Macquarie Bank Limited
ABN 46 008 583 542

No.1 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164

Telephone (61 2) 8232 3333
Facsimile (61 2) 8232 7780
Telex 122246
Internet http://www.macquarie.com.au
DX 10287 SSE
SWIFT MACQAU2S

Money Market 8232 3600 Facsimile 8232 4227
Foreign Exchange 8232 3666 Facsimile 8232 3019
Metals and Mining 8232 3444 Facsimile 8232 3590
Futures 9231 1028 Telex 72263
Debt Markets 8232 3815 Facsimile 8232 4414

MACQUARIE
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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

26 February 2010 - The Macquarie Bank Limited December 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.

The report provides an update to the disclosures contained in the September 2009 Pillar 3 report, which is available on the Macquarie website www.macquarie.com.

Contacts:

Stuart Green, Macquarie Group Investor Relations	+612 8232 8845
Paula Hannaford, Macquarie Group Media Relations	+612 8232 4102

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MACQUARIE BANK
PILLAR 3 DISCLOSURES
DECEMBER 2009

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

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 31 December 2009 and consists of sections covering:

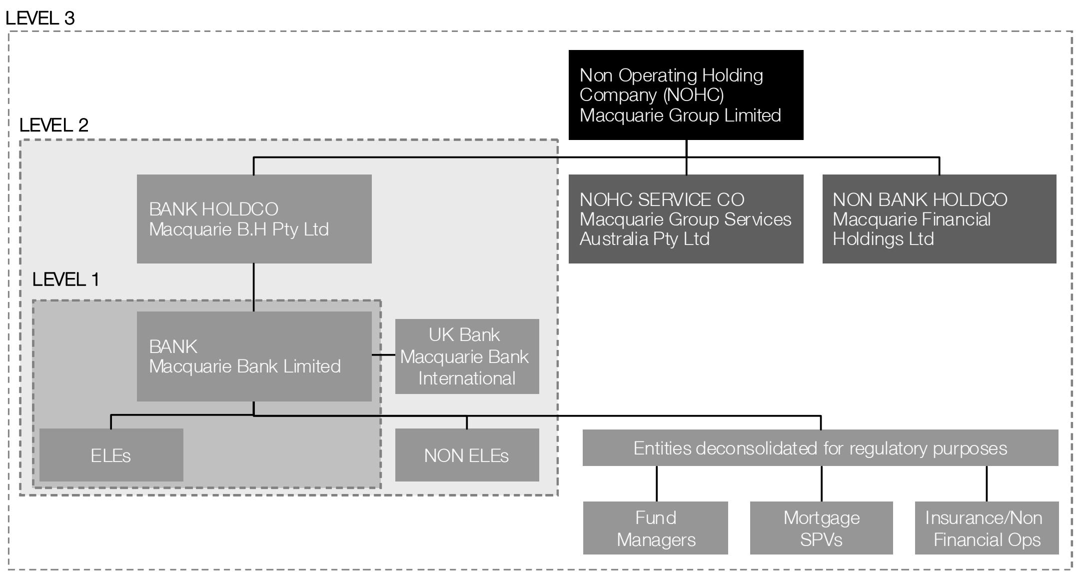
– Capital Adequacy
– Credit Risk Exposures and
– Provisioning

The most recent full Pillar 3 disclosure document as at 30 September 2009 is available on the Macquarie website at www.macquarie.com

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

2.0
Capital Ratios

2.1 Capital Ratios

APS 330 Table 16(e)

	31 December 2009	30 September 2009
Level 2 Macquarie Banking Group Tier 1 capital ratio	**10.4%**	11.7%
Level 2 Macquarie Banking Group Total capital ratio	**11.9%**	13.6%

The decrease in the Tier 1 and Total capital ratios is driven by increased capital usage resulting from asset acquisition and portfolio growth. To facilitate further growth, including the acquisition of Delaware Investments on 5 January 2010, MBL issued share capital of $585 million on 31 January 2010.

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

2.0
Capital Ratios
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	**31 December 2009 RWA $m**	30 September 2009 RWA $m
Credit risk - RWA		
Subject to FIRB approach		
Corporate	**15,034**	12,919
Sovereign	**622**	598
Bank	**2,900**	2,860
Residential mortgage	**1,914**	1,927
Qualifying revolving retail	**-**	-
Other retail	**928**	869
Other	**-**	-
Total RWA subject to FIRB approach	**21,398**	19,173
*Specialised lending exposures subject to slotting criteria**	**2,617**	2,019
Subject to Standardised approach		
Corporate	**3,796**	4,163
Sovereign	**-**	-
Bank	**-**	-
Residential mortgage	**509**	198
Other retail	**3,516**	2,640
Other	**3,109**	2,654
Total RWA subject to Standardised approach	**10,930**	9,655
Credit risk RWA for securitisation exposures	**1,112**	1,199
Total Credit risk RWA	**36,057**	32,046
Equity risk exposures RWA	**1,520**	1,323
Market risk RWA	**2,952**	1,976
Operational risk RWA	**6,822**	6,565
Interest rate risk in the banking book RWA	**-**	-
APRA Scaling factor (6%) applied to IRB exposures	**1,281**	1,150
Total RWA	**48,632**	43,060

* 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 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.

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

APS 330 Table 17(a)

Portfolio Type	**31 December 2009 $m**	30 September 2009 $m	**Average total exposures $m**
Corporate	**30,998**	28,384	**29,691**
Sovereign	**6,564**	6,418	**6,491**
Bank	**15,246**	14,608	**14,927**
Residential Mortgages	**12,534**	11,200	**11,867**
Qualifying Revolving Retail	**-**	-	**-**
Other Retail	**5,950**	4,940	**5,445**
Other	**4,369**	4,725	**4,547**
Total Gross Credit Exposure	**75,661**	70,275	**72,968**

3.0
Credit Risk Exposures
continued

APS 330 Table 17(a) (continued)

Gross Credit Exposure Foundation IRB	As at 31 December 2009 $m	As at 30 September 2009 $m	Average total exposures $m
Corporate *	**25,665**	22,735	**24,200**
Sovereign	**6,564**	6,418	**6,491**
Bank	**15,246**	14,608	**14,927**
Residential Mortgage	**6,159**	6,145	**6,152**
Qualifying revolving retail	**-**	-	**-**
Other retail	**2,431**	2,299	**2,365**
Other	**-**	-	**-**
Total Foundation IRB	**56,065**	52,205	**54,135**

Gross Credit Exposure Standardised	As at 31 December 2009 $m	As at 30 September 2009 $m	Average total exposures $m
Corporate	**5,333**	5,649	**5,491**
Sovereign	**-**	-	**-**
Bank	**-**	-	**-**
Residential Mortgage	**6,375**	5,055	**5,715**
Qualifying revolving retail	**-**	-	**-**
Other retail	**3,519**	2,641	**3,080**
Other	**4,369**	4,725	**4,547**
Total Standardised	**19,596**	18,070	**18,833**
Total	**75,661**	70,275	**72,968**

* The Specialised Lending exposures subject to supervisory slotting are classified under Corporate and are measured using APRA determined risk weightings.

APS 330 Table 17(a) (continued)

	31 December 2009 Counterparty ($m)				
Portfolio Type	**Financial Institution**	**Government**	**Corporate**	**Retail**	**Total**
Corporate	**8,531**	**320**	**21,306**	**841**	**30,998**
Sovereign	**1,343**	**5,221**	**-**	**-**	**6,564**
Bank	**15,246**	**-**	**-**	**-**	**15,246**
Residential Mortgages	**-**	**-**	**628**	**11,906**	**12,534**
Qualifying Revolving Retail	**-**	**-**	**-**	**-**	**-**
Other Retail	**-**	**-**	**451**	**5,499**	**5,950**
Other	**-**	**550**	**3,522**	**297**	**4,369**
Total Gross Credit Exposures	**25,120**	**6,091**	**25,907**	**18,543**	**75,661**

	30 September 2009 Counterparty ($m)				
Portfolio Type	Financial Institution	Government	Corporate	Retail	Total
Corporate	8,878	274	18,384	848	28,384
Sovereign	1,313	5,105	-	-	6,418
Bank	14,608	-	-	-	14,608
Residential Mortgages	-	-	407	10,793	11,200
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	-	-	380	4,560	4,940
Other	-	571	3,872	282	4,725
Total Gross Credit Exposures	24,799	5,950	23,043	16,483	70,275

4.0 Provisioning continued

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

APS 330 Table 17(b)

	As at 31 December 2009			As at 30 September 2009		
Foundation IRB	**Impaired Facilities $m**	**Past Due >90 days^ $m**	**Specific Provision $m**	Impaired Facilities $m	Past Due >90 days^ $m	Specific Provision $m
Corporate	**1,117**	**54**	**(290)**	1,222	40	(315)
Sovereign	**-**	**-**	**-**	-	-	-
Bank	**51**	**-**	**(18)**	50	-	(15)
Residential Mortgage	**46**	**55**	**(17)**	51	65	(18)
Qualifying revolving retail	**-**	**-**	**-**	-	-	-
Other retail	**5**	**-**	**(3)**	3	-	(1)
Other #	**161**	**-**	**(133)**	183	-	(155)
Total Foundation IRB	**1,380**	**109**	**(461)**	1,509	105	(504)
Standardised	**Impaired Facilities $m**	**Past Due >90 days^ $m**	**Specific Provision $m**	Impaired Facilities $m	Past Due >90 days^ $m	Specific Provision $m
Corporate	**77**	**6**	**(17)**	67	16	(16)
Sovereign	**-**	**-**	**-**	-	-	-
Bank	**-**	**-**	**-**	-	-	-
Residential Mortgage	**-**	**32**	**-**	1	34	(1)
Qualifying revolving retail	**-**	**-**	**-**	-	-	-
Other retail	**59**	**-**	**(12)**	41	-	(9)
Other *	**397**	**-**	**(25)**	345	-	(25)
Total Standardised	**533**	**38**	**(54)**	454	50	(51)
Total	**1,913**	**147**	**(515)**	1,963	155	(555)

^ In accordance with APRA prudential definitions, Past Due do not form part of Impaired Facilities as they are well secured.
# Foundation IRB "Other" includes impaired debt investment securities.
* Standardised "Other" includes other Real Estate owned.

APS 330 Table 17(b) (continued)

Foundation IRB	**For the 3 months to 31 December 2009** Charges for Specific provisions $m	Write-offs $m	For the 3 months to 30 September 2009 Charges for Specific provisions $m	Write-offs $m
Corporate	(22)	-	(44)	-
Sovereign	-	-	-	-
Bank	(2)	-	-	-
Residential Mortgage	(3)	-	(1)	-
Qualifying revolving retail	-	-	-	-
Other retail	(3)	(7)	-	(2)
Other	-	-	(46)	-
Total Foundation IRB	(30)	(7)	(91)	(2)

Standardised	Charges for Specific provisions $m	Write-offs $m	Charges for Specific provisions $m	Write-offs $m
Corporate	(2)	(2)	(2)	(5)
Sovereign	-	-	-	-
Bank	-	-	-	-
Residential Mortgage	-	-	-	-
Qualifying revolving retail	-	-	-	-
Other retail	(4)	(5)	(1)	(8)
Other	-	-	(3)	-
Total Standardised	(6)	(7)	(6)	(13)
Total	(36)	(14)	(97)	(15)

APS 330 Table 17(c)

	31 December 2009 $m	30 September 2009 $m
Collective provisions	204	204
Collective provisions treated as specific provisions for regulatory purposes	(28)	(29)
Net collective provisions for regulatory purposes	176	175
Tax effect	(53)	(53)
General reserve for credit losses ^^	123	122

^^ 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 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.

Macquarie Bank Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Bank Limited
Level 3, 25 National Circuit
Forrest ACT 2603
Australia

Tel: +61 2 6225 3000

www.macquarie.com.au