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## **ASX Release**

### **MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT**

14 August 2015 - The Macquarie Bank Limited June 2015 Pillar 3 disclosure document was released today on the Macquarie website [www.macquarie.com](http://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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# Pillar 3 disclosures

Macquarie Bank  
June 2015



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# 1.0 Overview

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## 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 30 June 2015 together with the 31 March 2015 comparative disclosures. The most recent full Pillar 3 disclosure document as at 31 March 2015 is also available on the Macquarie website at [www.macquarie.com](http://www.macquarie.com)

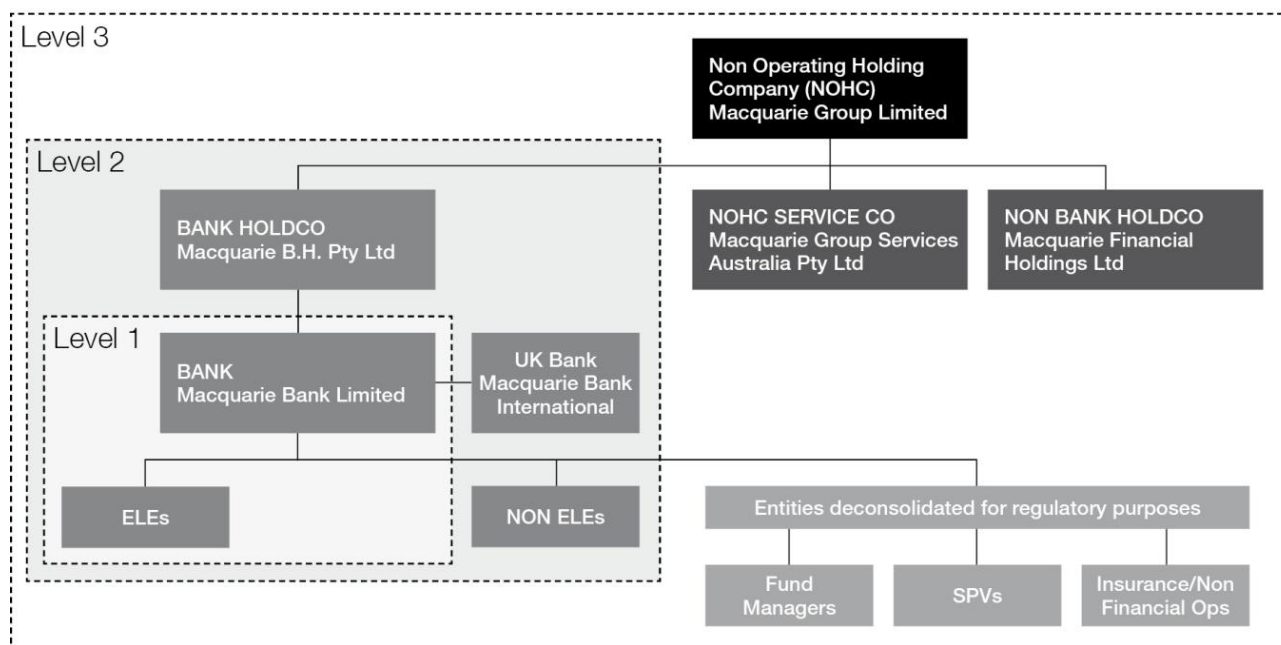
This report provides an update to certain disclosures as required by APS 330 as at 30 June 2015 and consists of sections covering:

- Capital Adequacy;
- Credit Risk Exposures;
- Provisioning; and
- 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 the revised 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 Ratios

#### APS 330 Table 3(f)

	As at 30 June 2015	As at 31 March 2015
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	9.9%	9.7%
Level 2 Macquarie Bank Group Tier 1 capital ratio	11.2%	11.0%
Level 2 Macquarie Bank Group Total capital ratio	13.7%	12.4%

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 30 June 2015 \$m	As at 31 March 2015 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate	27,232	27,780
SME Corporate	2,230	2,211
Sovereign	356	350
Bank	1,811	1,726
Residential Mortgages	5,754	5,416
Other Retail	3,416	3,382
Retail SME	2,607	2,545
<b>Total RWA subject to IRB approach</b>	<b>43,406</b>	<b>43,410</b>
<b>Specialised lending exposures subject to slotting criteria<sup>1</sup></b>	<b>7,573</b>	<b>7,044</b>
Subject to Standardised approach		
Corporate	699	659
Residential Mortgages	3,430	3,008
Other Retail	1,274	1,265
<b>Total RWA subject to Standardised approach</b>	<b>5,403</b>	<b>4,932</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>442</b>	<b>729</b>
<b>Credit Valuation Adjustment RWA</b>	<b>2,888</b>	<b>2,769</b>
<b>Exposures to Central Counterparties RWA</b>	<b>1,448</b>	<b>1,776</b>
<b>RWA for Other Assets</b>	<b>9,983</b>	<b>9,790</b>
<b>Total Credit risk RWA</b>	<b>71,143</b>	<b>70,450</b>
<b>Market risk RWA</b>	<b>5,757</b>	<b>6,650</b>
<b>Operational risk RWA</b>	<b>9,535</b>	<b>9,399</b>
<b>Interest rate risk in the banking book RWA<sup>2</sup></b>	<b>1,137</b>	<b>-</b>
<b>Total RWA</b>	<b>87,572</b>	<b>86,499</b>

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

<sup>2</sup> Interest rate risk in the banking book RWA is now non zero due to a methodology change that transfers exposures previously captured in Market Risk.

## 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 30 June 2015 \$m	As at 31 March 2015 \$m	Average Exposures for the 3 months \$m
Corporate <sup>1</sup>	44,462	44,486	44,474
SME Corporate <sup>2</sup>	3,194	3,154	3,174
Sovereign	2,761	2,691	2,726
Bank	11,463	11,373	11,418
Residential Mortgages	31,875	29,806	30,840
Other Retail	6,688	6,641	6,665
Retail SME	4,175	4,071	4,123
Other Assets <sup>3</sup>	15,607	14,560	15,083
<b>Total Gross Credit Exposure</b>	<b>120,225</b>	<b>116,782</b>	<b>118,503</b>

<sup>1</sup> "Corporate" includes Specialised Lending exposure of \$8,686 million as at 30 June 2015 (31 March 2015: \$8,450 million).

<sup>2</sup> "SME Corporate" includes Specialised Lending exposure of \$524 million as at 30 June 2015 (31 March 2015: \$519 million).

<sup>3</sup> The major components of "Other Assets" are operating lease residuals, other debtors and unsettled trades.

APS 330 Table 4(a)

Portfolio Type	As at 30 June 2015 \$m	As at 31 March 2015 \$m	Average Exposures for the 3 months \$m
<b>Subject to IRB approach</b>			
Corporate	43,763	43,827	43,795
SME Corporate	3,194	3,154	3,174
Sovereign	2,761	2,691	2,726
Bank	11,463	11,373	11,418
Residential Mortgages	23,119	21,422	22,270
Other Retail	5,315	5,269	5,292
Retail SME	4,175	4,071	4,123
<b>Total IRB approach</b>	<b>93,790</b>	<b>91,807</b>	<b>92,798</b>
<b>Subject to Standardised approach</b>			
Corporate	699	659	679
Residential Mortgages	8,756	8,384	8,570
Other Retail	1,373	1,372	1,373
<b>Total Standardised approach</b>	<b>10,828</b>	<b>10,415</b>	<b>10,622</b>
<b>Other Assets</b>	<b>15,607</b>	<b>14,560</b>	<b>15,083</b>
<b>Total Gross Credit Exposures</b>	<b>120,225</b>	<b>116,782</b>	<b>118,503</b>

## 3.0 Credit Risk Exposures

### continued

APS 330 Table 4(a) (continued)

	On Balance Sheet \$m	As at 30 June 2015 Off Balance sheet		Total \$m	Average Exposures for the 3 months \$m
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	17,992	3,828	13,257	35,077	35,227
SME Corporate	2,354	316	-	2,670	2,653
Sovereign	2,394	-	367	2,761	2,726
Bank	4,841	-	6,622	11,463	11,418
Residential Mortgages	22,702	417	-	23,119	22,270
Other Retail	5,315	-	-	5,315	5,292
Retail SME	4,156	19	-	4,175	4,123
<b>Total IRB approach</b>	<b>59,754</b>	<b>4,580</b>	<b>20,246</b>	<b>84,580</b>	<b>83,709</b>
<b>Specialised Lending</b>	<b>8,544</b>	<b>458</b>	<b>208</b>	<b>9,210</b>	<b>9,089</b>
<b>Subject to Standardised approach</b>					
Corporate	-	699	-	699	679
Residential Mortgages	8,756	-	-	8,756	8,570
Other Retail	1,373	-	-	1,373	1,373
<b>Total Standardised approach</b>	<b>10,129</b>	<b>699</b>	<b>-</b>	<b>10,828</b>	<b>10,622</b>
<b>Other Assets</b>	<b>11,344</b>	<b>3,697</b>	<b>566</b>	<b>15,607</b>	<b>15,083</b>
<b>Total Gross Credit Exposures</b>	<b>89,771</b>	<b>9,434</b>	<b>21,020</b>	<b>120,225</b>	<b>118,503</b>

APS 330 Table 4(a) (continued)

	On Balance Sheet \$m	As at 31 March 2015 Off Balance sheet		Total \$m	Average Exposures for the 3 months \$m
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	18,039	4,077	13,261	35,377	34,471
SME Corporate	2,338	297	-	2,635	2,594
Sovereign	2,246	-	445	2,691	2,873
Bank	4,463	-	6,910	11,373	11,164
Residential Mortgages	21,033	389	-	21,422	20,941
Other Retail	5,269	-	-	5,269	6,852
Retail SME	4,050	21	-	4,071	2,035
<b>Total IRB approach</b>	<b>57,438</b>	<b>4,784</b>	<b>20,616</b>	<b>82,838</b>	<b>80,930</b>
<b>Specialised Lending</b>	<b>8,016</b>	<b>720</b>	<b>233</b>	<b>8,969</b>	<b>8,412</b>
<b>Subject to Standardised approach</b>					
Corporate	-	659	-	659	688
Residential Mortgages	8,384	-	-	8,384	8,042
Other Retail	1,372	-	-	1,372	1,464
<b>Total Standardised approach</b>	<b>9,756</b>	<b>659</b>	<b>-</b>	<b>10,415</b>	<b>10,194</b>
<b>Other Assets</b>	<b>10,003</b>	<b>3,828</b>	<b>729</b>	<b>14,560</b>	<b>12,321</b>
<b>Total Gross Credit Exposures</b>	<b>85,213</b>	<b>9,991</b>	<b>21,578</b>	<b>116,782</b>	<b>111,857</b>

## 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 2015			As at 31 March 2015		
	Impaired Facilities \$m	Past Due >90 days <sup>1</sup> \$m	Individually Assessed Provisions \$m	Impaired Facilities \$m	Past Due >90 days <sup>1</sup> \$m	Individually Assessed Provisions \$m
<b>Subject to IRB approach</b>						
Corporate	1,291	383	(499)	1,106	755	(526)
SME Corporate	14	6	(7)	22	7	(7)
Bank	-	8	-	-	46	-
Residential Mortgages	182	44	(4)	175	50	(4)
Other Retail	39	1	(12)	49	-	(13)
<b>Total IRB approach</b>	<b>1,526</b>	<b>442</b>	<b>(522)</b>	<b>1,352</b>	<b>858</b>	<b>(550)</b>
<b>Subject to Standardised approach</b>						
Residential Mortgages	44	230	(12)	47	101	(13)
Other Retail	17	-	(6)	19	4	(5)
<b>Total Standardised approach</b>	<b>61</b>	<b>230</b>	<b>(18)</b>	<b>66</b>	<b>105</b>	<b>(18)</b>
<b>Other Assets<sup>2</sup></b>	<b>105</b>	<b>-</b>	<b>(2)</b>	<b>127</b>	<b>-</b>	<b>(7)</b>
<b>Total</b>	<b>1,692</b>	<b>672</b>	<b>(542)</b>	<b>1,545</b>	<b>963</b>	<b>(575)</b>

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

<sup>2</sup> Other Assets impaired facilities includes real estate owned subsequent to facility foreclosure.

**APS 330 Table 4(b) (continued)**

	For the 3 months to 30 June 2015		For the 3 months to 31 March 2015	
	Charges for Individually Assessed Provisions \$m	Write-offs \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
<b>Subject to IRB approach</b>				
Corporate	(72)	(7)	(173)	(2)
SME Corporate	(1)	-	(2)	-
Other Retail	-	(13)	(3)	(10)
<b>Total IRB approach</b>	<b>(73)</b>	<b>(20)</b>	<b>(178)</b>	<b>(12)</b>
<b>Subject to Standardised approach</b>				
Residential Mortgages	-	-	(1)	-
Other Retail	(1)	(7)	(6)	(9)
<b>Total Standardised approach</b>	<b>(1)</b>	<b>(7)</b>	<b>(7)</b>	<b>(9)</b>
<b>Total</b>	<b>(74)</b>	<b>(27)</b>	<b>(185)</b>	<b>(21)</b>

**APS 330 Table 4(c)**

	As at 30 June 2015 \$m	As at 31 March 2015 \$m
Collective provisions	362	392
Collective provisions treated as individually assessed provisions for regulatory purposes	(27)	(73)
Net collective provisions for regulatory purposes <sup>1</sup>	335	319
Tax effect	(101)	(96)
<b>General reserve for credit losses</b>	<b>234</b>	<b>223</b>

<sup>1</sup> 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 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)

Exposure type	For the 3 months to 30 June 2015		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated	ADI as sponsor	
	\$m	\$m	
<b>Banking Book</b>			
Residential Mortgages	2,470	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	1,750	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>4,220</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> 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.

Exposure type	For the 3 months to 31 March 2015		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages	6,166	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	1,946	-	-
Other	-	-	-
<b>Total Banking Book</b>	8,112	-	-
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	-	-	-

<sup>1</sup> 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)**

Exposure type	As at 30 June 2015		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	20,437	349	20,786
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,817	-	7,817
Other	398	4	402
<b>Total Banking Book</b>	<b>28,652</b>	<b>353</b>	<b>29,005</b>
<b>Trading Book</b>			
Residential Mortgages	-	17	17
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	48	48
<b>Total Trading Book</b>	<b>-</b>	<b>65</b>	<b>65</b>

<sup>1</sup> Included in the above are assets of \$26,260m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

Exposure type	As at 31 March 2015		
	Total outstanding exposures securitised <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	19,744	604	20,348
Credit cards and other personal loans	-	-	-
Auto and equipment finance	7,868	-	7,868
Other	433	28	461
<b>Total Banking Book</b>	<b>28,045</b>	<b>632</b>	<b>28,677</b>
<b>Trading Book</b>			
Residential Mortgages	-	39	39
Credit cards and other personal loans	-	4	4
Auto and equipment finance	-	1	1
Other	-	35	35
<b>Total Trading Book</b>	<b>-</b>	<b>79</b>	<b>79</b>

<sup>1</sup> Included in the above are assets of \$25,617m in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Bank regulatory Group.

# Disclaimer

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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.