

Pillar 3 disclosures

Macquarie Bank
December 2018



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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

15 February 2019 - The Macquarie Bank Limited December 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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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 2018 together with the 30 September 2018 comparative disclosures. The most recent full Pillar 3 disclosure document as at 30 September 2018 is also available on the Macquarie website at www.macquarie.com.

On 10 December 2018, Corporate and Asset Finance Group's Principal Finance and Transportation Finance businesses transferred from the Bank Group to the Non-Bank Group. The December 2018 quarter includes the impact of this transaction. The comparative period has not been restated.

This report provides an update to certain disclosures as required by APS 330 as at 31 December 2018 and consists of sections covering:

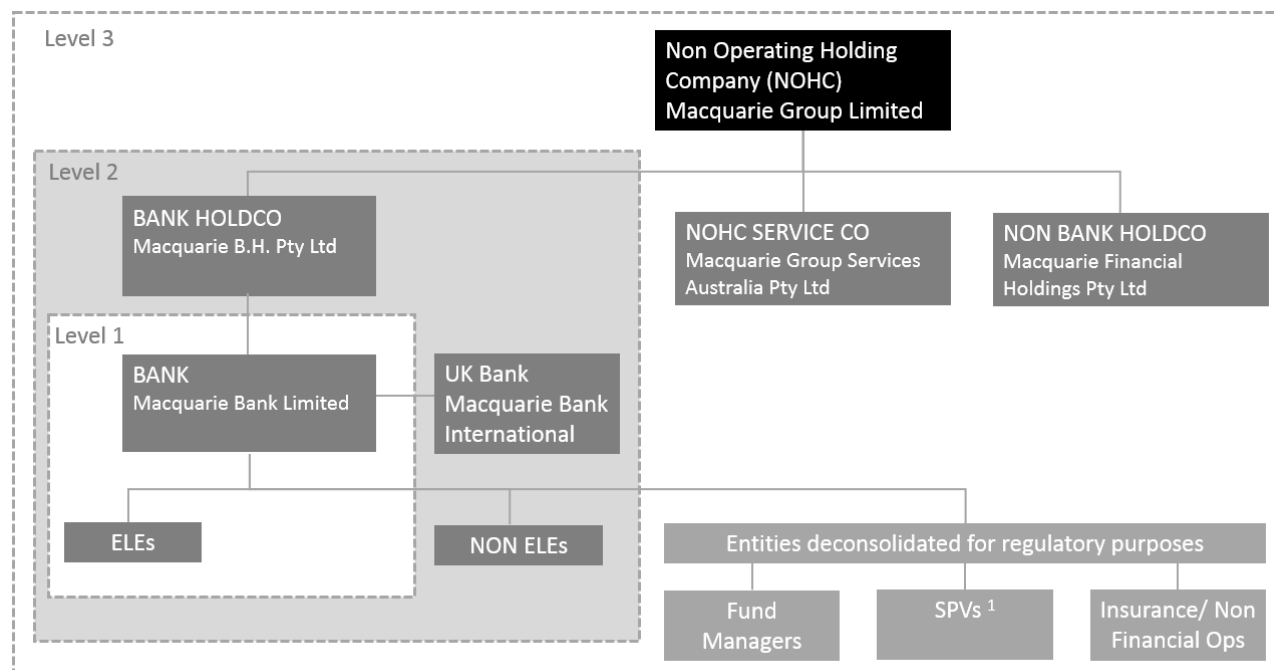
- Capital Adequacy;
- Credit Risk Measurement;
- Provisioning;
- Securitisation;
- Leverage Ratio Disclosures; and
- Liquidity Coverage Ratio Disclosures.

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 2018	As at 30 September 2018
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio ¹	10.8%	10.4%
Macquarie Level 2 regulatory group Total Tier 1 capital ratio ¹	12.9%	12.1%
Macquarie Level 2 regulatory group Total capital ratio ¹	15.0%	13.9%
Macquarie Level 2 regulatory group Leverage ratio	4.9%	5.6%
Macquarie Level 2 regulatory group Liquidity coverage ratio ^{1,2}	162.7%	159.0%

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

² The Liquidity coverage ratio for the 3 months to 31 December 2018 is calculated from 63 daily LCR observations (30 September 2018 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 for the Level 2 regulatory group.

APS 330 Table 3(a-e)

	As at 31 December 2018 \$m	As at 30 September 2018 \$m
Credit risk		
Subject to IRB approach		
Corporate ¹	21,527	26,457
SME Corporate	3,539	3,315
Sovereign	227	186
Bank ¹	1,402	1,394
Residential Mortgages	13,446	13,160
Other Retail	4,275	4,307
Retail SME	3,577	3,497
Total RWA subject to IRB approach	47,993	52,316
Specialised lending exposures subject to slotting criteria²	3,623	5,827
Subject to Standardised approach		
Corporate	339	747
Residential Mortgages	747	1,598
Other Retail	2,913	3,131
Total RWA subject to Standardised approach	3,999	5,476
Credit risk RWA for securitisation exposures	761	755
Credit Valuation Adjustment RWA	3,281	4,002
Exposures to Central Counterparties RWA	1,979	1,541
RWA for Other Assets	1,868	8,852
Total Credit risk RWA	63,504	78,769
Market risk RWA	9,216	5,886
Operational risk RWA	10,055	10,157
Interest rate risk in the banking book RWA	134	1,188
Total RWA	82,909	96,000

¹ Few counterparties previously classified as Bank have been reclassified as Corporate.

² 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 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 2018 \$m	As at 30 September 2018 \$m	Average Exposures for the 3 months \$m
Corporate ^{1,2}	46,328	50,311	48,319
SME Corporate ³	4,787	4,465	4,626
Sovereign	3,973	3,420	3,697
Bank ¹	8,238	9,000	8,619
Residential Mortgages	47,362	47,121	47,241
Other Retail	10,933	11,194	11,064
Retail SME	5,236	5,140	5,188
Other Assets ⁴	10,054	17,189	13,622
Total Gross Credit Exposure	136,911	147,840	142,376

¹ Few counterparties previously classified as Bank have been reclassified as Corporate.

² Corporate includes specialised lending exposure of \$3,291 million as at 31 December 2018 (30 September 2018: \$5,551 million).

³ SME Corporate includes specialised lending exposure of \$598 million as at 31 December 2018 (30 September 2018: \$589 million).

⁴ The major components of Other Assets are other debtors and unsettled trades.

APS 330 Table 4(a) (continued)

Portfolio Type	As at 31 December 2018 \$m	As at 30 September 2018 \$m	Average Exposures for the 3 months \$m
Subject to IRB approach			
Corporate ^{1,2}	45,989	49,564	47,776
SME Corporate ³	4,787	4,465	4,626
Sovereign	3,973	3,420	3,697
Bank ¹	8,238	9,000	8,619
Residential Mortgages	46,106	44,857	45,481
Other Retail	7,895	7,922	7,909
Retail SME	5,236	5,140	5,188
Total IRB approach	122,224	124,368	123,296
Subject to Standardised approach			
Corporate	339	747	543
Residential Mortgages	1,256	2,264	1,760
Other Retail	3,038	3,272	3,155
Total Standardised approach	4,633	6,283	5,458
Other Assets⁴	10,054	17,189	13,622
Total Gross Credit Exposure	136,911	147,840	142,376

¹ Few counterparties previously classified as Bank have been reclassified as Corporate.

² Corporate includes specialised lending exposure of \$3,291 million as at 31 December 2018 (30 September 2018: \$5,551 million).

³ SME Corporate includes specialised lending exposure of \$598 million as at 31 December 2018 (30 September 2018: \$589 million).

⁴ The major components of Other Assets are other debtors and unsettled trades.

3.0 Credit Risk Measurement

Continued

APS 330 Table 4(a) (continued)

	As at 31 December 2018			Total \$m	Average Exposures for the 3 months \$m
	On Balance Sheet \$m	Off Balance sheet			
		Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	17,670	3,448	21,580	42,698	43,355
SME Corporate	3,524	665	-	4,189	4,032
Sovereign	2,103	14	1,856	3,973	3,697
Bank	3,175	13	5,050	8,238	8,619
Residential Mortgages	38,156	7,950	-	46,106	45,481
Other Retail	7,895	-	-	7,895	7,909
Retail SME	5,222	14	-	5,236	5,188
Total IRB approach	77,745	12,104	28,486	118,335	118,281
Specialised Lending	2,576	744	569	3,889	5,015
Subject to Standardised approach					
Corporate	-	339	-	339	543
Residential Mortgages	1,256	-	-	1,256	1,760
Other Retail	3,038	-	-	3,038	3,155
Total Standardised approach	4,294	339	-	4,633	5,458
Other Assets	6,138	3,524	392	10,054	13,622
Total Gross Credit Exposures	90,753	16,711	29,447	136,911	142,376

APS 330 Table 4(a) (continued)

	As at 30 September 2018			Total \$m	Average Exposures for the 3 months \$m
	On Balance Sheet \$m	Off Balance sheet			
		Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	20,654	3,191	20,168	44,013	42,956
SME Corporate	3,293	583	-	3,876	3,886
Sovereign	1,861	-	1,559	3,420	3,039
Bank	3,334	70	5,596	9,000	8,851
Residential Mortgages	37,023	7,834	-	44,857	43,997
Other Retail	7,922	-	-	7,922	8,120
Retail SME	5,118	22	-	5,140	4,862
Total IRB approach	79,205	11,700	27,323	118,228	115,711
Specialised Lending	4,395	805	940	6,140	6,159
Subject to Standardised approach					
Corporate	-	747	-	747	726
Residential Mortgages	2,264	-	-	2,264	2,266
Other Retail	3,272	-	-	3,272	3,418
Total Standardised approach	5,536	747	-	6,283	6,410
Other Assets	13,324	3,415	450	17,189	16,440
Total Gross Credit Exposures	102,460	16,667	28,713	147,840	144,720

4.0 Provisioning

4.1 Provisions by Counterparty Type

The table below details Macquarie's impaired facilities, past due facilities and specific provisions, presented in accordance with the definitions contained in Prudential Standard APS220 Credit Quality.

APS 330 Table 4(b)

	As at 31 December 2018			As at 30 September 2018		
	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	332	37	(48)	373	46	(39)
SME Corporate	106	47	(24)	68	66	(25)
Residential Mortgages	222	105	(5)	223	101	(5)
Other Retail	99	-	(29)	95	-	(28)
Retail SME	49	-	(14)	43	-	(12)
Total IRB approach	808	189	(120)	802	213	(109)
Subject to Standardised approach						
Residential Mortgages	-	-	-	-	192	-
Other Retail	76	-	(32)	78	-	(34)
Total Standardised approach	76	-	(32)	78	192	(34)
Other Assets¹	82	-	-	153	-	-
Total	966	189	(152)	1,033	405	(143)
Additional regulatory specific provisions ²			(233)			(243)

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 GRCL. Combined with \$51 million as at 31 December 2018 (30 September 2018: \$45 million) of stage 3 provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Standardised Other Retail.

APS 330 Table 4(b) (continued)

	For the 3 months to 31 December 2018		For the 3 months to 30 September 2018	
	Charges for Specific provisions \$m	Write-offs \$m	Charges for Specific provisions \$m	Write-offs \$m
Subject to IRB approach				
Corporate	(19)	-	(13)	-
SME Corporate	(8)	-	(4)	-
Residential Mortgages	-	-	(1)	-
Other Retail	(4)	-	(9)	-
Retail SME	(6)	-	(4)	-
Total IRB approach	(37)	-	(31)	-
Subject to Standardised approach				
Other Retail	(6)	-	(8)	-
Total Standardised approach	(6)	-	(8)	-
Total	(43)	-	(39)	-

4.2 General Reserve for Credit Losses

APS 330 Table 4(c)

	As at 31 December 2018 \$m	As at 30 September 2018 \$m
General reserve for credit losses before tax	137	160
Tax effect	(37)	(41)
General reserve for credit losses	100	119

5.0 Securitisation

5.1 Securitisation Activity

Over the 3 months to 31 December 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)

Exposure type	For the 3 months to 31 December 2018		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	3,425	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	229	-	-
Other	-	-	-
Total Banking Book	3,654	-	-
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.

Exposure type	For the 3 months to 30 September 2018		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	3,197	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	1,310	-	-
Other	-	-	-
Total Banking Book	4,507	-	-
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)

Exposure type	As at 31 December 2018		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	24,106	220	24,326
Credit cards and other personal loans ²	115	14	129
Auto and equipment finance	5,310	70	5,380
Other	112	163	275
Total Banking Book	29,643	467	30,110
Trading Book			
Residential Mortgages	10	-	10
Credit cards and other personal loans	-	-	-
Auto and equipment finance	18	-	18
Other	21	-	21
Total Trading Book	49	-	49

¹ Included in the above are assets of \$27,335 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.

Exposure type	As at 30 September 2018		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	22,231	302	22,533
Credit cards and other personal loans ²	74	14	88
Auto and equipment finance	5,890	27	5,917
Other	83	152	235
Total Banking Book	28,278	495	28,773
Trading Book			
Residential Mortgages	14	-	14
Credit cards and other personal loans	-	-	-
Auto and equipment finance	22	-	22
Other	20	-	20
Total Trading Book	56	-	56

¹ Included in the above are assets of \$26,102 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

	31 December 2018	30 September 2018	30 June 2018	31 March 2018
Capital and total exposures	\$m	\$m	\$m	\$m
Tier 1 Capital	10,669	11,633	11,235	11,720
Total exposures	215,848	209,494	201,416	194,668

Leverage ratio

Macquarie Level 2 regulatory group Leverage ratio	4.9%	5.6%	5.6%	6.0%
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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 has been compliant with the LCR at all times since the ratio was introduced as a minimum requirement in January 2015. Macquarie's 3 month average LCR to 31 December 2018 was 162.7% (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.

Liquidity Coverage Ratio disclosure template	For the 3 months to 31 December 2018		For the 3 months to 30 September 2018	
	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)	*	13,806	*	13,154
2 Alternative liquid assets (ALA)	*	7,276	*	7,276
3 Reserve Bank of New Zealand (RBNZ) securities	*	-	*	-
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	35,798	3,308	35,484	3,319
5 Stable deposits	13,297	665	12,991	649
6 Less stable deposits	22,501	2,643	22,493	2,670
7 Unsecured wholesale funding, of which:	15,623	9,928	15,351	9,674
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	4,812	1,196	5,105	1,269
9 Non-operational deposits (all counterparties)	9,263	7,184	8,191	6,350
10 Unsecured debt	1,548	1,548	2,055	2,055
11 Secured wholesale funding	*	1,962	*	1,533
12 Additional requirements, of which:	24,158	11,901	23,488	10,981
13 Outflows related to derivatives exposures and other collateral requirements	9,669	9,669	8,684	8,684
14 Outflows related to loss of funding on debt products	293	293	292	292
15 Credit and liquidity facilities	14,196	1,939	14,512	2,005
16 Other contractual funding obligations	14,776	14,742	13,677	13,655
17 Other contingent funding obligations	5,095	282	5,774	320
18 Total cash outflows	*	42,123	*	39,482
Cash Inflows				
19 Secured lending (e.g. reverse repos)	24,880	6,811	23,279	6,286
20 Inflows from fully performing exposures	4,204	3,679	4,083	3,562
21 Other cash inflows	18,676	18,676	16,785	16,785
22 Total cash inflows	47,760	29,166	44,147	26,633
23 Total liquid assets	*	21,082	*	20,430
24 Total net cash outflows	*	12,957	*	12,849
25 Liquidity Coverage Ratio (%)¹	*	162.7%	*	159.0%

* Undisclosed.

¹ The LCR for the 3 months to 31 December 2018 is calculated from 63 daily LCR observations (3 months to 30 September 2018 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 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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