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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

20 February 2015 - The Macquarie Bank Limited December 2014 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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Pillar 3 disclosures

Macquarie Bank
December 2014



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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 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 2014 together with the 30 September 2014 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2014 is also available on the Macquarie website at www.macquarie.com

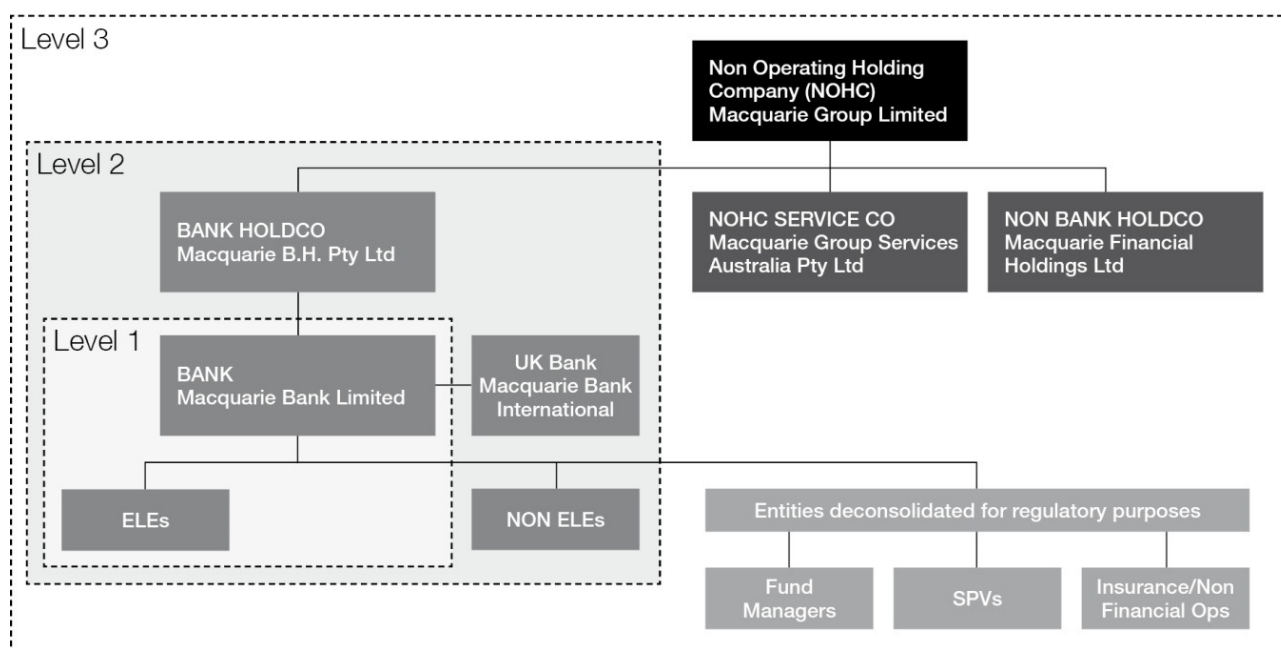
This report provides an update to certain disclosures as required by APS 330 as at 31 December 2014 and consists of sections covering:

- 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 31 December 2014	As at 30 September 2014
Level 2 Macquarie Bank Group Common Equity Tier 1 capital ratio	9.0%	8.7%
Level 2 Macquarie Bank Group Tier 1 capital ratio	10.4%	9.7%
Level 2 Macquarie Bank Group Total capital ratio	12.1%	11.6%

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 2014 \$m	As at 30 September 2014 \$m
Credit risk		
Subject to IRB approach		
Corporate	23,736	19,768
SME Corporate	2,042	1,822
Sovereign	410	487
Bank	1,729	1,454
Residential Mortgages	4,838	4,913
Other Retail	5,333	5,258
Total RWA subject to IRB approach	38,088	33,702
Specialised lending exposures subject to slotting criteria¹	5,845	5,227
Subject to Standardised approach		
Corporate	717	763
Residential Mortgages	2,501	1,783
Other Retail	1,461	1,324
Total RWA subject to Standardised approach	4,679	3,870
Credit risk RWA for securitisation exposures	1,214	1,038
Credit Valuation Adjustment RWA	3,452	2,455
Exposures to Central Counterparties RWA	2,221	1,830
RWA for Other Assets	7,125	6,763
Total Credit risk RWA	62,624	54,885
Market risk RWA	5,893	4,659
Operational risk RWA	8,534	8,377
Interest rate risk in the banking book RWA	-	-
APRA Scaling factor (6%) applied to RWA subject to IRB exposures	2,285	2,022
Total RWA	79,336	69,943

¹ 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; 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 31 December 2014 \$m	As at 30 September 2014 \$m	Average Exposures for the 3 months \$m
Corporate ¹	41,622	35,612	38,617
SME Corporate ²	3,070	2,765	2,918
Sovereign	3,054	3,170	3,112
Bank	10,954	8,896	9,925
Residential Mortgages	28,158	25,578	26,868
Other Retail	9,992	9,793	9,892
Other Assets ³	10,082	10,462	10,272
Total Gross Credit Exposure	106,932	96,276	101,604

¹ "Corporate" includes Specialised Lending exposure of \$7,339 million as at 31 December 2014 (30 September 2014: \$6,558 million).

² "SME Corporate" includes Specialised Lending exposure of \$517 million as at 31 December 2014 (30 September 2014: \$460 million).

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

APS 330 Table 4(a)

Portfolio Type	As at 31 December 2014 \$m	As at 30 September 2014 \$m	Average Exposures for the 3 months \$m
Subject to IRB approach			
Corporate	40,905	34,849	37,877
SME Corporate	3,070	2,765	2,918
Sovereign	3,054	3,170	3,112
Bank	10,954	8,896	9,925
Residential Mortgages	20,459	18,996	19,727
Other Retail	8,436	8,299	8,367
Total IRB approach	86,878	76,975	81,926
Subject to Standardised approach			
Corporate	717	763	740
Residential Mortgages	7,699	6,582	7,141
Other Retail	1,556	1,494	1,525
Total Standardised approach	9,972	8,839	9,406
Other Assets	10,082	10,462	10,272
Total Gross Credit Exposures	106,932	96,276	101,604

3.0 Credit Risk Exposures

continued

APS 330 Table 4(a) (continued)

	On Balance Sheet \$m	As at 31 December 2014 Off Balance sheet		Total \$m	Average Exposures for the 3 months \$m
		Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	17,975	2,835	12,756	33,566	30,929
SME Corporate	2,265	288	-	2,553	2,429
Sovereign	2,617	-	437	3,054	3,112
Bank	5,792	38	5,124	10,954	9,925
Residential Mortgages	20,024	435	-	20,459	19,727
Other Retail	8,436	-	-	8,436	8,367
Total IRB approach	57,109	3,596	18,317	79,022	74,489
Specialised Lending	6,606	1,095	155	7,856	7,437
Subject to Standardised approach					
Corporate	45	672	-	717	740
Residential Mortgages	7,694	5	-	7,699	7,141
Other Retail	1,556	-	-	1,556	1,525
Total Standardised approach	9,295	677	-	9,972	9,406
Other Assets	10,002	80	-	10,082	10,272
Total Gross Credit Exposures	83,012	5,448	18,472	106,932	101,604

APS 330 Table 4(a) (continued)

	On Balance Sheet \$m	As at 30 September 2014 Off Balance sheet		Total \$m	Average Exposures for the 3 months \$m
		Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	16,134	3,234	8,923	28,291	26,350
SME Corporate	2,058	247	-	2,305	2,253
Sovereign	2,792	-	378	3,170	3,364
Bank	4,304	34	4,558	8,896	8,545
Residential Mortgages	18,615	381	-	18,996	18,128
Other Retail	8,299	-	-	8,299	8,138
Total IRB approach	52,202	3,896	13,859	69,957	66,778
Specialised Lending	6,035	873	110	7,018	6,630
Subject to Standardised approach					
Corporate	64	699	-	763	874
Residential Mortgages	6,579	3	-	6,582	6,809
Other Retail	1,494	-	-	1,494	1,428
Total Standardised approach	8,137	702	-	8,839	9,111
Other Assets	10,462	-	-	10,462	10,293
Total Gross Credit Exposures	76,836	5,471	13,969	96,276	92,812

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 2014			As at 30 September 2014		
	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	1,128	568	(373)	1,059	469	(309)
SME Corporate	21	7	(7)	21	4	(6)
Bank	-	9	-	-	-	-
Residential Mortgages	159	45	(4)	143	61	(4)
Other Retail	23	-	(10)	19	-	(9)
Other ²	-	-	-	5	-	(4)
Total IRB approach	1,331	629	(394)	1,247	534	(332)
Subject to Standardised approach						
Residential Mortgages	42	31	(11)	35	15	(10)
Other Retail	30	-	(7)	22	-	(8)
Total Standardised approach	72	31	(18)	57	15	(18)
Other Assets³	175	-	(3)	180	-	(3)
Total	1,578	660	(415)	1,484	549	(353)

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 includes real estate owned subsequent to facility foreclosure.

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2014		For the 3 months to 30 September 2014	
	Charges for Individually Assessed Provisions \$m	Write-offs \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
Subject to IRB approach				
Corporate	(66)	(1)	(32)	(1)
SME Corporate	(1)	-	(2)	-
Other Retail	(1)	(9)	-	(11)
Total IRB approach	(68)	(10)	(34)	(12)
Subject to Standardised approach				
Other Retail	-	(7)	-	(10)
Total Standardised approach	-	(7)	-	(10)
Total	(68)	(17)	(34)	(22)

APS 330 Table 4(c)

	As at 31 December 2014 \$m	As at 30 September 2014 \$m
Collective provisions	309	308
Collective provisions treated as individually assessed provisions for regulatory purposes	(42)	(52)
Net collective provisions for regulatory purposes ¹	267	256
Tax effect	(80)	(77)
General reserve for credit losses	187	179

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 2014, 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 month to 31 December 2014		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
Banking Book			
Residential Mortgages	1,658	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,199	-	-
Other	-	-	-
Total Banking Book	3,857	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	

Exposure type	For the 3 months to 30 September 2014		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
Banking Book			
Residential Mortgages	6,045	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,118	-	-
Other	204	-	-
Total Banking Book	8,367	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	

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 31 December 2014		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	17,484	557	18,041
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,341	-	8,341
Other	441	34	475
Total Banking Book	26,266	591	26,857
Trading Book			
Residential Mortgages	-	40	40
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	5	5
Other	-	101	101
Total Trading Book	-	146	146

¹ Included in the above are assets of \$8,340m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 25 election to be included in the Bank Group.

Exposure type	As at 30 September 2014		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	17,102	463	17,565
Credit cards and other personal loans	-	-	-
Auto and equipment finance	8,147	-	8,147
Other	397	45	442
Total Banking Book	25,646	508	26,154
Trading Book			
Residential Mortgages	-	4	4
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	111	111
Total Trading Book	-	115	115

¹ Included in the above are assets of \$7,982m 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, 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.