MACQUARIE BANK

Pillar 3 disclosures

Macquarie Bank
June 2020

Introduction

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MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

20 Aug 2020 - The Macquarie Bank Limited June 2020 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

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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).

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 2020 together with the 31 March 2020 comparatives where appropriate. The most recent full Pillar 3 disclosure document as at 31 March 2020 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 2020 and consists of sections covering:

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

Capital, Liquidity and Leverage Ratios

APS 330 Table 3(f)

Capital, Liquidity and Leverage Ratios[1]	**As at 30 June 2020**	As at 31 March 2020
Macquarie Level 2 regulatory group Common Equity Tier 1 capital ratio	**13.2%**	12.2%
Macquarie Level 2 regulatory group Tier 1 capital ratio	**15.2%**	13.6%
Macquarie Level 2 regulatory group Total capital ratio	**18.8%**	15.2%
Macquarie Level 2 regulatory group Leverage ratio	**6.0%**	5.7%
Macquarie Level 2 regulatory group Liquidity coverage ratio[2]	**189.0%**	173.5%

(1) The Macquarie Level 2 regulatory group capital and liquidity ratios are above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.
(2) The Liquidity Coverage Ratio for the 3 months to 30 June 2020 is calculated from 62 daily LCR observations (31 March 2020 is calculated from 63 daily LCR observations).

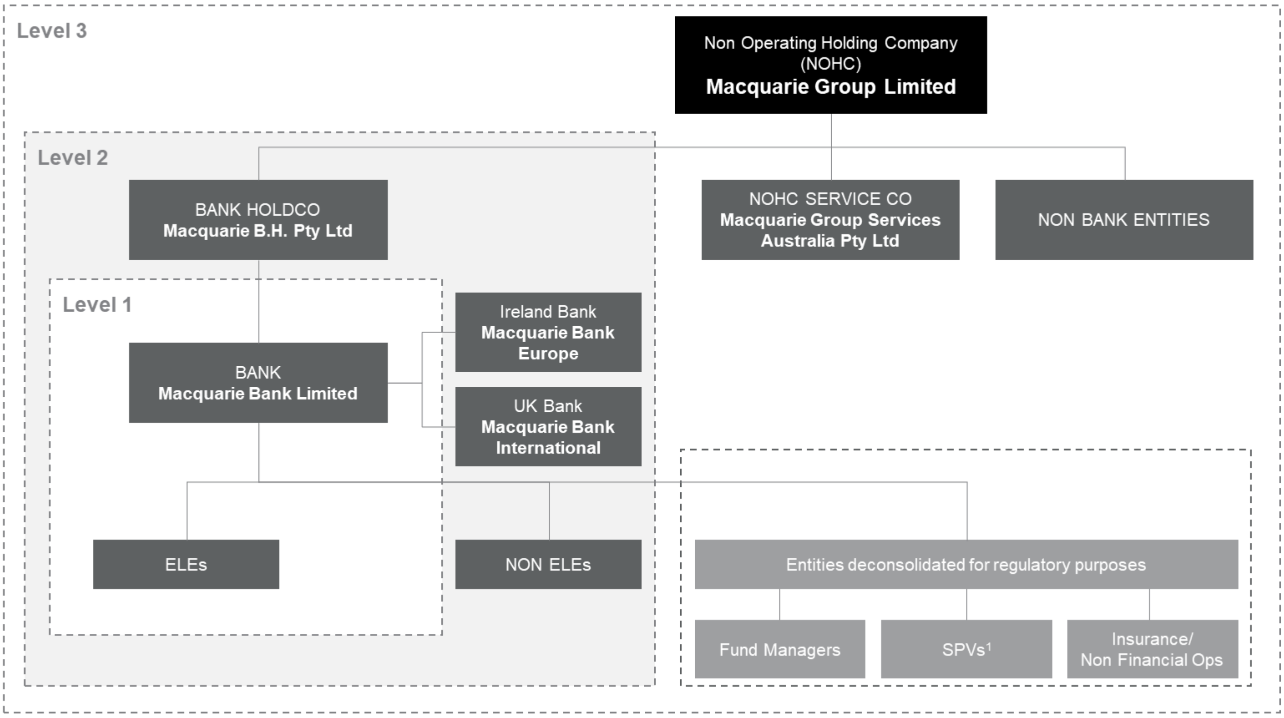
1.0 Overview

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

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 exposures for the Macquarie Level 2 regulatory group.

APS 330 Table 3(a-e)

	As at 30 June 2020	As at 31 March 2020
Credit risk		
Subject to IRB approach		
Corporate	**23,959**	29,246
SME Corporate	**4,173**	3,581
Sovereign	**429**	382
Bank	**1,530**	1,499
Residential Mortgages	**18,102**	17,757
Other Retail	**4,051**	4,220
Retail SME	**3,485**	3,515
Total RWA subject to IRB approach	**55,729**	60,200
Specialised lending exposures subject to slotting criteria[1]	**6,060**	6,545
Subject to Standardised approach		
Corporate	**224**	262
Residential Mortgages	**717**	740
Other Retail	**1,647**	1,928
Total RWA subject to Standardised approach	**2,588**	2,930
Credit risk RWA for securitisation exposures	**735**	758
Credit Valuation Adjustment RWA	**6,268**	7,635
Exposures to Central Counterparties RWA	**631**	835
RWA for Other Assets	**1,854**	2,089
Total Credit risk RWA	**73,865**	80,992
Market risk RWA	**4,497**	3,971
Operational risk RWA	**10,826**	10,655
Interest rate risk in the banking book RWA	**–**	–
Total RWA	**89,188**	95,618

(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. The gross credit risk exposures are calculated as the amount outstanding on drawn facilities and the exposure at default on undrawn facilities along with derivatives and repurchase agreements. The exposure at default is calculated in a manner consistent with APRA Prudential Standards.

Exposures have been based on the 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 MBL and its subsidiaries, the Consolidated Entity 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 30 June 2020**	As at 31 March 2020	Average Exposures for the 3 months[4] $m
Corporate[1]	**47,658**	54,217	50,937
SME Corporate[2]	**5,157**	5,045	5,101
Sovereign	**4,992**	5,205	5,099
Bank	**6,724**	7,569	7,146
Residential Mortgages	**66,306**	64,393	65,350
Other Retail	**9,224**	9,822	9,523
Retail SME	**4,813**	4,831	4,822
Other Assets[3]	**6,301**	6,901	6,601
Total Gross Credit Exposure	**151,175**	157,983	154,579

(1) Corporate includes specialised lending exposure of $5,607million as at 30 June 2020 (31 March 2020: $5,999 million).
(2) SME Corporate includes specialised lending exposure of $750 million as at 30 June 2020 (31 March 2020: $711 million).
(3) The major components of Other Assets are unsettled trades, related party exposures and fixed assets.
(4) Average exposures have been calculated using 31 March 2020 and 30 June 2020 quarter end spot positions.

3.0 Credit Risk Measurement
continued

APS 330 Table 4(a) (continued)

Portfolio Type	As at 30 June 2020	As at 31 March 2020	Average Exposures for the 3 months[4] $m
Subject to IRB approach			
Corporate[1]	**47,434**	53,955	50,694
SME Corporate[2]	**5,157**	5,045	5,101
Sovereign	**4,992**	5,205	5,099
Bank	**6,724**	7,569	7,146
Residential Mortgages	**65,113**	63,156	64,135
Other Retail	**7,507**	7,831	7,669
Retail SME	**4,813**	4,831	4,822
Total IRB approach	**141,740**	147,592	144,666
Subject to Standardised approach			
Corporate	**224**	262	243
Residential Mortgages	**1,193**	1,237	1,215
Other Retail	**1,717**	1,991	1,854
Total Standardised approach	**3,134**	3,490	3,312
Other Assets[3]	**6,301**	6,901	6,601
Total Gross Credit Exposure	**151,175**	157,983	154,579

(1) Corporate includes specialised lending exposure of $5,607 million as at 30 June 2020 (31 March 2020: $5,999 million).
(2) SME Corporate includes specialised lending exposure of $750 million as at 30 June 2020 (31 March 2020: $711 million).
(3) The major components of Other Assets are unsettled trades, related party exposures and fixed assets.
(4) Average exposures have been calculated using 31 March 2020 and 30 June 2020 quarter end spot positions.

APS 330 Table 4(a) (continued)

		As at 30 June 2020			
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months[1] $m
Subject to IRB approach					
Corporate	16,047	7,703	18,077	41,827	44,891
SME Corporate	3,643	764	-	4,407	4,371
Sovereign	2,331	2,390	271	4,992	5,099
Bank	2,809	1,165	2,750	6,724	7,146
Residential Mortgages	55,757	9,356	-	65,113	64,135
Other Retail	7,507	-	-	7,507	7,669
Retail SME	4,799	14	-	4,813	4,822
Total IRB approach	92,893	21,392	21,098	135,383	138,133
Specialised Lending	3,565	637	2,155	6,357	6,533
Subject to Standardised approach					
Corporate	-	224	-	224	243
Residential Mortgages	1,193	-	-	1,193	1,215
Other Retail	1,717	-	-	1,717	1,854
Total Standardised approach	2,910	224	-	3,134	3,312
Other Assets	4,659	1,056	586	6,301	6,601
Total Gross Credit Exposures	104,027	23,309	23,839	151,175	154,579

[1] Average exposures have been calculated using 31 March 2020 and 30 June 2020 quarter end spot positions.

3.0 Credit Risk Measurement
continued

APS 330 Table 4(a) (continued)

	As at 31 March 2020				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures for the 3 months $m[1]
Subject to IRB approach					
Corporate	17,585	8,607	21,764	47,956	47,174
SME Corporate	3,636	698	–	4,334	4,305
Sovereign	2,200	2,705	300	5,205	4,653
Bank	3,414	724	3,431	7,569	6,969
Residential Mortgages	53,401	9,755	–	63,156	61,541
Other Retail	7,831	–	–	7,831	7,879
Retail SME	4,816	15	–	4,831	4,885
Total IRB approach	92,883	22,504	25,495	140,882	137,404
Specialised Lending	3,673	815	2,222	6,710	6,389
Subject to Standardised approach					
Corporate	–	262	–	262	252
Residential Mortgages	1,237	–	–	1,237	1,239
Other Retail	1,991	–	–	1,991	2,067
Total Standardised approach	3,228	262	–	3,490	3,558
Other Assets	5,074	1,096	731	6,901	6,654
Total Gross Credit Exposures	104,858	24,677	28,448	157,983	154,004

(1) Average exposures have been calculated using 31 March 2020 and 30 June 2020 quarter end spot positions.

4.0 Provisioning

The table below details Macquarie's impaired facilities, past due facilities and specific provisions, presented in accordance with the definitions contained in Prudential Standard APS 220: Credit Quality.

APS 330 Table 4(b)

	As at 30 June 2020			As at 31 March 2020		
	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	**510**	**23**	**(186)**	479	31	(157)
SME Corporate	**213**	**54**	**(49)**	163	47	(47)
Residential Mortgages	**343**	**185**	**(4)**	378	148	(3)
Other Retail	**152**	**-**	**(32)**	135	–	(31)
Retail SME	**150**	**-**	**(27)**	110	–	(21)
Total IRB approach	**1,368**	**262**	**(298)**	1,265	226	(259)
Subject to Standardised approach						
Residential Mortgages	**-**	**-**	**-**	–	–	–
Other Retail	**55**	**-**	**(23)**	46	–	(19)
Total Standardised approach	**55**	**-**	**(23)**	46	–	(19)
Other Assets[1]	**1**	**-**	**-**	8	–	–
Total	**1,424**	**262**	**(321)**	1,319	226	(278)
Additional regulatory specific provisions[2]			**(320)**			(343)

[1] Includes other assets acquired through security enforcement subsequent to facility foreclosure.
[2] Includes stage 2 provisions deemed ineligible for General Reserve for credit losses (GRCL). Combined with $60 million (31 March 2020: $53 million) of stage 3 provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Other Retail.

4.0 Provisioning
continued

APS 330 Table 4(b) (continued)

	For the 3 months to 30 June 2020		For the 3 months to 31 March 2020	
	Charges for Specific provisions $m	Write-offs[1] $m	Charges for Specific provisions $m	Write-offs[1] $m
Subject to IRB approach				
Corporate	(46)	-	(134)	-
SME Corporate	(8)	-	(13)	-
Residential Mortgages	(1)	-	-	-
Other Retail	(5)	-	(6)	-
Retail SME	(12)	-	(9)	-
Total IRB approach	**(72)**	**-**	(162)	-
Subject to Standardised approach				
Other Retail	(8)	-	(11)	-
Total Standardised approach	**(8)**	**-**	(11)	-
Total	**(80)**	**-**	(173)	-

(1) Under AASB 9, there are no longer direct write-offs to Income Statement. A financial asset is written-off when there is no reasonable expectation of recovering it. At the time of writing-off a financial asset it is adjusted against the Expected Credit Loss (ECL) provision created over the life of the asset and not directly written-off to Income Statement.

APS 330 Table 4(c)

	As at 30 June 2020	As at 31 March 2020
General reserve for credit losses before tax	**222**	209
Tax effect	**(58)**	(49)
General reserve for credit losses (GRCL)	**164**	160

In line with guidance from APRA in their FAQs, Macquarie has applied the regulatory capital approach specified to those loans where the COVID-19 repayment deferral was granted. Nature and terms of the financial assistance offered to customers by Macquarie under the COVID-19 support package can be seen here: macquarie.com/au/en/about/news/2020/comprehensive-support-package-for-australians-dealing-with-coronavirus-covid-19-impacts.html

Loans where the COVID-19 payment pause was applied up to 30 June 2020 for Macquarie:

COVID-19 Payment Pause	Loans Count	Exposure $m
Personal Banking (Home Loans + Credit Cards)	**13,331**	6,479
Vehicle and Asset Finance (inc. Wholesale)	**52,330**	2,439
Business Banking (inc. Business Bank Home Loans)	**1,855**	1,731

5.0 Securitisation

5.1 Securitisation Activity

Over the 3 months to 30 June 2020, 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 2020		
	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	**1,162**	**-**	**-**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance[1]	**385**	**-**	**-**
Other	**-**	**-**	**-**
Total Banking Book	**1,547**	**-**	**-**
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 2020		
	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	9,153	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance[1]	1,738	-	-
Other	-	-	-
Total Banking Book	10,891	-	-
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.

5.0 Securitisation
continued

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 2020		
	Total outstanding exposures securitised[1]		
Exposure type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	36,222	2	36,224
Credit cards and other personal loans[2]	368	-	368
Auto and equipment finance	5,114	2	5,116
Other	420	154	574
Total Banking Book	42,124	158	42,282
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 $39,095 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.

	As at 31 March 2020		
	Total outstanding exposures securitised[1]		
Exposure type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	36,984	–	36,984
Credit cards and other personal loans[2]	487	–	487
Auto and equipment finance	5,482	2	5,484
Other	448	151	599
Total Banking Book	43,401	153	43,554
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 $40,159 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 2019, 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 2023.

Summary leverage ratio

Capital and total exposures	**30 June 2020 $m**	31 March 2020 $m	31 December 2019 $m	30 September 2019 $m
Tier 1 Capital	**13,522**	12,968	11,748	11,716
Total exposures	**225,591**	228,058	221,718	214,705
Leverage ratio				
Macquarie Level 2 regulatory group Leverage ratio	**6.0%**	5.7%	5.3%	5.5%

7.0 Liquidity Coverage Ratio Disclosures

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

		For the 3 months to 30 June 2020		For the 3 months to 31 March 2020	
	Liquidity Coverage Ratio disclosure template	**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)	*	25,174	*	21,335
2	Alternative liquid assets (ALA)	*	8,065	*	8,044
3	Reserve Bank of New Zealand (RBNZ) securities	*	-	*	-
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	48,269	4,613	42,797	3,983
5	Stable deposits	17,031	852	16,026	801
6	Less stable deposits	31,238	3,761	26,771	3,182
7	Unsecured wholesale funding, of which:	19,022	11,666	21,213	14,589
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	5,784	1,440	5,602	1,395
9	Non-operational deposits (all counterparties)	11,706	8,694	11,107	8,690
10	Unsecured debt	1,532	1,532	4,504	4,504
11	Secured wholesale funding	*	1,575	*	1,273
12	Additional requirements, of which:	22,402	10,448	24,219	12,161
13	Outflows related to derivatives exposures and other collateral requirements	9,143	9,143	10,641	10,641
14	Outflows related to loss of funding on debt products	273	273	381	381
15	Credit and liquidity facilities	12,986	1,032	13,197	1,139
16	Other contractual funding obligations	13,078	13,052	17,431	17,359
17	Other contingent funding obligations	8,654	506	7,740	472
18	**Total cash outflows**	*	41,860	*	49,837
	Cash Inflows				
19	Secured lending (e.g. reverse repos)	31,995	6,601	28,332	6,834
20	Inflows from fully performing exposures	3,346	2,881	4,124	3,448
21	Other cash inflows	14,790	14,790	22,622	22,622
22	**Total cash inflows**	50,131	24,272	55,078	32,904
23	**Total liquid assets**	*	33,239	*	29,379
24	**Total net cash outflows**	*	17,588	*	16,933
25	**Liquidity Coverage Ratio (%)**[1]	*	189.0%	*	173.5%

* Undisclosed

(1) The LCR for the 3 months to 30 June 2020 is calculated from 62 daily LCR observations (3 months to 31 March 2020 was calculated from 63 daily LCR observations).

The Liquidity Coverage Ratio (LCR)

The LCR requires unencumbered liquid assets be held to cover expected net cash outflows (NCOs) under a regulatory-defined stress scenario lasting 30 calendar days. Macquarie's 3 month average LCR to 30 June 2020 was 189.0% (based on 62 daily observations). This was an increase of 15.5% from the average for the 3 months to 31 March 2020, as a result of an increase in high quality liquid assets (HQLA) partially offset by an increase in NCOs.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) and the Risk Management Group (RMG). 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 major currencies in which it operates, with the HQLA portfolio being denominated and held in both Australian Dollars and a range of other currencies. This ensures that liquid assets are maintained consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

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. Macquarie's LCR fluctuates on a daily basis as a result of normal business activities and, accordingly, ongoing fluctuations in the reported LCR are expected and are not necessarily indicative of a changing risk appetite. Some examples of factors that can influence the LCR include wholesale funding activities (such as upcoming maturities and pre-funding expected future asset growth), the degree of activity in Macquarie's capital markets facing businesses, the composition and nature of liquid asset holdings, and a variety of other external market considerations that could impact day-to-day collateral requirements.

High Quality Liquid Assets (HQLA) and the Committed Liquidity Facility (CLF)

In addition to cash and central bank deposits, Macquarie's liquid assets portfolio includes Australian Dollar Commonwealth Government and semi-Government securities, any CLF allocation as well as foreign currency HQLA securities.

Macquarie's CLF allocation for calendar year 2020 is $8,500 million, which is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Note the disclosed balance of $8,065 million reflects the required 'open-repo' of internal self-securitised RMBS with the RBA (which increases cash balances in the Exchange Settlement Account (ESA) with the RBA but is considered an ongoing 'utilisation' of the CLF).

On 19 March 2020, the RBA announced that it was establishing a Term Funding Facility (TFF) that would offer authorised deposit taking institutions (ADIs) three year funding at a rate of 0.25% per annum in response to COVID-19. As at 30 June 2020, MBL (being an ADI) has an Initial Allowance of $1.7 billion. MBL will also have access to an Additional Allowance, subject to qualifying net lending provided to large businesses and SMEs. MBL has not included the TFF in its LCR for the June quarter.

Net Cash Outflows (NCOs)

NCOs in the LCR include contractual and assumed cash outflows, offset by certain allowable contractual cash inflows. Some of the key drivers of Macquarie's NCOs include:

Retail and SME deposits: assumed regulatory outflow relating to deposits from retail and SME customers that are at-call or potentially callable within 30 days. Note that any superannuation deposits received through a self-managed trust are required by APRA to be classified as 'less stable', even though the majority of these deposits are covered by the FCS.

Unsecured wholesale funding: includes remaining deposits which are not received from retail or SME customers along with unsecured debt balances contractually maturing within 30 days.

Secured wholesale funding and lending: represent inflows and outflows from secured lending and borrowing activities contractually maturing within 30 days, such as repurchase and reverse repurchase agreements.

Outflows relating to derivative exposures and other collateral requirements: includes gross contractual cash outflows relating to contractually maturing derivative contracts (with gross inflows on maturing derivative contracts profiled in 'other cash inflows'). Further, contingent liquidity outflows such as potential collateral requirements from market movements, a 3-notch credit ratings downgrade and withdrawal of excess collateral placed with Macquarie are also included in this category.

Inflows from fully performing exposures: In Macquarie's LCR, a large component of this balance relates to excess liquidity placed on an overnight or very short-term basis with third parties (internally considered part of the cash and liquid asset portfolio).

Other contractual funding obligations and other cash inflows: includes other gross flows not profiled elsewhere in the LCR. The volumes in these categories are large relative to Macquarie's total cash outflows and inflows, however they include the following balances in particular:

Segregated client funds placed with Macquarie: Macquarie acts as a clearing agent for clients on various futures exchanges. Clients place margin with Macquarie and Macquarie places this margin either directly with the exchange, holds it in other segregated external asset accounts or retains a portion on deposit with Macquarie. Although these funds are segregated from Macquarie, some of the balances are recorded on a gross basis on Macquarie's balance sheet and APRA require these to be profiled as gross inflows and outflows in the LCR.

Security and broker settlement balances: these represent securities that have been purchased or sold by Macquarie that have not yet settled and broker balances where stock has been bought or sold on behalf of clients but payment has not been made to / received from the client. APRA require these balances to be reflected on a gross basis in the LCR as 100% weighted inflows and outflows. The net effect of these balances on Macquarie's average LCR is minimal.

Disclaimer

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- Although Pillar 3 disclosures are intended to provide transparent 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).

Appendix 1 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: – provide a permanent and unrestricted commitment of funds; – are freely available to absorb losses; – rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and – provide for fully discretionary capital distributions.
Additional Tier 1 deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
ADI Prudential Standards (APS)	APRA's ADI Prudential Standards. For more information refer to APRA website.
Associates	Associates are entities over which Macquarie has significant influence, but not control. Investments in associates may be further classified as Held for Sale ('HFS') associates. HFS associates are those that have a high probability of being sold within 12 months to external parties. Associates that are not held for sale are carried at cost and equity-accounted. Macquarie's share of the investment's post-acquisition profits and losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised within equity.
Bank Group	MBL and its subsidiaries.
CET1	Common Equity Tier 1 capital
Contingent liabilities	Defined in AASB 137 Provisions, Contingent Liabilities and Contingent Assets as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable to occur or the amount cannot be reliably measured.
Central counterparty	A clearing house or exchange that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and therefore ensuring the future performance or open contracts.
Common Equity Tier 1 capital	A capital measure defined by APRA comprising the highest quality components of capital that fully satisfy all the following essential characteristics: – provide a permanent and unrestricted commitment of funds, – are freely available to absorb losses, – do not impose any unavoidable servicing charge against earnings; and – rank behind the claims of depositors and other creditors in the event of winding up. Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
Common Equity Tier 1 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
CVA	Credit Valuation Adjustment. The risk of mark-to-market losses on the expected counterparty risk to OTC derivatives.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non-financial operations including special purpose vehicles (SPV) for which Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief.
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
EL	Expected Loss, which is a function of EAD, PD and LGD.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI ('Level 1') for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.

Appendix 1 Glossary of Terms
continued

FIRB	Foundation Internal Ratings Based Approach (for determining credit risk)
Gross credit risk exposure	The potential loss that Macquarie would incur as a result of a default by an obligor excluding the impact of netting and credit risk mitigation.
HQLA	High Quality Liquid Assets
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised.
LCR	Liquidity Coverage Ratio
Level 2 Regulatory Group	MBL, its parent Macquarie B.H. Pty Ltd and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
Macquarie	Level 2 regulatory group
Macquarie Group	MGL and its subsidiaries
MBL	Macquarie Bank Limited ABN 46 008 583 542
MBL Consolidated Group	MBL and its subsidiaries
NCO	Net Cash Outflows
NSFR	Net Stable Funding Ratio
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
SME	Small – Medium Enterprises
SPV's	Special purpose vehicles or securitisation vehicles.
Tier 1 Capital	Tier 1 capital comprises of (i) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.

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