PILLAR 3 DISCLOSURE
MACQUARIE CAPITAL (EUROPE) LIMITED
31 MARCH 2013

Macquarie Capital (Europe) Limited ("MCEL") is a UK incorporated company and is authorised by the FCA as a full scope investment firm. As such, MCEL is required to disclose information as set out in Chapter 11 of the FCA'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 remuneration disclosure for PILLAR 3 is outlined in BIPRU 11.5.18 – 11.5.21. Macquarie's remuneration disclosures will encompass all Remuneration Codes for EMEA and will be published separately 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 2013 Financial Statements at:

http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mgg

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 ("MC") 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.

The primary risks that MCEL faces are operational risk, business risk, group risk and remuneration 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.

Capital adequacy

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 FCA's General Prudential Sourcebook (GENPRU 2.1.48); and

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

As at 31 March 2013, the larger of the requirements above 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 credit risk and market risk (related to Foreign Exchange Position Risk requirements) using the standardised approaches, market risk (related to Equity Position Risk Requirements) using simplified equity method 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, fees receivable 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. Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch. Currently such ratings are available for exposures arising on MGL (an Australian Corporation) as a result of the parental guarantee arrangement and banks (primarily in UK) with which MCEL deposits surplus cash. Any counterparty risk, which MCEL may have exposure to, is managed under existing credit risk policy. As at 31 March 2013, MCEL's credit risk capital requirement amounted to £2.4 million.

The below table provides a geographic distribution and exposure class breakdown of fees receivable exposures that are outside of the parental guarantee arrangement with MGL.

Geographic and Sectoral Breakdown of External Fees Receivable as at 31 March 2013

Exposure Class	Geographic Location	Exposure £'000
Corporates	Africa	61
Corporates	Americas	218
Corporates	Asia	9
Corporates	Europe	7,658
Government	Europe	189
Institutions	Europe	5
	Total	8,140

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 2013, MCEL's market risk capital requirement amounted to £1.3 million.

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 2013 MCEL's operational risk capital requirement was £13.2 million.

The firm's capital resources and Pillar 1 capital resources requirement as at 31 March 2013 comprised the following elements:

	31-Mar-13 £'000	31-Mar-12 £'000	31-Mar-11 £'000
Capital resources			
Tier 1			
Ordinary share capital (including share premium)	85,900	65,900	40,900
Audited retained earnings and other reserves	(39,057)	(12,590)	(1,934)
Audited current year profits/ (losses)	(22,245)	(26,473)	(10,665)
Total Tier 1 capital	24,598	26,837	28,301
Tier 2			
Perpetual subordinated debt	10,000	10,000	6,500
Revaluation reserve	(1,190)	(240)	(519)
Total Tier 2 capital	8,810	9,760	5,981
Deductions from capital			
Intangible assets	-	(3,830)	(5,242)
Total Tier 1 & Tier 2 capital after deductions	33,408	32,767	29,040
Capital resources requirement			
Credit risk	2,429	2,567	3,032
Market risk			
- Equity PRR	20	130	254
- Forex PRR	1,329	2,618	1,658
Operational risk	13,236	9,524	6,339
Total capital resources requirement	17,014	14,839	11,283
Surplus	**16,394**	**17,928**	**17,757**

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 2013, management considered MCEL's Pillar 1 operational risk capital requirement to be adequate to absorb the full extent of the largest stressed operational risk loss scenario. It was therefore not considered necessary to hold an additional Pillar 2 add-on for operational risk. 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 Assets (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 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 complies with a Macquarie Group policy with regards to on and off balance sheet netting arrangements.

The tables below illustrate the balance sheet exposure values by risk weight, before and after application of credit risk mitigation. Exposures assigned a risk weight of 150% are past due fees receivable.

Exposures before and after credit risk mitigation as at 31 March 2013

Risk weight	Exposure pre-credit risk mitigation **£'000**	Exposure post-credit risk mitigation **£'000**
0%	1,207	1,207
20%	21,813	21,813
50%	311	17,111
100%	33,044	16,244
150%	797	797

Exposures before and after credit risk mitigation as at 31 March 2012

Risk weight	Exposure pre-credit risk mitigation **£'000**	Exposure post-credit risk mitigation **£'000**
0%	1,762	1,762
20%	25,463	25,463
50%	1,827	24,702
100%	37,517	14,642