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MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

15 August 2016 - The Macquarie Bank Limited June 2016 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; and
- Requiring capital to be held against exposures to central clearing houses.

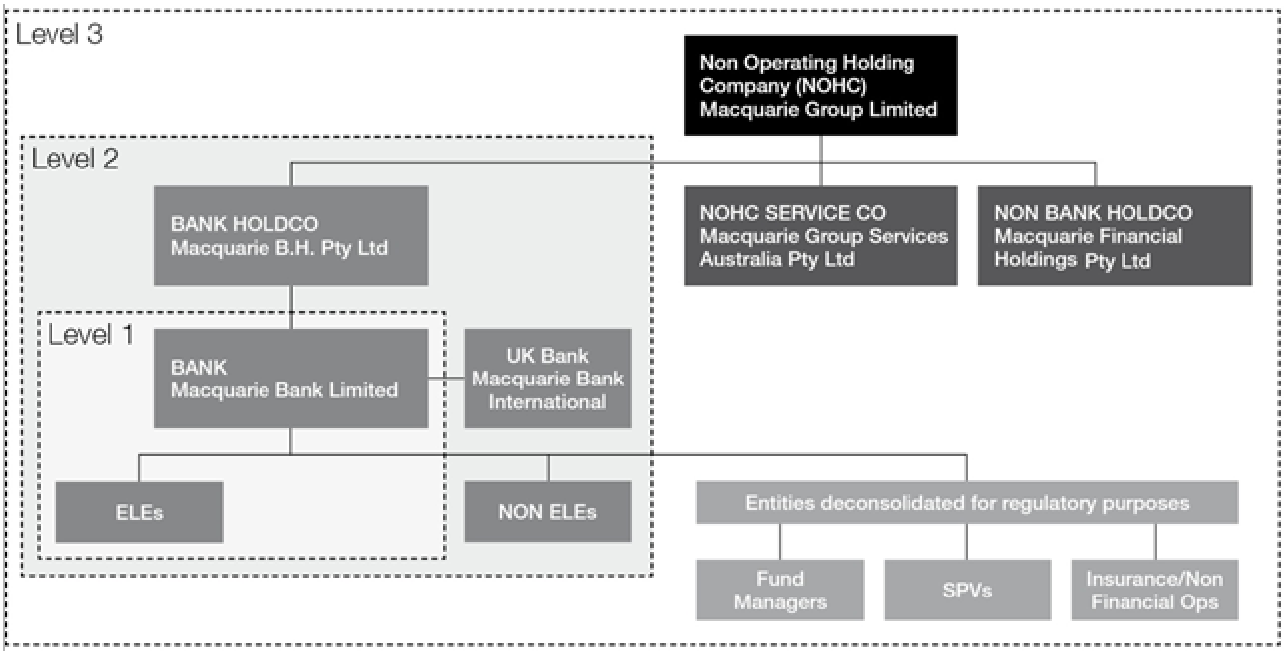
APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APRA Prudential Standard 330: Public Disclosure (APS 330) as at 30 June 2016 together with the 31 March 2016 comparative disclosures. The most recent full Pillar 3 disclosure document as at 31 March 2016 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 30 June 2016 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 310: Audit and Related Matters (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 30 June 2016**	As at 31 March 2016
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio[1]	**10.3%**	10.7%
Level 2 Macquarie Bank Group Total Tier 1 capital ratio[1]	**11.4%**	11.8%
Level 2 Macquarie Bank Group Total capital ratio[1]	**13.7%**	14.1%
Level 2 Macquarie Bank Group Leverage ratio	**5.3%**	5.5%

[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.

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 ADI Prudential Standards.

The table below sets out the RWA for the Macquarie Bank Group.

APS 330 Table 3(a-e)

	As at 30 June 2016 $m	As at 31 March 2016 $m
Credit risk		
Subject to IRB approach		
Corporate	**28,448**	29,628
SME Corporate	**2,538**	2,498
Sovereign	**301**	363
Bank	**1,684**	1,350
Residential Mortgages	**6,666**	6,562
Other Retail	**4,238**	3,677
Retail SME	**2,879**	2,582
Total RWA subject to IRB approach	**46,754**	46,660
Specialised lending exposures subject to slotting criteria[1]	**6,979**	7,234
Subject to Standardised approach		
Corporate	**789**	755
Residential Mortgages	**2,930**	3,271
Other Retail	**7,497**	8,130
Total RWA subject to Standardised approach	**11,216**	12,156
Credit risk RWA for securitisation exposures	**494**	324
Credit Valuation Adjustment RWA	**2,987**	2,853
Exposures to Central Counterparties RWA	**1,290**	1,390
RWA for Other Assets	**9,280**	9,081
Total Credit risk RWA	**79,000**	79,698
Market risk RWA	**4,381**	3,926
Operational risk RWA	**9,792**	9,624
Interest rate risk in the banking book RWA	**491**	576
Total RWA	**93,664**	93,824

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;
- CVA;
- central counterparty exposures;
- trading book on balance sheet 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 30 June 2016 $m**	As at 31 March 2016 $m	Average Exposures for the 3 months $m
Corporate[1]	**43,853**	46,076	44,964
SME Corporate[2]	**3,570**	3,511	3,541
Sovereign	**2,811**	2,716	2,763
Bank	**10,705**	9,181	9,943
Residential Mortgages	**37,283**	37,245	37,264
Other Retail	**13,589**	13,792	13,691
Retail SME	**4,521**	4,221	4,371
Other Assets[3]	**13,081**	12,354	12,717
Total Gross Credit Exposure	**129,413**	129,096	129,254

1 Corporate includes Specialised Lending exposure of $6,373 million as at 30 June 2016 (31 March 2016: $7,053 million).
2 SME Corporate includes Specialised Lending exposure of $575 million as at 30 June 2016 (31 March 2016: $565 million).
3 The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 4(a) (continued)

Portfolio Type	As at 30 June 2016 $m	As at 31 March 2016 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate	**43,064**	45,321	44,192
SME Corporate	**3,570**	3,511	3,541
Sovereign	**2,811**	2,716	2,763
Bank	**10,705**	9,181	9,943
Residential Mortgages	**31,124**	30,450	30,787
Other Retail	**6,049**	5,623	5,836
Retail SME	**4,521**	4,221	4,371
Total IRB approach	**101,844**	101,023	101,433
Subject to Standardised approach			
Corporate	**789**	755	772
Residential Mortgages	**6,159**	6,795	6,477
Other Retail	**7,540**	8,169	7,855
Total Standardised approach	**14,488**	15,719	15,104
Other Assets	**13,081**	12,354	12,717
Total Gross Credit Exposure	**129,413**	129,096	129,254

3.0 Credit Risk Exposures
continued

APS 330 Table 4(a) (continued)

	As at 30 June 2016				
		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	20,392	4,071	12,228	36,691	37,479
SME Corporate	2,538	457	-	2,995	2,971
Sovereign	2,184	-	627	2,811	2,763
Bank	5,696	-	5,009	10,705	9,943
Residential Mortgages	25,978	5,146	-	31,124	30,787
Other Retail	6,049	-	-	6,049	5,836
Retail SME	4,394	127	-	4,521	4,371
Total IRB approach	67,231	9,801	17,864	94,896	94,150
Specialised Lending	5,804	624	520	6,948	7,283
Subject to Standardised approach					
Corporate	-	789	-	789	772
Residential Mortgages	6,159	-	-	6,159	6,477
Other Retail	7,540	-	-	7,540	7,855
Total Standardised approach	13,699	789	-	14,488	15,104
Other Assets	12,554	177	350	13,081	12,717
Total Gross Credit Exposures	99,288	11,391	18,734	129,413	129,254

APS 330 Table 4(a) (continued)

	As at 31 March 2016				
		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	20,169	4,727	13,372	38,268	39,921
SME Corporate	2,526	420	-	2,946	2,903
Sovereign	2,280	-	436	2,716	2,907
Bank	3,589	-	5,592	9,181	9,799
Residential Mortgages	25,380	5,070	-	30,450	29,892
Other Retail	5,623	-	-	5,623	5,550
Retail SME	4,092	129	-	4,221	4,265
Total IRB approach	63,659	10,346	19,400	93,405	95,237
Specialised Lending	6,809	511	298	7,618	8,173
Subject to Standardised approach					
Corporate	-	755	-	755	776
Residential Mortgages	6,653	142	-	6,795	7,046
Other Retail	8,169	-	-	8,169	8,318
Total Standardised approach	14,822	897	-	15,719	16,140
Other Assets	11,687	221	446	12,354	12,296
Total Gross Credit Exposures	96,977	11,975	20,144	129,096	131,846

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 30 June 2016			As at 31 March 2016		
	Impaired Facilities $m	**Past Due >90 days $m**	**Individually Assessed Provisions $m**	Impaired Facilities $m	Past Due >90 days $m	Individually Assessed Provisions $m
Subject to IRB approach						
Corporate[1]	**863**	**59**	**(289)**	635	355	(264)
SME Corporate	**33**	**25**	**(9)**	20	33	(9)
Bank	**-**	**9**	**-**	-	3	-
Residential Mortgages	**186**	**84**	**(5)**	176	73	(4)
Other Retail	**93**	**-**	**(20)**	87	-	(18)
Total IRB approach	**1,175**	**177**	**(323)**	918	464	(295)
Subject to Standardised approach						
Residential Mortgages[1]	**42**	**338**	**(11)**	40	383	(11)
Other Retail[1]	**73**	**53**	**(13)**	54	54	(6)
Total Standardised approach	**115**	**391**	**(24)**	94	437	(17)
Other Assets	**21**	**-**	**(1)**	23	-	(1)
Total	**1,311**	**568**	**(348)**	1,035	901	(313)

1 Past due > 90 days predominantly relates to defaulted exposures acquired at a discount in the CAF lending business.

APS 330 Table 4(b) (continued)

	For the 3 months to 30 June 2016		For the 3 months to 31 March 2016	
	Charges for Individually Assessed provisions $m	Write-offs $m	Charges for Individually Assessed provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	(17)	(1)	(104)	(5)
SME Corporate	-	-	(2)	-
Residential Mortgages	(1)	-	(1)	-
Other Retail	(2)	(13)	(7)	(11)
Total IRB approach	(20)	(14)	(114)	(16)
Subject to Standardised approach				
Residential Mortgages	-	-	(1)	-
Other Retail	(7)	(25)	(2)	(18)
Total Standardised approach	(7)	(25)	(3)	(18)
Total	(27)	(39)	(117)	(34)

APS 330 Table 4(c)

	As at 30 June 2016 $m	As at 31 March 2016 $m
Collective provisions	445	462
Collective provisions treated as individually assessed provisions for regulatory purposes	(35)	(15)
Net collective provisions for regulatory purposes[1]	410	447
Tax effect	(123)	(134)
General reserve for credit losses	287	313

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 30 June 2016, 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 30 June 2016		
	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	1,968	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	2,060	-	-
Other	-	-	-
Total Banking Book	4,028	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
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 31 March 2016		
	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	2,305	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	948	-	-
Other	-	-	-
Total Banking Book	3,253	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
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 30 June 2016		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	24,729	389	25,118
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,298	-	8,298
Other	343	12	355
Total Banking Book	33,370	401	33,771
Trading Book			
Residential Mortgages	-	18	18
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	18	18

1 Included in the above are assets of $31,238m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

	As at 31 March 2016		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	24,354	444	24,798
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,119	1	8,120
Other	279	9	288
Total Banking Book	32,752	454	33,206
Trading Book			
Residential Mortgages	-	29	29
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	1	1
Other	-	-	-
Total Trading Book	-	30	30

1 Included in the above are assets of $30,525m 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 final version of APS 110 and APS 330, which include new disclosure requirements relating to leverage ratios 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 June 2016, APRA has not proposed a minimum leverage ratio requirement and confirmed that Basel III leverage ratio is a disclosure requirement for June 2016.

Leverage ratio disclosures

Capital and total exposures	30 June 2016	31 March 2016
Tier 1 Capital	**10,672**	11,111
Total exposures	**201,130**	200,202
Leverage ratio		
Leverage ratio	**5.3%**	5.5%

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 to investors or potential investors in relation to holding, purchasing or selling activities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of information having regard to the matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse and unanticipated market, financial or political developments and, in international transactions, currency risk.
- 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. Macquarie does not take any obligation to publicly release the results of any revisions to these forward looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside Macquarie's control. Past performance is not a reliable indication of future performance.
- Unless otherwise specified all information is at 30 June 2016.
- 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; and
  - 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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