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 BANK

ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

14 February 2014 - The Macquarie Bank Limited December 2013 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.

Contacts:

Karen Khadi, Macquarie Group Investor Relations	+612 8232 3548
Lisa Jamieson, Macquarie Group Media Relations	+612 8232 6016

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MACQUARIE BANK

Pillar 3 disclosures

Macquarie Bank
December 2013

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 Group.

This year celebrates the bicentenary of the Holey Dollar.

Contents

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.

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 (APS330) as at 31 December 2013 together with the 30 September 2013 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2013 is also available on the Macquarie website at www.macquarie.com

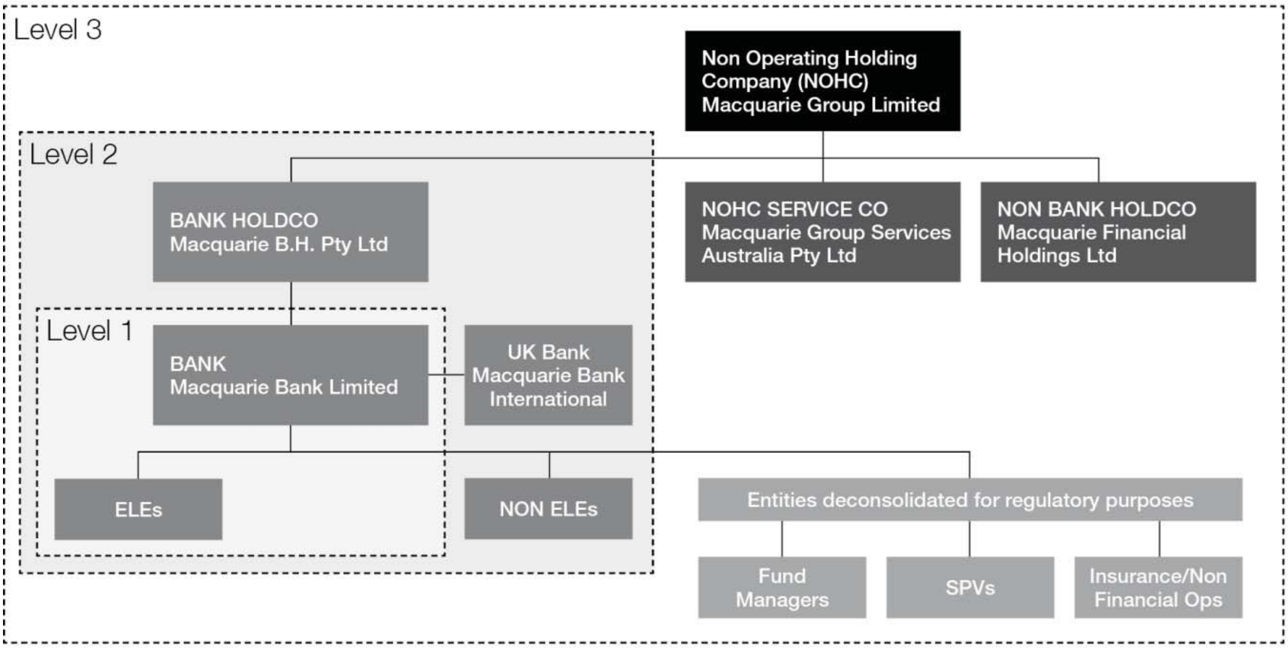
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2013 and consists of sections covering:

– Capital Adequacy
– Credit Risk Exposures
– Provisioning
– Securitisation.

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 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 3(f)

	As At 31 December 2013	As At 30 September 2013
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	9.7%	9.8%
Level 2 Macquarie Bank Group Tier 1 capital ratio	10.8%	10.9%
Level 2 Macquarie Bank Group Total capital ratio	13.2%	13.4%

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.

2.2 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 2013 $m	As At 30 September 2013 $m
Credit risk		
Subject to IRB approach		
Corporate[1]	18,342	16,545
SME Corporate[1]	1,731	1,613
Sovereign	644	650
Bank	1,711	1,748
Residential Mortgage	2,657	2,334
Other Retail[1]	4,755	4,491
Total RWA subject to IRB approach	29,840	27,381
Specialised lending exposures subject to slotting criteria[2]	4,955	5,192
Subject to Standardised approach		
Corporate[1]	1,071	1,388
Residential Mortgage	1,504	1,453
Other Retail	961	971
Total RWA subject to Standardised approach	3,536	3,812
Credit risk RWA for securitisation exposures	1,052	1,090
Credit Valuation Adjustment RWA	2,573	2,637
Exposures to Central Counterparties RWA	1,436	1,510
RWA for Other Assets	6,326	6,318
Total Credit risk RWA	49,718	47,940
Market risk RWA	4,667	4,818
Operational risk RWA	8,405	8,443
Interest rate risk in the banking book RWA	-	-
APRA Scaling factor (6%) applied to IRB exposures	1,790	1,643
Total RWA	64,580	62,844

[1] During the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using internal model. This exposure was previously captured under the Standardised Approach.

[2] Specialised lending exposures subject to supervisory 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
- central counterparty exposures
- trading book exposures
- 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 2013 $m**	As At 30 September 2013 $m	Average Exposures for the 3 months $m
Corporate[1]	**31,218**	29,923	30,571
SME Corporate[2]	**2,613**	2,435	2,524
Sovereign	**3,714**	4,333	4,023
Bank	**9,763**	10,303	10,033
Residential Mortgages	**21,950**	20,514	21,232
Other Retail	**9,114**	8,855	8,985
Other Assets[3]	**9,372**	10,575	9,973
Total Gross Credit Exposure	**87,744**	86,938	87,341

[1] "Corporate" includes Specialised Lending exposure of $5,348 million as at 31 December 2013 (30 September 2013: $5,403 million).

[2] "SME Corporate" includes Specialised Lending exposure of $483 million as at 31 December 2013 (30 September 2013: $448 million).

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

3.0 Credit Risk Exposures
continued

APS 330 Table 4(a) (continued)

Portfolio Type	As At 31 December 2013 $m	As At 30 September 2013 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate	**30,147**	28,533	29,340
SME Corporate	**2,613**	2,435	2,524
Sovereign	**3,714**	4,333	4,023
Bank	**9,763**	10,303	10,033
Residential Mortgage	**14,050**	12,321	13,228
Other Retail	**7,660**	7,401	7,489
Total IRB approach	**67,947**	65,326	66,637
Subject to Standardised approach			
Corporate	**1,071**	1,390	1,231
Residential Mortgage	**7,900**	8,193	8,046
Other Retail	**1,454**	1,454	1,454
Total Standardised approach	**10,425**	11,037	10,731
Other Assets	**9,372**	10,575	9,973
Total Gross Credit Exposure	**87,744**	86,938	87,341

APS 330 Table 4(a) (continued)

	As At 31 December 2013				
		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	15,075	2,192	7,532	24,799	23,965
SME Corporate	1,896	234	-	2,130	2,058
Sovereign	3,426	-	288	3,714	4,023
Bank	4,112	305	5,346	9,763	10,033
Residential Mortgages	13,803	247	-	14,050	13,186
Other Retail	7,660	-	-	7,660	7,531
Total IRB approach	45,972	2,978	13,166	62,116	60,796
Specialised Lending	5,123	521	187	5,831	5,841
Subject to Standardised approach					
Corporate	258	813	-	1,071	1,231
Residential Mortgages	7,897	3	-	7,900	8,046
Other Retail	1,454	-	-	1,454	1,454
Total Standardised approach	9,609	816	-	10,425	10,731
Other Assets	9,372	-	-	9,372	9,973
Total Gross Credit Exposures	70,076	4,315	13,353	87,744	87,341

3.0 Credit Risk Exposures
continued

APS 330 Table 4(a) (continued)

	As At 30 September 2013				
		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	14,627	1,802	6,701	23,130	22,121
SME Corporate	1,769	218	-	1,987	2,033
Sovereign	4,006	-	327	4,333	4,343
Bank	5,334	-	4,969	10,303	10,327
Residential Mortgages	12,104	217	-	12,321	11,518
Other Retail	7,401	-	-	7,401	7,384
Total IRB approach	45,241	2,237	11,997	59,475	57,726
Specialised Lending	5,134	442	275	5,851	5,702
Subject to Standardised approach					
Corporate	624	766	-	1,390	1,286
Residential Mortgages	8,189	4	-	8,193	8,675
Other Retail	1,454	-	-	1,454	1,521
Total Standardised approach	10,267	770	-	11,037	11,482
Other Assets	10,575	-	-	10,575	10,966
Total Gross Credit Exposures	71,217	3,449	12,272	86,938	85,876

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 2013			As at 30 September 2013		
	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	**542**	**177**	**(300)**	599	185	(286)
SME Corporate	**26**	**7**	**(6)**	26	12	(7)
Residential Mortgage	**152**	**53**	**(16)**	148	52	(11)
Other Retail	**16**	**-**	**(7)**	13	-	(6)
Other[2]	**6**	**-**	**(5)**	6	-	(5)
Total IRB approach	**742**	**237**	**(334)**	792	249	(315)
Subject to Standardised approach						
Residential Mortgage	**34**	**24**	**(9)**	34	25	(10)
Other Retail	**27**	**5**	**(9)**	28	1	(11)
Total Standardised approach	**61**	**29**	**(18)**	62	26	(21)
Other Assets[3]	**244**	**-**	**(3)**	253	-	(4)
Total	**1,047**	**266**	**(355)**	1,107	275	(340)

1 In accordance with APRA prudential definitions, Past Due facilities do not form part of impaired facilities as they are well secured.
2 IRB "Other" includes impaired debt investment securities.
3 Other Assets impaired facilities include real estate owned subsequent to facility foreclosure.

4.0 Provisioning
continued

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2013		For the 3 months to 30 September 2013	
	Charges for Individually Assessed Provisions $m	Write-offs $m	Charges for Individually Assessed Provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	(22)	(1)	(43)	(1)
SME Corporate	(1)	-	(1)	-
Residential Mortgage	(5)	-	(3)	-
Other Retail	(1)	(7)	-	(9)
Total IRB approach	(29)	(8)	(47)	(10)
Subject to Standardised approach				
Other Retail	(2)	(6)	(1)	(6)
Total Standardised approach	(2)	(6)	(1)	(6)
Total	(31)	(14)	(48)	(16)

APS 330 Table 4(c)

	As At 31 December 2013 $m	As At 30 September 2013 $m
Collective provisions	245	232
Collective provisions treated as individually assessed provisions for regulatory purposes	(21)	(18)
Net collective provisions for regulatory purposes[1]	224	214
Tax effect	(67)	(64)
General reserve for credit losses	157	150

[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 2013, 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 month to 31 December 2013		
	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 Mortgage	**2,140**	**-**	**-**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**2,168**	**-**	**-**
Other	**79**	**-**	**-**
Total Banking Book	**4,387**	**-**	**-**
Trading Book			
Residential Mortgage	**-**	**-**	**-**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**-**	**-**	**-**
Other	**-**	**-**	**-**
Total Trading Book	**-**	**-**	**-**

	For the 3 months to 30 September 2013		
	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 Mortgage	4,510	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	676	-	-
Other	20	-	-
Total Banking Book	5,206	-	-
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 5(b)

	As At 31 December 2013		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgage	15,426	505	15,932
Credit cards and other personal loans	-	-	-
Auto and equipment finance	6,846	-	6,846
Other	422	41	463
Total Banking Book	22,694	546	23,241
Trading Book			
Residential Mortgage	-	6	6
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	6	6

[1] Included in the above are assets of $6,611 million in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Group.

	As At 30 September 2013		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgage	13,993	583	14,576
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,972	-	5,972
Other	396	37	433
Total Banking Book	20,361	620	20,981
Trading Book			
Residential Mortgage	-	7	7
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	8	8
Total Trading Book	-	15	15

[1] Included in the above are assets of $5,915 million in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Group.

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, specific 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.