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ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

17 August 2012 - The Macquarie Bank Limited June 2012 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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MACQUARIE BANK
PILLAR 3 DISCLOSURES
JUNE 2012



MACQUARIE
BANK

Cover image: A stylised contemporary version of the Holey Dollar

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the ‘Holey Dollar’ (valued at five shillings) and the ‘Dump’ (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie’s creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie.

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.

MBL's accreditation requires compliance with APRA ADI Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). This report details MBL's APS 330 disclosures as at 30 June 2012 together with the 31 March 2012 comparative disclosures.

The most recent full Pillar 3 disclosure document as at 31 March 2012 is also available on the Macquarie website at www.macquarie.com

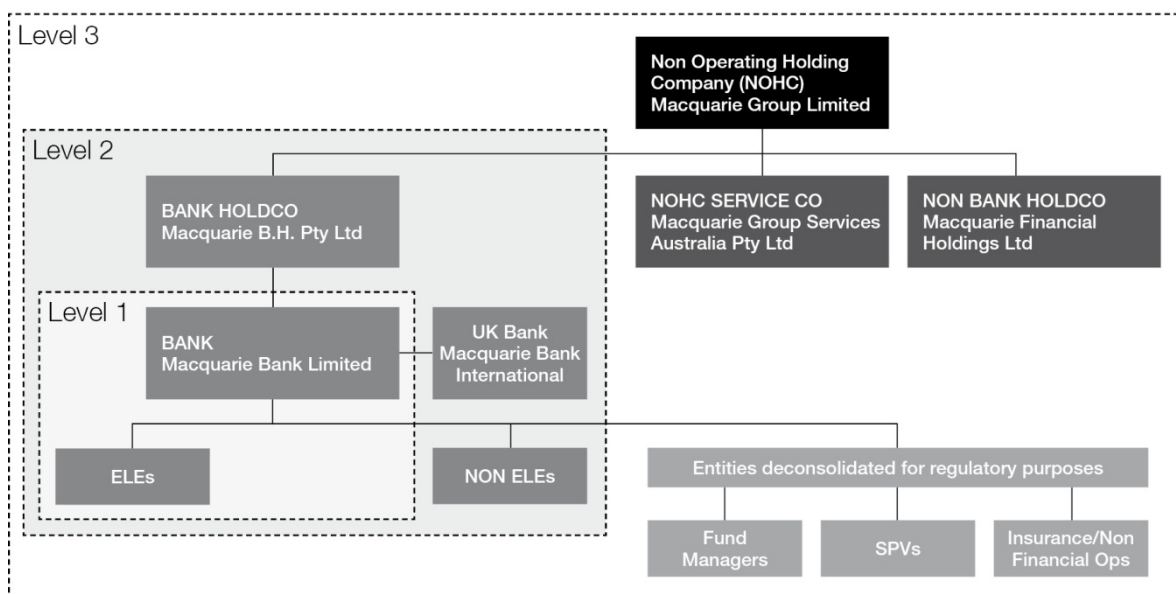
This report provides an update to certain disclosures as required by APS 330 as at 30 June 2012 and consists of sections covering:

- Capital Adequacy;
- Credit Risk Exposures; and
- Provisioning

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 banking 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 Banking Group refer to the Level 2 regulatory consolidated banking group as described above. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory consolidated banking group prepared on a Basel II basis.

1.0

Overview

continued

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 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 16(e)

	30 June 2012	31 March 2012
Level 2 Macquarie Banking Group Tier 1 capital ratio	13.6%	13.8%
Level 2 Macquarie Banking Group Total capital ratio	16.0%	16.6%

The Macquarie Banking Group capital ratios are well above the regulatory minimum capital ratios required by APRA, and the Board imposed internal minimum capital requirement.

2.0 Capital Adequacy continued

2.2 Risk Weighted Assets (RWA)

RWA are a risk based measure of exposures used in assessing overall capital usage of the Banking Group. When applied against eligible regulatory capital the overall capital adequacy is determined. RWA are calculated in accordance with APRA Prudential Standards.

The table below sets out the RWA for the Macquarie Banking Group.

APS 330 Table 16(a-d)

	30 June 2012 \$m	31 March 2012 \$m
Credit risk		
Subject to IRB approach		
Corporate	14,868	15,423
SME Corporate ¹	1,415	-
Sovereign	808	722
Bank	1,650	1,747
Residential Mortgage	1,733	1,534
Other Retail	2,950	2,745
Total RWA subject to IRB approach	23,424	22,171
Specialised lending exposures subject to slotting criteria²	4,337	4,507
Subject to Standardised approach		
Corporate ¹	665	2,158
Residential Mortgage	588	526
Other Retail	1,398	1,818
Total RWA subject to Standardised approach	2,651	4,502
Credit risk RWA for securitisation exposures	434	517
RWA for Other Assets	6,095	5,838
Total Credit risk RWA	36,941	37,535
Equity risk exposures RWA	1,934	2,028
Market risk RWA	4,392	4,666
Operational risk RWA	6,209	6,312
Interest rate risk in the banking book RWA	-	-
APRA Scaling factor (6%) applied to IRB exposures	1,405	1,330
Total RWA	50,881	51,871

¹ Small and Medium sized Enterprise (SME) Corporate: during the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

² Specialised lending exposures subject to supervisory slotting 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;
- 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 II portfolio type and credit exposure type.

APS 330 Table 17(a)

Portfolio Type	30 June 2012 \$m	31 March 2012 \$m	Average total exposures \$m
Corporate ¹	25,167	27,766	26,467
SME Corporate ²	2,156	-	1,078
Sovereign	6,592	6,280	6,436
Bank	10,432	10,732	10,582
Residential Mortgages	16,376	15,751	16,064
Other Retail	8,768	8,886	8,827
Other Assets ³	10,059	11,976	11,017
Total Gross Credit Exposure	79,550	81,391	80,471

¹ "Corporate" includes Specialised Lending exposure \$4,708 million as at 30 June 2012 and \$5,133 million as at 31 March 2012.

² "SME Corporate" includes Specialised Lending exposure \$276 million as at 30 June 2012.

During the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. The exposure that relates to SME Corporate's RWA was previously captured under the Standardised Approach.

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

3.0

Credit Risk Exposures

continued

APS 330 Table 17(a) (continued)

Portfolio Type	30 June 2012 \$m	31 March 2012 \$m	Average total exposures \$m
Subject to IRB approach			
Corporate	24,502	25,005	24,754
SME Corporate	2,156	-	1,078
Sovereign	6,592	6,280	6,436
Bank	10,432	10,732	10,582
Residential Mortgage	8,048	7,184	7,616
Other Retail	6,210	5,792	6,001
Total IRB approach	57,940	54,993	56,467
Subject to Standardised approach			
Corporate	665	2,761	1,713
Residential Mortgage	8,328	8,567	8,448
Other Retail	2,558	3,094	2,826
Total Standardised approach	11,551	14,422	12,987
Other Assets	10,059	11,976	11,017
Total Gross Credit Exposure	79,550	81,391	80,471

APS 330 Table 17(a) (continued)

Portfolio Type	30 June 2012			Total \$m	Average Exposures for the quarter \$m
	On Balance sheet \$m	Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	11,498	1,699	6,597	19,794	19,833
SME Corporate	1,630	250	-	1,880	940
Sovereign	6,083	-	509	6,592	6,436
Bank	5,936	197	4,299	10,432	10,582
Residential Mortgages	7,883	165	-	8,048	7,616
Other Retail	6,210	-	-	6,210	6,001
Total IRB approach	39,240	2,311	11,405	52,956	51,408
Specialised Lending	3,825	580	579	4,984	5,059
Subject to Standardised approach					
Corporate	13	652	-	665	1,713
Residential Mortgages	8,325	3	-	8,328	8,448
Other Retail	2,558	-	-	2,558	2,826
Total Standardised approach	10,896	655	-	11,551	12,987
Other Assets	10,059	-	-	10,059	11,017
Total Gross Credit Exposures	64,020	3,546	11,984	79,550	80,471

3.0 Credit Risk Exposures continued

APS 330 Table 17(a) (continued)

Portfolio Type	31 March 2012			Total \$m	Average Exposures for the quarter \$m
	Off Balance sheet				
	On Balance sheet \$m	Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	11,150	1,782	6,940	19,872	24,395
Sovereign	5,899	-	381	6,280	6,266
Bank	6,943	152	3,637	10,732	11,948
Residential Mortgages	7,008	176	-	7,184	7,091
Other Retail	5,792	-	-	5,792	4,968
Total IRB approach	36,792	2,110	10,958	49,860	54,668
Specialised Lending	3,438	792	903	5,133	4,077
Subject to Standardised approach					
Corporate	1,917	844	-	2,761	2,843
Residential Mortgages	8,567	-	-	8,567	8,671
Other Retail	3,074	20	-	3,094	3,373
Total Standardised approach	13,558	864	-	14,422	14,887
Other Assets	11,976	-	-	11,976	9,039
Total Gross Credit Exposures	65,764	3,766	11,861	81,391	82,671

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 17(b)

	As at 30 June 2012			As at 31 March 2012		
	Impaired Facilities ¹ \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m	Impaired Facilities ¹ \$m	Past Due >90 days \$m	Individually Assessed Provisions \$m
Subject to IRB approach						
Corporate ^{2,3}	642	14	(298)	648	26	(299)
SME Corporate ³	26	8	(16)	-	-	-
Bank	-	-	-	1	-	-
Residential Mortgage	64	97	(25)	65	82	(26)
Other Retail	11	-	(4)	16	-	(7)
Total IRB approach	743	119	(343)	730	108	(332)
Subject to Standardised approach						
Corporate ³	4	-	(3)	40	11	(26)
Residential Mortgage	-	20	-	-	14	-
Other Retail	55	2	(21)	60	-	(20)
Total Standardised approach	59	22	(24)	100	25	(46)
Other Assets⁴	251	-	-	270	-	-
Total	1,053	141	(367)	1,100	133	(378)

¹ In accordance with Attachment B (Paragraph 4) APS 330, the table above excludes securitisation exposures. As at June 2012, Macquarie has impaired securitised facilities of \$6 million (31 March 2012: \$6 million) with individually assessed provisions of \$5 million (31 March 2012: \$5 million), and charges for individually assessed provisions of nil for the 3 months to 30 June 2012 (3 months to 31 March 2012: nil).

² IRB "Corporate" includes Specialised Lending.

³ During the period, MBL obtained approval from APRA to assess credit risk on certain portfolios using an internal model. As a result, total impaired facilities of \$26 million, past due facilities of \$8 million and individually assessed provisions of \$16 million are now included in IRB SME Corporate (previously Standardised Corporate). Additionally, impaired facilities of \$9 million and individually assessed provisions of \$8 million are now included in IRB SME Corporate (previously Standardised Corporate).

⁴ Other Assets impaired facilities include other real estate owned subsequent to facility foreclosure.

4.0 Provisioning continued

APS 330 Table 17(b) (continued)

	For the 3 months to 30 June 2012		For the 3 months to 31 March 2012	
	Charges for Individually Assessed Provisions \$m	Write-offs \$m	Charges for Individually Assessed Provisions \$m	Write-offs \$m
Subject to IRB approach				
Corporate	(14)	(1)	4	(12)
SME Corporate	-	-	-	-
Bank	-	-	8	-
Residential Mortgage	(1)	-	(1)	-
Other Retail	-	(9)	(4)	(9)
Total IRB approach	(15)	(10)	7	(21)
Subject to Standardised approach				
Corporate	-	-	(6)	-
Other Retail	-	(6)	(1)	(5)
Total Standardised approach	-	(6)	(7)	(5)
Other assets	-	-	-	-
Total	(15)	(16)	-	(26)

APS 330 Table 17(c)

	30 June 2012 \$m	31 March 2012 \$m
Collective provisions	215	220
Collective provisions treated as individually assessed provisions for regulatory purposes	(10)	(9)
Net collective provisions for regulatory purposes	205	211
Tax effect	(62)	(63)
General reserve for credit losses¹	143	148

¹The general reserve for credit losses is equivalent to the net collective provision for regulatory purposes after tax.

5.0 Securitisation

5.1 Securitisation activity

Over the quarter to 30 June 2012, 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 18(a)

Exposure type	30 June 2012		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 Mortgage	1,194	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	566	-	-
Total Banking Book	1,760	-	-
Trading Book			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

Exposure type	31 March 2012		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 Mortgage	3,013	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,609	-	-
Total Banking Book	5,622	-	-
Trading Book			
Residential Mortgage	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

5.0 Securitisation continued

5.2 Securitisation activity

The table below sets out the on and off balance sheet securitisation exposures originated or purchased, broken down by exposure type.

APS 330 Table 18(b)

Exposure type	30 June 2012		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgage	9,811	355	10,166
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,153	-	5,153
Other	400	45	445
Total Banking Book	15,364	400	15,764
Trading Book			
Residential Mortgage	-	128	-
Credit cards and other personal loans	-	9	-
Auto and equipment finance	-	-	-
Other	-	145	-
Total Trading Book	-	282	-

¹ Included in the above are assets of \$8,112m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Regulatory Banking Group.

Exposure type	31 March 2012		
	Total outstanding exposures securitised ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgage	8,971	340	9,311
Credit cards and other personal loans	-	-	-
Auto and equipment finance	5,060	1	5,061
Other	388	50	438
Total Banking Book	14,419	391	14,810
Trading Book			
Residential Mortgage	-	42	-
Credit cards and other personal loans	-	12	-
Auto and equipment finance	-	-	-
Other	-	85	-
Total Trading Book	-	139	-

¹ Included in the above are assets of \$10,488m in securitisation entities which Macquarie has made an APS 120 Attachment B paragraph 26 election to be included in the Regulatory Banking Group.

Disclaimer

General areas of disclaimer:

- The information in this report has been prepared 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. It therefore does not constitute any form of financial statement on the Business nor does it constitute any form of contemporary or forward looking record or opinion of any of the Businesses.
- 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.

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