering strong company performance over the short and long-term, while prudently managing risk and reinforcing the *Code of Conduct* and *What We Stand For*. The Macquarie Group Board recognises that to achieve this objective, we must attract, motivate and retain exceptional people while aligning their interests with those of our clients and shareholders. This broad approach has been in place since the Macquarie Group's inception, evolving over time to ensure the system continues to meet its overall objectives.

The Macquarie Group's remuneration approach has been a key driver of our sustained success as an international organisation. Staff are motivated to grow businesses over the medium to long-term, to be accountable for all decisions and their accompanying risk management, customer, economic and reputational consequences.

This approach has been fundamental in attracting, motivating and retaining exceptional, entrepreneurial and ethical people. We hire world-class people in 30 highly competitive markets. These people come from and compete in various industry sectors such as hedge funds, private equity firms, global investment banks, fund managers, advisory boutiques, commodity houses and other banks. For this reason, we use an international reference group for peer comparison.

An overview of the remuneration framework is set out below.

### Overall remuneration objectives and principles



## Appendix 3 Annual Remuneration Disclosures

### continued

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

FIXED REMUNERATION	
<b>Fixed</b>	<ul style="list-style-type: none"> <li>– for Executive KMP, is a low proportion of total remuneration relative to the industry but sufficient to avoid inappropriate risk-taking</li> <li>– for risk and financial control staff, generally a higher proportion of total remuneration than for front office staff.</li> </ul>
PERFORMANCE-BASED REMUNERATION	
<b>Profit share</b>	<ul style="list-style-type: none"> <li>– all permanent employees are eligible to participate</li> <li>– significant portion of profit share is retained (80% for the MGL CEO) with a long deferral period (three to seven years for Executive Committee members)</li> <li>– retained profit share is delivered in a combination of MGL equity and Macquarie-managed fund equity to strengthen alignment with future performance</li> <li>– Malus provisions apply to certain senior employees</li> <li>– retained profit share is subject to forfeiture upon leaving the Macquarie Group except in limited circumstances (such as retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).</li> </ul>
<b>PSUs</b>	<ul style="list-style-type: none"> <li>– are only awarded to Executive Committee members to drive company-wide performance</li> <li>– are a meaningful incentive but not the major element of total remuneration</li> <li>– vesting of PSUs is subject to achievement of performance hurdles measured equally against ROE relative to an international reference group (50%) and absolute EPS growth (50%) <ul style="list-style-type: none"> <li>– PSU awards vest in two equal tranches after three and four years<sup>1</sup></li> <li>– no retesting of hurdles</li> </ul> </li> <li>– an international reference group recognises the extent of the Macquarie Group's diversification and internationalisation.</li> <li>– Malus provisions apply</li> <li>– unvested PSUs are subject to forfeiture upon leaving the Macquarie Group except in limited circumstances (such as retirement from the Macquarie Group, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances).</li> </ul>

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

1. The Banking Executive Accountability Regime (BEAR) will apply to Macquarie Bank from 1 July 2019. To ensure full compliance by this date, the vesting period of PSUs awarded from FY2020 will be extended to four years, subject to performance hurdles.

#### 2.1 Risk and Financial Control Personnel

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

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

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### 3 Remuneration and Risk

#### Risk Culture

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

#### Alignment of remuneration with prudent risk taking

The Board considers that the effective alignment of remuneration with prudent risk-taking is fundamental to its remuneration approach. Performance-based remuneration reflects an individual's performance, which includes an assessment of a range of factors including risk management and compliance as well as behavioural measures to promote good conduct and commitment to the *Code of Conduct* and *What We Stand For*. In addition, the remuneration framework is characterised by significant retention and long deferral periods, which enable risk outcomes to be taken into account over long periods.

The Board and the BRC continue to take risk and conduct matters very seriously. There are robust processes in place to ensure that risk, reputation and conduct-related matters, as well as financial losses and impairments, and other breaches of the risk management framework are specifically considered when assessing performance and determining remuneration outcomes. These processes may result in a downward adjustment to group and/or individual profit share allocations where appropriate. A wide range of risks that could have a financial or non-financial impact on the Macquarie Group are considered, including if there has been a detriment to customers.

To assist the Board and the BRC:

- The Board receives regular reports to assist Board members in assessing the Macquarie Group's risk culture as well as through personal observation including visits to the Macquarie Group's overseas offices
- the CRO provides an independent annual report to the BRC detailing significant regulatory and legal matters, significant compliance and operational incidents, material losses, internal audit issues and other non-financial risk matters. In addition, the report details residual risks associated with large transactions concluded during the current financial year, return on economic capital by business and the relationship between profitability and risk
- the Global Head of HR discusses the CRO's report with the Group Heads to ensure any matters listed in the report are appropriately reflected in remuneration outcomes for relevant staff and provides a report to the BRC detailing how this has been achieved
- the General Counsel, in conjunction with HR, considers whether there are any incidents that should be brought to the attention of the BRC which might lead to a Malus determination and reports to the BRC at year end.

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

#### Consequence management

Macquarie Group operates a robust consequence management process whereby incidents, breaches of policy and misconduct are regularly reported to senior management. The Macquarie Group's Consequence Management Guideline applies whenever a breach of internal policy, including the *Code of Conduct*, or regulatory requirement is identified. Consequences may include requirements to undergo further training, removal of delegated authorities or permissions, adjustments to performance-based remuneration, impact on promotion, formal warnings or termination. In any given year, each of these different types of consequences may be imposed on individuals working for the Macquarie Group. The most serious consequences are formal warnings and terminations. Where an employee has received a formal warning, in most cases the discretionary component of their remuneration will be impacted and in some cases the outcome is that no profit share allocation is made. Promotion decisions may also be impacted. Impacts may also be applied where a formal warning has not been issued. In each case, judgement is exercised as to the appropriate consequence/s based on all the relevant circumstances. In the event that an individual's employment is terminated due to a compliance or conduct concern (or they resign), Macquarie Group's standard policy would apply, whereby retained and unvested remuneration is forfeited.

To assist the Board and the BRC:

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

## Appendix 3 Annual Remuneration Disclosures

### continued

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In 2019, for Macquarie Bank, there were 89 matters involving conduct/policy breach that resulted in formal consequences. Of those matters:

- for 9 matters, termination of employment was the outcome
- for 80 matters, a formal warning was issued. Where a formal warning was issued, additional consequences were applied as appropriate including additional training, removal of delegated authorities or permissions, adjustments to performance-based remuneration and/or impact to promotion. Of the 80 matters, 19 have resulted in individuals subsequently leaving Macquarie Bank.

#### 4 Approach to determining remuneration outcomes

The Macquarie Group’s remuneration framework works as an integrated whole. An individual’s remuneration comprises fixed remuneration, profit share and, for Executive Committee members (our Executive KMP), PSUs. The table below provides an overview of these components.

FIXED REMUNERATION	
<b>Fixed</b>	Reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements.
PERFORMANCE-BASED REMUNERATION	
<b>Profit share</b>	<p>The company-wide profit share pool is determined through a bottom-up assessment at both the business group and individual level:</p> <p><b>Business groups</b></p> <ul style="list-style-type: none"> <li>– Reflects each business’ contribution to company-wide profits taking into account liquidity, capital and funding usage</li> <li>– For support groups, based on the quality and integrity of control functions and support services; not primarily determined with reference to profitability</li> <li>– Considers the risk profile of each business including consideration of any significant reputational or compliance matters</li> <li>– Also considers overall remuneration levels in the market in which each business operates.</li> </ul> <p><b>Individuals</b></p> <ul style="list-style-type: none"> <li>– Based on business profits and individual contribution to profits for front office staff</li> <li>– Primarily based on contribution to high quality control functions for risk management and financial control staff</li> <li>– For other support staff, based on their contribution to delivering high quality services to support the businesses</li> <li>– Other factors considered include risk management and compliance (both financial and non-financial risks), business leadership (including customer outcomes), people leadership and professional conduct</li> <li>– May be adjusted downwards based on an assessment of both financial and non-financial risk including conduct issues that have arisen during the year</li> <li>– Also considers relativities in the market in which each business operates.</li> </ul> <p><b>Company-wide profit share pool</b></p> <ul style="list-style-type: none"> <li>– Is an aggregate of the bottom-up assessment conducted at both the business and individual level</li> <li>– Is assessed for overall reasonableness, including consideration of: <ul style="list-style-type: none"> <li>– an internal reference based on the Macquarie Group’s after-tax profits and its earnings over and above the estimated cost of capital</li> <li>– the resultant compensation expense to income ratio and how it compares to that of peers</li> </ul> </li> <li>– The MGL Board retains discretion to determine the final pool determined in accordance with the bottom-up assessment to ensure that all relevant factors, including risk and conduct matters, have been appropriately taken into consideration.</li> <li>– The Chief Financial Officer (CFO) confirms that payment of the profit share pool would not result in elimination of capital surpluses.</li> </ul>
<b>PSUs</b>	<ul style="list-style-type: none"> <li>– The pool is determined with reference to profits over recent years</li> <li>– The Board retains discretion to determine the final PSU pool taking into consideration the risk profile of the Macquarie Group</li> <li>– Individual allocations reflects role and complexity, and contribution to driving the collective performance of the Macquarie Group</li> <li>– The BRC considers both fair and face value when determining individual PSU allocations</li> <li>– PSUs are granted in August each year.</li> </ul>

## Appendix 3 Annual Remuneration Disclosures

### continued

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

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

The following table summarises the standard retention and vesting arrangements applicable for FY2019.

Role	Available profit share (%) <sup>2</sup>	Profit share retention (%)	Retained profit share investment		Vesting and release of profit share
			MEREP (MGL ordinary shares) %	DPS Plan (Macquarie-managed fund equity) %	
CEO Macquarie Group <sup>3</sup>	20	80	90	10	One-fifth in each of years 3–7
CEO Macquarie Bank	40	60	90	10	
Executive Committee members with Funds responsibilities <sup>4</sup>	30	70	50	50	
Other Executive Committee members	40	60	80–90	10–20	
Designated Executive Directors <sup>5</sup>	40–50	50–60	80–90	10–20	
Other Executive Directors	40–60	40–60	80–90	10–20	One-third in each of years 3–5
Executive Directors with Funds responsibilities	40–60	40–60	25–50	50–75	As above
Staff other than Executive Directors	40–75	25–60 <sup>6</sup>	100 <sup>7</sup>	0 <sup>7</sup>	One-third in each of years 2–4

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

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

- retention rates, vesting and release schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in certain jurisdictions, for example the European Union (EU), to ensure compliance with local regulatory requirements
- In limited circumstances, retained profit share may be allocated under arrangements other than the DPS Plan or the MEREP. For example, this may include investment in funds or products of a specific business group where there is a need to directly align the interests of staff with those of their clients.

- Both the MEREP and DPS Plan are fundamental tools in the Macquarie Group's retention, alignment and risk management strategies, encompassing both long-term retention arrangements and equity holding requirements. The MEREP has a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in MGL ordinary shares held in a trust for the staff member (Restricted Share Units or RSUs).  
The DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment.
- Available profit share is delivered in cash.
- The current MBL CEO is subject to these arrangements from 1 December 2018.
- During FY2019, the current MGL CEO was subject to these arrangements from 1 April 2018 to 30 November 2018, being the period that she was Head of MAM.
- Executive Directors who have a significant management or risk responsibility in the organisation.
- Above certain monetary thresholds.
- For staff other than Executive Directors, retained profit share is generally invested in Macquarie equity with the exception of those staff with funds responsibilities where retained profit share is invested in a combination of Macquarie equity and Macquarie-managed fund equity.

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## 4.2 Forfeiture of Retained Profit Share – Malus Events

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

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

Each of the above is a Malus Event.

Additional provisions may apply to staff in certain jurisdictions to ensure compliance with local regulations. This includes, for example, staff in the European Union (EU) who are required to comply with local regulatory requirements. These individuals are subject to additional Malus and clawback provisions under EU regulations.

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

## 4.3 Early Vesting and Release of Retained Profit Share

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

Discretion may be exercised in certain other limited exceptional circumstances on the grounds of business efficacy, in connection with strategic business objectives, including in connection with the divestment or internalisation of Macquarie Group businesses, or when an employee resigns to fulfil a public service role in a governmental organisation or agency. Where such discretion is exercised, the Board may impose such other conditions as it considers appropriate.

This year such discretion has been exercised and retained profit share released for one executive due to transfer of their employment to an asset owned or managed by the Macquarie Group.

## Appendix 3 Annual Remuneration Disclosures

### continued

#### 4.3.1 Conditions of Early Release to Departing Executive Directors – Post Employment Events

In addition to the Malus provisions set out in section 4.2, where discretion has been exercised to accelerate the vesting of the retained profit share of any departing Executive Director, the Board may reduce or eliminate in full their retained profit share, if it determines that the Executive Director has at any time during their employment or the relevant release periods after their employment committed a Malus Event (as described above) or:

- a) taken staff to a competitor or been instrumental in causing staff to go to a competitor, or
- b) joined a competitor of the Macquarie Group or otherwise participated in a business that competes with the Macquarie Group.

Each of the above is a Post Employment Event.

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

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

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

#### 4.4 Performance Share Units (PSUs)

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

Since their introduction, PSUs have been structured as DSUs<sup>8</sup> with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

8. A DSU is a Deferred Share Unit and is one of the award types under the MEREP.

#### 4.4.1 Performance Hurdles for PSUs

The PSU hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for FY2019.

	EPS CAGR hurdle	ROE hurdle
<b>Application</b>	50% of PSU award	50% of PSU award
<b>Performance measure</b>	Compound annual growth rate (CAGR) in EPS over the vesting period (three to four years)	Average annual ROE over the vesting period (three to four years) relative to a reference group of global financial institutions <sup>9</sup>
<b>Hurdle</b>	Sliding scale applies: <ul style="list-style-type: none"> <li>– 50% becoming exercisable at EPS CAGR of 7.5%</li> <li>– 100% at EPS CAGR of 12%</li> </ul> For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.	Sliding scale applies: <ul style="list-style-type: none"> <li>– 50% becoming exercisable above the 50th percentile</li> <li>– 100% at the 75th percentile</li> </ul> For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.

#### Forfeiture

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

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

#### Rationale for hurdles

- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- the approach is consistent with that advocated by APRA in not using TSR as a measure
- can be substantiated using information that is disclosed in audited financial statements
- a sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test, which some have argued could promote excessive risk-taking
- designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven year deferral of profit share for members of the Executive Committee.

#### Use of an international reference group

An international reference group recognises the extent of the Macquarie Group's diversification and internationalisation. As at 31 March 2019, total international income represented approximately 66% of the Macquarie Group's total income with approximately 58% of our staff located outside Australia. The BRC considers a global reference group to be appropriate on the basis that the Macquarie Group has no comparable Australian-listed peers. These international firms broadly operate in the same markets and compete for the same people as the Macquarie Group.

#### Macquarie Group's EPS CAGR performance

EPS for FY2019 was 883.3 cents per share which has increased by 17% on the prior year. For PSUs to fully vest, Macquarie Group needs to achieve at least 12% CAGR over the vesting period.

Supporting the rigour of the hurdle, to achieve a full vesting the following cumulative EPS is required:

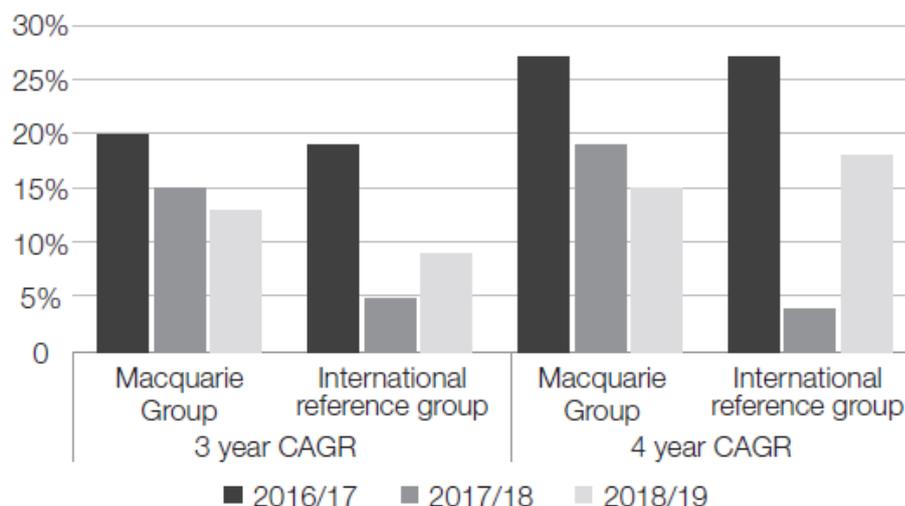
- over three years, a cumulative EPS growth of 40% is required
- over four years, a cumulative EPS growth of 57% is required.

## Appendix 3 Annual Remuneration Disclosures

### continued

The below graph shows EPS CAGR for Macquarie Group over three and four years. The average EPS CAGR of Macquarie's international reference group is shown for comparison though this does not form part of Macquarie Group's PSU hurdle.

#### Macquarie Group's 3 and 4 year EPS CAGR compared to an international reference group



Source: Bloomberg

#### Macquarie Group's ROE performance compared to an international reference group

The Macquarie Group's ROE for FY2019 of 18.0% has improved from 16.8% in the prior year, and is higher than all but one of the international reference group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds all but one of the reference group.

#### Reference group ROE over ten years FY2010–2019

	1 year average % p.a.	3 year average % p.a.	5 year average % p.a.	10 year average % p.a.
Macquarie Group	18.0	16.7	15.7	12.3
Average of reference group	12.8	8.3	10.2	8.5
Company	10.9	8.2	6.5	3.5
Company	2.6	0.7	0.2	3.6
Company	4.7	(1.3)	(1.3)	3.7
Company	0.0	(1.5)	(2.5)	1.8
Company	13.2	9.2	9.2	10.5
Company	13.3	11.1	10.7	9.8
Company	49.8	33.7	53.2	32.4
Company	11.7	9.3	8.3	5.5
Company	8.6	5.5	7.0	5.5

Source: Bloomberg, Macquarie as reported

## Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year-end results available. PSUs that do not meet performance hurdles expire.

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

<b>Minimum shareholding requirement</b>	Executive Directors are required to hold a relevant interest in MGL ordinary shares which have a value equal to 5% of an Executive Director's aggregate profit share allocations for each of the past five years (10 years for Executive Committee members), which can be satisfied by the requirements of the profit share retention policy. For Executive Committee members, compliance with this policy equates to a minimum shareholding requirement of between 160% to 670% of fixed remuneration.
<b>Promotion Awards</b>	Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards based on Director-level set with reference to an Australian dollar value. Currently these awards range from \$A25,000 to \$A175,000 depending on the promotion level.
<b>Hedging</b>	The Macquarie Group prohibits staff from hedging shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP.

## Employment contracts

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

<b>Length of contract</b>	Permanent open-ended.
<b>Remuneration review period</b>	1 April to 31 March annually.
<b>Profit share participation</b>	Executive Committee members are eligible to be considered for a profit share allocation that ensures that a large part of their remuneration is 'at risk'.
<b>PSU participation</b>	Executive Committee members are eligible to receive PSUs.
<b>Termination of employment</b>	Requires no more than four weeks' notice <sup>10</sup> by Macquarie or the Executive Committee member (Post-employment restrictions apply).
<b>Post-employment restrictions</b>	Restrictions include non-solicitation provisions applicable for six months, and paid non-competition provisions applicable, at Macquarie's election, for up to three months post-termination.

10. Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by the Macquarie Group may receive an additional week's notice if they are over 45 years of age and have more than two years' continuous service at the time of the termination of their employment. In the UK, the statutory minimum notice period increases from four weeks to a maximum 12 weeks based on years of service.

## Appendix 3 Annual Remuneration Disclosures

### continued

#### 5 Quantitative Disclosures for Senior Managers and Material Risk Takers

The following tables have been prepared in accordance with APS 330 for the financial years ended 31 March 2019 and 31 March 2018. These tables are prepared on a different basis than those required by Australian Accounting Standards and the Corporations Act, as disclosed in Macquarie Bank's Annual Report.

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

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

The following table sets out the total value of remuneration awarded to senior managers and material risk takers in respect of their performance for the financial years ended 31 March 2019 and 31 March 2018 respectively. 11 senior managers (FY2018: 12) and 28 material risk takers (FY2018: 25) received a variable remuneration award in respect of services to MBL in FY2019.

\$A'000	Senior managers				Material risk takers			
	Non-Deferred		Deferred		Non-Deferred		Deferred	
	2019	2018	2019	2018	2019	2018	2019	2018
<b>Fixed remuneration<sup>2</sup></b>								
Cash-based	5,582	5,566	–	–	17,813	18,345	–	–
Shares and share-linked instruments	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
<b>Variable remuneration<sup>3</sup></b>								
Cash-based	33,626	29,092	–	–	28,693	24,218	–	–
Shares and share-linked instruments <sup>4</sup>	–	–	66,370	61,426	1,711 <sup>5</sup>	2,741	30,588	27,542
Other	–	–	–	–	–	–	–	–

##### 5.2 Deferred Remuneration for Senior Managers and Material Risk Takers – Total Value Outstanding, Vested and Any Downward Adjustments

The following table sets out the total value of deferred remuneration outstanding at 31 March 2019 and 31 March 2018 respectively, remuneration granted in previous years that vested during the current financial year and any realised reductions due to ex post explicit and implicit adjustments. All outstanding deferred remuneration is exposed to ex post explicit and implicit adjustments.

\$A'000	Senior managers		Material risk takers	
	2019	2018	2019	2018
<b>Outstanding deferred remuneration<sup>6</sup></b>				
Cash-based	–	–	–	–
Shares and share-linked instruments <sup>7</sup>	410,512	358,011	161,285	160,873
<b>Deferred remuneration vested during the financial year<sup>8</sup></b>	<b>90,707</b>	71,818	<b>37,952</b>	39,731
<b>Deferred remuneration adjustments during the financial year</b>				
Reductions due to ex post explicit adjustments <sup>9</sup>	–	–	–	–
Reductions due to ex post implicit adjustments	–	–	–	–

As set out below, no senior managers were awarded a guaranteed or sign-on award for the financial year ended 31 March 2019 (FY2018: Nil). No guarantee awards and no sign-on award were granted to material risk takers during FY2019 (FY2018: Nil). No payments associated with terminations were made to senior managers (FY2018: Nil). No termination payments were made to a material risk taker during FY2019 (FY2018: Nil).

\$A'000	Senior managers				Material risk takers			
	No. of individuals		Total amount		No. of individuals		Total amount	
	2019	2018	2019	2018	2019	2018	2019	2018
Termination payments <sup>10</sup>	–	–	–	–	–	–	–	–

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## Notes to the quantitative remuneration disclosures

1. Remuneration awarded in respect of FY2019 and FY2018 performance reflects remuneration relating to services to MBL for the portion of the relevant periods that each individual was a senior manager or material risk taker of MBL.
2. Fixed remuneration comprises current year salary, including superannuation and other cash allowances.
3. Variable remuneration awarded in respect of performance for FY2019 and FY2018 includes the total value of non-deferred and deferred components related to the FY2019 and FY2018 awards. The non-deferred (cash-based) components will be granted and paid in the following financial year and the payment of deferred components are deferred to a future period.
4. Includes the value of retained profit share invested in MGL ordinary shares under the MEREP, retained profit share notionally invested in Macquarie managed-fund equity under the DPS Plan, and for senior managers, PSUs.
5. This relates to EU Material Risk Takers in the UK for whom a portion of their non-deferred profit share is delivered in MGL ordinary shares in accordance with the Remuneration Code.
6. Value as at 31 March 2019 and 31 March 2018 of unvested deferred remuneration. For employees who were both a senior manager and a material risk taker during the year, the categorisation reflects the employee's position as at 31 March 2019.
7. Includes the value as at 31 March 2019 (for FY2019) and 31 March 2018 (for FY2018) of retained profit share invested in MGL ordinary shares under the MEREP, retained profit share notionally invested in Macquarie managed-fund equity under the DPS Plan, and for senior managers, the fair value of PSUs at the same date. The value of retained profit share invested in the MEREP for FY2019 has been calculated based on the 31 March 2019 share price of \$A129.42. For FY2018, the value of retained profit share invested in the MEREP has been calculated based on the 31 March 2018 share price of \$A102.90.
8. Value as at the date of vesting of deferred remuneration that vested during the financial years ended 31 March 2019 and 31 March 2018 for senior managers and material risk takers, including vesting for staff who terminated during FY2019. The value has been calculated based on the share price on the date of vesting which for FY2019 was in the range of \$A110.09 to \$A124.02 (FY2018: \$A89.93 to \$A99.67). For employees who were both a senior manager and a material risk taker during the year, the categorisation reflects the employee's position as at the date of vesting.
9. Explicit adjustments include any realised reductions relating to forfeitures, lapses as a result of failure to meet performance hurdles, and adjustments made under the Malus and Post Employment Event provisions.
10. This amount reflects payments made in FY2019 and FY2018 associated with termination of employment with Macquarie Group in accordance with Macquarie Group policies, Executive Director remuneration arrangements, individual employment agreements, and/or local legal requirements. Payments associated with termination will typically include unused long-service and annual leave entitlements, and redundancy amounts, where applicable, but will exclude the release (in accordance with Macquarie Group's remuneration arrangements) of deferred remuneration awarded in prior years which is included in deferred remuneration vested during the relevant financial year. There are no ex-gratia termination payments. Individuals may also retain deferred remuneration held in the MEREP, the DPS Plan or as PSUs (senior managers only), which may be released in future years subject to the relevant restriction periods, DPS release provisions and performance hurdles per Macquarie Group policies, Executive Director remuneration arrangements and/or individual employment agreements.

## Appendix 4 List of APRA Quantitative Tables

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22	Annual Remuneration Disclosure	Appendix 3

## Appendix 5 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds;</li> <li>– are freely available to absorb losses;</li> <li>– rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and</li> <li>– provide for fully discretionary capital distributions.</li> </ul>
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALA	Alternative Liquid Assets
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
ADI Prudential Standards (APS)	APRA's ADI Prudential Standards. For more information refer to APRA website.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
ASF	Available Stable Funding
AVC multiplier	Asset Value Correlation multiplier. A loading introduced as part of Basel III which is added to the correlation factor when calculating the RWA on exposures to certain financial institutions.
Bank Group	MBL and its subsidiaries.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113- Capital Adequacy: Internal Ratings-based Approach to Credit risk.
BAC	Board Audit Committee.
BCN	On 8 October 2014, MBL issued 4.3 million Macquarie Bank Capital Notes (BCN) at face value of \$A100 each. BCN are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual floating rate cash distributions and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances. BCN can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 24 March 2023; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
BFS	Banking and Financial Services Group
The Board, Macquarie Bank Board	The Board of Voting Directors of Macquarie Bank Limited
BRC	Board Remuneration Committee
BRiC	Board Risk Committee
CA	Credit Assurance
CAF	Corporate and Asset Finance Group
CAGR	Compound Annual Growth Rate
CEO	Managing Director and Chief Executive Officer
CET1	Common Equity Tier 1 capital
CGM	Commodities and Global Markets Group
CFO	Chief Financial Officer
Contingent liabilities	Defined in AASB 137 Provisions, Contingent Liabilities and Contingent Assets as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
CCE	Current Credit Exposure. The sum of the positive mark-to-market value (or replacement cost) of market-related contracts entered into by the ADI.
CCR	Counterparty Credit Risk

## Appendix 5 Glossary of Terms continued

CEA	Credit Equivalent Amount. The on-balance sheet equivalent value of an off balance sheet transaction.
Central counterparty	A clearing house or exchange that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and therefore ensuring the future performance or open contracts.
CLF	Committed Liquidity Facility
Common Equity Tier 1 capital	A capital measure defined by APRA comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> <li>– provide a permanent and unrestricted commitment of funds,</li> <li>– are freely available to absorb losses,</li> <li>– do not impose any unavoidable servicing charge against earnings; and</li> <li>– rank behind the claims of depositors and other creditors in the event of winding up.</li> </ul> Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment. The risk of mark-to-market losses on the expected counterparty risk to OTC derivatives.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non-financial operations including special purpose vehicles (SPV) for which Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief.
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
DSU	Deferred Share Unit issued under the MEREP
DVP	Delivery versus Payment
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.
EL	Expected Loss, which is a function of EAD, PD and LGD.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI ('Level 1') for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.
EMEA	Europe, Middle East & Africa.
ERL	Equity Risk Limit – Board imposed limit by which equity risk positions are managed.
ERBA	External Rating Based Approach
Executive Key Management Personnel (Executive KMP)	Members of Executive Committee of MBL
Executive Voting Director	An Executive Board Member
FCS	Financial Claims Scheme
FICO	Fair Isaac Corporation
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk)
GAAP	Generally Accepted Accounting Principles
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation.
GRCC	Group Risk and Compliance Committee
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process.
IRRBB	Interest Rate Risk in the Banking Book.
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised.
ISDA	International Swaps and Derivatives Association

LCR	Liquidity Coverage Ratio
Level 2 Regulatory Group	MBL, its parent Macquarie B.H. Pty Ltd and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
LVR	Loan to Value Ratio
Macquarie	Level 2 regulatory group
Macquarie Income Securities (MIS)	The Macquarie Income Securities (MIS) are perpetual and carry no conversion rights. Distributions are paid quarterly, based on a floating rate of BBSW plus 1.7%. Subject to limitations on the amount of hybrids eligible for inclusion as Tier 1 Capital, they qualify as Tier 1 Capital and are treated as equity on the balance sheet. There are four million \$A100 face value MIS on issue.
Macquarie Group	MGL and its subsidiaries
Malus	The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused the Macquarie Group significant reputational harm, caused a significant or unexpected financial loss or caused the Macquarie Group to make a material financial restatement.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or each fifth anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (with the acquirer gaining control of MGL or MBL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAM	Macquarie Asset Management Group
MBL	Macquarie Bank Limited ABN 46 008 583 542
MBL Consolidated Group	MBL and its subsidiaries
MEREP	Macquarie Group Employee Retained Equity Plan
MFHPL	Macquarie Financial Holdings Pty Limited
MGL	Macquarie Group Limited ABN 94 122 169 279
NCO	Net Cash Outflows
Non-Bank Group	MGL, MFHPL and its subsidiaries
NPAT	Net Profit after Tax
NSFR	Net Stable Funding Ratio
Operating Group	The Operating Groups consist of MAM, CAF, CGM, BFS and Macquarie Capital
ORMF	Operational Risk Management Framework
PCE, PFCE	Potential Credit Exposure (PCE) / Potential Future Credit Exposure (PFCE). The potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
Post-2009 DPS	Retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity.
PSU	Performance Share Unit issued under the MEREP
Reserve Bank of Australia (RBA)	Central bank of Australia with responsibility over monetary policy.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RAS	Risk Appetite Statement
RMG	Risk Management Group
ROE	Return on Ordinary Equity
RSF	Required Stable Funding
RSU	Restricted Share Unit issued under the MEREP
RMBS	Residential Mortgage Backed Securities
Senior Executive	Macquarie Group's combined Division Director and Executive Director population.
Senior Management	Members of Macquarie Group's Executive Committee and Executive Directors who have significant management or risk responsibility in the organisation.
SFA	Supervisory Formula Approach

## Appendix 5 Glossary of Terms

### continued

SFT	Securities Financing Transactions (SFT). SFTs are transactions such as repurchase agreements, reverse repurchase agreements and security lending and borrowing, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.
SME	Small – Medium Enterprises
SPV's	Special purpose vehicles or securitisation vehicles.
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial report and may be included in Tier 2 Capital.
Tier 1 Capital	Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.
TSR	Total Shareholder Return
VaR	Value-at-Risk