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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

19 Feb 2016 - The Macquarie Bank Limited December 2015 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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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 (IMA) for market risk and 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.

On 1 January 2013, reforms to the Basel II capital adequacy framework came into effect (the Basel III framework). These reforms are designed to strengthen global capital rules with the goal of promoting a more resilient banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

The reforms include;

- Raising the quality, consistency and transparency of the capital base
- Introducing a capital requirement to cover Credit Valuation Adjustments (CVA)
- Introducing an Asset Value Correlation (AVC) loading on exposures to certain financial institutions
- Requiring capital to be held against exposures to central clearing houses
- Introducing a range of capital buffers, these will be phased in by 2016.

APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330) as at 31 December 2015 together with the 30 September 2015 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2015 is also available on the Macquarie website at www.macquarie.com

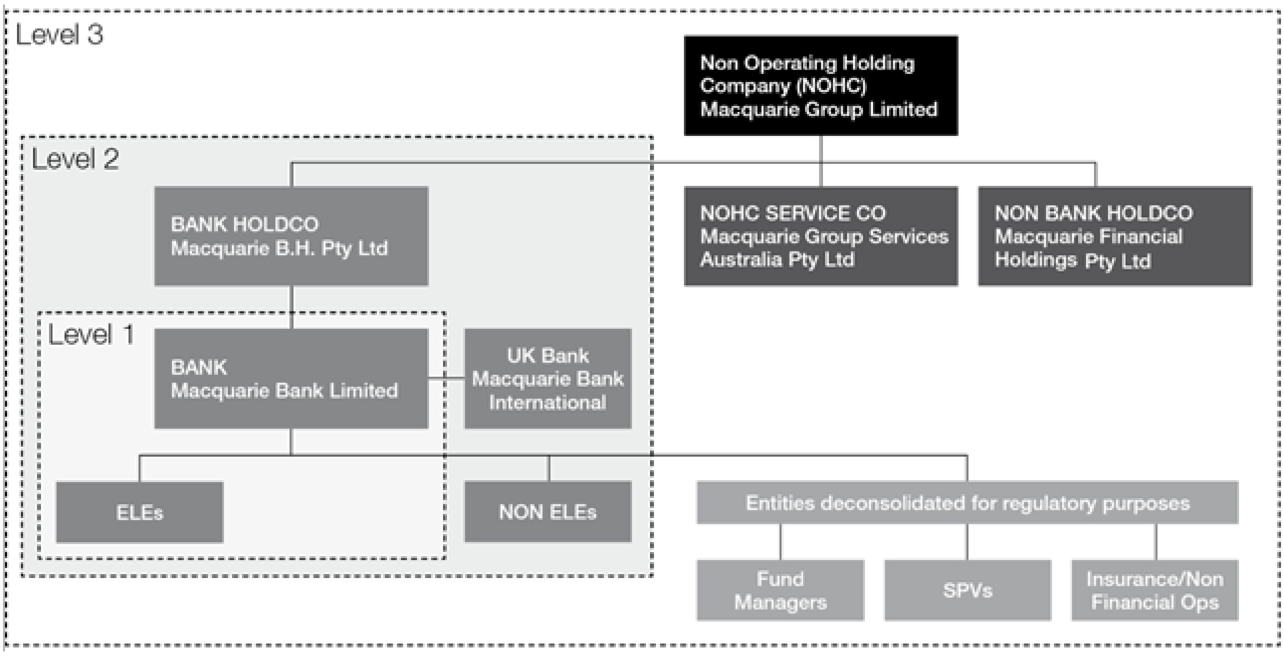
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2015 and consists of sections covering:

- Capital Adequacy;
- Credit Risk Exposures;
- Provisioning;
- Securitisation; and
- Leverage Ratio Disclosures.

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 bank 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 bank group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory consolidated bank group prepared on a Basel III basis.

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 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.

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 and Leverage Ratios

APS 330 Table 3(f)

Capital and Leverage Ratios	**As at 31 December 2015**	As at 30 September 2015
Level 2 Common Equity Tier 1 capital ratio[1]	**9.9%**	9.9%
Level 2 Total Tier 1 capital ratio[1]	**11.0%**	11.1%
Level 2 Total capital ratio[1]	**13.3%**	13.6%
Level 2 Leverage ratio	**5.2%**	5.1%

[1]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.

In July 2015, APRA released the APS 110 Capital Adequacy and APS 330 Public Disclosure, which incorporate new disclosure requirements relating to Leverage ratio for ADIs.

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 ratio 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 3(a-e)

	As at 31 December 2015 $m	As at 30 September 2015 $m
Credit risk		
Subject to IRB approach		
Corporate	**30,551**	28,592
SME Corporate	**2,511**	2,466
Sovereign	**387**	371
Bank	**1,688**	1,792
Residential Mortgages	**5,956**	6,150
Other Retail	**3,533**	3,502
Retail SME	**2,573**	2,624
Total RWA subject to IRB approach	**47,199**	45,497
Specialised lending exposures subject to slotting criteria[1]	**7,544**	7,902
Subject to Standardised approach		
Corporate	**798**	892
Residential Mortgages	**3,408**	3,259
Other Retail	**8,411**	1,690
Total RWA subject to Standardised approach	**12,617**	5,841
Credit risk RWA for securitisation exposures	**530**	783
Credit Valuation Adjustment RWA	**3,184**	3,153
Exposures to Central Counterparties RWA	**1,458**	1,490
RWA for Other Assets	**9,686**	10,558
Total Credit risk RWA	**82,218**	75,224
Market risk RWA	**5,117**	5,487
Operational risk RWA	**10,475**	10,389
Interest rate risk in the banking book RWA	**1,083**	812
Total RWA	**98,893**	91,912

[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 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:
- credit risk mitigation;
- securitisation exposures;
- central counterparty 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 III portfolio type and credit exposure type.

APS 330 Table 4(a)

Portfolio Type	**As at 31 December 2015 $m**	As at 30 September 2015 $m	Average Exposures for the 3 months $m
Corporate[1]	**50,554**	47,708	49,131
SME Corporate[2]	**3,405**	3,413	3,409
Sovereign	**3,097**	2,835	2,966
Bank	**10,417**	11,113	10,765
Residential Mortgages	**36,631**	32,367	34,499
Other Retail	**13,944**	7,172	10,558
Retail SME	**4,310**	4,239	4,275
Other Assets[3]	**12,238**	14,839	13,538
Total Gross Credit Exposure	**134,596**	123,686	129,141

[1] Corporate includes Specialised Lending exposure of $8,183 million as at 31 December 2015 (30 September 2015: $8,813 million).
[2] SME Corporate includes Specialised Lending exposure of $545 million as at 31 December 2015 (30 September 2015: $543 million).
[3] The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 4(a)

Portfolio Type	**As at 31 December 2015 $m**	As at 30 September 2015 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate	**49,756**	46,816	48,286
SME Corporate	**3,405**	3,413	3,409
Sovereign	**3,097**	2,835	2,966
Bank	**10,417**	11,113	10,765
Residential Mortgages	**29,335**	24,410	26,873
Other Retail	**5,477**	5,432	5,454
Retail SME	**4,310**	4,239	4,275
Total IRB approach	**105,797**	98,258	102,028
Subject to Standardised approach			
Corporate	**798**	892	845
Residential Mortgages	**7,296**	7,957	7,626
Other Retail	**8,467**	1,740	5,104
Total Standardised approach	**16,561**	10,589	13,575
Other Assets	**12,238**	14,839	13,538
Total Gross Credit Exposures	**134,596**	123,686	129,141

3.0 Credit Risk Exposures
continued

APS 330 Table 4(a) (continued)

		As at 31 December 2015			
		Off Balance sheet			Average Exposures for the 3 months
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	$m
Subject to IRB approach					
Corporate	19,589	6,554	15,430	41,573	39,788
SME Corporate	2,496	364	-	2,860	2,865
Sovereign	2,615	-	482	3,097	2,966
Bank	4,013	-	6,404	10,417	10,765
Residential Mortgages	24,409	4,926	-	29,335	26,873
Other Retail	5,477	-	-	5,477	5,454
Retail SME	4,179	131	-	4,310	4,275
Total IRB approach	62,778	11,975	22,316	97,069	92,986
Specialised Lending	8,032	451	245	8,728	9,042
Subject to Standardised approach					
Corporate	-	798	-	798	845
Residential Mortgages	7,155	141	-	7,296	7,626
Other Retail	8,467	-	-	8,467	5,104
Total Standardised approach	15,622	939	-	16,561	13,575
Other Assets	10,895	823	520	12,238	13,538
Total Gross Credit Exposures	97,327	14,188	23,081	134,596	129,141

APS 330 Table 4(a) (continued)

		As at 30 September 2015			
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months $m
Subject to IRB approach					
Corporate	18,711	3,555	15,737	38,003	36,540
SME Corporate	2,532	338	-	2,870	2,770
Sovereign	2,343	-	492	2,835	2,798
Bank	4,439	-	6,674	11,113	11,288
Residential Mortgages	23,976	434	-	24,410	23,764
Other Retail	5,432	-	-	5,432	5,374
Retail SME	4,217	22	-	4,239	4,207
Total IRB approach	61,650	4,349	22,903	88,902	86,741
Specialised Lending	8,708	495	153	9,356	9,283
Subject to Standardised approach					
Corporate	-	892	-	892	796
Residential Mortgages	7,957	-	-	7,957	8,357
Other Retail	1,740	-	-	1.740	1,556
Total Standardised approach	9,697	892	-	10,589	10,709
Other Assets	11,592	2,454	793	14,839	15,223
Total Gross Credit Exposures	91,647	8,190	23,849	123,686	121,956

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 4(b)

	As at 31 December 2015			As at 30 September 2015		
	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
Subject to IRB approach						
Corporate	1,543	384	(687)	1,365	382	(649)
SME Corporate	18	21	(7)	18	16	(6)
Bank	-	3	-	-	8	-
Residential Mortgages	180	67	(4)	182	58	(4)
Other Retail	73	-	(13)	74	-	(11)
Total IRB approach	1,814	475	(711)	1,639	464	(670)
Subject to Standardised approach						
Residential Mortgages	38	409	(11)	39	187	(10)
Other Retail	121	-	(6)	15	-	(5)
Total Standardised approach	159	409	(17)	54	187	(15)
Other Assets[2]	33	-	(1)	47	-	-
Total	2,006	884	(729)	1,740	651	(685)

1 In accordance with APRA prudential definitions, Past Due facilities do not form part of impaired facilities as they are well secured.

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

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2015		For the 3 months to 30 September 2015	
	Charges for Individually Assessed Provisions $m	**Write-offs $m**	Charges for Individually Assessed Provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	(69)	(1)	(158)	4
SME Corporate	(1)	-	-	-
Other Retail	-	(11)	-	(14)
Total IRB approach	(70)	(12)	(158)	(10)
Subject to Standardised approach				
Residential Mortgages	(1)	-	-	-
Other Retail	(1)	(18)	1	(9)
Total Standardised approach	(2)	(18)	1	(9)
Total	(72)	(30)	(157)	(19)

APS 330 Table 4(c)

	As at 31 December 2015 $m	As at 30 September 2015 $m
Collective provisions	**472**	417
Collective provisions treated as individually assessed provisions for regulatory purposes	**(20)**	(25)
Net collective provisions for regulatory purposes[1]	**452**	392
Tax effect	**(136)**	(118)
General reserve for credit losses	**316**	274

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

5.0 Securitisation

5.1 Securitisation activity

Over the 3 months to 31 December 2015, 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 5(a)

	For the 3 months to 31 December 2015		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure type	**ADI originated $m**	**ADI as sponsor $m**	**$m**
Banking Book			
Residential Mortgages	4,574	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	2,976	-	-
Other	-	-	-
Total Banking Book	7,550	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

[1] Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

	For the 3 months to 30 September 2015		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages	4,889	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	860	-	-
Other	36	-	-
Total Banking Book	5,785	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

[1] Exposures included in Auto and equipment finance that have been transferred from warehouse structures to term structures, may also have been originated to the warehouse within the same period. This would result in those exposures being included twice.

5.2 Securitisation activity

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

APS 330 Table 5(b)

	As at 31 December 2015		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	23,108	608	23,716
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,055	-	8,055
Other	320	9	329
Total Banking Book	31,483	617	32,100
Trading Book			
Residential Mortgages	-	28	28
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	31	31
Total Trading Book	-	59	59

[1] Included in the above are assets of $29,327m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

	As at 30 September 2015		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	22,001	419	22,420
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,776	-	7,776
Other	390	6	396
Total Banking Book	30,167	425	30,592
Trading Book			
Residential Mortgages	-	21	21
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	135	135
Total Trading Book	-	156	156

[1] Included in the above are assets of $27,725m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

6.0 Leverage Ratio Disclosures

In July 2015, APRA released the APS 110 and APS 330, which include new disclosure requirements relating to Leverage ratio for ADIs. The leverage ratio is a non-risk based ratio that is intended to restrict the build-up of excessive leverage in the banking system and act as a supplementary measure to create a back-stop for the risk-based capital requirements. As of December 2015, APRA has not proposed a minimum leverage ratio requirement and has confirmed that the Basel III leverage ratio is a disclosure requirement for December 2015.

Leverage ratio disclosures

Capital and total exposures	31 December 2015	30 September 2015
Tier 1 Capital	10,851	10,180
Total exposures	208,846	201,534
Leverage ratio		
Leverage ratio	5.2%	5.1%

Disclaimer

General areas of disclaimer:

- The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (Macquarie) 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. Information in this document, including any forward looking statements, should not be considered as advice or a recommendation or opinion on any of the Businesses. This document may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Macquarie's businesses and operations, market conditions, results of operation and financial conditions, capital adequacy, individually assessed provisions and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements.
- 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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