Pillar 3 disclosures

Macquarie Capital (Europe) Limited
March 2017

This page has been left blank intentionally.

Contents

1.0 Overview

Macquarie Capital (Europe) Limited ("MCEL"), is a UK incorporated company and is authorised by the Financial Conduct Authority ("FCA") to undertake investment business activities. This document sets out the Pillar 3 disclosures for MCEL as at 31 March 2017. MCEL is required to produce its Pillar 3 disclosures as set out in part 8 of the Capital Requirement Regulation (EU) No 575/2013 ("CRR") of the European Parliament and the Council of the European Union and the FCA Prudential Sourcebook for Investment Firms (IFPRU). MCEL is a significant IFPRU firm and follows therefore requirements for significant IFPRU firms in addition to the CRR.

The FCA released its policy statement PS13/10 in response to CRD IV in December 2013. This policy statement is available at: www.fca.org.uk/your-fca/documents/ps13-10-crd-iv-for-investment-firms

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

Risk Management

MCEL is a member of the Macquarie Group, a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. All risks arising from MCEL's activities are managed in accordance with Macquarie's global risk management framework.

This framework has been formally adopted by the MCEL Board and satisfies the risk management objectives and policies disclosures requirements as outlined in article 435 of the CRR. Further information on Macquarie's Risk Management Framework can be found in the Macquarie Group Limited's 2017 Annual Report at: www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mgq

A Risk Management report is presented at the quarterly MCEL Board meetings in order to facilitate the information flow on risk to the management body.

The primary risks that MCEL faces are operational risk, business risk, group risk and remuneration risk. Although MCEL's appetite to assume market and credit risks is negligible, it has appropriate risk mitigation mechanisms in place to deal with these risks. Operational risk is the most significant risk faced by MCEL. A full analysis of this and other relevant risks has been undertaken along with an assessment of the capital required to be held behind these risks.

Internal capital adequacy assessment process ("ICAAP")

MCEL conducts an ICAAP in accordance with IFPRU 2.2 to ensure that it meets the overall Pillar 2 rule. This involves assessments of capital adequacy in light of the MCEL Group's risk profile and to have a strategy in place for maintaining adequate capital levels.

The ICAAP is part of MCEL's overall risk management framework. Its key features include:

– comprehensive risk assessment process;
– internal assessment of capital adequacy;
– financial and capital forecasts;
– business strategy and growth plans;
– the impact of a three year downturn stress scenario; and
– wind down analysis.

Remuneration

The remuneration disclosure for Pillar 3 is outlined in CRR Article 450. Macquarie's remuneration disclosures encompass all Remuneration Codes for the UK and are published separately on the Macquarie website www.macquarie.com/dafiles/Internet/mgl/global/shared/about/investors/regulatory-disclosures/basel-iii-pillar-3-uk-annual-remuneration-disclosures-mar2017.pdf?v=2

Disclosures on governance arrangements

Directors of MCEL held the following number of directorships as at 31 March 2017:

– David Fass (CEO EMEA Macquarie Group) – 10;
– Kathryn Burgess (CFO EMEA Macquarie Group) – 8
– Daniel Wong (Head of Macquarie Capital Europe) – 4; and
– Dipesh Patel (Head of Commodities and Global Markets ("CGM"), Cash Equities, Europe) – 1.

As per MCEL's charter, the minimum number of directors is three and the majority of directors must be resident in the United Kingdom. It is intended that the following be members of the MCEL Board:

– Head of Macquarie Capital, Europe; Head of Commodities and Global Markets, Cash Equities, Europe;
– CEO EMEA Macquarie Group; and CFO EMEA Macquarie Group.

MCEL selects its members as per the global workforce diversity policy for the Macquarie Group. The Workforce Diversity policy is intended to define Macquarie's commitment to workforce diversity and the structures in place to ensure it is realised. The principles contained in our Workforce Diversity policy are incorporated into the public "Our commitment to diversity and inclusion" statement available at: www.macquarie.com.au/dafiles/Internet/mgl/au/about-macquarie-group/diversity/documents/OurcommitmenttodiversityFINAL.pdf

2.0 Capital Adequacy

MCEL's Pillar 1 capital resource requirement is calculated under the IFPRU rules as the higher of:

- €730,000; and
- The sum of credit risk, market risk and operational risk (own funds requirement calculated as per the CRR).

MCEL's capital resources and capital resource requirements as at 31 March 2017 comprised the following elements:

	31 March 2017 £'m	31 March 2016 £'m
Capital resources		
Tier 1		
Ordinary share capital (including share premium)	**156.6**	156.6
Audited retained earnings	**(116.6)**	(103.5)
Equity contribution from parent entity	**1.9**	1.8
Reserves	**(0.1)**	(0.9)
Total Tier 1 capital	**41.8**	54.1
Tier 2	**-**	-
Total capital after deductions	**41.8**	54.1
Capital resources requirement		
Credit risk	**2.0**	2.0
Settlement Risk	**0.0**	0.0
Market risk		
- Equity Position Risk Requirement	**0.2**	0.0
- Forex Position Risk Requirement	**0.7**	0.8
Operational risk	**5.7**	6.8
Total capital resources requirement	**8.6**	9.6
Total Risk Weighted Assets	**107.7**	120.5
Tier 1 capital ratio	**38.8%**	44.9%
Total capital ratio	**38.8%**	**44.9%**

Capital Resources and Key Capital Ratios

The primary components of the MCEL's regulatory capital base are:

- Ordinary equity;
- Retained earnings;
- General/collective provisions;

The following capital ratios have been calculated:

- **Tier 1 Capital Ratio** is computed as the ratio of Net Tier 1 Capital to total risk weighted assets (based on total Pillar 1 capital requirement); the decrease in the ratio is caused by a decrease in audited retained earnings.
- **Total Capital Ratio** is computed as the ratio of total capital resources to total risk weighted assets (based on total Pillar 1 requirement); and this is the same as the Tier 1 Capital Ratio because MCEL's total capital is in the form of CET1.

MCEL calculates credit risk, counterparty credit risk, free deliveries risk, settlement risk and market risk (related to position and foreign exchange risk requirements) using the standardised approaches where applicable, and operational risk under the basic indicator approach, as laid out under the CRD IV rules.

2.0 Capital Adequacy
continued

Credit Risk

MCEL's credit risks arise from its exposures to:

- Fees receivable on corporate advisory activities: MCEL's credit exposure to fees receivable arise in relation to advisory work undertaken by Macquarie Capital. By their nature these can be large exposures to a wide variety of corporate clients. MCEL bills customers on a regular basis. Risk mitigation arrangements have been put in place to transfer credit exposures arising on fees receivable above a certain threshold to other members of the Macquarie Group. Depending on the size of the receivable, MCEL will either have credit risk to Macquarie Group Limited (MGL), as guarantor, or for the smaller exposures, credit risk against the counterparty. Further detail is provided below. MGL is a BBB rated counterparty by Standard and Poor's, A- rated by Fitch and rated A3 by Moody's.
- Cash balances placed with Group and external financial institutions: MCEL's cash balances are primarily attributable to the surplus proceeds from capital issued.
- Execution and Settlement of Client Trades: MCEL may also be exposed to settlement risk on the clients that it executes trades with. The vast majority of trades are executed on a "delivery-versus-payment" ("DvP") basis. For such trading MCEL's maximum credit exposure is the difference between the agreed trade price and the current market price, in other words the movement in share price between the agreed trade date and the date at which the position is closed out.

To mitigate this risk, exposures arising from failed trades have been brought within the indemnity and guarantee arrangements where aggregate exposures exceed a certain threshold. Under this arrangement, MCEL's immediate parent Macquarie Corporate Holdings Pty Limited (MCHPL) indemnifies MCEL against the net credit exposure arising from failed trades past five days intended settlement date (for DvP trades) or on the day they are due (for FoP trades). MCHPL's obligations under this indemnity agreement are further guaranteed by MGL up to an aggregate exposure limit that is considered more than sufficient to cover the expected level of activity in MCEL for the foreseeable future.

Underwriting Positions: Equity Capital Markets underwriting activities will give rise to credit risks on all exposures arising out of securities transactions settled on a DvP basis. However these will be mitigated through sub-underwriting agreements with other Macquarie entities whereby the credit risk on any failed settlements will be transferred to these entities via a right of assignment.

Risk management and controls

MGL guarantee to MCEL of MCHPL's indemnity

MCEL has arrangements in place with MCHPL and MGL which indemnify and guarantee MCEL for majority of credit losses due to client defaults. As a result of these agreements, credit risk is considered an immaterial risk to MCEL.

The exposures in MCEL to the parent entities as a result of these arrangements are managed within the FCA and EU Regulation No. 575/2013's large exposure regime.

As a member of the Macquarie Group, the exposures that arise out of MCEL's principal trading activities are subject to a global framework for the approval, management and reporting of credit risk on exposures such as cash balances and cash settled broking trades. This includes the assessment of credit risk using the Macquarie Group's economic capital model that is consistent with the APRA advanced approaches under Basel III.

The below table provides a geographic distribution and exposure class breakdown of fee receivables that are outside of the parental guarantee arrangement with MGL. These constitute a large portion of MCEL's credit risk exposures and do not have a residual maturity. Exposures in default, past due fee receivables greater than 90 days, are assigned a risk weight of 150% after credit risk mitigation.

Geographic and Sectoral Breakdown of External Fees Receivables as at 31 March 2017 and 31 March 2016

Exposure class	Location	31 March 2017 Exposure £'m	31 March 2016 Exposure £'m
Corporates	Americas	**0.3**	0.2
	Africa	**-**	1.0
	Asia	**2.1**	-
	Australia	**0.0**	-
	Europe	**11.6**	5.7
Exposures in default	Americas	**0.3**	0.1
	Asia	**0.1**	-
	Europe	**1.1**	0.5
Equity Exposures	Europe	**-**	-
Institutions	Europe	**-**	0.1
Claims on institutions and corporates with a short-term credit assessment	Australia	**-**	2.6
	Europe	**-**	-
Grand Total		**15.5**	10.1

Market risk

– MCEL also takes on market risk as a result of the market making business in CGM Cash Equities Europe and is managed within pre-approved book limits. The firm also attracts additional market risk requirements on balances denominated in foreign currencies. As at 31 March 2017, MCEL's market risk capital requirement amounted to £0.82m.

Operational risk

– MCEL operates within a global framework which is applied consistently across all business lines within the Macquarie Group for the identification, monitoring, management and reporting of operational risk. MCEL's operational risk capital is calculated through the application of the Basic Indicator Approach. As at 31 March 2017, MCEL's operational risk capital requirement was £5.7m.

3.0 Credit Risk Mitigation

The external credit ratings of MCEL's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to FCA guidance.

– MCEL has a non-significant investment in a non-financial sector company which is risk weighted at 100%.
– As at 31 March 2017, MCEL's credit risk capital requirement amounted to £2m.
– Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch.

MCEL complies with Macquarie Group policy with regards to balance sheet netting arrangements. The tables below illustrates the balance sheet exposure values by risk weight, before and after application of credit risk mitigation. Past due fees receivable are assigned to the category 'Exposures in default' and are assigned a risk weight of 150%.

Exposure post credit risk mitigation ("CRM") and average exposure

	31 March 2017		31 March 2016	
Exposure Class	**Exposure Post CRM £'m**	**Average Exposure Post CRM[1] £'m**	Exposure Post CRM £'m	Average Exposure Post CRM £'m
Central governments or central banks	**7.5**	**7.6**	7.7	7.0
Claims on institutions and corporate with a short-term credit assessment	**3.7**	**5.3**	6.9	8.5
Corporates	**16.1**	**14.7**	13.6	21.3
Equity Exposures	**0.4**	**0.5**	0.5	1.1
Exposures in default	**1.2**	**0.8**	0.4	0.9
Institutions	**-**	**0.4**	0.7	0.7
Other items	**0.7**	**0.7**	0.7	0.9
Grand Total	**29.6**	**30.0**	30.5	40.4

1 Average exposure post CRM shows the average exposure as at 31 March 2017 and 31 March 2016.

Exposures pre and post credit risk mitigation and risk weighted exposures by exposure classes and risk weights as at 31 March 2017

Exposure Class	**Post CRM Risk Weight**	**Exposure pre-credit risk mitigation £'m**	**Exposure post-credit risk mitigation £'m**	**Capital requirements £'m**
Central governments or central banks	**0%**	**5.5**	**5.5**	**-**
	250%	**2.0**	**2.0**	**0.4**
Claims on institutions and corporates with a short-term credit assessment	**20%**	**35.2**	**1.0**	**0.0**
	50%	**2.3**	**2.7**	**0.1**
Corporates	**100%**	**16.4**	**16.1**	**1.3**
Equity Exposures	**100%**	**2.4**	**0.4**	**0.0**
Exposures in default*	**150%**	**1.5**	**1.2**	**0.1**
Other items	**100%**	**0.7**	**0.7**	**0.1**
Grand Total		**66.0**	**29.6**	**2.0**

*Provision associated with the original exposure in default.

Exposures pre and post credit risk mitigation and risk weighted exposures by exposure classes and risk weights as at 31 March 2016

Exposure Class	Post CRM Risk Weight	Exposure pre-credit risk mitigation £'m	Exposure post-credit risk mitigation £'m	Capital requirements £'m
Central governments or central banks	0%	5.0	5.0	-
	250%	2.7	2.7	0.5
Claims on institutions and corporates with a short-term credit assessment	20%	34.4	2.7	0.0
	50%	2.9	4.2	0.2
Corporates	0%	-	-	-
	100%	14.8	13.6	1.1
Equity Exposures	100%	2.3	0.5	0.0
Exposures in default	150%	0.4	0.4	0.0
Institutions	20%	0.8	0.7	0.0
Other items	0%	0.0	0.0	-
	100%	0.7	0.7	0.1
Grand Total		64.0	30.5	2.0

Geographic and Exposure Class Breakdown of Exposures and Credit Risk Capital Requirements

		31 March 2017		31 March 2016	
Exposure Class	**Geographic Location**	**Exposure pre-credit risk mitigation £'m**	**Credit Risk Capital Requirements £'m**	Exposure pre-credit risk mitigation £'m	Credit Risk Capital Requirements £'m
Central governments or central banks	Australia	**0.0**	**-**	0.0	-
	Europe	**7.5**	**0.4**	7.7	0.6
Claims on institutions and corporate with a short-term credit assessment	Australia	**34.4**	**0.0**	34.4	0.1
	Europe	**3.2**	**0.1**	3.0	0.1
Corporates	Americas	**0.5**	**0.0**	0.4	0.0
	Asia	**2.2**	**0.2**	0.0	0.0
	Australia	**0.1**	**0.0**	6.3	0.5
	Africa	**-**	**-**	1.0	0.1
	Europe	**13.5**	**1.1**	7.0	0.5
Equity Exposures	Europe	**2.4**	**0.0**	2.3	0.0
Exposures in default	Americas	**0.3**	**-**	-	-
	Asia	**0.1**	**-**	-	-
	Europe	**1.1**	**0.1**	0.4	0.0
Institutions	Europe	**-**	**-**	0.7	0.0
	Australia	**-**	**-**	0.1	-
Other items	Australia	**0.0**	**0.0**	0.0	0.0
	Europe	**0.7**	**0.1**	0.7	0.1
Grand Total		**66.0**	**2.0**	64.0	2.0

3.0 Credit Risk Mitigation
continued

Post-CRM Exposure by Industry Type

Industry Type	31 March 2017 £'m	31 March 2016 £'m
Administrative and support services	**-**	-
Bank	**3.2**	6.1
Central Government	**7.5**	7.7
Electricity, Gas and Water supply	**0.1**	0.3
Financial Intermediaries and auxiliary services	**1.2**	9.3
Industrials	**0.1**	0.0
Infrastructure	**6.9**	0.0
Manufacturing	**-**	-
Other	**4.5**	1.3
Real Estate	**0.7**	-
Resources	**1.4**	5.7
Transportation, Storage and Communication	**4.0**	-
Grand Total	**29.6**	30.5

4.0 Leverage

CRD IV requires the disclosure of MCEL's leverage ratio, which measures the level of Tier 1 capital against both on and off balance sheet exposures. As at 31 March 2017, the leverage ratio was 5.0%.

Leverage is the extent to which a firm funds its assets with borrowings rather than equity. More debt relative to equity means a higher level of leverage. Excessive leverage is measured by a leverage ratio. The leverage ratio measures the extent to which a firm has financed its assets with equity. It does not take into account what those assets are, or what their risk characteristics are. Leverage ratios effectively place a cap on borrowings as a multiple of a firm's equity.

The purpose of monitoring and managing this metric is to enable Regulators to constrain the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

MCEL monitors its leverage requirements in line with the EBA requirements.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31 March 2017 £'m	31 March 2016 £'m
1	**Total assets as per published financial statements [1]**	**868.1**	319.2
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**-**	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	**-**	-
4	Adjustments for derivative financial instruments	**-**	-
5	Adjustments for securities financing transactions "SFTs"	**-**	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**-**	-
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	**-**	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	**-**	-
7	Other adjustments	**(24.1)**	78.5
8	**Total leverage ratio exposure**	**844.0**	397.7

[1] The increase in total assets was due primarily to an increase in outstanding trade settlement receivables.

4.0 Leverage
continued

Table LRCom: Leverage ratio common disclosure

CRR leverage ratio exposures		31 March 2017 £'m	31 March 2016 £'m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**809.9**	366.0
2	(Asset amounts deducted in determining Tier 1 capital)	**-**	-
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**809.9**	366.0
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**-**	-
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**-**	-
EU-5a	Exposure determined under Original Exposure Method	**-**	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	**-**	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-
8	(Exempted CCP leg of client-cleared trade exposures)	**-**	-
9	Adjusted effective notional amount of written credit derivatives	**-**	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**	-
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**34.1**	31.7
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-
14	Counterparty credit risk exposure for SFT assets	**-**	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	**-**	-
15	Agent transaction exposures	**-**	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	**-**	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**34.1**	31.7
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	**-**	-
18	(Adjustments for conversion to credit equivalent amounts)	**-**	-
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**-**	-
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	**-**	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	**-**	-
Capital and total exposures			
20	**Tier 1 capital**	**41.8**	54.1
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**844.0**	397.7
Leverage ratio			
22	**Leverage ratio**	**5.0%**	13.6%

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

CRR leverage ratio exposures		**31 March 2017 £'m**	31 March 2016 £'m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**809.9**	366.0
EU-2	Trading book exposures	**778.3**	333.7
EU-3	Banking book exposures, of which:	**31.6**	32.3
EU-4	Covered bonds	**-**	-
EU-5	Exposures treated as sovereigns	**7.5**	7.7
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	**-**	-
EU-7	Institutions	**-**	6.3
EU-8	Secured by mortgages of immovable properties	**-**	-
EU-9	Retail exposures	**-**	-
EU-10	Corporate	**16.4**	14.9
EU-11	Exposures in default	**1.2**	0.4
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**6.6**	3.0

LRQua: Disclosure on qualitative items

The Leverage ratio for MCEL is impacted the most significantly by changes in the course of settlement as of 31 March 2017. Banking book exposure for MCEL is impacted mostly by fees receivable and intercompany receivables as of 31 March 2017.

5.0 Asset Encumbrance

As per the guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (the EBA Regulation) and in accordance with Article 16(3) of the EBA Regulation, an investment firm is required to disclose information on encumbered and unencumbered assets.

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. Encumbered assets as at 31 March 2017 were £21.3k.

Template A – Assets

		Carrying amount of encumbered assets £'m	Fair value of encumbered assets £'m	Carrying amount of unencumbered assets £'m	Fair value of unencumbered assets £'m
010	**Assets of the reporting institution**	**0.0**	**-**	**868.1**	**-**
020	Loans on demand	**0.0**	**-**	**37.4**	**-**
030	Equity instruments	**-**	**-**	**1.5**	**1.5**
040	Debt securities	**-**	**-**	**-**	**-**
100	Loans and advances other than loans on demand	**-**	**-**	**0.1**	**-**
120	Other assets	**-**	**-**	**829.1**	**-**

Encumbered assets represent funds held in client brokerage accounts in the CGM Cash Equities business.

Template B – Collateral received

The following below table discloses information on collateral received by MCEL that is off balance sheet.

		Fair value of encumbered collateral received or own debt securities issued £'m	Fair value of collateral received or own debt securities issued available for encumbrance £'m
130	**Collateral received by the reporting institution**	**-**	**34.7**
150	Equity instruments	**-**	**-**
160	Debt securities	**-**	**34.7**
230	Other collateral received	**-**	**-**
240	Own debt securities issued other than own covered bonds or ABSs	**-**	**-**

Encumbered and unencumbered collateral is collateral received that does not meet the conditions to be recognised on the balance-sheet of the transferee in accordance with the applicable accounting framework.

Template C – Sources of encumbrance

The following table show sources of encumbrance for the period ended 31 March 2017:

		Matching liabilities, contingent liabilities or securities lent £'000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'000
010	Carrying amount of selected financial liabilities	**-**	**-**
170	Total sources of encumbrance	**-**	**21.3**

D – Information on importance of encumbrance

The main sources of encumbrance relate to funds held in client brokerage accounts.

Collateral received relates to government bonds that do not meet the conditions to be recognised on balance sheet in accordance with the applicable accounting framework.

Included within the carrying value of unencumbered assets, there are assets which would not normally be considered available for encumbrance in the normal course of business including trade timing/settlement differences, intangible assets, property, plant and equipment, prepayments and accruals and deferred tax assets.

6.0 Capital Buffers

Capital Buffers

Institutions are required to hold a capital conservation buffer and a counter-cyclical capital buffer to ensure that sufficient capital is accumulated during periods of economic growth to absorb losses in stressed periods. MCEL holds capital buffers in accordance with IFPRU 10.

Capital Conservation Buffer

As per the FCA guidance in IFPRU TP 7, MCEL holds a capital conservation buffer of 1.25% of its total risk weighted assets. The capital conservation buffer will be phased-in each year until it is fully implemented at 2.5% in January 2019.

Counter-cyclical Buffer ("CCyB")

Institutions are required to calculate an institution-specific counter-cyclical capital buffer as a weighted average of the counter-cyclical buffer rates that apply in the countries where the credit exposures are located. Each member state designates an authority responsible for setting the counter-cyclical buffer rate in that member state on a quarterly basis, taking into account the growth of credit levels and changes to the ratio of credit to GDP. The Financial Policy Committee (FPC) of the Bank of England is responsible for setting the rate in the UK.

MCEL will hold additional capital in respect of exposures with countries as and when the FPC prescribes the CCyB rate.

At 31 March 2017, the applicable CCyB rates in force were 1.5% set by Norway, 2% set by Sweden, 1% set by Iceland, 0.5% set by Czech Republic and 1.25% set by Hong Kong.

Based on current exposures this does not have a material impact on MCEL.

The CCyB rates introduced by Norway will increase to 2% from December 2017, Iceland will increase to 1.25% by November 2017 and for Hong Kong the CCyB rate applied will be increased to 1.875% from 1 January 2018. Further, the United Kingdom will introduce a CCyB of 0.5% in June 2018.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer 31 March 2017:

	General credit exposures		Own funds requirements					
	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total	Own funds requirement weights	Counter-cyclical capital buffer rate
	£	£	£	£	£	£	£	£
Break-down by country:								
Hong Kong	**3,739**	**-**	**128.06**	**-**	**-**	**128.06**	**0.0**	**1.250%**
Total	**3,739**	**-**	**128.06**	**-**	**-**	**128.06**	**0.0**	**1.250%**

	£'m
Total risk exposure amount	**107.4**
Institution specific countercyclical capital buffer rate	**0.00%**
Institution specific countercyclical capital buffer requirement	**0.0**

Disclaimer

- The material in this document has been prepared by Macquarie Capital (Europe) Limited, Company number 03704031 (“MCEL”) purely for the purpose of explaining the basis on which MCEL has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling activities or other financial products or instruments (the “Investment Activity”) and does not take into account investors particular investment objectives, financial situation or needs. Before acting on any information investors should consider the appropriateness of information having regard to the Investment Activity, any relevant offer document and in particular, investors should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse and unanticipated market, financial or political developments and, in international transactions, currency risk.
- This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to MCEL’s businesses and operations, market conditions, results of operation and financial conditions, capital adequacy, individually assessed provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. MCEL does not take any obligation to publicly update or release the results of any revisions to these forward looking statements whether as a result of new information, future events or otherwise. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside MCEL’s control. Past performance is not a reliable indication of future performance. Unless otherwise specified all information is at 31 March 2017.
- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with the information of other firms. This may be due to a number of factors such as:
  - the mix of business exposures differ between firms; and
  - the fact that Pillar 2 capital requirements are excluded from this disclosure but play a major role in determining both the total capital requirements of the firm and any surplus capital available.

Appendix

Capital Adequacy	31 March 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Capital instruments and the related share premium accounts	**158.5**	26 (1), 27, 28, 29, EBA list 26 (3)
of which: Instrument type 1	**158.5**	EBA list 26 (3)
Retained earnings	**(116.6)**	26 (1) (c)
Accumulated other comprehensive income (and any other reserves)	**(0.1)**	26 (1)
Funds for general banking risk	**-**	26 (1) (f)
Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	**-**	486 (2)
Public sector capital injections grandfathered until 1 January 2018	**-**	483 (2)
Minority interests (amount allowed in consolidated CET1)	**-**	84, 479, 480
Independently reviewed interim profits net of any foreseeable charge or dividend	**-**	26 (2)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**41.8**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(0)**	
Common Equity Tier 1 (CET1) capital	**41.8**	
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**	
Additional Tier 1 (AT1) capital	**-**	
Tier 1 capital (T1 = CET1 + AT1)	**41.8**	
Total regulatory adjustments to Tier 2 (T2) capital	**-**	
Tier 2 (T2) capital	**-**	
Total capital (TC = T1 + T2)	**41.8**	
Total risk-weighted assets	**107.7**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount	**38.82%**	92 (2) (a), 465
Tier 1 (as a percentage of total risk exposure amount	**38.82%**	92 (2) (b), 465
Total capital (as a percentage of total risk exposure amount	**38.82%**	92 (2) (c)
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**1.25%**	CRD 128, 129, 140
of which: capital conservation buffer requirement	**1.25%**	
of which: countercyclical buffer requirement	**0.0%**	
of which: systemic risk buffer requirement	**-**	
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**-**	CRD 131
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**30.82%**	CRD 128

This page has been left blank intentionally