MACQUARIE BANK

Pillar 3 disclosures

Macquarie Bank
June 2018

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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

20 August 2018 - The Macquarie Bank Limited June 2018 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 30 June 2018 together with the 31 March 2018 comparative disclosures. The most recent full Pillar 3 disclosure document as at 31 March 2018 is also available on the Macquarie website at www.macquarie.com.

MBL has adopted AASB 9 from 01 April 2018. AASB 9 results in changes to accounting policies for financial assets and financial liabilities covering Classification and measurement, Impairment and Hedge accounting.

This report provides an update to certain disclosures as required by APS 330 as at 30 June 2018 and consists of sections covering:

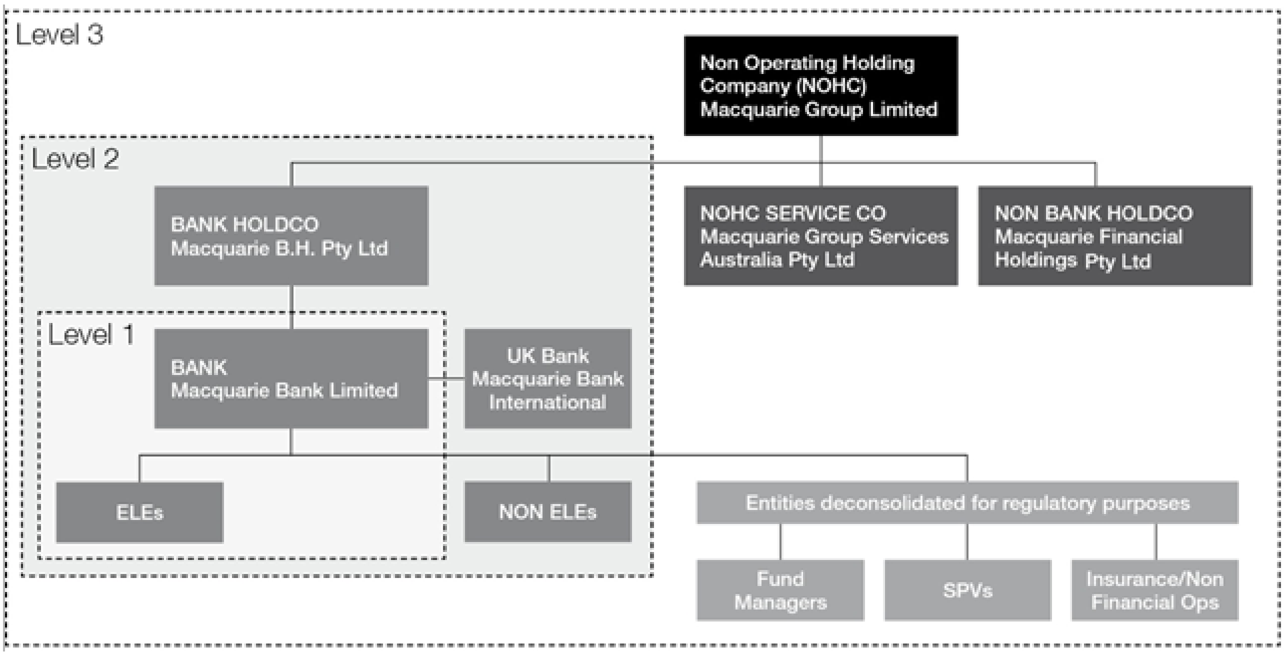
- Capital Adequacy;
- Credit Risk Measurement;
- Provisioning;
- Securitisation; and
- Leverage Ratio Disclosures.

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:



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 and Leverage Ratios

APS 330 Table 3(f)

Capital and Leverage Ratios	As at 30 June 2018	As at 31 March 2018
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio[1]	**10.3%**	11.0%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio[1]	**12.1%**	12.8%
Macquarie Level 2 regulatory group Total capital ratio[1]	**14.0%**	14.6%
Macquarie Level 2 regulatory group Leverage ratio	**5.6%**	6.0%

1 The Macquarie Level 2 regulatory 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 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 for the Level 2 regulatory group.

APS 330 Table 3(a-e)

	As at 30 June 2018 $m	As at 31 March 2018 $m
Credit risk		
Subject to IRB approach		
Corporate	**25,898**	27,136
SME Corporate	**3,314**	3,234
Sovereign	**146**	182
Bank	**1,499**	1,576
Residential Mortgages	**13,015**	12,654
Other Retail	**4,888**	4,466
Retail SME	**3,104**	3,101
Total RWA subject to IRB approach	**51,864**	52,349
Specialised lending exposures subject to slotting criteria[1]	**5,704**	5,392
Subject to Standardised approach		
Corporate	**705**	701
Residential Mortgages	**1,597**	1,630
Other Retail	**3,408**	3,771
Total RWA subject to Standardised approach	**5,710**	6,102
Credit risk RWA for securitisation exposures	**527**	609
Credit Valuation Adjustment RWA	**3,676**	3,712
Exposures to Central Counterparties RWA	**1,292**	1,274
RWA for Other Assets	**8,501**	8,276
Total Credit risk RWA	**77,274**	77,714
Market risk RWA	**4,648**	3,303
Operational risk RWA	**9,967**	9,960
Interest rate risk in the banking book RWA	**951**	753
Total RWA	**92,840**	91,730

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 and includes both on and off balance sheet exposures.

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 Macquarie Bank Limited Consolidated 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 table below sets 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 30 June 2018 $m	As at 31 March 2018 $m	Average Exposures for the 3 months $m
Corporate[1]	**48,200**	44,987	46,593
SME Corporate[2]	**4,476**	4,365	4,421
Sovereign	**2,658**	2,583	2,621
Bank	**8,701**	8,821	8,761
Residential Mortgages	**45,404**	43,565	44,484
Other Retail	**11,884**	11,786	11,835
Retail SME	**4,585**	4,609	4,597
Other Assets[3]	**15,691**	12,729	14,210
Total Gross Credit Exposure	**141,599**	133,445	137,522

1 Corporate includes specialised lending exposure of $5,597 million as at 30 June 2018 (31 March 2018: $5,142 million).
2 SME Corporate includes specialised lending exposure of $581 million as at 30 June 2018 (31 March 2018: $587 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 2018 $m**	As at 31 March 2018 $m	Average Exposures for the 3 months $m
Subject to IRB approach			
Corporate[1]	**47,495**	44,286	45,890
SME Corporate[2]	**4,476**	4,365	4,421
Sovereign	**2,658**	2,583	2,621
Bank	**8,701**	8,821	8,761
Residential Mortgages	**43,137**	41,262	42,200
Other Retail	**8,319**	7,973	8,145
Retail SME	**4,585**	4,609	4,597
Total IRB approach	**119,371**	113,899	116,635
Subject to Standardised approach			
Corporate	**705**	701	703
Residential Mortgages	**2,267**	2,303	2,285
Other Retail	**3,565**	3,813	3,689
Total Standardised approach	**6,537**	6,817	6,677
Other Assets[3]	**15,691**	12,729	14,210
Total Gross Credit Exposure	**141,599**	133,445	137,522

1 Corporate includes specialised lending exposure of $5,597 million as at 30 June 2018 (31 March 2018: $5,142 million).
2 SME Corporate includes specialised lending exposure of $581 million as at 30 June 2018 (31 March 2018: $587 million).
3 The major components of Other Assets are operating lease residuals, other debtors and unsettled trades.

3.0 Credit Risk Measurement
Continued

APS 330 Table 4(a) (continued)

	As at 30 June 2018				
		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	20,784	3,211	17,903	41,898	40,521
SME Corporate	3,266	629	-	3,895	3,836
Sovereign	1,621	-	1,037	2,658	2,621
Bank	2,801	64	5,836	8,701	8,761
Residential Mortgages	35,151	7,986	-	43,137	42,200
Other Retail	8,319	-	-	8,319	8,145
Retail SME	4,565	20	-	4,585	4,597
Total IRB approach	76,507	11,910	24,776	113,193	110,681
Specialised Lending	4,435	899	844	6,178	5,954
Subject to Standardised approach					
Corporate	-	705	-	705	703
Residential Mortgages	2,267	-	-	2,267	2,285
Other Retail	3,565	-	-	3,565	3,689
Total Standardised approach	5,832	705	-	6,537	6,677
Other Assets	12,749	2,541	401	15,691	14,210
Total Gross Credit Exposures	99,523	16,055	26,021	141,599	137,522

APS 330 Table 4(a) (continued)

	As at 31 March 2018				
		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	21,382	3,694	14,068	39,144	39,145
SME Corporate	3,201	577	-	3,778	3,720
Sovereign	1,633	-	950	2,583	2,292
Bank	3,543	46	5,232	8,821	8,281
Residential Mortgages	33,437	7,825	-	41,262	40,529
Other Retail	7,973	-	-	7,973	7,814
Retail SME	4,590	19	-	4,609	4,702
Total IRB approach	75,759	12,161	20,250	108,170	106,483
Specialised Lending	4,320	829	580	5,729	5,570
Subject to Standardised approach					
Corporate	-	701	-	701	748
Residential Mortgages	2,303	-	-	2,303	2,291
Other Retail	3,813	-	-	3,813	4,200
Total Standardised approach	6,116	701	-	6,817	7,239
Other Assets	12,169	213	347	12,729	12,150
Total Gross Credit Exposures	98,364	13,904	21,177	133,445	131,442

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 2018			As at 31 March 2018		
	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	**460**	**51**	**(63)**	255	43	(58)
SME Corporate	**47**	**52**	**(23)**	40	42	(24)
Residential Mortgages	**204**	**89**	**(4)**	190	97	(4)
Other Retail	**92**	**1**	**(28)**	89	-	(17)
Retail SME	**39**	**-**	**(11)**	40	-	(8)
Total IRB approach	**842**	**193**	**(129)**	614	182	(111)
Subject to Standardised approach						
Residential Mortgages[1]	**-**	**200**	**-**	-	223	-
Other Retail	**87**	**-**	**(37)**	62	7	(12)
Total Standardised approach	**87**	**200**	**(37)**	62	230	(12)
Other Assets[2]	**130**	**-**	**-**	120	-	-
Total	**1,059**	**393**	**(166)**	796	412	(123)

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

2 Includes other real estate owned and other assets acquired through security enforcement subsequent to facility foreclosure.

APS 330 Table 4(b) (continued)

	For the 3 months to 30 June 2018		For the 3 months to 31 March 2018	
	Charges for Individually Assessed provisions $m	Write-offs $m	Charges for Individually Assessed provisions $m	Write-offs $m
Subject to IRB approach				
Corporate	**(15)**	**(1)**	(17)	(2)
SME Corporate	**(2)**	**-**	(3)	-
Residential Mortgages	**-**	**-**	-	-
Other Retail	**-**	**(9)**	(3)	(9)
Retail SME	**-**	**(6)**	(1)	(4)
Total IRB approach	**(17)**	**(16)**	(24)	(15)
Subject to Standardised approach				
Other Retail	**(1)**	**(14)**	(1)	(18)
Total Standardised approach	**(1)**	**(14)**	(1)	(18)
Total	**(18)**	**(30)**	(25)	(33)

APS 330 Table 4(c)

	As at 30 June 2018 $m	As at 31 March 2018 $m
General reserve for credit losses[1]	**121**	191

[1] General reserve for credit losses before tax is $161 million as at 30 June 2018 (31 March 2018: $249 million)

5.0 Securitisation

5.1 Securitisation Activity

Over the 3 months to 30 June 2018, 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 2018		
	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	499	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	76	-	-
Other	-	-	-
Total Banking Book	575	-	-
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 2018		
	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	549	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	76	-	-
Other	-	-	-
Total Banking Book	625	-	-
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 30 June 2018		
	Total outstanding exposures securitised[1]		
Exposure type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	20,158	83	20,241
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,236	32	5,268
Other	78	148	226
Total Banking Book	25,472	263	25,735
Trading Book			
Residential Mortgages	5	-	5
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	6	-	6
Total Trading Book	11	-	11

1 Included in the above are assets of $23,425 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.

	As at 31 March 2018		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	22,307	22	22,329
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,784	125	5,909
Other	144	146	290
Total Banking Book	28,235	293	28,528
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 $26,224 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group.

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 February 2018, APRA released a discussion paper on the Leverage ratio which included a minimum leverage ratio requirement of 4% for IRB banks. These changes are subject to consultation and are proposed to apply from 1 July 2019.

Leverage ratio disclosures

Capital and total exposures	**30 June 2018**	31 March 2018	31 December 2017	30 September 2017
Tier 1 Capital	**11,235**	11,720	11,306	11,518
Total exposures	**201,416**	194,668	196,577	190,150
Leverage ratio				
Macquarie Level 2 regulatory group Leverage ratio	**5.6%**	6.0%	5.8%	6.1%

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 30 June 2018.
- 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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