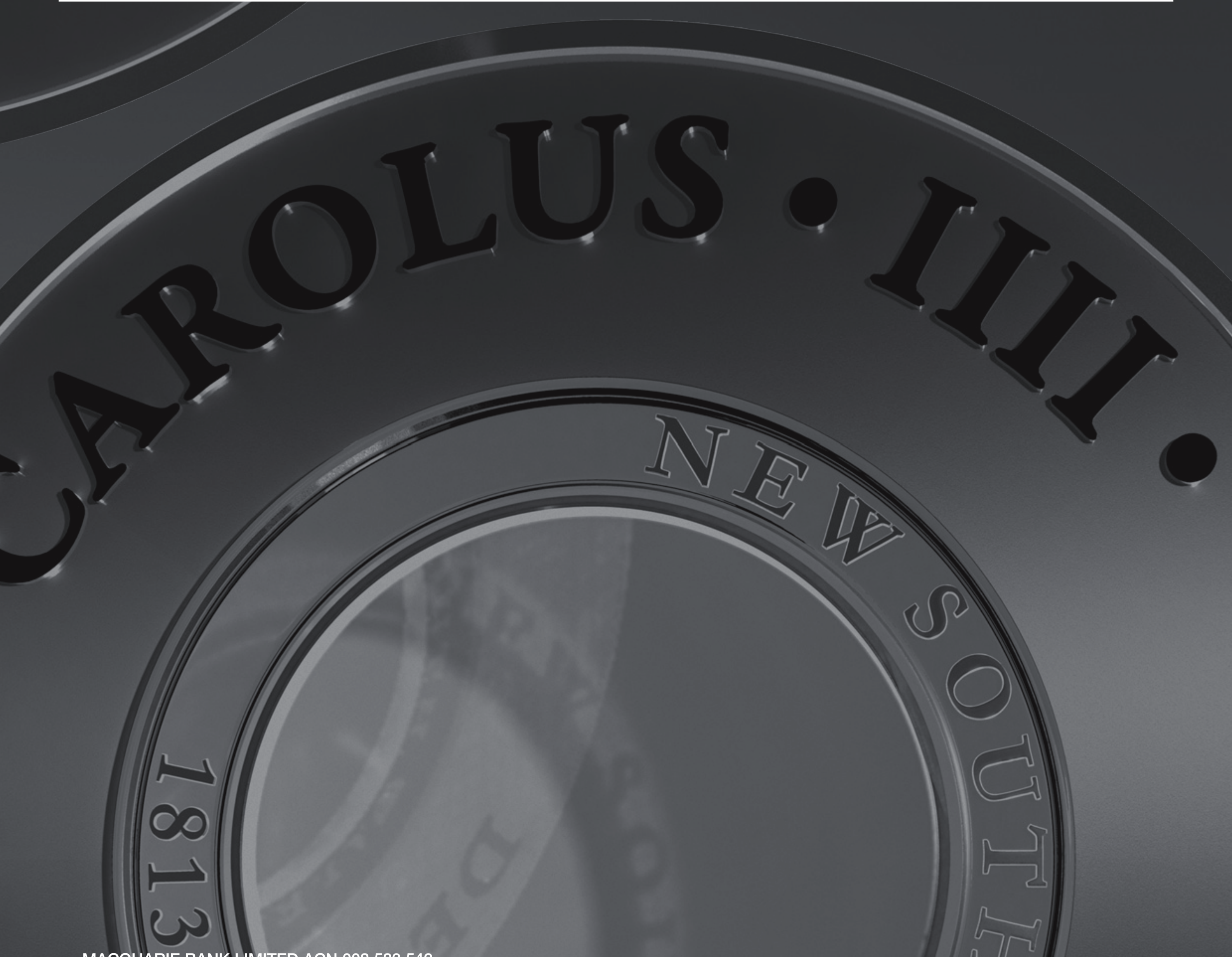
MACQUARIE BANK
PILLAR 3 DISCLOSURES
DECEMBER 2011

MACQUARIE
BANK



MACQUARIE BANK LIMITED ACN 008 583 542

Cover image: A stylised contemporary version of 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.

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 (IRB) 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's accreditation requires compliance with APRA's Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). This report details MBL's APS 330 disclosures as at 31 December 2011 together with the 30 September 2011 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 30 September 2011 is also available on the Macquarie website at www.macquarie.com

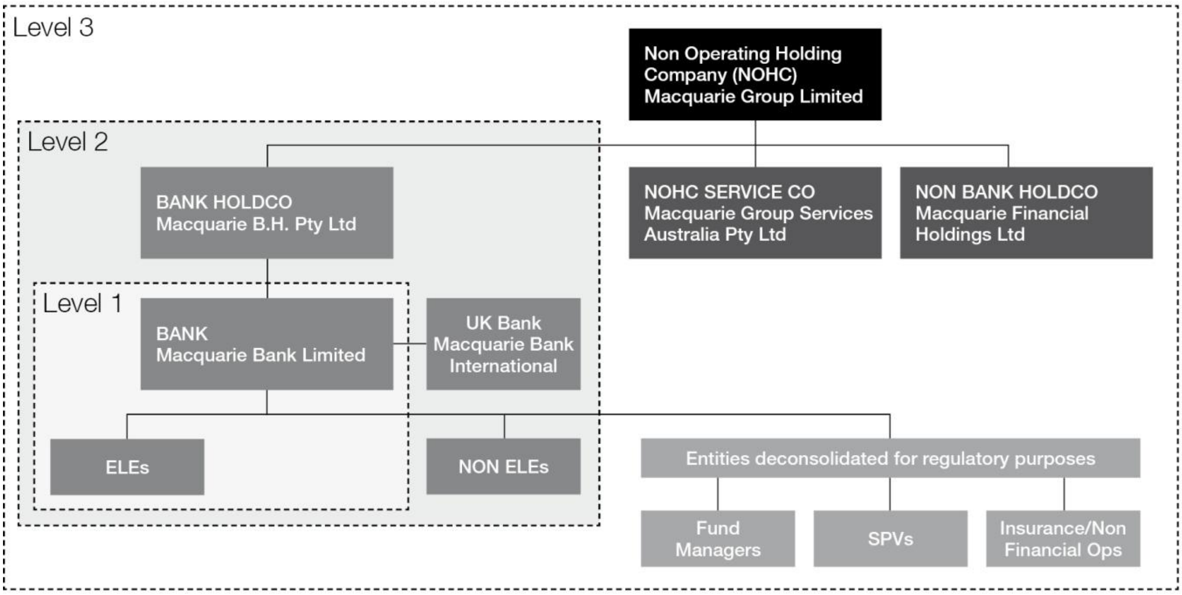
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2011 and consists of sections covering:

– 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 banking 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 Banking Group refer to the Level 2 regulatory consolidated banking group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory consolidated banking group.

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 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 16(e)

	31 December 2011	30 September 2011
Level 2 Macquarie Banking Group Tier 1 capital ratio	**12.5%**	12.1%
Level 2 Macquarie Banking Group Total capital ratio	**14.7%**	15.2%

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 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)

	31 December 2011 $m	30 September 2011 $m
Credit risk		
Subject to IRB approach		
Corporate	**18,534**	20,229
Sovereign	**759**	899
Bank	**2,648**	3,279
Residential Mortgage	**1,571**	1,539
Other Retail	**2,680**	2,340
Total RWA subject to IRB approach	**26,192**	28,286
Specialised lending exposures subject to slotting criteria[1]	**3,611**	3,713
Subject to Standardised approach		
Corporate	**2,256**	2,123
Residential Mortgage	**650**	608
Other Retail	**1,850**	2,065
Total RWA subject to Standardised approach	**4,756**	4,796
Credit risk RWA for securitisation exposures	**779**	1,228
RWA for Other Assets	**5,847**	5,352
Total Credit risk RWA	**41,185**	43,375
Equity risk exposures RWA	**2,056**	2,173
Market risk RWA	**3,406**	3,889
Operational risk RWA	**6,488**	6,467
Interest rate risk in the banking book RWA	**-**	-
APRA Scaling factor (6%) applied to IRB exposures	**1,572**	1,697
Total RWA	**54,707**	57,601

1 Specialised lending exposures subject to supervisory slotting 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 is calculated in accordance with APRA's Prudential Standards and 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.

Exposures have been based on the 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 and exclude:

– trading book exposures;
– equities exposures;
– securitisation exposures;
– the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes; and
– the impact of netting and credit risk mitigation.

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

APS 330 Table 17(a)

Portfolio Type	31 December 2011 $m	30 September 2011 $m	Average total exposures $m
Corporate	**30,588**	32,506	31,547
Sovereign	**5,398**	6,036	5,717
Bank	**14,441**	18,187	16,314
Residential Mortgages	**15,296**	15,333	15,315
Other Retail	**7,823**	7,405	7,614
Other Assets	**9,760**	11,377	10,569
Total Gross Credit Exposure	**83,306**	90,844	87,076

3.0
Credit Risk Exposures
continued

APS 330 Table 17(a) (continued)

Portfolio Type	**31 December 2011 $m**	30 September 2011 $m	Average total exposures $m
IRB			
Corporate	**26,910**	29,021	27,966
Sovereign	**5,398**	6,036	5,717
Bank	**14,441**	18,187	16,314
Residential Mortgage	**6,505**	6,451	6,478
Other Retail	**5,634**	4,912	5,273
IRB	**58,888**	64,607	61,748
Standardised			
Corporate	**3,678**	3,485	3,581
Residential Mortgage	**8,791**	8,882	8,837
Other Retail	**2,189**	2,493	2,341
Total Standardised	**14,658**	14,860	14,759
Other Assets[1]	**9,760**	11,377	10,569
Total Gross Credit Exposure	**83,306**	90,844	87,076

[1] The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 17(a) (continued)

	31 December 2011				
		Off Balance sheet			
Portfolio Type	On Balance sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the quarter $m
Subject to IRB approach					
Corporate	13,811	1,868	7,195	22,874	23,877
Sovereign	5,188	-	210	5,398	5,717
Bank	9,503	110	4,828	14,441	16,314
Residential Mortgages	6,352	153	-	6,505	6,478
Other Retail	5,634	-	-	5,634	5,273
Total IRB approach	40,488	2,131	12,233	54,852	57,659
Specialised Lending	2,895	754	387	4,036	4,088
Subject to Standardised approach					
Corporate	2,822	852	4	3,678	3,581
Residential Mortgages	8,791	-	-	8,791	8,837
Other Retail	2,169	20	-	2,189	2,341
Total Standardised approach	13,782	872	4	14,658	14,759
Other Assets	9,760	-	-	9,760	10,569
Total Gross Credit Exposures	66,925	3,757	12,624	83,306	87,075

APS 330 Table 17(a) (continued)

Portfolio Type	30 September 2011				
		Off Balance sheet			
	On Balance sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the quarter $m
Subject to IRB approach					
Corporate	15,172	2,289	7,419	24,880	24,708
Sovereign	5,668	-	368	6,036	5,803
Bank	12,783	69	5,335	18,187	17,891
Residential Mortgages	6,297	154	-	6,451	6,283
Other Retail	4,912	-	-	4,912	4,712
Total IRB approach	44,832	2,512	13,122	60,466	59,397
Specialised Lending	2,520	807	814	4,141	3,637
Subject to Standardised approach					
Corporate	2,661	824	-	3,485	3,879
Residential Mortgages	8,882	-	-	8,882	8,778
Other Retail	2,473	20	-	2,493	2,920
Total Standardised approach	14,016	844	-	14,860	15,577
Other Assets	11,377	-	-	11,377	9,774
Total Gross Credit Exposures	72,745	4,163	13,936	90,844	88,385

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 17(b)

	As at 31 December 2011			As at 30 September 2011		
	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
IRB						
Corporate	**810**	**26**	**(320)**	670	26	(261)
Bank	**30**	**-**	**(15)**	42	-	(27)
Residential Mortgage	**64**	**72**	**(26)**	66	68	(27)
Other Retail	**14**	**-**	**(4)**	12	-	(4)
Other[2]	**106**	**-**	**(73)**	116	-	(81)
Total IRB	**1,024**	**98**	**(438)**	906	94	(400)
Standardised						
Corporate	**46**	**19**	**(28)**	53	21	(26)
Residential Mortgage	**-**	**28**	**-**	-	28	-
Other Retail	**32**	**-**	**(9)**	40	-	(11)
Total Standardised	**78**	**47**	**(37)**	93	49	(37)
Other Assets[3]	**318**	**-**	**(11)**	337	-	(11)
Total	**1,420**	**145**	**(486)**	1,336	143	(448)

1 In accordance with APRA prudential definitions, Past Due 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 include other real estate owned subsequent to facility foreclosure.

4.0 Provisioning continued

APS 330 Table 17(b) (continued)

	For the 3 months to 31 December 2011		For the 3 months to 30 September 2011	
	Charges for Individually Assessed Provisions $m	Write-offs $m	Charges for Individually Assessed Provisions $m	Write-offs $m
IRB				
Corporate	(69)	(10)	(14)	(1)
Bank	-	-	(8)	-
Residential Mortgage	(1)	-	-	-
Other Retail	(1)	(9)	-	(9)
Other	-	-	(2)	-
Total IRB	(71)	(19)	(24)	(10)
Standardised				
Corporate	(4)	-	(2)	-
Other Retail	(1)	(4)	(2)	(8)
Total Standardised	(5)	(4)	(4)	(8)
Other assets	(1)	-	-	-
Total	(77)	(23)	(28)	(18)

APS 330 Table 17(c)

	31 December 2011 $m	30 September 2011 $m
Collective provisions	248	226
Collective provisions treated as individually assessed provisions for regulatory purposes	(17)	(21)
Net Collective provisions for regulatory purposes	231	205
Tax Effect	(69)	(62)
General reserve for credit losses[1]	162	143

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

Disclaimer

General areas of disclaimer:

- The information in this report 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
  - 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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