

Pillar 3 disclosures

Macquarie Bank International Group
March 2017



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1.0 Overview

Macquarie Bank International Group (“MBI Group”) is authorised by the Prudential Regulation Authority (“PRA”) to undertake banking and investment business activities. This document sets out the Pillar 3 disclosures for MBI as at 31 March 2017. MBI 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.

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.

The Pillar 3 disclosure for the MBI Group follows the European Banking Authority (“EBA”) guidelines on materiality, proprietary and confidentiality and on disclosure frequency. The disclosures for the MBI Group are updated at least annually.

The disclosures in this document have been prepared for the MBI Group on a fully consolidated group basis in accordance with Article 436 on the scope of application of the CRR.

The MBI Group comprises the parent holding company, Macquarie Holdings (UK) No.1 Limited (“MHUK1”) and its subsidiaries- Macquarie Bank International Limited (“MBI” - regulated), Macquarie Investments 3 Limited (“MI3L” – unregulated) and Macquarie Investment Management Korea Co. Ltd (“MIMK” - regulated). It is 100% owned by Macquarie Bank Limited (“MBL”) which is incorporated in Australia and regulated by the Australian Prudential Regulation Authority (“APRA”).

On 5 April 2016, Macquarie Management GmbH (“MMG”) was sold to Macquarie Specialist Solutions Limited.

On 30 November 2016, the Company entered into the EMEA Restructure Deed with a subsidiary of Macquarie Financial Holdings Pty Limited (“MFHPL”), Macquarie Investment Management Europe Limited (“MIMEL”) to transfer Macquarie Investment Management (“MIM”) business assets. In accordance with the EMEA Restructure Deed, Macquarie Investment Management Holdings (Austria) GMBH (“MIM Austria”) and its subsidiary Macquarie Investment Management Austria Kapitalanlage AG (“MIM KAG” - regulated) were transferred on 1 December 2016 to MIMEL.

Overview of Group Entities and Business Lines

MBI Group Entities	Description of activities
MHUK1	Holding company for MBI
MBI	MBI is a UK incorporated bank through which the Macquarie Group conducts banking and investment activities in Europe. MBI has established branches in Germany and Austria to support its continental European business activities.
MI3L	MI3L is a holding company and does not conduct any business activities. It is a subsidiary of MBI and holds the investment in MIMK.
MIMK	The former ING Investment Management Korea that was acquired by MI3L in December 2013. MIMK is an asset management company incorporated in Korea and regulated by the Korean Financial Supervisory Service. The asset management business is conducted by the MIM business, part of the Macquarie Asset Management (“MAM”) division.

Given the nature and level of the subsidiaries' activities, virtually all risks within the MBI Group are attributable to MBI's and MIMK's business activities.

Risk Management

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

The MBI Group 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 the MBI Group's activities are managed in accordance with Macquarie's global risk management framework. This framework has been formally adopted by the MBI Board.

Further information on Macquarie's Risk Management Framework can be found in 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-mgg

Internal capital adequacy assessment process ("ICAAP")

The MBI Group conducts an ICAAP in accordance with Article 73 of Directive 2013/36/EU of the European Parliament and of the Council and the PRA rulebook to ensure that it meets the overall Pillar 2 rule. This involves assessments of capital adequacy in light of the MBI Group's risk profile and to have a strategy in place for maintaining adequate capital levels.

The ICAAP is part of MBI'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 policy for the MBI Group follows the disclosure requirements outlined in article 450 of the CRR. The disclosures encompass all Remuneration Codes for the UK and are published separately on Macquarie's website

www.macquarie.com/daffles/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 MBI hold the following number of directorships as at 31 March 2017:

- David Fass (CEO EMEA Macquarie Group) – 10;
- Paul Plewman (Head of Commodities and Global Markets ("CGM") EMEA) – 19;
- Timothy Wade (Non-Executive Director) – 9; and
- Andrew Williams (Non-Executive Director) – 8.

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

CEO EMEA Macquarie Group; Head of Commodities and Global Markets ("CGM") EMEA Macquarie Group; and two independent non-executive directors.

MBI, like all group companies, is subject to Macquarie's global workforce policy. The Workforce Diversity policy defines Macquarie's commitment to workforce diversity and the structures in place to ensure it is realised. The principles contained in Macquarie's Workforce Diversity policy are incorporated into Macquarie's public statement "Our commitment to diversity and inclusion" available at:

www.macquarie.com.au/daffles/Internet/mgl/au/about-macquarie-group/diversity/documents/OurcommitmenttodiversityFINAL.pdf

2.0 Capital Adequacy

The MBI Group's capital resources and capital resources requirement comprised the following elements:

	31 March 2017 £'m	31 March 2016 £'m
Capital resources		
Equity shares	200.0	200.0
Equity contribution from parent	1.1	0.9
Profit and loss account and other reserves	(0.0)	(20.9)
Total Common Equity Tier 1 Capital (CET1)	201.1	180.0
Deductions from CET1 capital		
Goodwill & Other Intangible assets	(1.6)	(7.3)
Deferred Tax Assets	(0.5)	(0.4)
CET1 capital	199.0	172.3
Tier 2 Capital		
General/collective provisions	0.0	0.2
Total Tier 2 capital	0.0	0.2
Total Capital Resources	199.0	172.5
Capital resources requirement		
Credit risk	17.0	22.8
Concentration risk	-	14.4
Market risk		
- Forex PRR	0.9	0.3
Credit valuation adjustment	2.3	1.2
Operational risk	4.0	3.3
Total Pillar 1 requirement	24.1	42.0
Tier 1 Capital Ratio	66.0%	32.9%
Total Capital Ratio	66.0%	32.9%

Reconciliation between balance sheet and Pillar 3 disclosure

	31 March 2017 £'m	31 March 2016 £'m
Total Shareholders' Funds per balance sheet	201.1	189.7
Less: Regulatory deductions	(2.1)	(7.7)
Less: Reserves not eligible to be included in regulatory capital	-	(9.7)
Add: General/collective provisions	0.0	0.2
	199.0	172.5

Note that any figure labelled as "-" throughout this document relates to a zero balance, whereas figures labelled as £0.0m relate to non-zero balances which round to £0.0m (to the nearest hundred thousand).

Capital Resources and Key Capital Ratios

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

- Ordinary equity;
- Retained earnings;
- General/collective provisions; and
- Deductions from capital primarily for goodwill & other intangible assets and Deferred Tax Assets.

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 requirements);
- **Total Capital Ratio** is computed as the ratio of total capital resources to total risk weighted assets (based on total Pillar 1 capital requirements)

The CET1/Tier 1 ratios for MBI Group are the same as total capital is equal to CET1 capital.

The MBI Group calculates credit risk, counterparty credit risk and market risk (related to position and foreign exchange risk requirements) using the standardised approaches, and operational risk under the basic indicator approach, as laid out under the CRD IV rules.

The MBI Group's Total capital ratio is calculated in accordance with article 92 of EU Regulation No. 575/2013.

As at 31 March 2017, the total capital ratio for the MBI Group was 66.0% against the minimum regulatory requirement of 8%.

3.0 Capital Resources Requirement

The majority of risk within the MBI Group is held in MBI, with MIMK only having limited credit risk, MI3L is simply a financial holding company. Of the risks that MBI faces, market risk and a portion of credit risk is backed out to MBL under back to back risk transfer arrangements MBI has with its parent MBL, however MBI Group has a significant amount of concentration risk with its parent MBL which is offset by credit risk mitigation.

Capital Resource Requirement: Pillar 1

The approach to calculating the capital resources requirements within the MBI Group is made by reference to its categorisation as an Institution. MBI's Group Pillar 1 capital resources requirement primarily includes credit risk, counterparty credit risk, concentration risk, market risk and operational risk capital requirements.

3.1.1 Credit and Counterparty Risk

The MBI Group calculates credit risk using the standardised approach as laid out under the CRR.

Credit risk (including counterparty credit risk) arises on the cash balances that the MBI Group has placed internally with the wider Macquarie group entities and external banks, and also exposures on account of lending and trading transactions arising from business activities. The majority of these credit risks are transferred to MBL via the risk transfer arrangements MBI has in place with MBL. Where available, the credit ratings assigned to counterparties by one or more eligible rating agencies are used in the calculation of risk weighted capital requirements for credit risk for all exposure classes. Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch. Currently such ratings are available primarily for exposures arising internally, as a result of the risk transfer arrangement, futures clients and banks (primarily in UK) with which MBI deposits surplus cash.

Further, all loans are subject to recurring review and assessment for possible impairment. Provisions for loan losses are based on an incurred loss model that recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

Specific provisions are recognised where specific impairment is identified. Facilities for which no individually assessed provisions are required are assessed collectively for impairment and are representative of losses that have been incurred but not yet identified.

General loss provisions made on loans that are not under the risk transfer arrangements are considered as general loan-loss reserves held against future, presently unidentified losses. General loss provisions are freely available to meet losses which subsequently materialise and therefore qualify for inclusion within Tier 2.

The counterparty credit risk mark to market method is used to measure exposure values for counterparty credit risk.

As at 31 March 2017, the MBI Group's credit risk capital requirement amounted to £17m. This includes counterparty credit risk on trading book exposures of £10.3m.

3.1.2 Concentration Risk

Concentration risk arises from the MBI Group's lending and trading activities. As the MBI Group's exposures are predominately to MBL, it is considered to have a concentration risk exposure to MBL. As at 31 March 2017, there was no concentration risk capital requirement due to collateral received from MBL.

Any excess trading book exposures over the non-core large exposures limit will attract additional capital in accordance with article 397 of the EU Regulation No. 575/2013.

3.1.3 Market Risk

The MBI Group calculates market risk using the standardised approach as laid out under the CRR. The MBI Group attracts a market risk requirement on balances denominated in foreign currencies (foreign currency position risk requirement). As at 31 March 2017, the MBI Group's market risk capital requirement amounted to £0.9m.

3.1.3.1 Interest rate risk in the banking book (“IRRBB”)

The MBI Group is subject to MBL’s management and reporting framework for interest rate risk. MBL’s approach is that lending areas do not take outright interest rate risk and that, wherever possible, interest rate risks arising in the MBI Group are transferred to MBL via interest rate swaps and managed within traded market risk limits.

Some residual interest rate risks remain in the Banking book as an unavoidable consequence of doing business. These are subject to limits that are approved and monitored by the Risk Management Group (“RMG”), RMG estimates the effects of a 200bp parallel shift in the GBP yield curve on a monthly basis.

Any additional capital requirements arising in relation to IRRBB will be assessed as part of the ICAAP.

3.1.3.2 Credit valuation adjustment (“CVA”)

Article 381 of the Capital Requirements Regulations (CRR) requires the calculation of CVA charge on OTC transactions. MBI’s external clients are exempt from the CVA calculation under article 382 (4) (a) of the CRR and MBI retains no market risk on these transactions. MBI however, calculates CVA on OTC and futures transactions. As at 31 March 2017, the MBI Group’s credit valuation adjustment amounted to £2.3m.

3.1.4 Operational Risk

MBI Group 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. MBI Group’s Operational risk capital is calculated through the application of the Basic Indicator Approach. As at 31 March 2017, MBI Group’s operational risk capital requirement was £4m.

4.0 Credit Risk Mitigation

The MBI Group transfers the majority of the credit risks on loans and OTC derivatives arising as a result of its business activities to MBL via a risk transfer arrangement. The external credit ratings of the group's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to PRA guidance. The MBI Group ensures that the credit risk mitigation techniques used (such as netting, taking cash collateral and guarantees) are legally enforceable through taking appropriate legal opinions for the jurisdictions in which it does business.

The MBI Group utilises the financial collateral comprehensive method for the calculation of the effects of credit risk mitigation. In valuing financial collateral under this method, volatility adjustments are applied to the market value of collateral in order to take account of price volatility. Where collateral is denominated in a currency that differs from the underlying exposure, an adjustment reflecting foreign currency volatility is also made.

The MBI Group complies with the Macquarie Group policy with regards to on and off balance sheet netting arrangements.

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

Exposure Class	Risk Weight	Sum of Exposure	Sum of Exposure	Sum of Exposure	Sum of Exposure	Sum of Risk
		pre-credit risk mitigation pre-CCF £'m	post-CRM by credit derivatives pre-CCF £'m	credit derivatives and Financial Guarantee pre-CCF £'m	post-credit risk mitigation post-CCF £'m	Weighted Exposure £'m
Central governments or central banks	0%	25.9	25.9	25.9	25.9	-
	250%	1.9	1.9	1.9	1.9	4.8
Claims on institutions and corporate with a short-term credit assessment	20%	141.7	317.0	70.8	70.8	14.2
	50%	57.2	52.0	52.0	52.0	26.0
	100%	4.6	0.9	-	-	-
	150%	18.3	-	-	-	-
Corporates	100%	688.7	201.2	125.7	87.8	87.8
	150%	24.0	0.6	0.6	0.3	0.4
Institutions	2%	223.4	223.4	223.4	223.4	4.5
	4%	163.3	163.3	163.3	163.3	6.5
	20%	9.8	9.8	9.1	9.1	1.8
	50%	149.5	138.0	131.6	123.7	61.8
Secured by mortgages on immovable property	50%	27.7	-	-	-	-
Other items	100%	4.3	4.3	4.3	4.3	4.3
Grand Total		1,540.3	1,138.3	808.6	762.5	212.1

CCF is the abbreviation for Credit Conversion Factor.

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

Exposure Class	Risk Weight	Sum of Exposure pre-credit risk mitigation pre-CCF £'m	Sum of Exposure post-CRM by credit derivatives pre-CCF £'m	Sum of Exposure post-CRM by credit derivatives and Financial Guarantee pre-CCF £'m	Sum of Exposure post-credit risk mitigation post-CCF £'m	Sum of Risk Weighted Exposure £'m
Central governments or central banks	0%	0.2	0.2	0.2	0.2	-
Claims on institutions and corporate with a short-term credit assessment	20%	148.2	139.5	117.6	117.6	23.5
	50%	81.1	77.2	39.4	39.4	19.7
Corporates	50%	29.5	-	-	-	-
	100%	896.8	551.4	249.4	177.3	177.3
	150%	15.3	15.3	-	-	-
Institutions	2%	86.4	86.4	86.4	86.4	1.7
	4%	216.2	216.2	216.2	216.2	8.6
	20%	1.4	0.1	0.1	0.1	0.0
	50%	100.6	100.6	109.8	103.9	52.0
Secured by mortgages on immovable property	50%	27.1	27.1	-	-	-
Other items	100%	2.6	2.6	2.6	2.6	2.6
Grand Total		1,605.4	1,216.6	821.7	743.7	285.4

4.0 Credit Risk Mitigation continued

Geographic and Exposure Class Breakdown of Exposures and Credit Risk

Exposure Class	Geographic Location	31 March 2017		31 March 2016	
		Exposure pre-credit risk mitigation pre-CCF	Credit Risk	Exposure pre-credit risk mitigation pre-CCF	Credit Risk
		£'m	£'m	£'m	£'m
Claims on institutions and corporate with a short-term credit assessment	Asia	12.6	0.2	7.5	0.2
	Australia	48.5	0.8	113.1	1.9
	Europe	160.6	2.2	108.7	1.3
Corporates	Asia	0.4	0.0	8.1	0.6
	Australia	3.2	0.0	21.2	1.7
	Europe	703.7	7.0	912.4	11.8
	America	5.3	0.0	0.0	0.0
	Africa	0.0	0.0	0.0	0.0
Central governments	Australia	0.2	-	-	-
	Europe	27.7	0.4	0.2	-
Institutions	Asia	0.4	0.0	1.1	0.0
	Australia	133.8	4.4	110.3	3.7
	Europe	381.3	1.6	228.9	1.0
	America	30.6	0.1	64.3	0.2
Other Items	Asia	1.3	0.1	1.3	0.1
	Europe	3.0	0.2	1.3	0.1
Secured by mortgages on immovable property	Europe	27.7	-	27.1	-
Total		1,540.3	17.0	1,605.4	22.8

Exposures by residual maturity as at 31 March 2017

Exposure post-credit risk mitigation post-CCF (£'m)	0-3 Months	3-6 Months	6-12 Months	1-5 Years	> 5 Years	N/A	Total
Exposure class							
Central governments	27.8	-	-	-	-	-	27.8
Claims on institutions and corporate with a short-term credit assessment	122.8	-	-	-	-	-	122.8
Corporates	37.5	13.9	10.3	26.4	-	-	88.1
Institutions	277.8	53.9	125.2	62.6	-	-	519.5
Other items	4.3	-	-	-	-	-	4.3
Total	470.2	67.8	135.5	89.0	-	-	762.5

Exposures by residual maturity as at 31 March 2016

Exposure post-credit risk mitigation post-CCF (£'m)	0-3 Months	3-6 Months	6-12 Months	1-5 Years	> 5 Years	N/A	Total
Exposure class							
Central governments	0.2	-	-	-	-	-	0.2
Claims on institutions and corporate with a short-term credit assessment	157.0	-	-	-	-	-	157.0
Corporates	76.5	7.8	30.4	62.5	-	-	177.2
Institutions	227.5	59.8	71.6	47.6	0.1	-	406.6
Other items	2.4	-	-	-	-	0.3	2.7
Total	463.6	67.6	102.0	110.1	0.1	0.3	743.7

Post-CRM Post-CCF Exposure by Industry Type

Industry Type	31 March	31 March
	2017	2016
	£'m	£'m
Administrative and support services	1.3	0.7
Agriculture	14.3	5.5
Banks	242.4	258.7
Central Government	27.8	0.2
Central Clearing Counterparty	386.7	302.6
Electricity, Gas and Water supply	2.5	60.1
Financial Intermediaries and auxiliary services	18.3	39.9
Manufacturing	0.3	0.7
Mining and quarrying	39.5	42.2
Real estate	-	5.8
Transportation, Storage and Communication	23.6	14.4
Wholesale Trade	0.3	12.9
Others	5.5	-
Total	762.5	743.7

Exposure post credit risk mitigation and average exposure

Exposure Class	31 March 2017		31 March 2016	
	Exposure Post-CRM Post-CCF	Average Exposure Post-CRM Post-CCF ¹	Exposure Post-CRM Post-CCF	Average Exposure Post-CRM Post-CCF
	£'m	£'m	£'m	£'m
Central governments	27.8	14.0	0.2	0.3
Institutions	519.5	463.0	406.6	289.3
Corporates	88.1	132.7	177.3	125.9
Secured by mortgages on immovable property	-	-	-	0.4
Claims on institutions and corporate with a short-term credit assessment	122.8	139.9	157.0	138.1
Other items	4.3	3.5	2.6	2.6
Total	762.5	753.2	743.7	556.6

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

Net exposures to counterparty credit risk for derivative contracts

Particulars	31 March	31 March
	2017	2016
	£'m	£'m
Foreign exchange contracts	4.2	12.2
Interest rate contracts	16.1	14.0
Commodities contracts	390.8	316.8
Gross positive fair value of contracts	411.1	343.0
Netting benefits	(330.9)	(219.4)
Net current credit exposure	80.2	123.6
Potential Future Credit Exposure	497.7	310.3
Collateral held	(105.6)	(146.8)
Net derivative current credit exposure	472.3	287.1

5.0 Leverage ratio

CRD IV requires the disclosure of the Bank'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 12.5%.

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.

Leverage is the extent to which a firm funds its assets with borrowings rather than equity. More debt relative to each pound of equity results in 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 bank's equity.

The table below illustrates leverage ratio calculated in accordance with Articles 429, 499(2) and (3) of the CRR and a breakdown of the MBI Group's Leverage ratio exposure:

Leverage Ratio – Disclosure Template

Summary reconciliation of accounting assets and leverage ratio exposures

	31 March 2017 £'m	31 March 2016 £'m
Summary reconciliation of accounting assets and leverage ratio exposures		
Total assets as per balance sheet	859.1	816.8
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
Adjustments for derivative financial instruments	206.1	424.8
Adjustments for securities financing transactions	(67.7)	(61.6)
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	19.8	18.3
Add: Other accounting adjustments	484.3	343.3
Less Regulatory adjustments to Tier 1 Capital	(2.2)	(7.3)
Regulatory Leverage Exposure	1,499.4	1,534.3

Table LRCom: Leverage ratio common disclosure

		31 March 2017 £'m	31 March 2016 £'m
CRR leverage ratio exposures			
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	531.7	638.3
2	(Asset amounts deducted in determining Tier 1 capital)	(2.2)	(7.3)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	529.5	631.0
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	468.9	391.6
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	413.4	431.8
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)	882.3	823.5
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	67.7	61.6
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)	67.7	61.6
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	62.9	89.4
18	(Adjustments for conversion to credit equivalent amounts)	(43.1)	(71.1)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	19.8	18.3
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	187.9	172.3
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	1,499.4	1,534.4
Leverage ratio			
22	Leverage ratio	12.5%	11.2%

5.0 Leverage ratio

continued

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

		31 March 2017 £'m	31 March 2016 £'m
CRR leverage ratio exposures			
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	529.5	631.0
EU-2	Trading book exposures	51.1	278.9
EU-3	Banking book exposures, of which:	478.4	352.1
EU-4	Covered bonds	-	-
EU-5	Exposures treated as sovereigns	27.8	0.2
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-	-
EU-7	Institutions	10.6	105.5
EU-8	Secured by mortgages of immovable properties	27.7	27.1
EU-9	Retail exposures	-	-
EU-10	Corporate	336.8	216.8
EU-11	Exposures in default	-	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	75.5	2.6

LRQua: Disclosure on qualitative items

Description of the processes used to manage the risk of excessive leverage

The EBA's technical standards for leverage ratio on supervisory reporting have been adopted and published in the EU official journal. This entered into force on 20 April 2016 and the first reporting reference date is September 2016. Although there is no minimum binding leverage ratio value yet, a benchmark of 3% is adhered to.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

As at 31 March, 2017, leverage ratio was 12.5% as compared to leverage ratio of 11.2% as at 31 March 2016 taking into account Tier 1 capital of £187.9m over an applicable exposure measure of £1,499.4m as at 31 March 2017 (£172.3m and £1,534.4m as at 31 March 2016 respectively).

The MBI Group capital has not moved significantly over the past 12 months, therefore any movement in the leverage exposure will impact the leverage ratio. During the period, the increase in leverage ratio exposure was mainly driven by increase in derivative portfolio (including potential future credit exposure (PFCE)), securities financing transaction, off-balance sheet exposure and other assets.

6.0 Asset Encumbrance

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 £497.7m.

Disclosure

The data provided in the tables below represents figure as at 31 March 2017 as per the PRA Supervisory statement 11/14 on the disclosure of encumbered and unencumbered assets.

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	497.7	-	435.2	-
020 Loans on demand	22.8	-	54.7	-
040 Debt securities	-	-	25.7	25.7
100 Loans and advances other than loans on demand	325.4	-	13.5	-
120 Other assets	149.5	-	341.3	-

Template B – Collateral received

The table below discloses information on collateral received by MBI Group that is kept 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	-	302.6
150 Equity instruments	-	-
160 Debt securities	-	302.6
230 Other collateral received	-	-
240 Own debt securities issued other than own covered bonds or ABSs	-	-

Template C – Sources of encumbrance

The following table discloses sources of encumbrance as at 31 March 2017:

	Matching liabilities, contingent liabilities or securities lent £'m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £'m
010 Carrying amount of selected financial liabilities	497.7	-

6.0 Asset Encumbrance

continued

D – Information on importance of encumbrance

Assets and collateral have been determined as encumbered consistent with the definition provided in the EBA Guidelines on the Disclosure of Encumbered assets (EBA/ GL/2014/03).

Assets are considered encumbered when they have been pledged or used to secure, collateralise or credit enhance a transaction which impacts their transferability and free use. Asset encumbrance for the MBI Group is almost wholly driven by MBI, whose key sources of encumbrance are derivative activities and secured funding received against the loans.

Collateral received relate to Government bonds and UK Gilts received as collateral that does not meet the conditions to be recognised on the balance sheet in accordance with the applicable accounting framework.

Loans to customers that are pledged as collateral for the secure funding are held within Loans and advances to customers.

Margin paid in respect of derivative transactions is included in encumbered 'Other assets'.

7.0 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.

Capital Conservation Buffer

The MBI Group is holding an additional capital requirement for Capital Conservation Buffer (“CCB”). The CCB is currently set at 1.25% and will be phased-in until fully implemented at 2.5% on 1 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.

The MBI Group 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% set for Norway, 1.25% for Hong Kong, 2% for Sweden, 0.5% for Czech Republic and 1% set for Iceland.

The MBI Group’s own funds requirements for CCyB are immaterial as it has limited exposures to countries with a prescribed CCyB rate.

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

	General credit exposures		Own funds requirements			Total requirements £'000	Own funds requirements weights	Counter- cyclical capital buffer rate
	Exposure value for SA £'000	Exposure value for IRB £'000	of which: General credit exposures £'000	of which: Trading book exposures £'000	of which: Securitisation exposures £'000			
10 Breakdown by country:								
Norway	646.9		34.7	24.6	-	59.3	0.0	1%
Hong Kong	35.5		2.8	-	-	2.8	0.0	1.25%
20 Total	682.4		37.5	24.6	-	62.1		

		£'000
10	Total risk exposure amount	301,660.3
20	Institution specific countercyclical capital buffer rate	0.00%
30	Institution specific countercyclical capital buffer requirement	10.1

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- Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis the information contained in this document may not be directly comparable with the information of other banks. This may be due to a number of factors such as:
 - the mix of business exposures differ between banks; 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 bank and any surplus capital available.

Appendix

	31 March 2017 £'m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Capital Adequacy		
Capital instruments and the related share premium accounts	201.1	26 (1), 27, 28, 29, EBA list 26 (3)
of which: Instrument type 1	-	EBA list 26 (3)
of which: Instrument type 2	-	EBA list 26 (3)
of which: Instrument type 3	-	EBA list 26 (3)
Retained earnings	(0.0)	26 (1) (c)
Accumulated other comprehensive income (and any other reserves)	-	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	201.1	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	0.0	34, 105
Intangible assets (net of related tax liability) (negative amount)	(1.6)	36 (1) (b), 37, 472 (4)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(0.5)	36 (1) (c), 38, 472 (5)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2.1)	
Common Equity Tier 1 (CET1) capital	199.0	
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0	
Additional Tier 1 (AT1) capital	0.0	
Tier 1 capital (T1 = CET1 + AT1)	199.0	
Tier 2 (T2) capital	0.0	
Total capital (TC = T1 + T2)	199.0	
Total risk-weighted assets	301.7	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of total risk exposure amount)	66.0%	92 (2) (a), 465
Tier 1 (as a percentage of total risk exposure amount)	66.0%	92 (2) (b), 465
Total capital (as a percentage of total risk exposure amount)	66.0%	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	0.00%	
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)	58.0%	CRD 128
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0.0	62
Cap on inclusion of credit risk adjustments in T2 under standardised approach	3.8	62