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## **ASX Release**

### **MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT**

**27 February 2009** - The Macquarie Bank Limited December 2008 Pillar 3 disclosure document was released today on the Macquarie website [www.macquarie.com](http://www.macquarie.com). This document is Macquarie's first quarterly disclosure prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330: Public Disclosure of Prudential Information.

It provides an update to certain capital related disclosures contained in the September 2008 Pillar 3 report. The September 2008 Pillar 3 report contains more detailed information on Macquarie's risk management policies, risk management framework and the measures adopted to monitor and report within this framework. This detailed report can also be found at the Macquarie website.

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**MACQUARIE BANK LIMITED**  
PILLAR 3 DISCLOSURES DECEMBER 2008



MACQUARIE  
BANK



# 1.0 Introduction

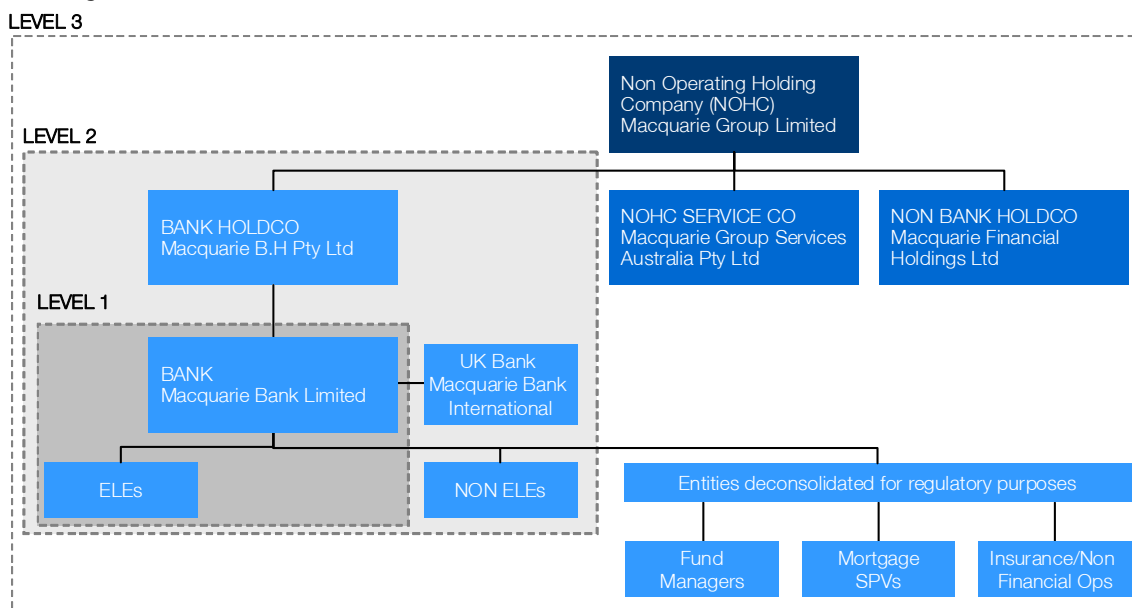
Macquarie Bank Limited (MBL) is an Authorised Deposit-Taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). MBL is accredited by APRA to apply the Foundation Internal Ratings Based Approach (FIRB) for the calculation of credit risk capital and the Advanced Measurement Approach (AMA) for operational risk under the Basel II regulatory capital framework. MBL's accreditation requires compliance with APRA Prudential Standard 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). MBL made its first disclosure in accordance with APS 330 as at 30 September 2008. This disclosure can be found at the Group's website: [www.macquarie.com](http://www.macquarie.com).

This report updates certain of MBL's capital adequacy and risk disclosures as at 31 December 2008 for the MBL Banking Group on a 'Level 2' basis. The disclosures included in this report are consistent with the quarterly market disclosure requirements as defined by APRA.

## 1.1 Macquarie Regulatory Group

MBL is part of the larger Macquarie Group, which includes Macquarie Group Limited (MGL) and its subsidiaries. The larger Macquarie Group is defined as 'Level 3' under the Prudential Standards. The MBL regulatory consolidated group ('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', 'Macquarie Banking Group' or 'Banking Group' refers to the Level 2 regulatory group. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group.

## 1.2 Report Conventions

All numbers in this report are in Australian Dollars and have been rounded to the nearest million, unless otherwise stated. The Appendix includes a Glossary of Terms used throughout this document.

## 2.0 Capital Adequacy

### 2.1 Capital Ratios

	31 December 2008	30 September 2008
Level 2 Macquarie Banking Group Tier 1 capital ratio	10.1%	11.0%
Level 2 Macquarie Banking Group Total capital ratio	14.0%	15.2%

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

### 2.2 Risk Weighted Assets

Risk Weighted Assets (RWA) are a risk based measure of exposures used in assessing overall capital usage. 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 exposures for the Level 2 Banking Group as at 31 December 2008:

#### APS 330 Table 16

Macquarie Banking Group	RWA 31 December 2008 \$'M	RWA 30 September 2008 \$'M
Credit risk - RWA		
<i>Subject to FIRB approach</i>		
Corporate	8,457	7,960
Sovereign	16	54
Bank	1,060	958
Residential mortgage	2,054	1,275
Qualifying revolving retail	-	-
Other retail	601	540
Other	-	-
<b>Total RWA subject to FIRB approach</b>	<b>12,188</b>	<b>10,787</b>
<i>Specialised lending (SL) exposures subject to slotting criteria</i>	<b>4,277</b>	<b>4,163</b>
<i>Subject to Standardised approach</i>		
Corporate	4,484	4,518
Sovereign	-	-
Bank	-	-
Residential mortgage	227	1,483
Other retail	2,795	2,039
Other	4,186	3,608

## 2.0

### Capital Adequacy

(Continued)

Macquarie Banking Group	RWA 31 December 2008 \$'M	RWA 30 September 2008 \$'M
Total RWA subject to Standardised approach	11,692	11,648
Credit risk RWA for securitisation exposures	1,133	1,357
Total Credit risk RWA	29,290	27,955
Equity risk exposure RWA	1,327	1,456
Market risk RWA	2,521	2,291
Operational risk RWA	6,495	6,720
Interest rate risk in the banking book RWA	2	98
APRA Scaling factor (6%) applied to IRB exposures	731	647
Total RWA	40,366	39,167

## 3.0 Credit Risk Exposures

### 3.1 Credit Risk exposures

Disclosures in this section have been prepared on a gross credit exposure basis. Gross credit risk exposure is the potential loss that Macquarie would incur as a result of a default by an obligor. These exposures have been based on a Level 2 regulatory group as defined in section 1. Exposures below exclude the impact of:

- netting and credit risk mitigation,
- trading book exposures,
- equities exposures and
- securitisation exposures.

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 accordance with APRA Prudential Standards.

#### APS 330 Table 17(a)

Gross Credit Exposure by Portfolio Type	31 December 2008 \$'M	30 September 2008 \$'M	Average over the 3 months to 31 December 2008 \$'M
Corporate *	28,118	28,849	28,484
Sovereign	6,710	727	3,719
Bank	6,882	7,636	7,259
Residential Mortgages	11,440	10,497	10,968
Qualifying Revolving Retail	-	-	-
Other Retail	4,287	3,320	3,803
Other **	7,333	7,076	7,205
<b>Total Gross Credit Exposure</b>	<b>64,770</b>	<b>58,105</b>	<b>61,438</b>

\* Includes \$5.1 billion bridging loan to Macquarie's Non Banking Group (\$6.3 billion at 30 September 2008).

\*\* The major components of "Other" gross credit exposures are Margin Loans (31 December 2008: \$2.4 billion; 30 September 2008: \$3.1 billion), Unsettled Trades (31 December 2008: \$2.3 billion; 30 September 2008: \$2.0 billion) and Other Debtors (31 December 2008: \$1.5 billion; 30 September 2008: \$1.2 billion).

### 3.0

## Credit Risk Exposures

(Continued)

Gross Credit Exposure Foundation IRB	As at 31 December 2008 \$'M	As at 30 September 2008 \$'M	Average over 3 months to 31 December 2008 \$'M
Corporate *	21,773	22,280	22,027
Sovereign	6,710	727	3,719
Bank	6,882	7,636	7,259
Residential Mortgage	7,413	4,823	6,118
Qualifying revolving retail	-	-	-
Other retail	1,492	1,181	1,336
Other	-	-	-
<b>Total Foundation IRB</b>	<b>44,270</b>	<b>36,647</b>	<b>40,459</b>

Gross Credit Exposure Standardised	As at 31 December 2008 \$'M	As at 30 September 2008 \$'M	Average over 3 months to 31 December 2008 \$'M
Corporate	6,345	6,569	6,457
Sovereign	-	-	-
Bank	-	-	-
Residential Mortgage	4,027	5,674	4,850
Qualifying revolving retail	-	-	-
Other retail	2,795	2,139	2,467
Other	7,333	7,076	7,205
<b>Total Standardised</b>	<b>20,500</b>	<b>21,458</b>	<b>20,979</b>

<b>Total</b>	<b>64,770</b>	<b>58,105</b>	<b>61,438</b>
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\* The Specialised Lending portfolio subject to supervisory slotting is classified under Corporate and is measured utilising the FIRB approach. PDs and LGDs have been specified by APRA in determining credit exposures for this portfolio.

## 4.0 Impairment

APS 330 Table 17(b)

	As at 31 December 2008			As at 30 September 2008		
	Impaired Loans \$'M	Past Due loans >90 days <sup>^</sup> \$'M	Specific Provision Balance \$'M	Impaired Loans \$'M	Past Due loans >90 days <sup>^</sup> \$'M	Specific Provision Balance \$'M
<b>Foundation IRB</b>						
Corporate	589	13	(217)	389	-	(157)
Sovereign	-	-	-	-	-	-
Bank	43	-	(7)	-	-	-
Residential Mortgage	31	5	(11)	15	4	(7)
Qualifying revolving retail	-	-	-	-	-	-
Other retail	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total Foundation IRB</b>	<b>663</b>	<b>18</b>	<b>(235)</b>	<b>404</b>	<b>4</b>	<b>(164)</b>
<b>Standardised</b>						
Corporate	49	37	(14)	29	31	(9)
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	17	89	(6)	72	64	(20)
Qualifying revolving retail	-	-	-	-	-	-
Other retail	-	-	-	-	-	-
Other	28	-	(21)	23	-	(18)
<b>Total Standardised</b>	<b>94</b>	<b>126</b>	<b>(41)</b>	<b>124</b>	<b>95</b>	<b>(47)</b>
<b>Total</b>	<b>757</b>	<b>144</b>	<b>(276)</b>	<b>528</b>	<b>99</b>	<b>(211)</b>

<sup>^</sup> In accordance with APRA prudential definitions, past due loans do not form part of Impaired Loans.



## 4.0 Impairment (Continued)

	For the 3 months to 31 December 2008		For the 6 months to 30 September 2008	
	Charges for Specific provisions \$'M	Write-offs \$'M	Charges for Specific provisions \$'M	Write-offs \$'M
<b>Foundation IRB</b>				
Corporate	(50)	(12)	(89)	(9)
Sovereign	-	-	-	-
Bank	(8)	-	-	-
Residential Mortgage	(5)	-	(5)	-
Qualifying revolving retail	-	-	-	-
Other retail	-	-	-	-
Other	-	-	-	-
<b>Total Foundation IRB</b>	<b>(63)</b>	<b>(12)</b>	<b>(94)</b>	<b>(9)</b>
	Charges for Specific provisions \$'M	Write-offs \$'M	Charges for Specific provisions \$'M	Write-offs \$'M
<b>Standardised</b>				
Corporate	(7)	-	(3)	-
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential Mortgage	(1)	-	(16)	-
Qualifying revolving retail	-	-	-	-
Other retail	-	-	-	-
Other	(3)	-	(8)	-
<b>Total Standardised</b>	<b>(11)</b>	<b>-</b>	<b>(27)</b>	<b>-</b>
<b>Total</b>	<b>(74)</b>	<b>(12)</b>	<b>(121)</b>	<b>(9)</b>

Table 17(c)

	31 December 2008 \$'M	30 September 2008 \$'M
<b>General reserve for credit losses **</b>	<b>90</b>	<b>77</b>

\*\* The General reserve for credit losses is equivalent to the collective provision stated net of tax. Collective provisions are calculated in accordance with accounting guidance and are representative of losses that have been incurred but not yet identified.

General areas of disclaimer:

- The Information 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 basis common to all ADIs, 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
  - The different waivers applied for and allowed by regulators
  - 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.

### Glossary of Terms

<b>ADI</b>	Australian Deposit-taking Institution
<b>AMA</b>	Advanced Measurement Approach for determining operational risk
<b>APRA</b>	Australian Prudential Regulation Authority
<b>Deconsolidated entities (for APRA purposes)</b>	Entities involved in conducting insurance, funds management and non financial operations including special purpose vehicles (SPV)
<b>EAD</b>	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor
<b>FIRB</b>	Foundation Internal Ratings Based Approach whereby PD and Maturity are internally estimated by the ADI and LGD is set by APRA
<b>Gross credit risk exposures</b>	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation
<b>LGD</b>	Loss given default is defined as the economic loss which arises upon default of the obligor
<b>Level 2 MBL Regulatory Group</b>	MBL, its parent Macquarie BH Pty Limited and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes
<b>MBL</b>	Macquarie Bank Limited
<b>MGL</b>	Macquarie Group Limited
<b>Probability of Default (PD)</b>	Likelihood of default by an obligor on its financial obligations
<b>Risk Weighted Assets (RWA)</b>	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy
<b>Tier 1 Capital</b>	A capital measure defined by APRA in paragraphs 4 and 5 of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.1, net of any applicable Tier 1 Capital Deductions
<b>Tier 1 Capital Ratio</b>	Tier 1 Capital expressed as a percentage of RWA
<b>Tier 2 Capital</b>	A capital measure defined by APRA in paragraphs 6 (Upper Tier 2) and 7 (Lower Tier 2) of Prudential Standard APS 111, supplemented by Guidance Note AGN 111.2
<b>Total Capital</b>	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions
<b>Total Capital Ratio</b>	Total Capital expressed as a percentage of RWA