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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

20 August 2014 - The Macquarie Bank Limited June 2014 Pillar 3 disclosure document was released today 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

Macquarie Bank
June 2014

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 Group.

This year celebrates the bicentenary of the Holey Dollar.

Contents

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 (FIRB) 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.

On 1 January 2013, reforms to the Basel II capital adequacy framework came into effect (the Basel III framework). These reforms are designed to strengthen global capital rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

The reforms include;
- Raising the quality, consistency and transparency of the capital base
- Introducing a capital requirement to cover Credit Valuation Adjustments (CVA)
- Introducing an Asset Value Correlation (AVC) loading on exposures to certain financial institutions
- Requiring capital to be held against exposures to central clearing houses
- Introducing a range of capital buffers, these will be phased in by 2016.

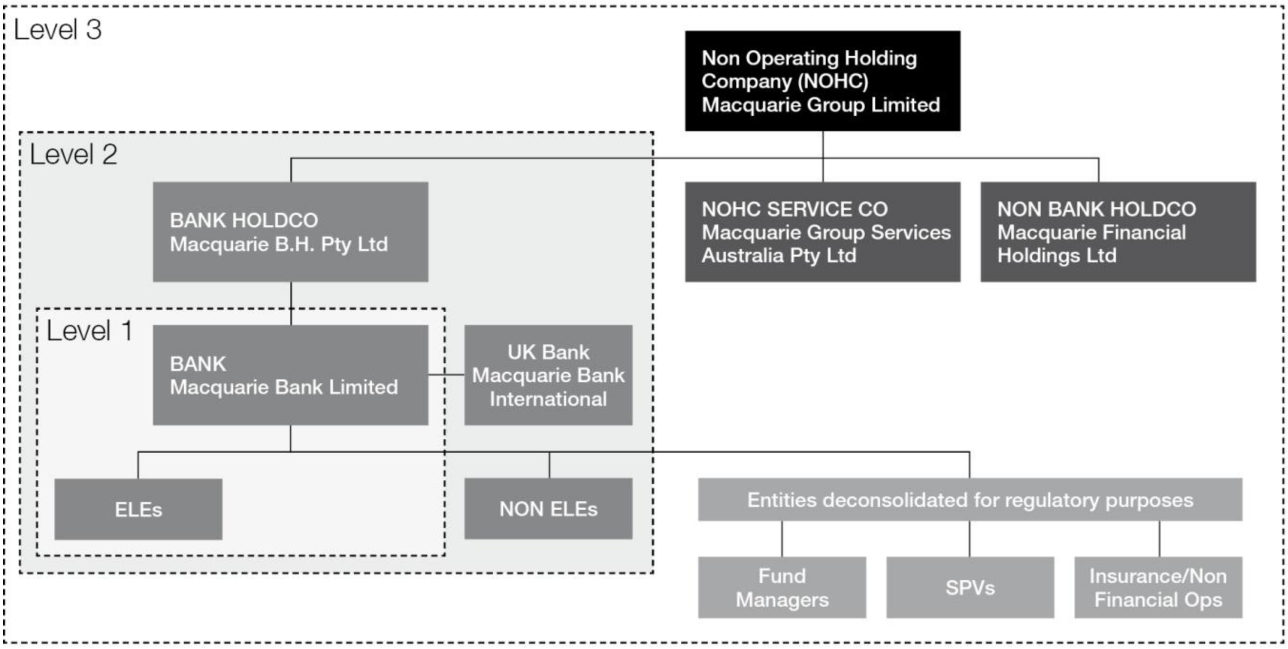
APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS330) as at 30 June 2014 together with the 31 March 2014 comparative disclosures. The most recent full Pillar 3 disclosure document as at 31 March 2014 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 30 June 2014 and consists of sections covering:
- Capital Adequacy;
- Credit Risk Exposures;
- Provisioning; and
- Securitisation.

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 bank 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. MBL and its Extended Licensed Entities (ELEs) are referred to as Level 1.

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 Bank Group refer to the Level 2 regulatory consolidated bank group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory consolidated bank group prepared on a Basel III basis.

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 revised APRA 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.

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 3(f)

	As at 30 June 2014	As at 31 March 2014
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	**9.5%**	9.6%
Level 2 Macquarie Bank Group Tier 1 capital ratio	**10.5%**	10.6%
Level 2 Macquarie Bank Group Total capital ratio	**12.6%**	12.6%

The Macquarie Bank Group capital ratios are well above the regulatory minimum capital ratios required by APRA, and the Board imposed internal minimum capital requirement.

2.2 Risk Weighted Assets (RWA)

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

The table below sets out the RWA for the Macquarie Bank Group.

APS 330 Table 3(a-e)

	As at 30 June 2014 $m	As at 31 March 2014 $m
Credit risk		
Subject to IRB approach		
Corporate	**18,288**	18,295
SME Corporate	**1,769**	1,727
Sovereign	**581**	591
Bank	**1,454**	1,680
Residential Mortgages	**4,459**	4,075
Other Retail	**4,983**	4,923
Total RWA subject to IRB approach	**31,534**	31,291
Specialised lending exposures subject to slotting criteria[1]	**4,935**	4,891
Subject to Standardised approach		
Corporate	**980**	920
Residential Mortgages	**1,779**	1,479
Other Retail	**1,197**	953
Total RWA subject to Standardised approach	**3,956**	3,352
Credit risk RWA for securitisation exposures	**866**	874
Credit Valuation Adjustment RWA	**2,125**	2,325
Exposures to Central Counterparties RWA	**1,433**	1,595
RWA for Other Assets	**6,085**	6,395
Total Credit risk RWA	**50,934**	50,723
Market risk RWA	**3,914**	4,567
Operational risk RWA	**8,277**	8,531
Interest rate risk in the banking book RWA	**-**	-
APRA Scaling factor (6%) applied to RWA subject to IRB exposures	**1,892**	1,877
Total RWA	**65,017**	65,698

[1] Specialised lending exposures subject to supervisory 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 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. The exposure at default is calculated in a manner consistent with APRA ADI Prudential Standards.

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 Bank Limited consolidated financial statements as gross credit risk exposures include off balance sheet exposures but exclude the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes.

The exposures below also exclude the impact of:
- netting and credit risk mitigation;
- securitisation exposures;
- central counterparty exposures;
- trading book exposures; and
- equity exposures.

The table below sets out the total gross credit risk exposures per the above description for the MBL Group, classified by Basel III portfolio type and credit exposure type.

APS 330 Table 4(a)

Portfolio Type	As at 30 June 2014 $m	As at 31 March 2014 $m	Average Exposures for the 3 months $m
Corporate[1]	**31,165**	33,152	32,158
SME Corporate[2]	**2,671**	2,623	2,647
Sovereign	**3,559**	3,539	3,549
Bank	**8,194**	9,519	8,857
Residential Mortgages	**24,295**	22,789	23,543
Other Retail	**9,339**	9,053	9,195
Other Assets[3]	**10,124**	10,626	10,375
Total Gross Credit Exposure	**89,347**	91,301	90,324

[1] "Corporate" includes Specialised Lending exposure of $5,770 million as at 30 June 2014 (31 March 2014: $5,766 million).
[2] "SME Corporate" includes Specialised Lending exposure of $471 million as at 30 June 2014 (31 March 2014: $488 million).
[3] The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 4(a)

Portfolio Type	**As at 30 June 2014 $m**	As at 31 March 2014 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate	**30,180**	32,230	31,205
SME Corporate	**2,671**	2,623	2,647
Sovereign	**3,559**	3,539	3,549
Bank	**8,194**	9,519	8,857
Residential Mortgages	**17,260**	15,599	16,430
Other Retail	**7,977**	7,854	7,915
Total IRB approach	**69,841**	71,364	70,603
Subject to Standardised approach			
Corporate	**985**	922	953
Residential Mortgages	**7,035**	7,190	7,113
Other Retail	**1,362**	1,199	1,280
Total Standardised approach	**9,382**	9,311	9,346
Other Assets	**10,124**	10,626	10,375
Total Gross Credit Exposures	**89,347**	91,301	90,324

3.0 Credit Risk Exposures
continued

APS 330 Table 4(a) (continued)

	As at 30 June 2014				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months $m
Subject to IRB approach					
Corporate	14,989	2,732	6,689	24,410	25,437
SME Corporate	1,933	267	-	2,200	2,167
Sovereign	3,288	-	271	3,559	3,549
Bank	3,730	236	4,228	8,194	8,857
Residential Mortgages	16,999	261	-	17,260	16,430
Other Retail	7,977	-	-	7,977	7,915
Total IRB approach	48,916	3,496	11,188	63,600	64,355
Specialised Lending	5,312	768	161	6,241	6,248
Subject to Standardised approach					
Corporate	366	619	-	985	953
Residential Mortgages	7,032	3	-	7,035	7,113
Other Retail	1,362	-	-	1,362	1,280
Total Standardised approach	8,760	622	-	9,382	9,346
Other Assets	10,124	-	-	10,124	10,375
Total Gross Credit Exposures	73,112	4,886	11,349	89,347	90,324

APS 330 Table 4(a) (continued)

	As at 31 March 2014				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months $m
Subject to IRB approach					
Corporate	16,865	2,407	7,192	26,464	25,632
SME Corporate	1,912	223	-	2,135	2,132
Sovereign	3,181	-	358	3,539	3,626
Bank	3,997	403	5,119	9,519	9,641
Residential Mortgages	15,297	302	-	15,599	14,825
Other Retail	7,854	-	-	7,854	7,757
Total IRB approach	49,106	3,335	12,669	65,110	63,613
Specialised Lending	5,208	894	152	6,254	6,043
Subject to Standardised approach					
Corporate	225	697	-	922	996
Residential Mortgages	7,187	3	-	7,190	7,545
Other Retail	1,196	3	-	1,199	1,327
Total Standardised approach	8,608	703	-	9,311	9,868
Other Assets	10,626	-	-	10,626	9,999
Total Gross Credit Exposures	73,548	4,932	12,821	91,301	89,523

4.0 Provisioning

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

APS 330 Table 4(b)

	As at 30 June 2014			As at 31 March 2014		
	Impaired Facilities $m	**Past Due >90 days[1] $m**	**Individually Assessed Provisions $m**	Impaired Facilities $m	Past Due >90 days[1] $m	Individually Assessed Provisions $m
Subject to IRB approach						
Corporate	**962**	**298**	**(278)**	967	183	(280)
SME Corporate	**23**	**12**	**(7)**	29	6	(10)
Residential Mortgages	**151**	**64**	**(8)**	152	58	(8)
Other Retail	**20**	**-**	**(9)**	19	-	(8)
Other[2]	**5**	**-**	**(4)**	5	-	(4)
Total IRB approach	**1,161**	**374**	**(306)**	1,172	247	(310)
Subject to Standardised approach						
Residential Mortgages	**30**	**20**	**(10)**	34	20	(10)
Other Retail	**31**	**-**	**(9)**	27	5	(11)
Total Standardised approach	**61**	**20**	**(19)**	61	25	(21)
Other Assets[3]	**182**	**-**	**(3)**	208	-	(3)
Total	**1,404**	**394**	**(328)**	1,441	272	(334)

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

2 IRB "Other" includes impaired debt investment securities.

3 Other Assets impaired facilities includes real estate owned subsequent to facility foreclosure.

APS 330 Table 4(b) (continued)

	For the 3 months to 30 June 2014		For the 3 months to 31 March 2014	
	Charges for Individually Assessed Provisions $m	Write-offs $m	Charges for Individually Assessed Provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	(18)	-	(37)	-
SME Corporate	-	-	(6)	-
Residential Mortgages	-	-	5	-
Other Retail	(1)	(9)	(1)	(10)
Total IRB approach	(19)	(9)	(39)	(10)
Subject to Standardised approach				
Residential Mortgages	-	-	(2)	-
Other Retail	(1)	(7)	(1)	(5)
Total Standardised approach	(1)	(7)	(3)	(5)
Total	(20)	(16)	(42)	(15)

APS 330 Table 4(c)

	As at 30 June 2014 $m	As at 31 March 2014 $m
Collective provisions	288	275
Collective provisions treated as individually assessed provisions for regulatory purposes	(46)	(41)
Net collective provisions for regulatory purposes[1]	242	234
Tax effect	(73)	(70)
General reserve for credit losses	169	164

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

5.0 Securitisation

5.1 Securitisation activity

Over the 3 months to 30 June 2014, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

APS 330 Table 5(a)

	For the 3 month to 30 June 2014		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages	1,858	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	1,906	-	-
Other	-	-	-
Total Banking Book	3,764	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

	For the 3 months to 31 March 2014		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages	3,603	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	1,412	-	-
Other	212	-	-
Total Banking Book	5,227	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

5.2 Securitisation activity

The table below sets out the on and off balance sheet securitisation exposures retained or purchased, broken down by exposure type.

APS 330 Table 5(b)

	As at 30 June 2014		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	16,839	539	17,378
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,657	-	7,657
Other	387	64	451
Total Banking Book	24,883	603	25,486
Trading Book			
Residential Mortgages	-	5	5
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	5	5

[1] Included in the above are assets of $8,139m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Group.

	As at 31 March 2014		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	15,703	659	16,362
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,141	-	7,141
Other	385	59	444
Total Banking Book	23,229	718	23,947
Trading Book			
Residential Mortgages	-	9	9
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	9	9

[1] Included in the above are assets of $7,881m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Group.

6.0 Disclaimer

General areas of disclaimer:

- The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (Macquarie) 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. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation or opinion on any of the Businesses. This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Macquarie's businesses and operations, market conditions, results of operation and financial conditions, capital adequacy, individually assessed provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements.
- 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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