

Pillar 3 disclosures

Macquarie Bank
December 2017



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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

12 February 2018 - The Macquarie Bank Limited December 2017 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: Public Disclosure.

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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 APS 330: Public Disclosure as at 31 December 2017 together with the 30 September 2017 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2017 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 2017 and consists of sections covering:

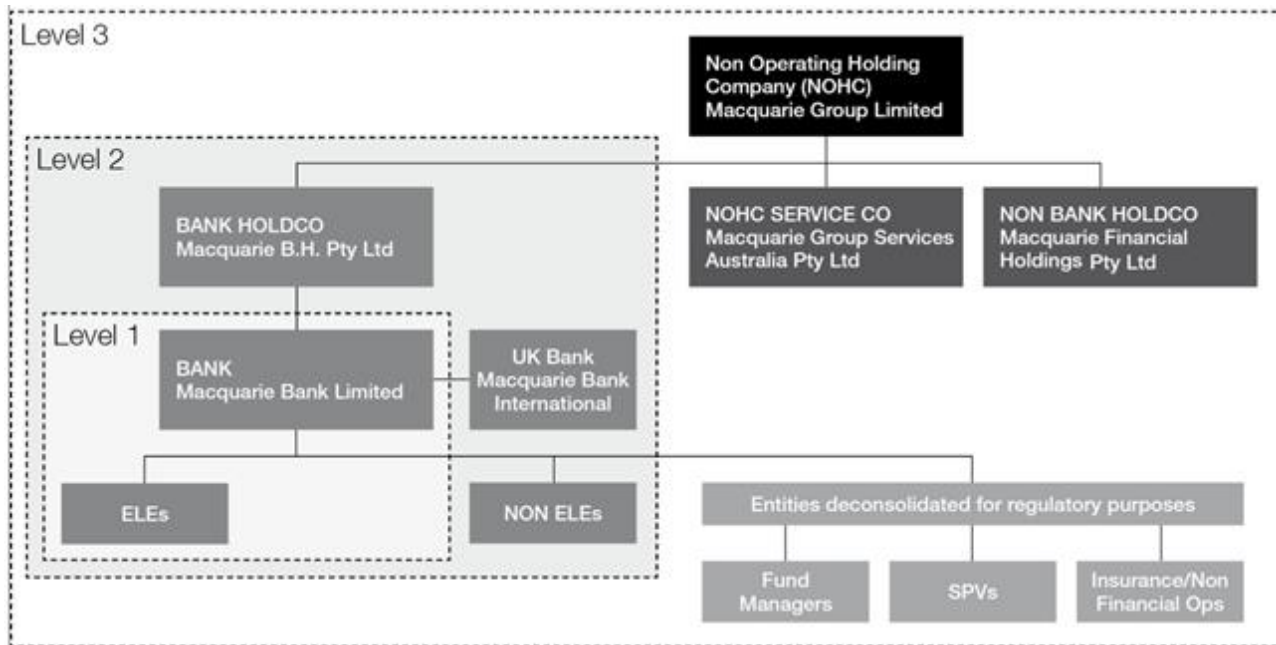
- Capital Adequacy;
- Credit Risk Measurement;
- Provisioning;
- Securitisation; and
- Leverage Ratio Disclosures.

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 APRA Prudential Standard APS 110: Capital Adequacy. References in this report to Macquarie or Bank Group or Macquarie Bank 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 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 APS 310: Audit and Related Matters 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 2017 | As at 30 September 2017 |
|--|---------------------------------------|--|
| Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio ¹ | 10.7% | 11.0% |
| Level 2 Macquarie Bank Group Total Tier 1 capital ratio ¹ | 12.5% | 12.9% |
| Level 2 Macquarie Bank Group Total capital ratio ¹ | 14.5% | 14.9% |
| Level 2 Macquarie Bank Group Leverage ratio | 5.8% | 6.1% |

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 Prudential Standards.

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

APS 330 Table 3(a-e)

| | As at 31 December 2017 \$m | As at 30 September 2017 \$m |
|---|-------------------------------------|--------------------------------------|
| Credit risk | | |
| Subject to IRB approach | | |
| Corporate | 27,344 | 26,736 |
| SME Corporate | 3,132 | 2,962 |
| Sovereign | 121 | 226 |
| Bank | 1,357 | 1,315 |
| Residential Mortgages ¹ | 12,388 | 11,597 |
| Other Retail | 4,232 | 4,093 |
| Retail SME | 3,215 | 3,056 |
| Total RWA subject to IRB approach | 51,789 | 49,985 |
| Specialised lending exposures subject to slotting criteria² | 4,747 | 4,939 |
| Subject to Standardised approach | | |
| Corporate | 797 | 938 |
| Residential Mortgages | 1,606 | 1,635 |
| Other Retail | 4,538 | 4,847 |
| Total RWA subject to Standardised approach | 6,941 | 7,420 |
| Credit risk RWA for securitisation exposures | 731 | 529 |
| Credit Valuation Adjustment RWA | 3,210 | 3,014 |
| Exposures to Central Counterparties RWA | 1,409 | 1,423 |
| RWA for Other Assets | 8,314 | 8,976 |
| Total Credit risk RWA | 77,141 | 76,286 |
| Market risk RWA | 3,504 | 3,314 |
| Operational risk RWA | 9,989 | 10,025 |
| Interest rate risk in the banking book RWA | – | – |
| Total RWA | 90,634 | 89,625 |

¹ Includes changes for the classification of mortgage commitments.

² 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 reflects the potential loss that Macquarie could incur as a result of a default by an obligor and includes both on and off balance sheet exposures.

Exposures have been based on a Level 2 regulatory 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 report 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 2017 \$m | As at 30 September 2017 \$m | Average Exposures for the 3 months \$m |
|------------------------------------|-------------------------------------|--------------------------------------|---|
| Corporate ¹ | 44,786 | 43,203 | 43,995 |
| SME Corporate ² | 4,231 | 4,044 | 4,137 |
| Sovereign | 2,002 | 2,081 | 2,042 |
| Bank | 7,740 | 7,973 | 7,857 |
| Residential Mortgages ³ | 42,073 | 39,265 | 40,668 |
| Other Retail | 12,241 | 12,357 | 12,299 |
| Retail SME | 4,794 | 4,638 | 4,716 |
| Other Assets ⁴ | 11,571 | 13,901 | 12,736 |
| Total Gross Credit Exposure | 129,438 | 127,462 | 128,450 |

¹ Corporate includes specialised lending exposure of \$4,843 million as at 31 December 2017 (30 September 2017: \$4,787 million).

² SME Corporate includes specialised lending exposure of \$568 million as at 31 December 2017 (30 September 2017: \$566 million).

³ Includes changes for the classification of mortgage commitments.

⁴ 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 2017 \$m | As at 30 September 2017 \$m | Average Exposures for the 3 months \$m |
|---|-------------------------------------|--------------------------------------|---|
| Subject to IRB approach | | | |
| Corporate ¹ | 43,989 | 42,265 | 43,127 |
| SME Corporate ² | 4,231 | 4,044 | 4,137 |
| Sovereign | 2,002 | 2,081 | 2,042 |
| Bank | 7,740 | 7,973 | 7,857 |
| Residential Mortgages ³ | 39,795 | 36,958 | 38,376 |
| Other Retail | 7,655 | 7,463 | 7,559 |
| Retail SME | 4,794 | 4,638 | 4,716 |
| Total IRB approach | 110,206 | 105,422 | 107,814 |
| Subject to Standardised approach | | | |
| Corporate | 797 | 938 | 868 |
| Residential Mortgages | 2,278 | 2,307 | 2,292 |
| Other Retail | 4,586 | 4,894 | 4,740 |
| Total Standardised approach | 7,661 | 8,139 | 7,900 |
| Other Assets⁴ | 11,571 | 13,901 | 12,736 |
| Total Gross Credit Exposure | 129,438 | 127,462 | 128,450 |

¹ Corporate includes specialised lending exposure of \$4,843 million as at 31 December 2017 (30 September 2017: \$4,787 million).

² SME Corporate includes specialised lending exposure of \$568 million as at 31 December 2017 (30 September 2017: \$566 million).

³ Includes changes for the classification of mortgage commitments.

⁴ The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

3.0 Credit Risk Measurement

continued

APS 330 Table 4(a) (continued)

| | As at 31 December 2017 | | | Total \$m | Average Exposures for the 3 months \$m |
|---|----------------------------|------------------------------|--------------------------|----------------|---|
| | On Balance Sheet \$m | Off Balance sheet | | | |
| | | Non-market related \$m | Market related \$m | | |
| Subject to IRB approach | | | | | |
| Corporate | 20,499 | 3,474 | 15,173 | 39,146 | 38,312 |
| SME Corporate | 3,051 | 612 | – | 3,663 | 3,570 |
| Sovereign | 1,382 | – | 620 | 2,002 | 2,042 |
| Bank | 3,194 | 12 | 4,534 | 7,740 | 7,857 |
| Residential Mortgages | 31,926 | 7,869 | – | 39,795 | 38,376 |
| Other Retail | 7,655 | – | – | 7,655 | 7,559 |
| Retail SME | 4,765 | 29 | – | 4,794 | 4,716 |
| Total IRB approach | 72,472 | 11,996 | 20,327 | 104,795 | 102,432 |
| Specialised Lending | 4,319 | 615 | 477 | 5,411 | 5,382 |
| Subject to Standardised approach | | | | | |
| Corporate | – | 797 | – | 797 | 868 |
| Residential Mortgages | 2,278 | – | – | 2,278 | 2,292 |
| Other Retail | 4,586 | – | – | 4,586 | 4,740 |
| Total Standardised approach | 6,864 | 797 | – | 7,661 | 7,900 |
| Other Assets | 11,145 | 130 | 296 | 11,571 | 12,736 |
| Total Gross Credit Exposures | 94,800 | 13,538 | 21,100 | 129,438 | 128,450 |

APS 330 Table 4(a) (continued)

| | As at 30 September 2017 | | | Total \$m | Average Exposures for the 3 months \$m |
|---|----------------------------|------------------------------|--------------------------|----------------|---|
| | On Balance Sheet \$m | Off Balance sheet | | | |
| | | Non-market related \$m | Market related \$m | | |
| Subject to IRB approach | | | | | |
| Corporate | 19,759 | 3,976 | 13,743 | 37,478 | 37,810 |
| SME Corporate | 2,922 | 556 | – | 3,478 | 3,470 |
| Sovereign | 1,253 | – | 828 | 2,081 | 2,334 |
| Bank | 2,552 | 12 | 5,409 | 7,973 | 7,927 |
| Residential Mortgages | 30,603 | 6,355 | – | 36,958 | 36,649 |
| Other Retail | 7,463 | – | – | 7,463 | 7,350 |
| Retail SME | 4,614 | 24 | – | 4,638 | 4,530 |
| Total IRB approach | 69,166 | 10,923 | 19,980 | 100,069 | 100,070 |
| Specialised Lending | 4,441 | 567 | 345 | 5,353 | 5,592 |
| Subject to Standardised approach | | | | | |
| Corporate | – | 938 | – | 938 | 885 |
| Residential Mortgages | 2,307 | – | – | 2,307 | 2,321 |
| Other Retail | 4,894 | – | – | 4,894 | 5,125 |
| Total Standardised approach | 7,201 | 938 | – | 8,139 | 8,331 |
| Other Assets | 13,491 | 185 | 225 | 13,901 | 12,970 |
| Total Gross Credit Exposures | 94,299 | 12,613 | 20,550 | 127,462 | 126,963 |

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 2017 | | | As at 30 September 2017 | | |
|---|-------------------------------|-----------------------------|---|-------------------------------|-----------------------------|---|
| | 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 | 644 | 46 | (286) | 613 | 39 | (296) |
| SME Corporate | 61 | 33 | (22) | 65 | 26 | (21) |
| Residential Mortgages | 184 | 92 | (3) | 181 | 89 | (4) |
| Other Retail ¹ | 120 | – | (22) | 113 | – | (21) |
| Total IRB approach | 1,009 | 171 | (333) | 972 | 154 | (342) |
| Subject to Standardised approach | | | | | | |
| Residential Mortgages ² | – | 215 | – | – | 235 | – |
| Other Retail | 86 | – | (19) | 95 | 3 | (20) |
| Total Standardised approach | 86 | 215 | (19) | 95 | 238 | (20) |
| Other Assets | 52 | – | – | 54 | – | – |
| Total | 1,147 | 386 | (352) | 1,121 | 392 | (362) |

¹ Includes Retail SME.

² 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 2017 | | For the 3 months to 30 September 2017 | |
|---|---|-------------------|---|-------------------|
| | Charges for Individually Assessed provisions \$m | Write-offs \$m | Charges for Individually Assessed provisions \$m | Write-offs \$m |
| Subject to IRB approach | | | | |
| Corporate | (16) | (5) | (44) | (1) |
| SME Corporate | (1) | - | 3 ² | - |
| Residential Mortgages | - | - | (1) | - |
| Other Retail ¹ | (1) | (15) | 11 ² | (17) |
| Total IRB approach | (18) | (20) | (31) | (18) |
| Subject to Standardised approach | | | | |
| Other Retail | 1 ² | (14) | (4) | (13) |
| Total Standardised approach | 1 | (14) | (4) | (13) |
| Total | (17) | (34) | (35) | (31) |

¹ Includes Retail SME.

² Includes write-back of provision.

APS 330 Table 4(c)

| | As at 31 December 2017 \$m | As at 30 September 2017 \$m |
|---|-------------------------------------|--------------------------------------|
| Collective provisions | 303 | 355 |
| Collective provisions treated as individually assessed provisions for regulatory purposes | (33) | (25) |
| Net collective provisions for regulatory purposes ¹ | 270 | 330 |
| Tax effect | (68) | (85) |
| General reserve for credit losses | 202 | 245 |

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 2017, 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)

| Exposure type | For the 3 months to 31 December 2017 | | Recognised gain or loss on sale \$m |
|---|--|-----------------------|---|
| | Value of loans sold or originated into securitisation | | |
| | ADI originated \$m | ADI as sponsor \$m | |
| Banking Book | | | |
| Residential Mortgages | 746 | - | - |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance ¹ | 144 | - | - |
| Other | - | - | - |
| Total Banking Book | 890 | - | - |
| 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.

| Exposure type | For the 3 months to 30 September 2017 | | Recognised gain or loss on sale \$m |
|---|--|-----------------------|---|
| | Value of loans sold or originated into securitisation | | |
| | ADI originated \$m | ADI as sponsor \$m | |
| Banking Book | | | |
| Residential Mortgages | 2,729 | - | - |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance ¹ | 1,125 | - | - |
| Other | - | - | - |
| Total Banking Book | 3,854 | - | - |
| 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 Exposure Arising from Securitisation Activity by Asset Type

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)

| Exposure type | As at 31 December 2017 | | |
|---------------------------------------|--|-----------------------------|---------------------------|
| | Total outstanding exposures securitised ¹ | | |
| | On balance sheet \$m | Off balance sheet \$m | Total exposures \$m |
| Banking Book | | | |
| Residential Mortgages | 22,982 | 128 | 23,110 |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance | 6,955 | - | 6,955 |
| Other | 235 | 62 | 297 |
| Total Banking Book | 30,172 | 190 | 30,362 |
| Trading Book | | | |
| Residential Mortgages | - | - | - |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance | - | - | - |
| Other | - | - | - |
| Total Trading Book | - | - | - |

¹ Included in the above are assets of \$28,133m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.

| Exposure type | As at 30 September 2017 | | |
|---------------------------------------|--|-----------------------------|---------------------------|
| | Total outstanding exposures securitised ¹ | | |
| | On balance sheet \$m | Off balance sheet \$m | Total exposures \$m |
| Banking Book | | | |
| Residential Mortgages | 23,960 | 88 | 24,048 |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance | 7,593 | - | 7,593 |
| Other | 230 | 57 | 287 |
| Total Banking Book | 31,783 | 145 | 31,928 |
| Trading Book | | | |
| Residential Mortgages | - | 34 | 34 |
| Credit cards and other personal loans | - | - | - |
| Auto and equipment finance | - | 5 | 5 |
| Other | - | - | - |
| Total Trading Book | - | 39 | 39 |

¹ Included in the above are assets of \$29,782m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 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 2017, Basel III APRA leverage ratio is a disclosure requirement and APRA has not proposed a minimum leverage ratio requirement.

Leverage ratio disclosures

| | 31 December 2017 | 30 September 2017 | 30 June 2017 | 31 March 2017 |
|---|-----------------------------|----------------------|-----------------|------------------|
| Capital and total exposures | | | | |
| Tier 1 Capital | 11,306 | 11,518 | 11,310 | 11,994 |
| Total exposures | 196,577 | 190,150 | 191,891 | 187,987 |
| Leverage ratio | | | | |
| Level 2 Macquarie Bank Group Leverage ratio | 5.8% | 6.1% | 5.9% | 6.4% |

Disclaimer

- The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (MBL) purely for the purpose of explaining the basis on which MBL 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 should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities 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. No representation or warranty is made as to the accuracy, completeness or reliability of the information. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.
- This document may contain forward looking statements that is, statements related to future, not past, events or other matters – including, without limitation, statements regarding our intent, belief or current expectations with respect to MBL's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, provisions for impairments and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements or to otherwise update any forward looking statements, whether as a result of new information, future events or otherwise, after the date of this document. Actual results may vary in a materially positive or negative manner. Forward looking statements and hypothetical examples are subject to uncertainty and contingencies outside MBL's control. Past performance is not a reliable indication of future performance.
- Unless otherwise specified all information is at 31 December 2017.
- 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.
 - Difference in implementation of Basel III framework i.e. APRA has introduced stricter requirements (APRA superequivalence).

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