MACQUARIE BANK

Pillar 3 disclosures

Macquarie Bank
December 2019

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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

19 Feb 2020 - The Macquarie Bank Limited December 2019 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: Public Disclosure.

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Contents

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.

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 APS 330: Public Disclosure as at 31 December 2019 together with the 30 September 2019 comparatives where appropriate. The most recent full Pillar 3 disclosure document as at 30 September 2019 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 2019 and consists of sections covering:

- Capital Adequacy;
- Credit Risk Measurement;
- Provisioning;
- Securitisation;
- Leverage Ratio Disclosures; and
- Liquidity Coverage Ratio Disclosures.

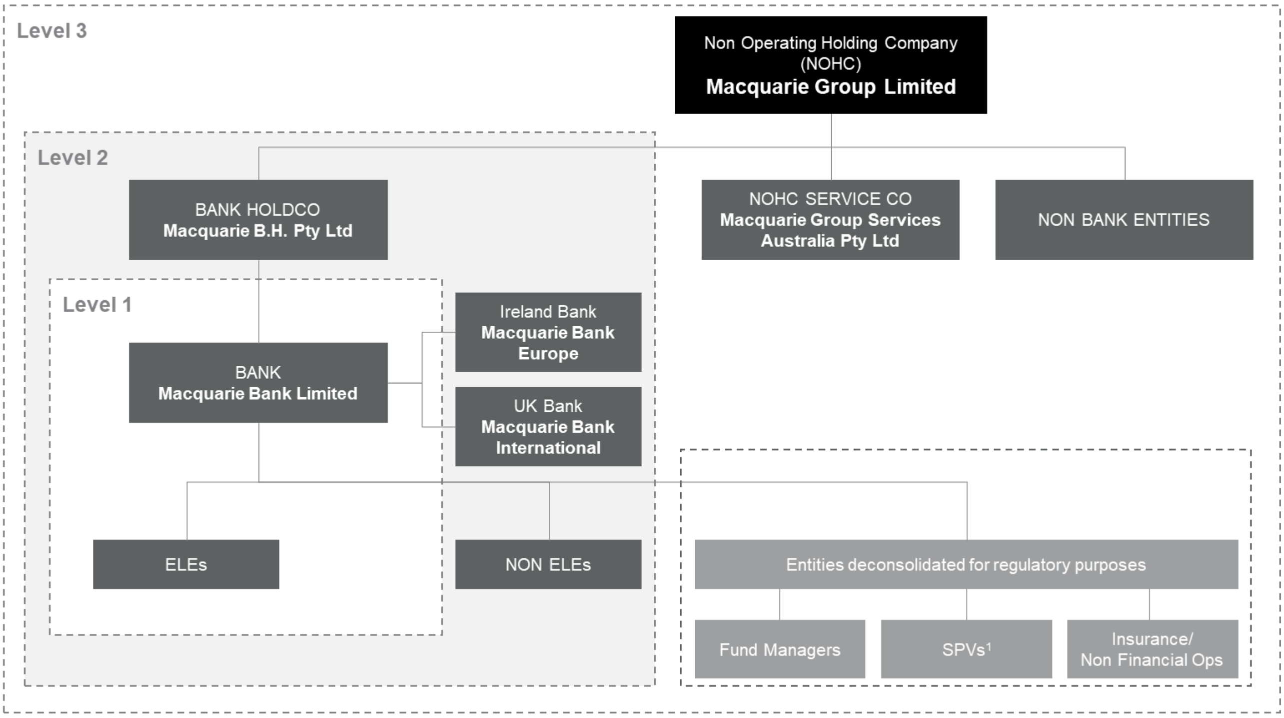
1.0 Overview

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:



1. These are securitisation vehicles that achieve Regulatory Capital Relief per APS 120.

Reporting levels are in accordance with APRA definitions contained in APRA Prudential Standard APS 110: Capital Adequacy.

References in this report to Macquarie refer to the Level 2 regulatory group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory 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: Audit and Related Matters 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, Liquidity and Leverage Ratios

APS 330 Table 3(f)

Capital, Liquidity and Leverage Ratios	**As at 31 December 2019**	As at 30 September 2019
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio[1]	**11.4%**	11.4%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio[1]	**13.3%**	13.3%
Macquarie Level 2 regulatory group Total capital ratio[1]	**15.1%**	15.2%
Macquarie Level 2 regulatory group Leverage ratio	**5.3%**	5.5%
Macquarie Level 2 regulatory group Liquidity coverage ratio[2]	**157.8%**	172.4%

1 The Macquarie Level 2 regulatory group capital and liquidity ratios are above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.

2 The Liquidity Coverage Ratio ('LCR') for the 3 months to 31 December 2019 is calculated from 63 daily LCR observations (30 September 2019 is calculated from 65 daily LCR observations).

2.2 Risk Weighted Assets (RWA)

RWA are a risk based measure of exposures used in assessing overall capital usage of the Level 2 regulatory 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 exposures for the Macquarie Level 2 regulatory group.

APS 330 Table 3(a-e)

	As at 31 December 2019	As at 30 September 2019
Credit risk		
Subject to IRB approach		
Corporate	**25,125**	24,927
SME Corporate	**3,540**	3,573
Sovereign	**278**	199
Bank	**1,244**	1,535
Residential Mortgages	**17,042**	15,948
Other Retail	**4,191**	4,373
Retail SME	**3,454**	3,591
Total RWA subject to IRB approach	**54,874**	54,146
Specialised lending exposures subject to slotting criteria[1]	**6,231**	6,079
Subject to Standardised approach		
Corporate	**242**	320
Residential Mortgages	**749**	762
Other Retail	**2,076**	2,240
Total RWA subject to Standardised approach	**3,067**	3,322
Credit risk RWA for securitisation exposures	**731**	740
Credit Valuation Adjustment RWA	**5,145**	5,343
Exposures to Central Counterparties RWA	**752**	716
RWA for Other Assets	**2,191**	2,426
Total Credit risk RWA	**72,991**	72,772
Market risk RWA	**4,858**	4,934
Operational risk RWA	**10,501**	10,386
Interest rate risk in the banking book RWA	**-**	-
Total RWA	**88,350**	88,092

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

3.0 Credit Risk Measurement

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 reflects the potential loss that Macquarie could 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 along with derivatives and repurchase agreements. The exposure at default is calculated in a manner consistent with APRA Prudential Standards.

Exposures have been based on Level 2 regulatory group as defined in Section 1.1. The gross credit risk exposures in this section will differ from the disclosures in the MBL and its subsidiaries, the Consolidated Entity financial report 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 exclude the impact of:

- credit risk mitigation;
- securitisation exposures;
- CVA;
- central counterparty exposures;
- trading book on balance sheet exposures; and
- equity exposures.

The following tables set out the total gross credit risk exposures per the above description for the Level 2 regulatory group, classified by Basel III portfolio type and credit exposure type.

APS 330 Table 4(a)

Portfolio Type	**As at 31 December 2019**	As at 30 September 2019	Average Exposures for the 3 months[4] $m
Corporate[1]	**52,010**	51,198	51,604
SME Corporate[2]	**4,966**	4,886	4,926
Sovereign	**4,101**	3,255	3,678
Bank	**6,368**	6,815	6,591
Residential Mortgages	**61,165**	56,079	58,622
Other Retail	**10,070**	10,379	10,225
Retail SME	**4,938**	5,049	4,994
Other Assets[3]	**6,406**	10,541	8,473
Total Gross Credit Exposure	**150,024**	148,202	149,113

1 Corporate includes specialised lending exposure of $5,376 million as at 31 December 2019 (30 September 2019: $5,274 million).
2 SME Corporate includes specialised lending exposure of $691 million as at 31 December 2019 (30 September 2019: $682 million).
3 The major components of Other Assets are unsettled trades, related party exposures and other debtors.
4 Average exposures have been calculated on quarter end spot positions.

APS 330 Table 4(a) (continued)

Portfolio Type	As at 31 December 2019	As at 30 September 2019	Average Exposures for the 3 months[4] $m
Subject to IRB approach			
Corporate[1]	**51,768**	50,878	51,323
SME Corporate[2]	**4,966**	4,886	4,926
Sovereign	**4,101**	3,255	3,678
Bank	**6,368**	6,815	6,591
Residential Mortgages	**59,925**	54,814	57,369
Other Retail	**7,927**	8,064	7,996
Retail SME	**4,938**	5,049	4,994
Total IRB approach	**139,993**	133,761	136,877
Subject to Standardised approach			
Corporate	**242**	320	281
Residential Mortgages	**1,240**	1,265	1,253
Other Retail	**2,143**	2,315	2,229
Total Standardised approach	**3,625**	3,900	3,763
Other Assets[3]	**6,406**	10,541	8,473
Total Gross Credit Exposure	**150,024**	148,202	149,113

1 Corporate includes specialised lending exposure of $5,376 million as at 31 December 2019 (30 September 2019: $5,274 million).
2 SME Corporate includes specialised lending exposure of $691 million as at 31 December 2019 (30 September 2019: $682 million).
3 The major components of Other Assets are unsettled trades, related party exposures and other debtors.
4 Average exposures have been calculated on quarter end spot positions.

3.0 Credit Risk Measurement
continued

APS 330 Table 4(a) (continued)

	As at 31 December 2019				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months[1] $m
Subject to IRB approach					
Corporate	19,378	10,132	16,882	46,392	45,998
SME Corporate	3,602	673	-	4,275	4,240
Sovereign	1,280	2,620	201	4,101	3,678
Bank	2,864	1,080	2,424	6,368	6,591
Residential Mortgages	49,861	10,064	-	59,925	57,369
Other Retail	7,927	-	-	7,927	7,996
Retail SME	4,925	13	-	4,938	4,994
Total IRB approach	89,837	24,582	19,507	133,926	130,866
Specialised Lending	3,267	1,136	1,664	6,067	6,011
Subject to Standardised approach					
Corporate	-	242	-	242	281
Residential Mortgages	1,240	-	-	1,240	1,253
Other Retail	2,143	-	-	2,143	2,229
Total Standardised approach	3,383	242	-	3,625	3,763
Other Assets	4,442	1,144	820	6,406	8,473
Total Gross Credit Exposures	100,929	27,104	21,991	150,024	149,113

1 Average exposures have been calculated on quarter end spot positions.

APS 330 Table 4(a) (continued)

	As at 30 September 2019				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months $m[1]
Subject to IRB approach					
Corporate	17,868	10,772	16,964	45,604	42,708
SME Corporate	3,542	662	-	4,204	4,216
Sovereign	1,499	1,538	218	3,255	3,151
Bank	2,822	1,126	2,867	6,815	7,439
Residential Mortgages	44,778	10,036	-	54,814	52,038
Other Retail	8,064	-	-	8,064	8,076
Retail SME	5,035	14	-	5,049	5,081
Total IRB approach	83,608	24,148	20,049	127,805	122,709
Specialised Lending	2,882	869	2,205	5,956	5,069
Subject to Standardised approach					
Corporate	-	320	-	320	331
Residential Mortgages	1,265	-	-	1,265	1,276
Other Retail	2,315	-	-	2,315	2,437
Total Standardised approach	3,580	320	-	3,900	4,044
Other Assets	5,863	3,705	973	10,541	10,481
Total Gross Credit Exposures	95,933	29,042	23,227	148,202	142,303

1 Average exposures have been calculated on quarter end spot positions.

4.0 Provisioning

The table below details Macquarie's impaired facilities, past due facilities and specific provisions, presented in accordance with the definitions contained in Prudential Standard APS 220: Credit Quality.

APS 330 Table 4(b)

	As at 31 December 2019			As at 30 September 2019		
	Impaired Facilities $m	**Past Due >90 days $m**	**Specific Provisions $m**	Impaired Facilities $m	Past Due >90 days $m	Specific Provisions $m
Subject to IRB approach						
Corporate	**184**	**30**	**(69)**	234	34	(67)
SME Corporate	**141**	**74**	**(40)**	134	46	(38)
Residential Mortgages	**272**	**135**	**(3)**	271	149	(3)
Other Retail	**115**	**-**	**(29)**	119	-	(32)
Retail SME	**80**		**(18)**	78	-	(18)
Total IRB approach	**792**	**239**	**(159)**	836	229	(158)
Subject to Standardised approach						
Residential Mortgages	**-**	**-**	**-**	-	-	-
Other Retail	**51**	**-**	**(22)**	61	-	(26)
Total Standardised approach	**51**	**-**	**(22)**	61	-	(26)
Other Assets[1]	**22**	**-**	**-**	22	-	-
Total	**865**	**239**	**(181)**	919	229	(184)
Additional regulatory specific provisions[2]			**(203)**			(210)

1 Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.
2 Includes stage 2 provisions deemed ineligible for General Reserve for credit losses (GRCL). Combined with $43 million (30 September 2019: $40 million) of stage 3 provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Other Retail.

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2019		For the 3 months to 30 September 2019	
	Charges for Specific provisions $m	Write-offs[1] $m	Charges for Specific provisions $m	Write-offs[1] $m
Subject to IRB approach				
Corporate	**(4)**	**-**	(11)	-
SME Corporate	**(12)**	**-**	(4)	-
Residential Mortgages	**(1)**	**-**	-	-
Other Retail	**(5)**	**-**	(6)	-
Retail SME	**(6)**	**-**	(5)	-
Total IRB approach	**(28)**	**-**	(26)	-
Subject to Standardised approach				
Other Retail	**(5)**	**-**	(8)	-
Total Standardised approach	**(5)**	**-**	(8)	-
Total	**(33)**	**-**	(34)	-

1 Under AASB 9, there are no longer direct write-offs to Income Statement. A financial asset is written-off when there is no reasonable expectation of recovering it. At the time of writing-off a financial asset it is adjusted against the Expected Credit Loss (ECL) provision created over the life of the asset and not directly written-off to Income Statement.

APS 330 Table 4(c)

	As at 31 December 2019	As at 30 September 2019
General reserve for credit losses before tax	**149**	152
Tax effect	**(38)**	(39)
General reserve for credit losses (GRCL)	**111**	113

5.0 Securitisation

5.1 Securitisation Activity

Over the 3 months to 31 December 2019, 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 2019		
	Value of loans sold or originated into securitisation		
Exposure type	ADI originated $m	ADI as sponsor $m	Recognised gain or loss on sale $m
Banking Book			
Residential Mortgages	**6,198**	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	**267**	-	-
Other	-	-	-
Total Banking Book	**6,465**	-	-
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 30 September 2019		
	Value of loans sold or originated into securitisation		
Exposure type	ADI originated $m	ADI as sponsor $m	Recognised gain or loss on sale $m
Banking Book			
Residential Mortgages	7,420	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	262	-	-
Other	-	-	-
Total Banking Book	7,682	-	-
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 Exposure Arising from Securitisation Activity by Asset Type

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 2019		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	33,603	3	33,606
Credit cards and other personal loans[2]	400	-	400
Auto and equipment finance	4,783	2	4,785
Other	281	130	411
Total Banking Book	39,067	135	39,202
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

1 Included in the above are assets of $36,007 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.
2. Relates to invested securitisation positions.

	As at 30 September 2019		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	32,237	18	32,255
Credit cards and other personal loans2	367	-	367
Auto and equipment finance	5,264	2	5,266
Other	244	144	388
Total Banking Book	38,112	164	38,276
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

1 Included in the above are assets of $35,226 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.
2 Relates to invested securitisation positions.

6.0 Leverage Ratio Disclosures

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 acts as a supplementary measure to create a back-stop for the risk-based capital requirements.

The Basel Committee on Banking Supervision (BCBS), in December 2017, confirmed that the leverage ratio will have a minimum regulatory requirement of 3%, effective from 1 January 2018. In November 2018, APRA released a draft standard on the leverage ratio which included a minimum leverage ratio requirement of 3.5% for IRB banks. These changes are proposed to apply from 1 January 2022.

Leverage ratio disclosures

Capital and total exposures	**31 December 2019 $m**	30 September 2019 $m	30 June 2019 $m	31 March 2019 $m
Tier 1 Capital	**11,748**	11,716	11,039	10,465
Total exposures	**221,718**	214,705	204,538	196,602
Leverage ratio				
Macquarie Level 2 regulatory group Leverage ratio	**5.3%**	5.5%	5.4%	5.3%

7.0 Liquidity Coverage Ratio Disclosures

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

The LCR requires sufficient levels of unencumbered, high-quality liquid assets (HQLA) to be held to meet expected net cash outflows (NCOs) under a regulatory-defined stress scenario lasting 30 calendar days. Macquarie's 3 month average LCR to 31 December 2019 was 157.8% (based on 63 daily observations).

Macquarie sets internal management and Board-approved minimum limits for the LCR above the regulatory minimum level and monitors its aggregate LCR position against these limits on a daily basis. Macquarie also monitors the LCR position on a standalone basis for all major currencies in which it operates, with the HQLA portfolio being denominated and held in both Australian Dollars and a range of other currencies to ensure Macquarie's liquidity requirements are broadly matched by currency. Macquarie actively considers the impact of business decisions on the LCR, as well as other internal liquidity metrics that form part of the broader liquidity risk management framework.

		For the 3 months to 31 December 2019		For the 3 months to 30 September 2019	
	Liquidity Coverage Ratio disclosure template	**Total unweighted value (average) $m**	**Total weighted value (average) $m**	Total unweighted value (average) $m	Total weighted value (average) $m
	Liquid assets, of which:				
1	High quality liquid assets (HQLA)	*	**17,626**	*	16,649
2	Alternative liquid assets (ALA)	*	**7,971**	*	7,978
3	Reserve Bank of New Zealand (RBNZ) securities	*	**-**	*	-
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	**41,253**	**3,811**	39,795	3,642
5	Stable deposits	**15,304**	**765**	14,422	721
6	Less stable deposits	**25,949**	**3,046**	25,373	2,921
7	Unsecured wholesale funding, of which:	**19,726**	**13,351**	18,749	12,514
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	**5,594**	**1,392**	5,579	1,389
9	Non-operational deposits (all counterparties)	**12,117**	**9,944**	10,954	8,909
10	Unsecured debt	**2,015**	**2,015**	2,216	2,216
11	Secured wholesale funding	*	**1,039**	*	869
12	Additional requirements, of which:	**25,882**	**12,185**	24,322	11,408
13	Outflows related to derivatives exposures and other collateral requirements	**9,865**	**9,865**	9,044	9,044
14	Outflows related to loss of funding on debt products	**310**	**310**	212	212
15	Credit and liquidity facilities	**15,707**	**2,010**	15,066	2,152
16	Other contractual funding obligations	**14,739**	**14,691**	14,382	14,336
17	Other contingent funding obligations	**7,150**	**425**	6,966	420
18	**Total cash outflows**	*	**45,502**	*	43,189
	Cash Inflows				
19	Secured lending (e.g. reverse repos)	**22,293**	**5,997**	25,640	6,374
20	Inflows from fully performing exposures	**4,215**	**3,566**	4,010	3,486
21	Other cash inflows	**19,718**	**19,718**	19,043	19,043
22	**Total cash inflows**	**46,226**	**29,281**	48,693	28,903
23	**Total liquid assets**	*	**25,597**	*	24,627
24	**Total net cash outflows**	*	**16,221**	*	14,286
25	**Liquidity Coverage Ratio (%)[1]**	*	**157.8%**	*	172.4%

* Undisclosed

1 The LCR for the 3 months to 31 December 2019 is calculated from 63 daily LCR observations (3 months to 30 September 2019 was calculated from 65 daily LCR observations).

Disclaimer

- The material in this document has been prepared by Macquarie Bank Limited ABN 46 008 583 542 (MBL) purely for the purpose of explaining the basis on which MBL 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 should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities 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. No representation or warranty is made as to the accuracy, completeness or reliability of the information. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.
- This document may contain forward looking statements that is, statements related to future, not past, events or other matters – including, without limitation, statements regarding our intent, belief or current expectations with respect to MBL's businesses and operations, market conditions, results of operation and financial condition, capital adequacy, provisions for impairments and risk management practices. Readers are cautioned not to place undue reliance on these forward looking statements. Macquarie does not undertake any obligation to publicly release the result of any revisions to these forward looking statements or to otherwise update any forward looking statements, whether as a result of new information, future events or otherwise, after the date of this document. Actual results may vary in a materially positive or negative manner. Forward looking statements and hypothetical examples are subject to uncertainty and contingencies outside MBL's control. Past performance is not a reliable indication of future performance.

  Unless otherwise specified all information is at 31 December 2019.
- 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.
  - Difference in implementation of Basel III framework i.e. APRA has introduced stricter requirements (APRA superequivalence).

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