MACQUARIE BANK

Pillar 3 disclosures

Macquarie Bank
December 2016

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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

17 February 2017 - The Macquarie Bank Limited December 2016 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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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 (IMA) for market risk and 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.

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 APRA Prudential Standard 330: Public Disclosure (APS 330) as at 31 December 2016 together with the 30 September 2016 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2016 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 2016 and consists of sections covering:

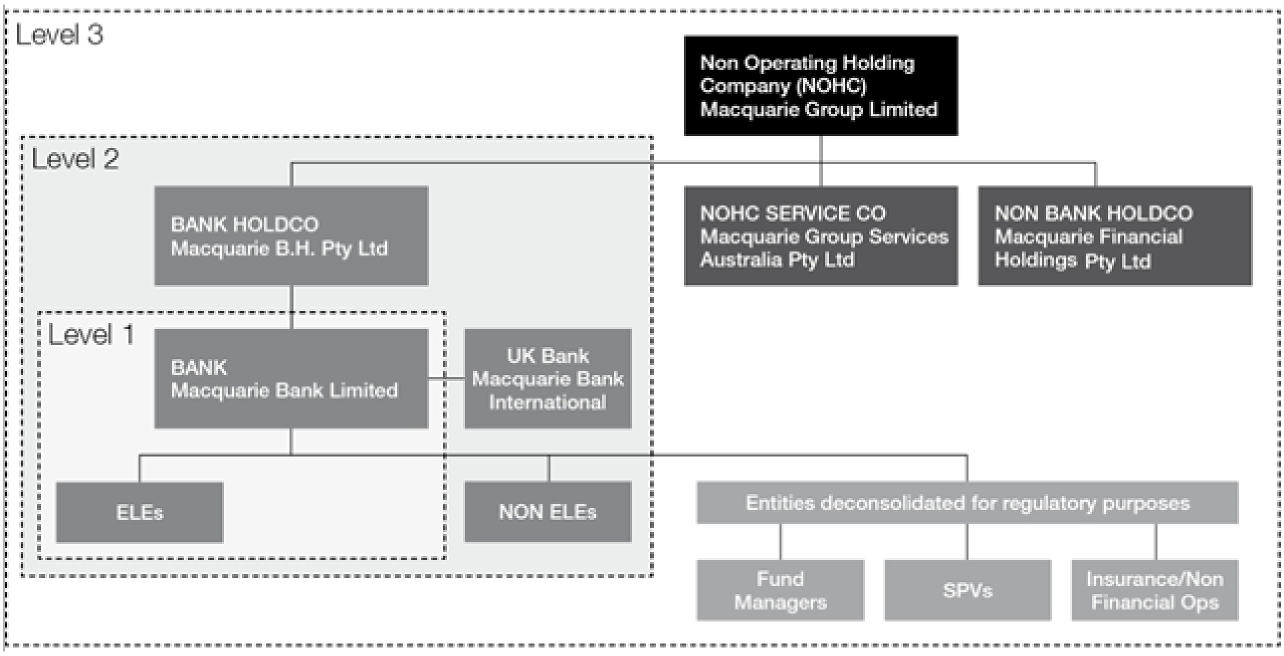
- Capital Adequacy;
- Credit Risk Measurement;
- Provisioning;
- Securitisation; and
- Leverage Ratio Disclosures.

1.0 Overview

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 APRA Prudential Standard 310: Audit and Related Matters (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 and Leverage Ratios

APS 330 Table 3(f)

Capital and Leverage Ratios	**As at 31 December 2016**	As at 30 September 2016
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio[1]	**10.5%**	10.4%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio[1]	**11.6%**	11.5%
Level 2 Macquarie Bank Group Total capital ratio[1]	**13.8%**	13.7%
Level 2 Macquarie Bank Group Leverage ratio	**5.3%**	5.6 %

1 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 ADI Prudential Standards.

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

APS 330 Table 3(a-e)

	As at 31 December 2016 $m	As at 30 September 2016 $m
Credit risk		
Subject to IRB approach		
Corporate	**28,239**	27,150
SME Corporate	**2,747**	2,704
Sovereign	**348**	294
Bank	**1,488**	1,353
Residential Mortgages	**10,529**	10,688
Other Retail	**5,041**	4,575
Retail SME	**3,018**	2,949
Total RWA subject to IRB approach	**51,410**	49,713
Specialised lending exposures subject to slotting criteria[1]	**5,900**	6,354
Subject to Standardised approach		
Corporate	**767**	776
Residential Mortgages	**1,928**	1,520
Other Retail	**6,343**	6,986
Total RWA subject to Standardised approach	**9,038**	9,282
Credit risk RWA for securitisation exposures	**464**	493
Credit Valuation Adjustment RWA	**2,975**	2,907
Exposures to Central Counterparties RWA	**1,415**	1,374
RWA for Other Assets	**9,190**	9,001
Total Credit risk RWA	**80,392**	79,124
Market risk RWA	**4,180**	4,298
Operational risk RWA	**9,874**	9,531
Interest rate risk in the banking book RWA	**660**	645
Total RWA	**95,106**	93,598

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

3.0 Credit Risk Measurement

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:

- credit risk mitigation;
- securitisation exposures;
- CVA;
- central counterparty exposures;
- trading book on balance sheet 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 31 December 2016 $m**	As at 30 September 2016 $m	Average Exposures for the 3 months $m
Corporate[1]	**47,095**	43,261	45,178
SME Corporate[2]	**3,768**	3,741	3,755
Sovereign	**2,996**	2,517	2,756
Bank	**9,491**	7,870	8,680
Residential Mortgages	**37,501**	37,255	37,378
Other Retail	**13,221**	13,449	13,335
Retail SME	**4,814**	4,713	4,763
Other Assets[3]	**11,597**	12,526	12,062
Total Gross Credit Exposure	**130,483**	125,332	127,907

1 Corporate includes Specialised Lending exposure of $5,626 million as at 31 December 2016 (30 September 2016: $5,933 million).
2 SME Corporate includes Specialised Lending exposure of $539 million as at 31 December 2016 (30 September 2016: $568 million).
3 The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 4(a) (continued)

Portfolio Type	**As at 31 December 2016 $m**	As at 30 September 2016 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate	**46,328**	42,485	44,406
SME Corporate	**3,768**	3,741	3,755
Sovereign	**2,996**	2,517	2,756
Bank	**9,491**	7,870	8,680
Residential Mortgages	**34,423**	34,559	34,491
Other Retail	**6,844**	6,430	6,637
Retail SME	**4,814**	4,713	4,763
Total IRB approach	**108,664**	102,315	105,488
Subject to Standardised approach			
Corporate	**767**	776	772
Residential Mortgages	**3,078**	2,696	2,887
Other Retail	**6,377**	7,019	6,698
Total Standardised approach	**10,222**	10,491	10,357
Other Assets	**11,597**	12,526	12,062
Total Gross Credit Exposure	**130,483**	125,332	127,907

3.0 Credit Risk Measurement
continued

APS 330 Table 4(a) (continued)

	As at 31 December 2016				
		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	21,068	4,307	15,327	40,702	38,627
SME Corporate	2,700	529	-	3,229	3,201
Sovereign	2,448	-	548	2,996	2,756
Bank	4,134	-	5,357	9,491	8,680
Residential Mortgages	28,469	5,954	-	34,423	34,491
Other Retail	6,844	-	-	6,844	6,637
Retail SME	4,682	132	-	4,814	4,763
Total IRB approach	70,345	10,922	21,232	102,499	99,155
Specialised Lending	4,976	531	658	6,165	6,333
Subject to Standardised approach					
Corporate	-	767	-	767	772
Residential Mortgages	3,078	-	-	3,078	2,887
Other Retail	6,377	-	-	6,377	6,698
Total Standardised approach	9,455	767	-	10,222	10,357
Other Assets	11,331	135	131	11,597	12,062
Total Gross Credit Exposures	96,107	12,355	22,021	130,483	127,907

APS 330 Table 4(a) (continued)

	As at 30 September 2016				
		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	20,412	3,728	12,412	36,552	36,621
SME Corporate	2,649	524	-	3,173	3,084
Sovereign	1,907	-	610	2,517	2,664
Bank	2,690	-	5,180	7,870	9,288
Residential Mortgages	28,655	5,904	-	34,559	32,842
Other Retail	6,430	-	-	6,430	6,239
Retail SME	4,582	131	-	4,713	4,617
Total IRB approach	67,325	10,287	18,202	95,814	95,355
Specialised Lending	5,263	731	507	6,501	6,725
Subject to Standardised approach					
Corporate	-	776	-	776	783
Residential Mortgages	2,696	-	-	2,696	4,427
Other Retail	7,019	-	-	7,019	7,280
Total Standardised approach	9,715	776	-	10,491	12,490
Other Assets	12,114	115	297	12,526	12,803
Total Gross Credit Exposures	94,417	11,909	19,006	125,332	127,373

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 31 December 2016			As at 30 September 2016		
	Impaired Facilities $m	Past Due >90 days $m	Individually Assessed Provisions $m	Impaired Facilities $m	Past Due >90 days $m	Individually Assessed Provisions $m
Subject to IRB approach						
Corporate	941	38	(330)	848	30	(328)
SME Corporate	75	28	(16)	61	27	(13)
Bank	-	6	-	-	7	-
Residential Mortgages	183	81	(5)	182	82	(5)
Other Retail	94	-	(23)	91	-	(21)
Total IRB approach	1,293	153	(374)	1,182	146	(367)
Subject to Standardised approach						
Residential Mortgages[1]	1	309	-	4	328	-
Other Retail	108	-	(19)	102	8	(17)
Total Standardised approach	109	309	(19)	106	336	(17)
Other Assets	20	-	(1)	19	-	(1)
Total	1,422	462	(394)	1,307	482	(385)

[1] Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF lending business.

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2016		For the 3 months to 30 September 2016	
	Charges for Individually Assessed provisions $m	**Write-offs $m**	Charges for Individually Assessed provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	**(59)**	**(9)**	(70)	(2)
SME Corporate	**(8)**	**-**	(5)	-
Other Retail	**(2)**	**(14)**	(1)	(14)
Total IRB approach	**(69)**	**(23)**	(76)	(16)
Subject to Standardised approach				
Other Retail	**(2)**	**(6)**	(6)	(8)
Total Standardised approach	**(2)**	**(6)**	(6)	(8)
Total	**(71)**	**(29)**	(82)	(24)

APS 330 Table 4(c)

	As at 31 December 2016 $m	As at 30 September 2016 $m
Collective provisions	**447**	417
Collective provisions treated as individually assessed provisions for regulatory purposes	**(57)**	(28)
Net collective provisions for regulatory purposes[1]	**390**	389
Tax effect	**(117)**	(117)
General reserve for credit losses	**273**	272

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 31 December 2016, 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 months to 31 December 2016		
	Value of loans sold or originated into securitisation		
Exposure type	ADI originated $m	ADI as sponsor $m	Recognised gain or loss on sale $m
Banking Book			
Residential Mortgages	1,833	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	3,959	-	-
Other	-	-	-
Total Banking Book	5,792	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

[1] Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

	For the 3 months to 30 September 2016		
	Value of loans sold or originated into securitisation		
Exposure type	ADI originated $m	ADI as sponsor $m	Recognised gain or loss on sale $m
Banking Book			
Residential Mortgages	1,939	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	700	-	-
Other	-	-	-
Total Banking Book	2,639	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

[1] Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

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 31 December 2016		
	Total outstanding exposures securitised[1]		
Exposure type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	**24,536**	**306**	**24,842**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**8,642**	**-**	**8,642**
Other	**225**	**5**	**230**
Total Banking Book	**33,403**	**311**	**33,714**
Trading Book			
Residential Mortgages	**-**	**2**	**2**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**-**	**-**	**-**
Other	**-**	**-**	**-**
Total Trading Book	**-**	**2**	**2**

1 Included in the above are assets of $31,641m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

	As at 30 September 2016		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	24,560	269	24,829
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,123	-	8,123
Other	299	11	310
Total Banking Book	32,982	280	33,262
Trading Book			
Residential Mortgages	-	7	7
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	7	7

1 Included in the above are assets of $30,960m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

6.0 Leverage Ratio Disclosures

The leverage ratio is a non-risk based ratio that is intended to restrict the build-up of excessive leverage in the banking system and acts as a supplementary measure to create a back-stop for the risk-based capital requirements. As of December 2016, APRA has not proposed a minimum leverage ratio requirement and confirmed that Basel III APRA leverage ratio is a disclosure requirement for December 2016.

Leverage ratio disclosures

Capital and total exposures	**31 December 2016**	30 September 2016	30 June 2016	31 March 2016
Tier 1 Capital	**11,004**	10,793	10,672	11,111
Total exposures	**205,716**	193,668	201,130	200,202
Leverage ratio				
Level 2 Macquarie Bank Group Leverage ratio	**5.3%**	5.6%	5.3%	5.5%

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 to investors or potential investors in relation to holding, purchasing or selling activities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of information having regard to the matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse and unanticipated market, financial or political developments and, in international transactions, currency risk.
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- Unless otherwise specified all information is at 31 December 2016.
- 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; and
  - 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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