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## **ASX Release**

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

17 August 2012 - The Macquarie Bank Limited June 2012 Pillar 3 disclosure document was released today on the Macquarie website [www.macquarie.com](http://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  
JUNE 2012



MACQUARIE  
BANK

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**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 ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). This report details MBL's APS 330 disclosures as at 30 June 2012 together with the 31 March 2012 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 31 March 2012 is also available on the Macquarie website at [www.macquarie.com](http://www.macquarie.com)

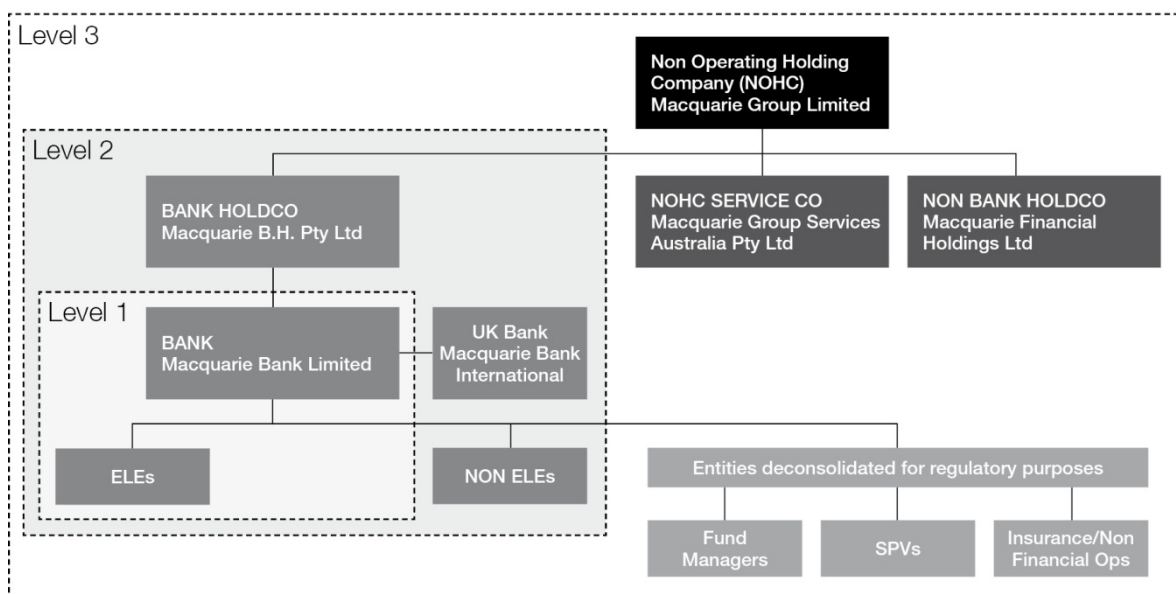
This report provides an update to certain disclosures as required by APS 330 as at 30 June 2012 and consists of sections covering:

- 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 prepared on a Basel II basis.

# 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 submitted to APRA. Under the revised 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

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### 2.1 Capital Ratios

#### APS 330 Table 16(e)

	<b>30 June 2012</b>	31 March 2012
Level 2 Macquarie Banking Group Tier 1 capital ratio	<b>13.6%</b>	13.8%
Level 2 Macquarie Banking Group Total capital ratio	<b>16.0%</b>	16.6%

The Macquarie Banking Group capital ratios are well above the regulatory minimum capital ratios required by APRA, and the Board imposed internal minimum capital requirement.

## 2.0 Capital Adequacy continued

### 2.2 Risk Weighted Assets (RWA)

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 for the Macquarie Banking Group.

APS 330 Table 16(a-d)

	30 June 2012 \$m	31 March 2012 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate	14,868	15,423
SME Corporate <sup>1</sup>	1,415	-
Sovereign	808	722
Bank	1,650	1,747
Residential Mortgage	1,733	1,534
Other Retail	2,950	2,745
<b>Total RWA subject to IRB approach</b>	<b>23,424</b>	<b>22,171</b>
<b>Specialised lending exposures subject to slotting criteria<sup>2</sup></b>	<b>4,337</b>	<b>4,507</b>
Subject to Standardised approach		
Corporate <sup>1</sup>	665	2,158
Residential Mortgage	588	526
Other Retail	1,398	1,818
<b>Total RWA subject to Standardised approach</b>	<b>2,651</b>	<b>4,502</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>434</b>	<b>517</b>
<b>RWA for Other Assets</b>	<b>6,095</b>	<b>5,838</b>
<b>Total Credit risk RWA</b>	<b>36,941</b>	<b>37,535</b>
<b>Equity risk exposures RWA</b>	<b>1,934</b>	<b>2,028</b>
<b>Market risk RWA</b>	<b>4,392</b>	<b>4,666</b>
<b>Operational risk RWA</b>	<b>6,209</b>	<b>6,312</b>
<b>Interest rate risk in the banking book RWA</b>	<b>-</b>	<b>-</b>
<b>APRA Scaling factor (6%) applied to IRB exposures</b>	<b>1,405</b>	<b>1,330</b>
<b>Total RWA</b>	<b>50,881</b>	<b>51,871</b>

<sup>1</sup> Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

<sup>2</sup> 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 a manner consistent with APRA ADI 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 Bank Limited consolidated 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 also exclude the impact of:

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

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	30 June 2012 \$m	31 March 2012 \$m	Average total exposures \$m
Corporate <sup>1</sup>	25,167	27,766	26,467
SME Corporate <sup>2</sup>	2,156	-	1,078
Sovereign	6,592	6,280	6,436
Bank	10,432	10,732	10,582
Residential Mortgages	16,376	15,751	16,064
Other Retail	8,768	8,886	8,827
Other Assets <sup>3</sup>	10,059	11,976	11,017
<b>Total Gross Credit Exposure</b>	<b>79,550</b>	<b>81,391</b>	<b>80,471</b>

<sup>1</sup> "Corporate" includes Specialised Lending exposure \$4,708 million as at 30 June 2012 and \$5,133 million as at 31 March 2012.

<sup>2</sup> "SME Corporate" includes Specialised Lending exposure \$276 million as at 30 June 2012.

During the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

<sup>3</sup> The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

## 3.0 Credit Risk Exposures continued

APS 330 Table 17(a) (continued)

Portfolio Type	30 June 2012 \$m	31 March 2012 \$m	Average total exposures \$m
<b>Subject to IRB approach</b>			
Corporate	24,502	25,005	24,754
SME Corporate	2,156	-	1,078
Sovereign	6,592	6,280	6,436
Bank	10,432	10,732	10,582
Residential Mortgage	8,048	7,184	7,616
Other Retail	6,210	5,792	6,001
<b>Total IRB approach</b>	<b>57,940</b>	<b>54,993</b>	<b>56,467</b>
<b>Subject to Standardised approach</b>			
Corporate	665	2,761	1,713
Residential Mortgage	8,328	8,567	8,448
Other Retail	2,558	3,094	2,826
<b>Total Standardised approach</b>	<b>11,551</b>	<b>14,422</b>	<b>12,987</b>
<b>Other Assets</b>	<b>10,059</b>	<b>11,976</b>	<b>11,017</b>
<b>Total Gross Credit Exposure</b>	<b>79,550</b>	<b>81,391</b>	<b>80,471</b>

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

Portfolio Type	30 June 2012			Total \$m	Average Exposures for the quarter \$m
	On Balance sheet \$m	Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	11,498	1,699	6,597	19,794	19,833
SME Corporate	1,630	250	-	1,880	940
Sovereign	6,083	-	509	6,592	6,436
Bank	5,936	197	4,299	10,432	10,582
Residential Mortgages	7,883	165	-	8,048	7,616
Other Retail	6,210	-	-	6,210	6,001
<b>Total IRB approach</b>	<b>39,240</b>	<b>2,311</b>	<b>11,405</b>	<b>52,956</b>	<b>51,408</b>
<b>Specialised Lending</b>	<b>3,825</b>	<b>580</b>	<b>579</b>	<b>4,984</b>	<b>5,059</b>
<b>Subject to Standardised approach</b>					
Corporate	13	652	-	665	1,713
Residential Mortgages	8,325	3	-	8,328	8,448
Other Retail	2,558	-	-	2,558	2,826
<b>Total Standardised approach</b>	<b>10,896</b>	<b>655</b>	<b>-</b>	<b>11,551</b>	<b>12,987</b>
<b>Other Assets</b>	<b>10,059</b>	<b>-</b>	<b>-</b>	<b>10,059</b>	<b>11,017</b>
<b>Total Gross Credit Exposures</b>	<b>64,020</b>	<b>3,546</b>	<b>11,984</b>	<b>79,550</b>	<b>80,471</b>

### 3.0

## Credit Risk Exposures

continued

APS 330 Table 17(a) (continued)

Portfolio Type	31 March 2012			Total \$m	Average Exposures for the quarter \$m
	Off Balance sheet				
	On Balance sheet \$m	Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	11,150	1,782	6,940	19,872	24,395
Sovereign	5,899	-	381	6,280	6,266
Bank	6,943	152	3,637	10,732	11,948
Residential Mortgages	7,008	176	-	7,184	7,091
Other Retail	5,792	-	-	5,792	4,968
<b>Total IRB approach</b>	<b>36,792</b>	<b>2,110</b>	<b>10,958</b>	<b>49,860</b>	<b>54,668</b>
<b>Specialised Lending</b>	<b>3,438</b>	<b>792</b>	<b>903</b>	<b>5,133</b>	<b>4,077</b>
<b>Subject to Standardised approach</b>					
Corporate	1,917	844	-	2,761	2,843
Residential Mortgages	8,567	-	-	8,567	8,671
Other Retail	3,074	20	-	3,094	3,373
<b>Total Standardised approach</b>	<b>13,558</b>	<b>864</b>	<b>-</b>	<b>14,422</b>	<b>14,887</b>
<b>Other Assets</b>	<b>11,976</b>	<b>-</b>	<b>-</b>	<b>11,976</b>	<b>9,039</b>
<b>Total Gross Credit Exposures</b>	<b>65,764</b>	<b>3,766</b>	<b>11,861</b>	<b>81,391</b>	<b>82,671</b>

## 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 30 June 2012			As at 31 March 2012		
	Impaired Facilities <sup>1</sup> \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m	Impaired Facilities <sup>1</sup> \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
<b>Subject to IRB approach</b>						
Corporate <sup>2,3</sup>	642	14	(298)	648	26	(299)
SME Corporate <sup>3</sup>	26	8	(16)	-	-	-
Bank	-	-	-	1	-	-
Residential Mortgage	64	97	(25)	65	82	(26)
Other Retail	11	-	(4)	16	-	(7)
<b>Total IRB approach</b>	<b>743</b>	<b>119</b>	<b>(343)</b>	<b>730</b>	<b>108</b>	<b>(332)</b>
<b>Subject to Standardised approach</b>						
Corporate <sup>3</sup>	4	-	(3)	40	11	(26)
Residential Mortgage	-	20	-	-	14	-
Other Retail	55	2	(21)	60	-	(20)
<b>Total Standardised approach</b>	<b>59</b>	<b>22</b>	<b>(24)</b>	<b>100</b>	<b>25</b>	<b>(46)</b>
<b>Other Assets<sup>4</sup></b>	<b>251</b>	<b>-</b>	<b>-</b>	<b>270</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>1,053</b>	<b>141</b>	<b>(367)</b>	<b>1,100</b>	<b>133</b>	<b>(378)</b>

<sup>1</sup> In accordance with Attachment B (Paragraph 4) APS 330, the table above excludes securitisation exposures. As at June 2012, Macquarie has impaired securitised facilities of \$6 million (31 March 2012: \$6 million) with individually assessed provisions of \$5 million (31 March 2012: \$5 million), and charges for individually assessed provisions of nil for the 3 months to 30 June 2012 (3 months to 31 March 2012: nil).

<sup>2</sup> IRB "Corporate" includes Specialised Lending.

<sup>3</sup> During the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. As a result, total impaired facilities of \$26 million, past due facilities of \$8 million and individually assessed provisions of \$16 million are now included in IRB SME Corporate (previously Standardised Corporate). Additionally, impaired facilities of \$9 million and individually assessed provisions of \$8 million are now included in IRB SME Corporate (previously Standardised Corporate).

<sup>4</sup> 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 30 June 2012		For the 3 months to 31 March 2012	
	Charges for Individually Assessed Provisions \$m	Write-offs \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>				
Corporate	(14)	(1)	4	(12)
SME Corporate	-	-	-	-
Bank	-	-	8	-
Residential Mortgage	(1)	-	(1)	-
Other Retail	-	(9)	(4)	(9)
<b>Total IRB approach</b>	<b>(15)</b>	<b>(10)</b>	<b>7</b>	<b>(21)</b>
<b>Subject to Standardised approach</b>				
Corporate	-	-	(6)	-
Other Retail	-	(6)	(1)	(5)
<b>Total Standardised approach</b>	<b>-</b>	<b>(6)</b>	<b>(7)</b>	<b>(5)</b>
<b>Other assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>(15)</b>	<b>(16)</b>	<b>-</b>	<b>(26)</b>

APS 330 Table 17(c)

	30 June 2012 \$m	31 March 2012 \$m
Collective provisions	215	220
Collective provisions treated as individually assessed provisions for regulatory purposes	(10)	(9)
Net collective provisions for regulatory purposes	205	211
Tax effect	(62)	(63)
<b>General reserve for credit losses<sup>1</sup></b>	<b>143</b>	<b>148</b>

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

## 5.0 Securitisation

### 5.1 Securitisation activity

Over the quarter to 30 June 2012, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

#### APS 330 Table 18(a)

Exposure type	30 June 2012		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgage	1,194	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	566	-	-
<b>Total Banking Book</b>	<b>1,760</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

Exposure type	31 March 2012		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgage	3,013	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,609	-	-
<b>Total Banking Book</b>	<b>5,622</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5.0 Securitisation continued

### 5.2 Securitisation activity

The table below sets out the on and off balance sheet securitisation exposures originated or purchased, broken down by exposure type.

#### APS 330 Table 18(b)

Exposure type	30 June 2012		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgage	9,811	355	10,166
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,153	-	5,153
Other	400	45	445
<b>Total Banking Book</b>	<b>15,364</b>	<b>400</b>	<b>15,764</b>
<b>Trading Book</b>			
Residential Mortgage	-	128	-
Credit cards and other personal loans	-	9	-
Auto and equipment finance	-	-	-
Other	-	145	-
<b>Total Trading Book</b>	<b>-</b>	<b>282</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$8,112m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Regulatory Banking Group.

Exposure type	31 March 2012		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgage	8,971	340	9,311
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,060	1	5,061
Other	388	50	438
<b>Total Banking Book</b>	<b>14,419</b>	<b>391</b>	<b>14,810</b>
<b>Trading Book</b>			
Residential Mortgage	-	42	-
Credit cards and other personal loans	-	12	-
Auto and equipment finance	-	-	-
Other	-	85	-
<b>Total Trading Book</b>	<b>-</b>	<b>139</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$10,488m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Regulatory Banking Group.



## Disclaimer

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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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