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## **ASX Release**

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

26 August 2009 - The Macquarie Bank Limited June 2009 Pillar 3 disclosure document was released today on the Macquarie website. These disclosures have been prepared in accordance with the Australian Prudential Regulation Authority (APRA) requirements of Prudential Standard APS 330: Public Disclosure of Prudential Information. This document describes Macquarie's risk management policies and risk management framework, including the measures adopted in monitoring and reporting within this framework.

The report provides an update to the disclosures contained in the March 2009 Pillar 3 report, which is available on the Macquarie website [www.macquarie.com](http://www.macquarie.com).

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**MACQUARIE BANK LIMITED**  
PILLAR 3 DISCLOSURES JUNE 2009



MACQUARIE  
BANK

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# 1.0 Overview

Macquarie Bank Limited (MBL), is an approved Authorised Deposit-taking Institution (ADI), accredited by the Australian Prudential Regulation Authority (APRA) to apply the advanced measurement approaches in measuring risks. MBL applies 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.

MBL is required to comply with the disclosure requirements of APRA Prudential Standard APS 330: Capital Adequacy: Public Disclosures of Prudential Information (APS 330) on a 'Level 2' basis, as described below. These disclosures have been formulated in response to the requirements of Pillar 3 of the Basel II Framework. APRA has laid down the minimum standards for market disclosure in its APS 330.

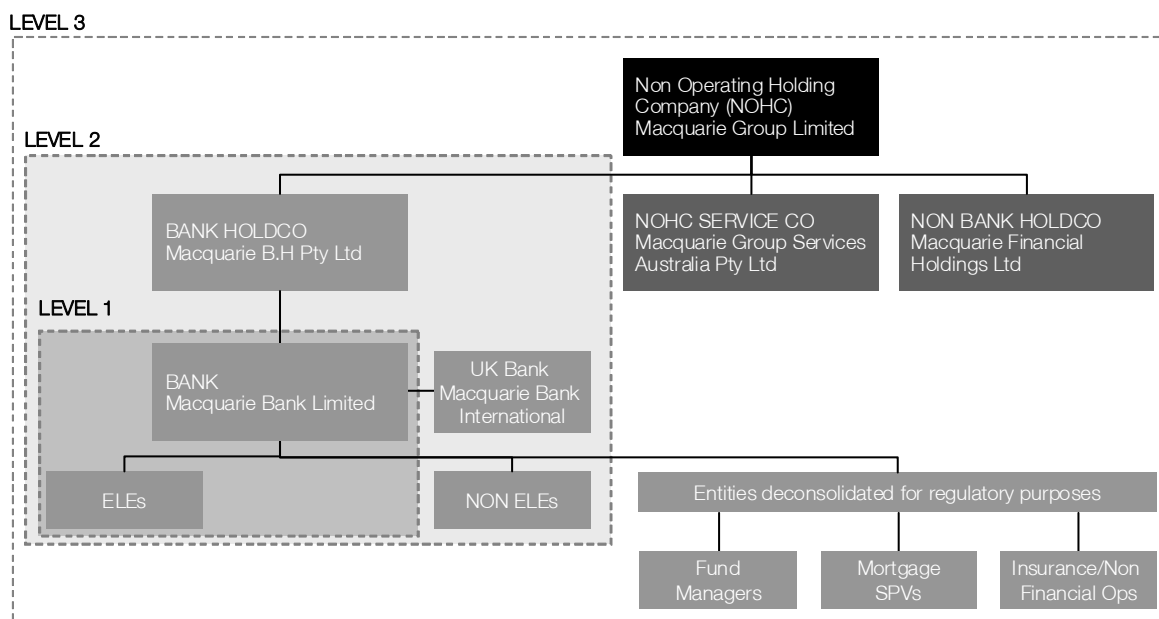
This report provides an update to certain disclosures as at 30 June 2009 and consists of sections covering:

- 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 refers to the Level 2 regulatory group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group.

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# 1.0

## Overview

continued

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### 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 lodged to APRA that is subject to review by an external auditor.

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.

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## 2.0 Capital Adequacy

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### 2.1 Capital Ratios

#### APS 330 Table 16(e)

	30 June 2009	31 March 2009
Level 2 Macquarie Banking Group Tier 1 capital ratio	<b>11.2%</b>	11.4%
Level 2 Macquarie Banking Group Total capital ratio	<b>13.8%</b>	14.4%

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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 (RWA) 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)

#### Macquarie Banking Group

	30 June 2009	31 March 2009
	RWA	RWA
	\$m	\$m
Credit risk - RWA		
<i>Subject to FIRB approach</i>		
Corporate	12,326	9,901
Sovereign	13	36
Bank	1,217	1,134
Residential mortgage	1,756	1,952
Qualifying revolving retail	-	-
Other retail	781	680
Other	-	-
<b>Total RWA subject to FIRB approach</b>	<b>16,093</b>	<b>13,703</b>
<i>Specialised lending exposures subject to slotting criteria*</i>	<b>2,549</b>	<b>3,101</b>
<i>Subject to Standardised approach</i>		
Corporate	3,746	3,504
Sovereign	-	-
Bank	-	-
Residential mortgage	210	197
Other retail	2,078	2,496
Other	2,782	3,540
<b>Total RWA subject to Standardised approach</b>	<b>8,816</b>	<b>9,737</b>
Credit risk RWA for securitisation exposures	699	1,074
<b>Total Credit risk RWA</b>	<b>28,157</b>	<b>27,615</b>
Equity risk exposures RWA	1,238	1,189
Market risk RWA	3,109	2,082
Operational risk RWA	5,872	5,761
Interest rate risk in the banking book RWA	20	6
APRA Scaling factor (6%) applied to IRB exposures	966	822
<b>Total RWA</b>	<b>39,362</b>	<b>37,475</b>

\* Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings



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## 3.0 Credit Risk Exposures

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### 3.1 Macquarie's Credit Risk Exposures

Disclosures in this section have been prepared on a gross credit 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 accordance with APRA 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 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 exclude the impact of:

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

#### APS 330 Table 17(a)

Portfolio Type	30 June 2009 \$m	31 March 2009 \$m	Average total exposures \$m
Corporate	28,037	27,430	27,734
Sovereign	394	370	382
Bank	6,832	8,375	7,604
Residential Mortgages	11,098	11,228	11,163
Qualifying Revolving Retail	-	-	-
Other Retail	4,116	4,251	4,183
Other	3,109	4,129	3,619
<b>Total Gross Credit Exposure</b>	<b>53,586</b>	<b>55,783</b>	<b>54,685</b>

### 3.0

## Credit Risk Exposures

### continued

#### APS 330 Table 17(a) (continued)

	As at 30 June 2009	As at 31 March 2009	Average total exposures
	\$m	\$m	\$m
<b>Gross Credit Exposure</b>			
<b>Foundation IRB</b>			
Corporate *	22,835	22,228	22,532
Sovereign	394	370	382
Bank	6,832	8,375	7,604
Residential Mortgage	6,673	7,148	6,910
Qualifying revolving retail	-	-	-
Other retail	2,038	1,744	1,891
Other	-	-	-
<b>Total Foundation IRB</b>	<b>38,772</b>	<b>39,865</b>	<b>39,319</b>
<b>Gross Credit Exposure</b>			
<b>Standardised</b>			
Corporate	5,202	5,202	5,202
Sovereign	-	-	-
Bank	-	-	-
Residential Mortgage	4,425	4,080	4,253
Qualifying revolving retail	-	-	-
Other retail	2,078	2,507	2,292
Other	3,109	4,129	3,619
<b>Total Standardised</b>	<b>14,814</b>	<b>15,918</b>	<b>15,366</b>
<b>Total</b>	<b>53,586</b>	<b>55,783</b>	<b>54,685</b>

\* 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 RWA for this portfolio.

### 3.0 Credit Risk Exposures continued

APS 330 Table 17(a) (continued)

Portfolio Type	30 June 2009 Counterparty (\$m)				
	Financial				Total
	Institution	Government	Corporate	Retail	
Corporate	10,517	300	16,255	965	28,037
Sovereign	227	167	-	-	394
Bank	6,832	-	-	-	6,832
Residential Mortgages	-	-	171	10,927	11,098
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	-	-	219	3,897	4,116
Other	-	233	2,606	270	3,109
<b>Total Gross Credit Exposures</b>	<b>17,576</b>	<b>700</b>	<b>19,251</b>	<b>16,059</b>	<b>53,586</b>

Portfolio Type	31 March 2009 Counterparty (\$m)				
	Financial				Total
	Institution	Government	Corporate	Retail	
Corporate	10,422	350	15,590	1,068	27,430
Sovereign	220	150	-	-	370
Bank	8,375	-	-	-	8,375
Residential Mortgages	-	-	172	11,056	11,228
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	-	-	224	4,027	4,251
Other	-	309	3,399	421	4,129
<b>Total Gross Credit Exposures</b>	<b>19,017</b>	<b>809</b>	<b>19,385</b>	<b>16,572</b>	<b>55,783</b>

## 4.0 Provisioning

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

APS 330 Table 17(b)

	As at 30 June 2009			As at 31 March 2009		
	Impaired Facilities \$m	Past Due Facilities >90 days^ \$m	Specific Provision Balance \$m	Impaired Facilities \$m	Past Due Facilities >90 days^ \$m	Specific Provision Balance \$m
<b>Foundation IRB</b>						
Corporate	1,483	74	320	1,491	19	331
Sovereign	-	-	-	-	-	-
Bank	54	-	17	61	-	20
Residential Mortgage	57	78	19	50	86	17
Qualifying revolving retail	-	-	-	-	-	-
Other retail	9	-	5	23	-	10
Other #	161	-	118	188	-	137
<b>Total Foundation IRB</b>	<b>1,764</b>	<b>152</b>	<b>479</b>	<b>1,813</b>	<b>105</b>	<b>515</b>
<b>Standardised</b>						
Corporate	74	17	20	39	44	13
Sovereign	-	-	-	-	-	-
Bank	-	-	-	-	-	-
Residential Mortgage	16	39	10	17	34	11
Qualifying revolving retail	-	-	-	-	-	-
Other retail	26	-	6	32	-	7
Other	93	-	22	36	-	21
<b>Total Standardised</b>	<b>209</b>	<b>56</b>	<b>58</b>	<b>124</b>	<b>78</b>	<b>52</b>
<b>Total</b>	<b>1,973</b>	<b>208</b>	<b>537</b>	<b>1,937</b>	<b>183</b>	<b>567</b>

^ In accordance with APRA prudential definitions, Past Due Facilities do not form part of Impaired Facilities.

# Other includes impaired debt investment securities.

A reconciliation to previously published MBL consolidated financial statements, which formed the basis of prior APS330 disclosures, is detailed on the next page.

## 4.0 Provisioning continued

The reconciliation of the APS 220 impaired facilities to the 31 March 2009 MBL consolidated financial statements – impaired loans & other financial assets is provided below:

	As at 30 June 2009		As at 31 March 2009	
	Impaired Facilities	Specific Provision Balance	Impaired Facilities	Specific Provision Balance
	\$m	\$m	\$m	\$m
Total – APS220 impaired facilities	<b>1,973</b>	<b>537</b>	1,937	567
Impaired debt investment securities*	<b>(161)</b>	<b>(118)</b>	(188)	(137)
Impaired loans without provisions**	<b>(276)</b>	-	(248)	-
Impaired derivative gross up***	<b>(42)</b>	-	(86)	-
Real Estate acquired through security enforcement^	<b>(48)</b>	-	(53)	-
Off balance sheet exposures	<b>(21)</b>	-	(11)	-
Other exposures	<b>(21)</b>	<b>(14)</b>	(11)	(7)
Total – Impaired Loans & Other Financial Assets with specific provisions for Impairment^^	<b>1,404</b>	<b>405</b>	1,340	423

\* Previously footnoted in Pillar 3 disclosures, disclosed separately in MBL consolidated financial statements. These exposures are included in Foundation IRB – Other in the table on the previous page.

\*\* This includes predominantly secured real estate exposures where no loss is anticipated, and are not impaired in the MBL consolidated financial statements. \$264m (\$225m as at 31 March 09) of these exposures is included in Corporate in the table on the previous page.

\*\*\* Presented on a net basis in MBL consolidated financial statements and on a grossed up basis for Prudential Standard APS220. This is included in Foundation IRB - Corporate in the table on the previous page.

^ Classified as Other Assets in the MBL consolidated financial statements. This is included in Standardised - Other in the table on the previous page.

^^ MBL consolidated financial statements are not published as at 30 June 2009.

## 4.0 Provisioning continued

APS 330 Table 17(b) (continued)

	For the 3 months to 30 June 2009		For the 6 months to 31 March 2009	
	Charges for Specific provisions \$m	Write-offs \$m	Charges for Specific provisions \$m	Write-offs \$m
<b>Foundation IRB</b>				
Corporate	50	3	205	12
Sovereign	-	-	-	-
Bank	-	-	12	-
Residential Mortgage	4	-	20	-
Qualifying revolving retail	-	-	-	-
Other retail	1	4	13	2
Other	-	-	8	-
<b>Total Foundation IRB</b>	<b>55</b>	<b>7</b>	<b>258</b>	<b>14</b>
	Charges for Specific provisions \$m	Write-offs \$m	Charges for Specific provisions \$m	Write-offs \$m
<b>Standardised</b>				
Corporate	8	-	13	-
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential Mortgage	-	-	1	-
Qualifying revolving retail	-	-	-	-
Other retail	-	4	6	11
Other	1	-	5	-
<b>Total Standardised</b>	<b>9</b>	<b>4</b>	<b>25</b>	<b>11</b>
<b>Total</b>	<b>64</b>	<b>11</b>	<b>283</b>	<b>25</b>

APS 330 Table 17( c)

	30 June 2009 \$m	31 March 2009 \$m
Collective Provisions	198	213
Tax Effect	(59)	(64)
<b>General reserve for credit losses ^^</b>	<b>139</b>	<b>149</b>

^^ The General reserve for credit losses is equivalent to the collective provision stated net of tax.

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## Disclaimer

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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 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
  - 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.

