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ASX Release

MACQUARIE BANK RELEASES DECEMBER 2010 PILLAR 3 DISCLOSURE DOCUMENT

21 February 2011 - The Macquarie Bank Limited December 2010 Pillar 3 disclosure document was released today and is located on the Macquarie website www.macquarie.com. These disclosures have been prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

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MACQUARIE BANK
PILLAR 3 DISCLOSURES
DECEMBER 2010



MACQUARIE
BANK

Cover image: A stylised contemporary version of the Holey Dollar

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the ‘Holey Dollar’ (valued at five shillings) and the ‘Dump’ (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie’s creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie.

1.0 Overview

Introduction

Macquarie Bank Limited (MBL) is an Authorised Deposit-taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). MBL is accredited under the Foundation Internal Ratings Based Approach (IRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the internal model approach for market risk and the internal model approach for interest rate risk in the banking book. These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

MBL's accreditation requires compliance with APRA's Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). This report details MBL's APS 330 disclosures as at 31 December 2010 together with the 30 September 2010 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 30 September 2010 is also available on the Macquarie website at www.macquarie.com

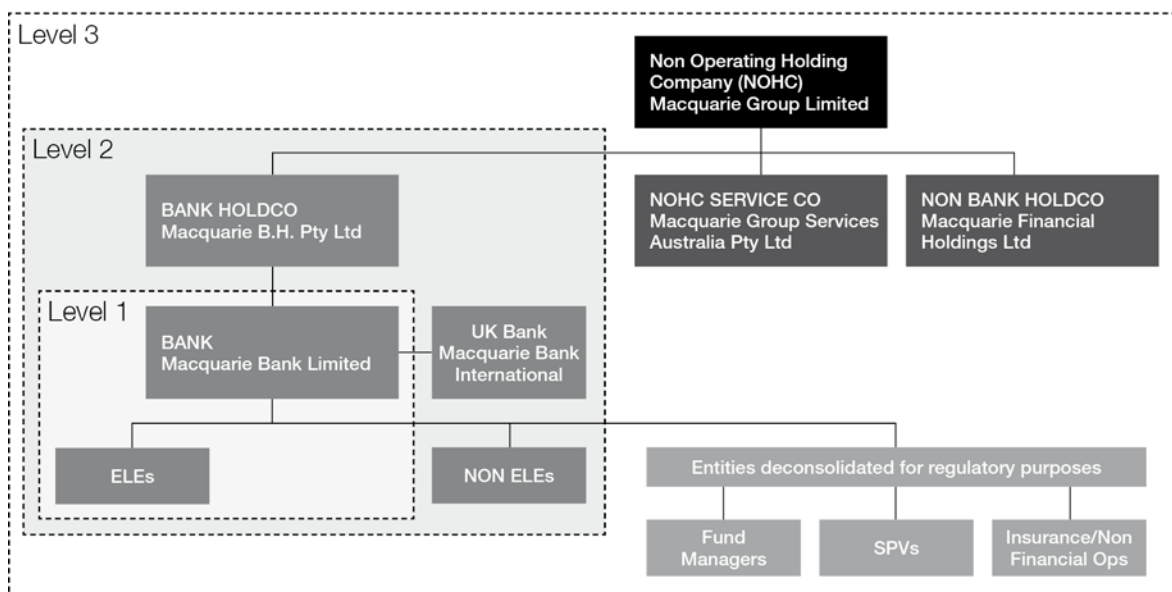
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2010 and consists of sections covering:

- Capital Adequacy;
- Credit Risk Exposures; and
- Provisioning

1.1 Macquarie Regulatory Group

MBL is part of the larger Macquarie Group, which includes Macquarie Group Limited (MGL) and its subsidiaries (referred to as 'Level 3'). The MBL regulatory consolidated group (referred to as 'Level 2') is different to the MBL accounting consolidated group as Level 2 excludes certain subsidiaries which are deconsolidated for APRA reporting purposes.

The diagram below illustrates the three different levels of consolidation:



Reporting levels are in accordance with APRA definitions contained in Prudential Standard APS 110 Capital Adequacy (APS 110).

References in this report to Macquarie or Banking Group refer to the Level 2 regulatory group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group.

1.0 Overview continued

1.2 Report Conventions

The disclosures in this report are not required to be audited by an external auditor. However, the disclosures have been prepared on a basis consistent with information submitted to APRA. Under the APRA's revised Prudential Standard APS 310, the information submitted to APRA is required to be either audited or reviewed by an external auditor at Macquarie's year end, being 31 March.

Weighted averages have been prepared in this report for certain disclosures as required by APS 330.

All numbers in this report are in Australian Dollars and have been rounded to the nearest million, unless otherwise stated.

Where necessary comparative information has been restated to conform with changes in presentation in the current period.

2.0 Capital Adequacy

2.1 Capital Ratios

APS 330 Table 16(e)

	31 December 2010	30 September 2010
Level 2 Macquarie Banking Group Tier 1 capital ratio	10.6%	10.8%
Level 2 Macquarie Banking Group Total capital ratio	12.2%	12.8%

Macquarie capital ratios continue to remain well in excess of the regulatory minimum capital ratios imposed by APRA.

2.0 Capital Adequacy continued

2.2 Risk Weighted Assets

Risk weighted assets are a risk based measure of exposures used in assessing overall capital usage of the Banking Group. When applied against eligible regulatory capital the overall capital adequacy is determined. RWA are calculated in accordance with APRA Prudential Standards.

The table below sets out the RWA exposures for the MBL Group.

APS 330 Table 16 (a-d)

	31 December 2010 RWA \$m	30 September 2010 RWA \$m
Credit risk		
<i>Subject to IRB approach</i>		
Corporate	20,762	19,639
Sovereign	891	865
Bank	2,472	2,730
Residential mortgage	1,418	1,540
Qualifying revolving retail	-	-
Other retail	1,416	1,285
Other	-	-
Total RWA subject to IRB approach	26,959	26,059
 <i>Specialised lending exposures subject to slotting criteria</i>	 2,492	 2,805
 <i>Subject to Standardised approach</i>		
Corporate	3,026	3,522
Sovereign	-	-
Bank	3	80
Residential mortgage	543	551
Other retail	3,233	3,487
Other	2,949	2,636
Total RWA subject to Standardised approach	9,754	10,276
 Credit risk RWA for securitisation exposures	 1,062	 1,005
Total Credit risk RWA	40,267	40,145
Equity risk exposures RWA	1,885	1,927
Market risk RWA	3,678	3,073
Operational risk RWA	7,077	6,984
Interest rate risk in the banking book RWA	-	-
APRA Scaling factor (6%) applied to IRB exposures	1,617	1,564
Total RWA	54,524	53,693

¹ Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

3.0 Credit Risk Exposures

3.1 Macquarie's Credit Risk Exposures

Disclosures in this section have been prepared on a gross credit risk exposure basis. Gross credit risk exposure is calculated in accordance with APRA's Prudential Standards and relates to the potential loss that Macquarie would incur as a result of a default by an obligor. The gross credit risk exposures are calculated as the amount outstanding on drawn facilities and the exposure at default on undrawn facilities.

Exposures have been based on a regulatory Level 2 group as defined in section 1.1. The gross credit risk exposures in this section will differ from the disclosures in the Macquarie financial statements as gross credit risk exposures include off balance sheet exposures and exclude:

- trading book exposures;
- equities exposures;
- securitisation exposures;
- the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes; and
- the impact of netting and credit risk mitigation.

The table below sets out the total gross credit exposures for the MBL Group, classified by Basel II portfolio type and credit exposure type.

APS 330 Table 17(a)

Portfolio Type	31 December 2010 \$m	30 September 2010 \$m	Average total exposures \$m
Corporate	36,914	36,381	36,648
Sovereign	6,888	6,584	6,736
Bank	13,075	15,272	14,173
Residential Mortgages	14,258	14,347	14,303
Qualifying Revolving Retail	-	-	-
Other Retail	7,028	6,928	6,978
Other	4,394	5,219	4,806
Total Gross Credit Exposures	82,557	84,731	83,644

3.0 Credit Risk Exposures continued

APS 330 Table 17(a) (continued)

Gross Credit Exposure IRB	31 December 2010 \$m	30 September 2010 \$m	Average total exposures \$m
Corporate	32,103	31,228	31,666
Sovereign	6,888	6,584	6,736
Bank	13,071	15,192	14,131
Residential Mortgage	5,799	6,098	5,949
Qualifying revolving retail	-	-	-
Other retail	3,792	3,437	3,615
Other	-	-	-
Total IRB	61,653	62,539	62,097

Gross Credit Exposure Standardised	31 December 2010 \$m	30 September 2010 \$m	Average total exposures \$m
Corporate	4,811	5,153	4,982
Sovereign	-	-	-
Bank	4	80	42
Residential Mortgage	8,459	8,249	8,354
Qualifying revolving retail	-	-	-
Other retail	3,236	3,491	3,363
Other	4,394	5,219	4,806
Total Standardised	20,904	22,192	21,547
Total	82,557	84,731	83,644

¹ The major components of "Other" gross credit exposures are Other Debtors, Unsettled Trades and Operating Leases.

APS 330 Table 17(a) (continued)

Portfolio Type	31 December 2010				
	Off Balance sheet				
	On Balance Sheet \$m	Non-market related \$m	Market related \$m	Total \$m	Average Exposures for the Quarter \$m
Subject to IRB approach					
Corporate	16,648	3,566	9,306	29,520	29,011
Sovereign	6,446	67	375	6,888	6,736
Bank	8,876	103	4,092	13,071	14,131
Residential Mortgages	5,553	246	-	5,799	5,949
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	3,792	-	-	3,792	3,615
Other	-	-	-	-	-
Total IRB approach	41,315	3,982	13,773	59,070	59,442
Specialised Lending	1,783	800	-	2,583	2,655
Subject to Standardised approach					
Corporate	3,733	1,078	-	4,811	4,982
Sovereign	-	-	-	-	-
Bank	4	-	-	4	42
Residential Mortgages	8,459	-	-	8,459	8,354
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	3,216	20	-	3,236	3,363
Other	4,394	-	-	4,394	4,806
Total standardised approach	19,806	1,098	-	20,904	21,547
Total Gross Credit Exposures	62,904	5,880	13,773	82,557	83,644

3.0

Credit Risk Exposures

continued

APS 330 Table 17(a) (continued)

Portfolio Type	30 September 2010				
	Off Balance sheet				Average Exposures for the Quarter
	On Balance Sheet	Non-market related	Market related	Total	
	\$m	\$m	\$m	\$m	\$m
Subject to IRB approach					
Corporate	14,745	3,728	10,029	28,502	28,385
Sovereign	6,143	71	370	6,584	7,211
Bank	11,115	35	4,042	15,192	13,563
Residential Mortgages	5,833	265	-	6,098	6,148
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	3,437	-	-	3,437	3,245
Other	-	-	-	-	-
Total IRB approach	41,273	4,099	14,441	59,813	58,552
Specialised Lending	1,991	735	-	2,726	2,866
Subject to Standardised approach					
Corporate	3,513	1,640	-	5,153	5,041
Sovereign	-	-	-	-	-
Bank	80	-	-	80	41
Residential Mortgages	8,249	-	-	8,249	8,200
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	3,471	20	-	3,491	3,621
Other	5,219	-	-	5,219	5,633
Total standardised approach	20,532	1,660	-	22,192	22,536
Total Gross Credit Exposures	63,796	6,494	14,441	84,731	83,954

4.0 Provisioning

The table below details Macquarie's impaired facilities, past due facilities and specific provisions, presented in accordance with the definitions contained in Prudential Standard APS220 Credit Quality.

APS 330 Table 17(b)

	As at 31 December 2010			As at 30 September 2010		
	Impaired Facilities \$m	Past Due >90 days ¹ \$m	Specific Provision \$m	Impaired Facilities \$m	Past Due >90 days ¹ \$m	Specific Provision \$m
IRB						
Corporate	761	32	(273)	917	35	(314)
Sovereign	-	-	-	-	-	-
Bank	49	-	(25)	51	-	(19)
Residential Mortgage	60	54	(21)	59	55	(20)
Qualifying revolving retail	-	-	-	-	-	-
Other retail	11	-	(4)	12	-	(4)
Other ²	91	-	(68)	104	-	(79)
Total IRB	972	86	(391)	1,143	90	(436)
Standardised						
Corporate	69	1	(37)	75	1	(36)
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	-	29	-	-	26	-
Qualifying revolving retail	-	-	-	-	-	-
Other retail	35	-	(10)	38	-	(10)
Other ³	404	-	(13)	437	-	(23)
Total Standardised	508	30	(60)	550	27	(69)
Total	1,480	116	(451)	1,693	117	(505)

¹ In accordance with APRA prudential definitions, Past Due do not form part of Impaired Facilities as they are well secured.

² IRB "Other" includes impaired debt investment securities.

³ Standardised "Other" Impaired Facilities includes other real estate owned subsequent to facility foreclosure.

4.0 Provisioning continued

APS 330 Table 17(b) (continued)

	For the 3 months to 31 December 2010		For the 3 months to 30 September 2010	
	Charges for Specific provisions \$m	Write-offs \$m	Charges for Specific provisions \$m	Write-offs \$m
IRB				
Corporate	(23)	(1)	(66)	-
Sovereign	-	-	-	-
Bank	(7)	-	-	-
Residential Mortgage	(2)	-	(3)	-
Qualifying revolving retail	-	-	-	-
Other retail	(1)	(27)	-	(20)
Other	-	-	-	-
Total IRB	(33)	(28)	(69)	(20)
Corporate	(5)	-	(7)	-
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential Mortgage	-	-	-	-
Qualifying revolving retail	-	-	-	-
Other retail	(1)	(12)	(1)	(8)
Other	-	-	-	-
Total Standardised	(6)	(12)	(8)	(8)
Total	(39)	(40)	(77)	(28)

APS 330 Table 17(c)

	31 December 2010 \$m	30 September 2010 \$m
Collective provisions	218	220
Collective provisions treated as specific provisions for regulatory purposes	(25)	(26)
Net collective provisions for regulatory purposes	193	194
Tax effect	(58)	(58)
General reserve for credit losses ¹	135	136

¹ The general reserve for credit losses is equivalent to the net collective provision for regulatory purposes after tax.

Disclaimer

General areas of disclaimer:

- The information in this report has been prepared purely for the purpose of explaining the basis on which Macquarie has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements and for no other purpose. It therefore does not constitute any form of financial statement on the Business nor does it constitute any form of contemporary or forward looking record or opinion of any of the Businesses.
- 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 other banks. This may be due to a number of factors such as:
 - The mix of business exposures between banks
 - 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.

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