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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES JUNE 2010 PILLAR 3 DISCLOSURE DOCUMENT

24 August 2010 – The Macquarie Bank Limited June 2010 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 Capital Adequacy: Public Disclosure of Prudential Information.

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MACQUARIE BANK
PILLAR 3 DISCLOSURES
30 JUNE 2010

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 ('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's accreditation requires compliance with APRA Prudential Standard APS 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 report details MBL's APS 330 disclosures as at 30 June 2010 together with the 31 March 2010 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 31 March 2010 is also available on the Macquarie website at www.macquarie.com

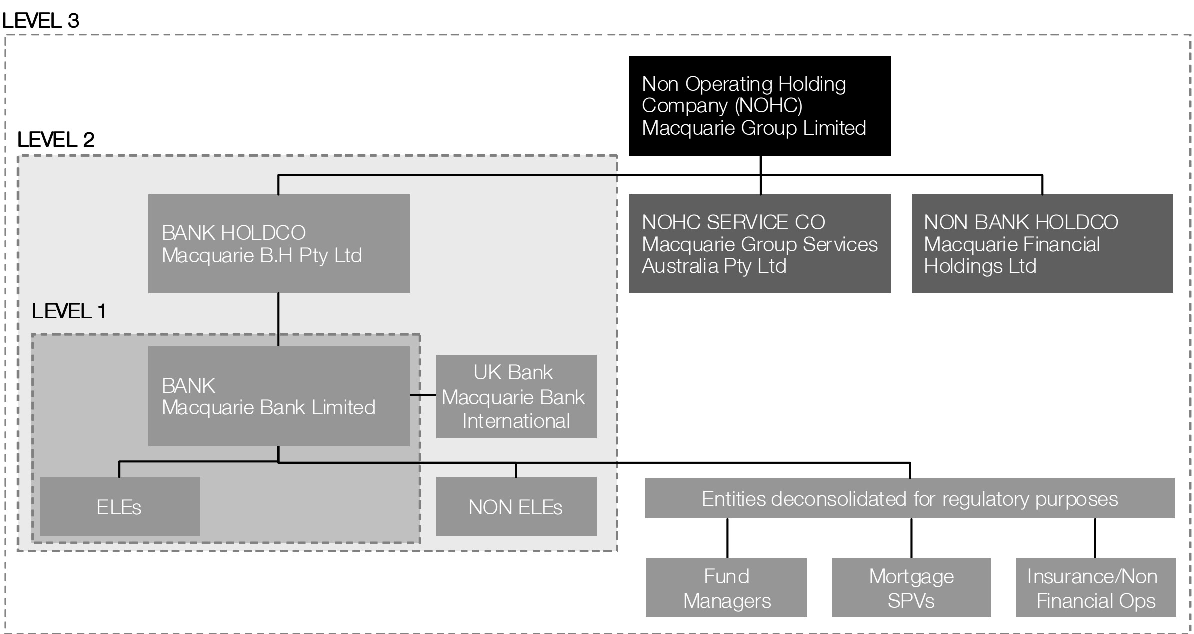
This report provides an update to certain disclosures as at 30 June 2010 and consists of sections covering:

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

1.0 Overview continued

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 revised APRA 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.

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)

	30 June 2010	31 March 2010
Level 2 Macquarie Banking Group Tier 1 capital ratio	**10.3%**	11.5%
Level 2 Macquarie Banking Group Total capital ratio	**11.5%**	13.3%

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 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)

	30 June 2010 RWA $m	31 March 2010 RWA $m
Credit risk		
Subject to FIRB approach		
Corporate	**19,683**	15,254
Sovereign	**938**	730
Bank	**2,383**	2,324
Residential mortgage	**1,637**	1,897
Qualifying revolving retail	**-**	-
Other retail	**1,145**	1,006
Other	**-**	-
Total RWA subject to FIRB approach	**25,786**	21,211
Specialised lending exposures subject to slotting criteria[1]	**3,068**	3,002
Subject to Standardised approach		
Corporate	**4,929**	3,270
Sovereign	**-**	-
Bank	**2**	49
Residential mortgage	**469**	462
Other retail	**3,744**	3,376
Other	**2,422**	2,728
Total RWA subject to Standardised approach	**11,566**	9,885
Credit risk RWA for securitisation exposures	**897**	1,019
Total Credit risk RWA	**41,317**	35,117
Equity risk exposures RWA	**1,791**	1,715
Market risk RWA	**2,698**	2,480
Operational risk RWA	**6,738**	6,748
Interest rate risk in the banking book RWA	**-**	-
APRA Scaling factor (6%) applied to IRB exposures	**1,547**	1,273
Total RWA	**54,091**	47,333

[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 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 following exposures 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, classified by Basel II portfolio type, credit exposure type and counterparty type.

APS 330 Table 17(a)

Portfolio Type	30 June 2010 $m	31 March 2010 $m	Average total exposures $m
Corporate	37,752	31,895	34,824
Sovereign	7,838	6,762	7,300
Bank	11,938	11,804	11,871
Residential Mortgages	14,348	13,268	13,808
Qualifying Revolving Retail	-	-	-
Other Retail	6,802	6,059	6,430
Other	4,499	5,079	4,789
Total Gross Credit Exposures	83,177	74,867	79,022

3.0
Credit Risk Exposures
continued

APS 330 Table 17(a) (continued)

Foundation IRB	As at 30 June 2010 $m	As at 31 March 2010 $m	Average total exposures $m
Corporate	**31,272**	27,043	**29,157**
Sovereign	**7,838**	6,762	**7,300**
Bank	**11,935**	11,738	**11,837**
Residential Mortgage	**6,198**	6,308	**6,253**
Qualifying revolving retail	**-**	-	**-**
Other retail	**3,052**	2,679	**2,865**
Other	**-**	-	**-**
Total Foundation IRB	**60,295**	54,530	**57,412**

Standardised	As at 30 June 2010 $m	As at 31 March 2010 $m	Average total exposures $m
Corporate	**6,480**	4,852	**5,666**
Sovereign	**-**	-	**-**
Bank	**3**	66	**35**
Residential Mortgage	**8,150**	6,960	**7,555**
Qualifying revolving retail	**-**	-	**-**
Other retail	**3,750**	3,380	**3,565**
Other[1]	**4,499**	5,079	**4,789**
Total Standardised	**22,882**	20,337	**21,610**

Total	**83,177**	74,867	**79,022**

[1] The major components of “Other” gross credit exposures are Other Debtors, Unsettled Trades and Margin Loans.

APS 330 Table 17(a) (continued)

	30 June 2010 Counterparty ($m)				
Portfolio Type	**Financial Institution**	**Government**	**Corporate**	**Retail**	**Total**
Corporate	**9,161**	**349**	**27,434**	**808**	**37,752**
Sovereign	**2,960**	**4,878**	**-**	**-**	**7,838**
Bank	**11,938**	**-**	**-**	**-**	**11,938**
Residential Mortgages	**-**	**-**	**376**	**13,972**	**14,348**
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	**-**	**-**	**700**	**6,102**	**6,802**
Other	**-**	**691**	**3,398**	**410**	**4,499**
Total Gross Credit Exposures	**24,059**	**5,918**	**31,908**	**21,292**	**83,177**

	31 March 2010 Counterparty ($m)				
Portfolio Type	Financial Institution	Government	Corporate	Retail	Total
Corporate	8,328	313	22,546	708	31,895
Sovereign	1,850	4,912	-	-	6,762
Bank	11,804	-	-	-	11,804
Residential Mortgages	-	-	385	12,883	13,268
Qualifying Revolving Retail	-	-	-	-	-
Other Retail	-	-	448	5,611	6,059
Other	-	677	3,969	433	5,079
Total Gross Credit Exposures	21,982	5,902	27,348	19,635	74,867

4.0 Provisioning

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 30 June 2010			As at 31 March 2010		
	Impaired Facilities	**Past Due >90 days[1]**	**Specific Provision**	Impaired Facilities	Past Due >90 days[1]	Specific Provision
Foundation IRB	**$m**	**$m**	**$m**	$m	$m	$m
Corporate	**971**	**44**	**(271)**	948	41	(265)
Sovereign	**-**	**-**	**-**	-	-	-
Bank	**56**	**-**	**(22)**	52	-	(20)
Residential Mortgage	**54**	**54**	**(19)**	52	76	(19)
Qualifying revolving retail	**-**	**-**	**-**	-	-	-
Other retail	**15**	**-**	**(6)**	23	-	(9)
Other[2]	**132**	**-**	**(103)**	137	-	(110)
Total Foundation IRB	**1,228**	**98**	**(421)**	1,212	117	(423)
	Impaired Facilities	**Past Due >90 days[1]**	**Specific Provision**	Impaired Facilities	Past Due >90 days[1]	Specific Provision
Standardised	**$m**	**$m**	**$m**	$m	$m	$m
Corporate	**73**	**7**	**(30)**	76	8	(26)
Sovereign	**-**	**-**	**-**	-	-	-
Bank	**-**	**-**	**-**	-	-	-
Residential Mortgage	**-**	**28**	**-**	-	29	-
Qualifying revolving retail	**-**	**-**	**-**	-	-	-
Other retail	**37**	**-**	**(9)**	44	-	(7)
Other[3]	**504**	**-**	**(24)**	475	-	(25)
Total Standardised	**614**	**35**	**(63)**	595	37	(58)
Total	**1,842**	**133**	**(484)**	1,807	154	(481)

[1] In accordance with APRA prudential definitions, Past Due do not form part of Impaired Facilities as they are well secured.

[2] FIRB "Other" includes impaired debt investment securities.

[3] Standardised "Other" Impaired Facilities includes other real estate owned subsequent to facility foreclosure.

APS 330 Table 17(b) (continued)

Foundation IRB	For the 3 months to 30 June 2010 Charges for Specific provisions $m	Write-offs $m	For the 12 months to 31 March 2010 Charges for Specific provisions $m	Write-offs $m
Corporate	**(27)**	**-**	(161)	(9)
Sovereign	**-**	**-**	-	-
Bank	**-**	**-**	(5)	-
Residential Mortgage	**(1)**	**-**	(5)	-
Qualifying revolving retail	**-**	**-**	-	-
Other retail	**-**	**(11)**	(4)	(20)
Other	**-**	**-**	(62)	-
Total Foundation IRB	**(28)**	**(11)**	(237)	(29)

Standardised	Charges for Specific provisions $m	Write-offs $m	Charges for Specific provisions $m	Write-offs $m
Corporate	**(4)**	**-**	(19)	(5)
Sovereign	**-**	**-**	-	-
Bank	**-**	**-**	-	-
Residential Mortgage	**-**	**-**	-	-
Qualifying revolving retail	**-**	**-**	-	-
Other retail	**(2)**	**(4)**	(2)	(16)
Other	**-**	**-**	(5)	-
Total Standardised	**(6)**	**(4)**	(26)	(21)
Total	**(34)**	**(15)**	(263)	(50)

APS 330 Table 17(c)

	30 June 2010 $m	31 March 2010 $m
Collective provisions	**243**	224
Collective provisions treated as specific provisions for regulatory purposes	**(27)**	(24)
Net collective provisions for regulatory purposes	**216**	200
Tax effect	**(65)**	(60)
General reserve for credit losses[1]	**151**	140

[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
  - 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.

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