PILLAR 3 DISCLOSURE
MACQUARIE CAPITAL (EUROPE) LIMITED

Macquarie Capital (Europe) Limited ("MCEL") is a UK incorporated company and is authorised by the FSA as a full scope investment firm. As such, MCEL is required to disclose information as set down in Chapter 11 of the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU 11: Disclosure (Pillar 3)"). The following forms the basis of MCEL's compliance with these BIPRU 11 requirements.

The new remuneration disclosure for PILLAR 3 is introduced in this financial year and outlined in BIPRU 11.5.18 – 11.5.21. Macquarie will make such remuneration disclosures which will encompass all Remuneration Codes for EMEA. The disclosures will be published on the Macquarie website.

MCEL is a member of the Macquarie Group, a global provider of banking, financial, advisory, investment and funds management services. 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. Further information on Macquarie's Risk Management Framework can be found in Macquarie Group Limited's 2011 Financial Statements at:

http://www.macquarie.com.au/dafiles/Internet/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/documents/Basel%20II-Pillar%203/fy11-mar-basel-pillar-media-release.pdf

MCEL is the vehicle through which the Macquarie Group conducts various regulated activities in Europe. The more prominent activities within MCEL are undertaken by:

- Macquarie Capital Advisers ("MCA") which focuses on the provision of advisory services in the UK and Continental Europe and acts as an underwriter in primary placements in the UK and Continental Europe.

- Macquarie Securities Group ("MSG") operates an institutional stockbroking business, acting as principal with external clients and the market, and as a market maker for a number of European equities. MSG also undertakes the activity of soliciting clients and introducing them to other members of the Macquarie Group and provides equity research services to clients.

- Structured Products and Exotics ("SP&E") employs staff who provide execution, settlement, issuance, arrangement and market making services to other members of the Macquarie Group for SP&E products.

On 6 April 2010, MCEL completed the acquisition of the equity trading and derivatives business and FX Warrants book, and the Capital Markets Sales and Research business of Sal.Oppenheim Jr. & Cie. On 16 February 2011, MCEL transferred its investment in Macquarie Avenir No.1 Pty Limited to Macquarie Investments 1 Limited and Macquarie Avenir No.2 Pty Limited to Macquarie (UK) Group Services Limited.

The primary risks that MCEL faces are market, credit and operational risk. MCEL's appetite to assume market and credit risks is small and, as a result, MCEL generally puts appropriate risk mitigation mechanisms in place to deal with the most material of 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. This assessment is documented in MCEL's Internal Capital Adequacy Assessment Process ("ICAAP") document.

<u>Capital adequacy</u>

The approach to calculating the capital resources requirements within MCEL is made by reference to its categorisation as a full scope investment firm. As such, MCEL calculates its capital resources requirements as the higher of:

(1) €730,000, being the base capital requirement as stipulated within the FSA's General Prudential Sourcebook (GENPRU 2.1.48); and

(2) the sum of credit risk, market risk and operational risk capital requirements.

The larger of the requirements above at 31 March 2011 was the sum of credit risk, market risk and operational risk capital requirements and it is expected to remain so for the foreseeable future.

MCEL calculates both market risk and credit risk using the standardised approaches and operational risk under the basic indicator approach, as laid out under the BIPRU rules.

Credit risk arises on the cash balances that MCEL holds, fee receivables and settlement risks arising from MSG activity. Most of these credit risks are transferred to its ultimate parent Macquarie Group Limited ("MGL") via a parental guarantee arrangement. Where available, the credit ratings assigned to counterparties by one or more eligible rated agencies are used in the calculation of risk weighted capital requirements for credit risk. Currently such ratings are available for exposures arising on MGL as a result of the parental guarantee arrangement and banks with which MCEL deposits surplus cash.

MCEL also takes on market risk as a result of the market making business in MSG and is managed within pre-approved book limits. The firm also attracts additional market risk requirement on balances denominated in foreign currencies. As at 31 March 2011, MCEL's market risk capital requirement amounted to £1.9 mil.

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. Within this framework senior management is required to consider and evaluate those scenarios that could result in significant operational loss. This approach forms the basis of the assessment of MCEL's operational risk capital adequacy which is made under the adoption of the basic indicator approach.

As at 31 March 2011 MCEL's operational risk capital requirement was £6.3 million.

The firm's capital resources and Pillar 1 capital resources requirement as at 31 March 2011 comprised the following elements:

	31-Mar-11 £'000	31-Mar-10 £'000
Capital resources		
Tier 1		
Ordinary share capital (including share premium)	40,900	40,900
Audited retained earnings and other reserves	(1,934)	2,891
Audited current year profits/ (losses)	(10,665)	(4,929)
Total Tier 1 capital	28,301	38,862
Tier 2		
Perpetual subordinated debt (see note 16 in the financial statements)	6,500	6,500
Revaluation reserve (see note 22 in financial statements)	(519)	(181)
Total Tier 2 capital	5,981	6,319
Deductions from capital		
Intangible assets (see note 12 in the financial statements)	(5,242)	(6,889)
Total Tier 1 & Tier 2 capital after deductions	29,040	38,292

	31-Mar-11 £'000	31-Mar-10 £'000
Capital resources requirement		
Credit risk	3,032	1,584
Market risk	1,912	700
Operational risk	6,339	5,462
Total capital resources requirement	11,283	7,746
Surplus	**17,757**	**30,545**

MCEL undertakes an ICAAP as required by BIPRU 2 to assess the adequacy of its internal capital to support current and future activities of the firm. The ICAAP considers the adequacy of MCEL's capital resources to cover Pillar 1 risk (i.e. credit, market and operational risk) as well as other risks not explicitly covered by these Pillar 1 requirements (e.g. business risk, interest rate risk). As at 31 March 2011 management has decided that MCEL does not need to hold additional capital against operational risks. Assessments of the Pillar 2 requirement are supported by appropriate stress testing and scenario analysis and are reviewed and approved at least annually by the MCEL Board. MCEL has held capital resources in excess of both its Pillar 1 and ICAAP capital requirements at all times in the past financial year.

MCEL forms part of a UK regulatory consolidation group that also includes a limited licence firm named Macquarie Infrastructure and Real Asset Europe Limited ("MIRAEL") and a UK incorporated parent holding company. Capital assessments are required to be performed for this UK group. The group held capital resources in excess of capital requirements at all times throughout the past financial year.

Credit risk mitigation

MCEL transfers most of the credit risks arising as a result of its business activities to MGL via a parental guarantee arrangement. The table below illustrates the balance sheet exposure values by credit quality step before and after applying this credit risk mitigation.

Credit quality step	Risk weight	Exposure pre-credit risk mitigation **£'000**	Exposure post-credit risk mitigation **£'000**
1	0%	5,439	5,439
2	20%	30,597	30,597
3	50%	630	31,037
4	100%	43,754	13,322