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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

26 February 2013 - The Macquarie Bank Limited December 2012 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
DECEMBER 2012



MACQUARIE
BANK

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 31 December 2012 together with the 30 September 2012 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 30 September 2012 is also available on the Macquarie website at www.macquarie.com

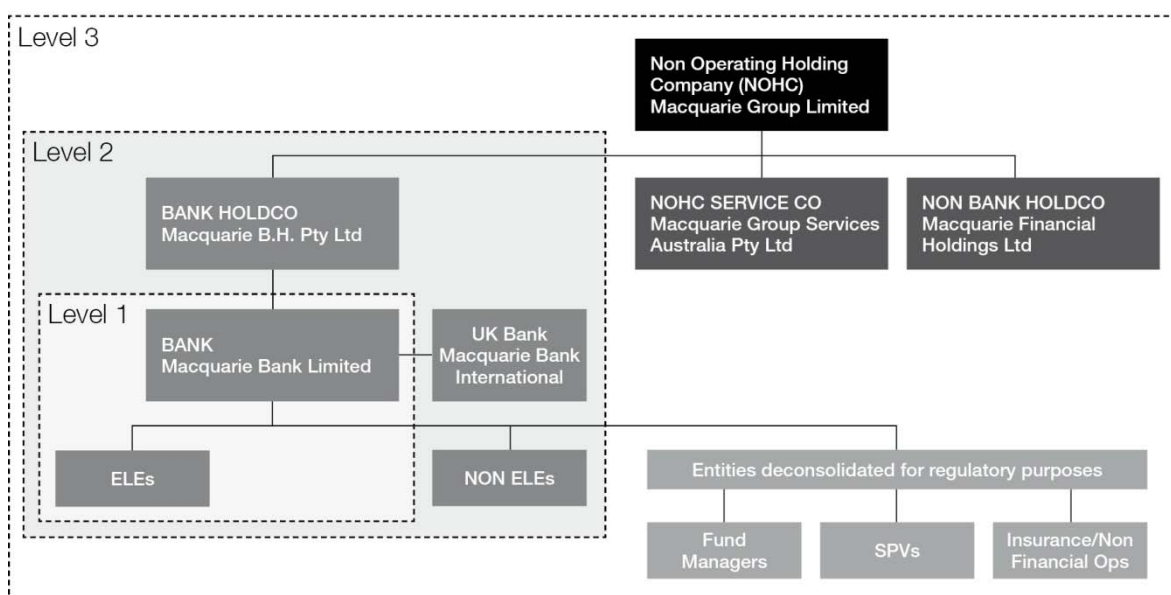
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2012 and consists of sections covering:

- 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 Bank 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

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 2012	30 September 2012
Level 2 Macquarie Bank Group Tier 1 capital ratio	12.8%	13.3%
Level 2 Macquarie Bank Group Total capital ratio	15.0%	15.6%

The Macquarie Bank 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 Bank 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 Bank Group.

APS 330 Table 16(a-d)

	31 December 2012 \$m	30 September 2012 \$m
Credit risk		
Subject to IRB approach		
Corporate	15,849	15,769
SME Corporate	1,458	1,384
Sovereign	764	769
Bank	1,291	1,580
Residential Mortgage	2,108	2,047
Other Retail	4,022	3,759
Total RWA subject to IRB approach	25,492	25,308
Specialised lending exposures subject to slotting criteria¹	4,441	4,584
Subject to Standardised approach		
Corporate ²	1,048	1,056
Residential Mortgage ²	360	236
Other Retail	1,270	1,297
Total RWA subject to Standardised approach	2,678	2,589
Credit risk RWA for securitisation exposures	474	555
RWA for Other Assets	5,511	5,106
Total Credit risk RWA	38,596	38,142
Equity risk exposures RWA	1,918	1,924
Market risk RWA	4,649	4,280
Operational risk RWA³	8,125	6,439
Interest rate risk in the banking book RWA	-	-
APRA Scaling factor (6%) applied to IRB exposures	1,530	1,519
Total RWA	54,818	52,304

¹ Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

² \$395m RWA as at September 2012 has been classified as Corporate and comparative information amended accordingly.

³ Pursuant to a review of the banking industry, APRA has set minimum capital holding levels for Operational Risk for larger banks.

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	31 December 2012 \$m	30 September 2012 \$m	Average total exposures \$m
Corporate ^{1 4}	27,358	28,224	27,791
SME Corporate ²	2,183	2,089	2,136
Sovereign	5,855	6,192	6,024
Bank	9,206	10,686	9,946
Residential Mortgages ⁴	17,045	16,417	16,731
Other Retail	9,186	8,996	9,091
Other Assets ³	8,410	9,356	8,883
Total Gross Credit Exposure	79,243	81,960	80,602

¹ "Corporate" includes Specialised Lending exposure of \$4,962 million as at 31 December 2012 (30 September 2012: \$4,979 million).

² "SME Corporate" includes Specialised Lending exposure of \$328 million as at 31 December 2012 (30 September 2012: \$275 million).

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

⁴ \$417m of exposures as at September 2012 have been classified as Corporate and comparative information amended accordingly.

3.0 Credit Risk Exposures

continued

APS 330 Table 17(a) (continued)

Portfolio Type	31 December 2012 \$m	30 September 2012 \$m	Average total exposures \$m
Subject to IRB approach			
Corporate	26,289	27,146	26,718
SME Corporate	2,183	2,089	2,136
Sovereign	5,855	6,192	6,024
Bank	9,206	10,686	9,946
Residential Mortgage	9,505	8,578	9,041
Other Retail	6,836	6,553	6,694
Total IRB approach	59,874	61,244	60,559
Subject to Standardised approach			
Corporate ¹	1,069	1,078	1,074
Residential Mortgage ¹	7,540	7,839	7,689
Other Retail	2,350	2,443	2,397
Total Standardised approach	10,959	11,360	11,160
Other Assets	8,410	9,356	8,883
Total Gross Credit Exposure	79,243	81,960	80,602

¹ \$417m of exposures as at September 2012 have been classified as Corporate and comparative information amended accordingly.

APS 330 Table 17(a) (continued)

	31 December 2012			Total \$m	Average Exposures for the 3 months \$m
	On Balance Sheet \$m	Off Balance sheet			
		Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	12,917	2,638	5,772	21,327	21,747
SME Corporate	1,634	221	-	1,855	1,835
Sovereign	5,297	-	558	5,855	6,024
Bank	5,540	78	3,588	9,206	9,946
Residential Mortgages	9,321	184	-	9,505	9,041
Other Retail	6,836	-	-	6,836	6,694
Total IRB approach	41,545	3,121	9,918	54,584	55,287
Specialised Lending	4,204	525	561	5,290	5,272
Subject to Standardised approach					
Corporate	394	675	-	1,069	1,074
Residential Mortgages	7,540	-	-	7,540	7,689
Other Retail	2,350	-	-	2,350	2,397
Total Standardised approach	10,284	675	-	10,959	11,160
Other Assets	8,410	-	-	8,410	8,883
Total Gross Credit Exposures	64,443	4,321	10,479	79,243	80,602

3.0 Credit Risk Exposures

continued

APS 330 Table 17(a) (continued)

	30 September 2012			Total \$m	Average Exposures for the 3 months \$m
	On Balance Sheet \$m	Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	14,133	1,661	6,373	22,167	20,980
SME Corporate	1,613	201	-	1,814	1,847
Sovereign	5,608	-	584	6,192	6,392
Bank	6,203	198	4,285	10,686	10,559
Residential Mortgages	8,396	182	-	8,578	8,313
Other Retail	6,553	-	-	6,553	6,382
Total IRB approach	42,506	2,242	11,242	55,990	54,473
Specialised Lending	3,999	451	804	5,254	5,119
Subject to Standardised approach					
Corporate ¹	417	661	-	1,078	871
Residential Mortgages ¹	7,839	-	-	7,839	8,084
Other Retail	2,443	-	-	2,443	2,501
Total Standardised approach	10,699	661	-	11,360	11,456
Other Assets	9,356	-	-	9,356	9,707
Total Gross Credit Exposures	66,560	3,354	12,046	81,960	80,755

¹ \$417m of exposures as at September 2012 has been classified as Corporate and comparative information amended accordingly.

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 2012			As at 30 September 2012		
	Impaired Facilities ¹ \$m	Past Due >90 days ² \$m	Individually Assessed Provisions \$m	Impaired Facilities ¹ \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
Subject to IRB approach						
Corporate ³	601	58	(290)	653	1	(309)
SME Corporate	22	9	(7)	32	10	(14)
Residential Mortgage	158	82	(22)	139	71	(25)
Other Retail	12	-	(6)	11	-	(5)
Total IRB approach	793	149	(325)	835	82	(353)
Subject to Standardised approach						
Corporate	-	-	-	3	-	(2)
Residential Mortgage	-	22	-	-	23	-
Other Retail	48	1	(16)	42	1	(16)
Total Standardised approach	48	23	(16)	45	24	(18)
Other Assets⁴	188	-	-	233	-	-
Total	1,029	172	(341)	1,113	106	(371)

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

² In accordance with APRA prudential definition, past due facilities do not form part of impaired facilities as they are well secured.

³ IRB "Corporate" includes Specialised Lending.

⁴ Other Assets impaired facilities includes real estate owned subsequent to facility foreclosure.

4.0 Provisioning

continued

APS 330 Table 17(b) (continued)

	For the 3 months to 31 December 2012		For the 3 months to 30 September 2012	
	Charges for Individually Assessed Provisions \$m	Write-offs \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
Subject to IRB approach				
Corporate	(5)	(1)	(69)	(3)
SME Corporate	(2)	-	(1)	-
Residential Mortgage	(2)	-	(5)	-
Other Retail	(2)	(6)	-	(9)
Total IRB approach	(11)	(7)	(75)	(12)
Subject to Standardised approach				
Other Retail	(1)	(6)	(2)	(15)
Total Standardised approach	(1)	(6)	(2)	(15)
Other assets	-	-	-	-
Total	(12)	(13)	(77)	(27)

APS 330 Table 17(c)

	31 December 2012 \$m	30 September 2012 \$m
Collective provisions	222	215
Collective provisions treated as individually assessed provisions for regulatory purposes	(18)	(8)
Net collective provisions for regulatory purposes	204	207
Tax effect	(61)	(62)
General reserve for credit losses¹	143	145

¹ 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 9 months to 31 December 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	Period ended 31 December 2012		Recognised gain or loss on sale
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	\$m
Banking Book			
Residential Mortgage	3,267	312	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,382	-	-
Other	268	-	-
Total Banking Book	5,917	312	-
Trading Book			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

Exposure type	Period ended 30 September 2012		Recognised gain or loss on sale
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	\$m
Banking Book			
Residential Mortgage	2,074	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	814	-	-
Other	-	-	-
Total Banking Book	2,888	-	-
Trading Book			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

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	31 December 2012		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgage	10,845	451	11,296
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,743	-	5,743
Other	478	65	543
Total Banking Book	17,066	516	17,582
Trading Book			
Residential Mortgage	-	8	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	2	-
Total Trading Book	-	10	-

¹ Included in the above are assets of \$8,335m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Bank Group.

Exposure type	30 September 2012		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgage	10,273	202	10,475
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,568	-	5,568
Other	424	45	469
Total Banking Book	16,265	247	16,512
Trading Book			
Residential Mortgage	-	125	-
Credit cards and other personal loans	-	6	-
Auto and equipment finance	-	-	-
Other	-	75	-
Total Trading Book	-	206	-

¹ Included in the above are assets of \$8,072m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Bank Group.

6.0 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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