



PILLAR 3 DISCLOSURE

MACQUARIE INFRASTRUCTURE AND REAL ASSETS (EUROPE) LIMITED 31 MARCH 2014

Macquarie Infrastructure and Real Assets (Europe) Limited (“MIRAEL”) is a UK incorporated company and is authorised by the FCA as a limited licence firm to provide funds management and advisory services. As such, MIRAEL is required to disclose information as set down 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 MIRAEL’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.

MIRAEL is a member of the Macquarie Group, a global provider of banking, financial, advisory, investment and funds management services. All risks arising from MIRAEL’s activities are managed in accordance with Macquarie’s global risk management framework. This framework has been formally adopted by the MIRAEL Board. Further information on Macquarie’s Risk Management Framework can be found in Macquarie Group Limited’s 2014 Financial Statements at:

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

MIRAEL is the vehicle through which the Macquarie Infrastructure Real Assets division of Macquarie Funds Group undertakes its regulated European fund and asset management activities. As at 31 March 2014, MIRAEL had £9.5 billion of funds under management (“FUM”).

MIRAEL’s principal activity is to undertake investment management and advisory activities. It also manages Macquarie European Infrastructure Fund LP (“MEIF 1”), MEIF 2, MEIF 3 and MEIF 4, each of which owns a portfolio of infrastructure investments. In addition, up until 27

June 2013, MIRAEL managed jointly with Renaissance Investment Management (UK) Limited, the Macquarie Renaissance Infrastructure Fund ("MRIF"), a fund mandated to invest in infrastructure projects in Russia and other Commonwealth of Independent States. From 27 June 2013, MIRAEL became the sole manager of the fund and the fund was renamed as Macquarie Russia & CIS Infrastructure Fund. MIRAEL is also the Manager for various feeder entities.

MIRAEL holds an investment in Macquarie Korea Asset Management Co. Limited ("MKAM"), a Korean Funds Manager, which is deducted from capital resources for regulatory reporting purposes. MIRAEL is exempt from preparing consolidated financials and discloses the interest in MKAM as an investment for accounting purposes.

MIRAEL has a tightly defined scope of operations, namely the provision of funds management and advisory services, and as such runs minimal market and credit risk. MIRAEL's operations do give rise to operational risk which is taken into account when MIRAEL performs its annual assessment of the appropriate level of capital to hold at Pillar 2.

Capital adequacy

The approach to calculating the capital resources requirements within MIRAEL is made by reference to its categorisation as a limited licence firm and in consideration of the business activities of MIRAEL. As such, MIRAEL calculates its Pillar 1 capital resources requirements as the higher of:

- (1) the base requirement of €50,000
- (2) the sum of:
 - (a) the credit risk capital requirement
 - (b) the market risk capital requirement
- (3) the fixed overheads requirement

The requirements calculated under (2) and (3) above are both in excess of the €50,000 base capital requirement stipulated within the FCA's General Prudential Sourcebook (GENPRU 2.1.48) and as at 31 March 2014 the larger of the requirements above was the sum of credit risk and market risk requirements.

In addition to MIRAEL's Pillar 1 capital requirements, the Firm determined an additional Pillar 2 operational risk capital add-on of £2.5 million for the period ended 31 March 2014.

The firm calculates both market risk and credit risk using the standardised approaches as laid out under the BIPRU rules:

- Credit risk arises on the cash balances MIRAEL holds and unpaid fees arising from funds management and asset advisory contracts. 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 rating 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 the third party banks (primarily in UK) with which MIRAEL deposits surplus cash. Any counterparty risk which MIRAEL may have exposure to is managed under the existing credit risk policy. As at 31 March 2014, MIRAEL's credit risk capital requirement amounted to £4.0 million.
- MIRAEL does not take any trading positions in its own right although the firm may from time to time attract a small amount of market risk capital requirement on fee receivables denominated in foreign currencies. As at 31 March 2014, MIRAEL's market risk capital requirement amounted to £1 million.

Operational risk is also a significant risk faced by MIRAEL. 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.

The firm's capital resources and Pillar 2 capital resources requirement as at 31 March 2014 comprised the following elements:

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	31-Mar-14 £'000	31-Mar-13 £'000	31-Mar-12 £'000
Capital Resources			
Tier 1			
Ordinary share capital	34,700	34,700	34,700
Audited retained earnings and reserves (including dividends paid)	44	6,127	65
Audited current year profits and movement in reserves	17,386	21,416	10,829
Total Tier 1 capital	52,130	62,243	45,594
Tier 2			
Perpetual subordinated debt	10,500	10,500	10,500
Total Tier 2 capital	10,500	10,500	10,500
Deductions from Tier 1 & Tier 2 capital: Material holding	(25,794)	(27,043)	(25,224)
Total capital after deductions	36,836	45,700	30,870
Capital Resources Requirement			
(1) Base Capital Resources Requirement (EUR)	50	50	50
Credit Risk Requirement	3,980	2,971	2,779
Market Risk Requirement	996	986	1,127
(2) Sum of Credit and Market Risk Requirements	4,976	3,957	3,906
(3) Fixed Overheads Requirement	3,668	3,783	5,481
Total Pillar 1 Capital Resources Requirement	4,976	3,957	5,481
Pillar 2 Add-On: Operational Risk	2,524	3,543	2,019
Total capital resources requirement	7,500	7,500	7,500
Surplus	29,336	38,200	23,370

MIRAEL undertakes an annual assessment as required by BIPRU 2 to assess the adequacy of its internal capital to support current and future activities of the firm. This assessment considers the adequacy of MIRAEL's capital resources to cover Pillar 1 risk (e.g. credit risk, market risk and fixed overhead requirement) as well as other risks not explicitly covered by these Pillar 1 requirements (e.g. business risk and additional operational risks such as fraud). As at 31 March 2014, management considered MIRAEL's Pillar 1 capital requirement to be inadequate to absorb the full extent of the largest stressed operational risk loss scenario. It was therefore considered necessary to hold an additional Pillar 2 add-on for operational risk. This assessment is supported by appropriate stress testing and scenario analysis. The assessment is reviewed and approved annually by the MIRAEL Board.

MIRAEL has held capital resources in excess of both its Pillar 1 and Pillar 2 capital requirements at all times in the past financial year.

MIRAEL forms part of a UK regulatory consolidation group that also includes two UK incorporated parent holding companies and a Korean Funds Manager, MKAM. Capital assessments are required to be performed for this UK group. The group held capital resources in excess of capital requirements at all times in the past financial year.

Credit risk mitigation

MIRAEL 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 MIRAEL's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to FCA guidance. MIRAEL 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 before and after credit risk mitigation as at 31 March 2014

Risk weight	Exposure pre-credit risk mitigation £'000	Exposure post-credit risk mitigation £'000
0%	3	3
20%	17,452	17,452
50%	85	89,873
100%	91,067	1,279

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%	964	964
20%	13,777	13,777
50%	155	66,601
100%	68,171	1,725

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%	368	368
20%	4,560	4,560
50%	36	65,767
100%	66,669	938