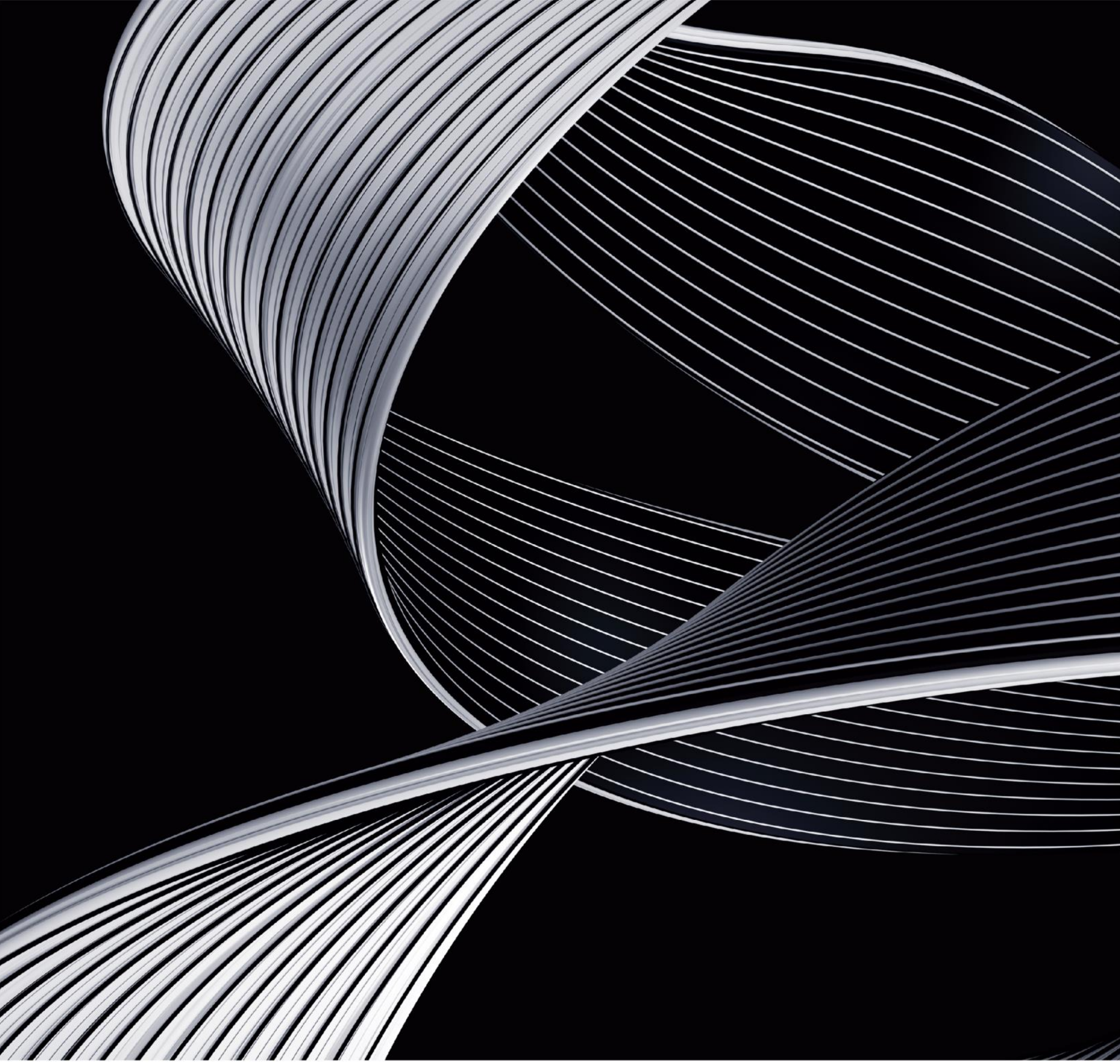

MBL Basel III Pillar 3 Capital Disclosures

December 2022

Macquarie Bank Limited
ACN 008 583 542

MACQUARIE BANK

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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

28 February 2023 – The Macquarie Bank Limited December 2022 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.

APRA has implemented the Basel III framework, and in some areas has introduced stricter requirements (APRA superequivalence). APRA's new bank capital framework, designed to embed "Unquestionably Strong" levels of capital, came into effect as of 1 January 2023 and the first reporting period under this new framework is 31 March 2023. This report details MBL's disclosures as required by APRA Prudential Standard APS 330: Public Disclosure as at 31 December 2022 together with the 30 September 2022 comparatives where appropriate.

This report outlines the key components of Macquarie's capital structure, key risk exposures and associated capital requirements. Key risk exposures include credit risk (including securitisation exposures, credit valuation adjustment, and exposures to central counterparties), market risk, operational risk and interest rate risk in the banking book. This report also contains the reporting requirements for the leverage and liquidity coverage ratios. Macquarie's Risk Management Framework (RMF) and supporting frameworks, and policies, and the monitoring and reporting of the RMF are described in the half year and full year Pillar 3 reports.

References to Macquarie in this report refers to the Level 2 regulatory group which consists of MBL, further details are provided in Section 1.1 Scope of Application.

Ratios for Common Equity Tier 1, Total Tier 1, Total capital, Leverage and Liquidity are set out below.

APS 330 Table 3(f)

Capital, Liquidity and Leverage Ratios – Level 2 regulatory group	**As at 31 December 2022**	As at 30 September 2022
Common Equity Tier 1 capital ratio	**13.3%**	12.8%
Tier 1 capital ratio	**15.1%**	14.6%
Total capital ratio	**19.3%**	18.8%
Leverage ratio	**5.2%**	4.7%
Liquidity coverage ratio[1,2,3]	**208%**	181%

APRA requires Authorised Deposit taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk weighted assets (RWA) of 8.5%, including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI specific minimum capital ratios which may be higher than these levels.

At 31 December 2022, 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. The countercyclical capital buffer requirement for Macquarie Level 2 regulatory group is approximately 9 basis points.

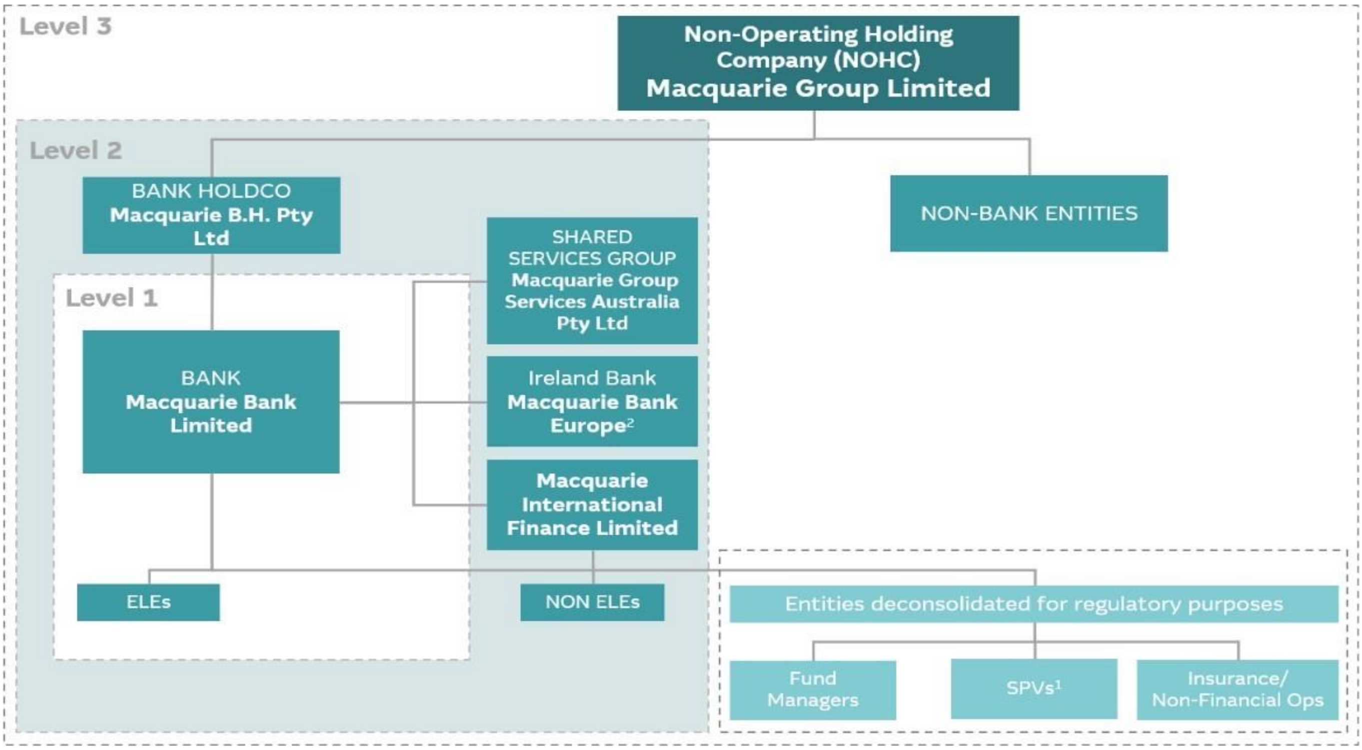
[1] The Liquidity Coverage Ratio for the 3 months to 31 December 2022 is calculated from 62 daily LCR observations (30 September 2022 is calculated from 64 daily LCR observations).
[2] APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, effective from 1 April 2021. This add-on increased to 25% from 1 May 2022.
[3] Comparatives information for 30 September 2022 has been restated to conform to the MBL Basel III Pillar 3 Disclosures Restatements issued on 28 February 2023 where applicable.

1. Overview

1.1 Scope of Application

MBL, as an approved ADI, is required to comply with the disclosure requirements of APS 330 on a Level 2 basis.

The regulatory consolidated group is different to the accounting consolidated group and identifies three different levels of consolidation as illustrated below:



1. These are securitisation vehicles that achieve Regulatory Capital Relief per APS 120.
2. Disclosure of Macquarie Bank Europe's Pillar 3 document is available on Macquarie's website https://www.macquarie.com/au/en/investors/regulatory-disclosures.html

Reporting levels are in accordance with APRA definitions contained in APRA Prudential Standard APS 110: Capital Adequacy.

References to Macquarie in this report refer to the Level 2 regulatory group which consists of MBL, its subsidiaries and its immediate parent (Macquarie B.H. Pty Ltd) but excludes certain subsidiaries of MBL which are required to be deconsolidated for APRA reporting purposes. Unless otherwise stated, all disclosures in this report represent the Level 2 regulatory group prepared on an APRA 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 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 the current year, unless otherwise stated.

The Appendices include a Glossary of Terms used throughout this document.

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 exposures for the Macquarie Level 2 regulatory group.

APS 330 Table 3(a) to (e)

	As at 31 December 2022 $m	As at 30 September 2022 $m
Credit risk		
Subject to IRB approach		
Corporate	**37,855**	42,018
SME Corporate	**4,596**	4,474
Sovereign	**3,154**	3,572
Bank	**1,752**	2,060
Residential Mortgages	**29,655**	28,477
Other Retail	**2,143**	2,344
Retail SME	**1,790**	1,980
Total RWA subject to IRB approach	**80,945**	84,925
Specialised lending exposures subject to slotting criteria[1]	**9,297**	9,658
Subject to Standardised approach		
Corporate	**41**	41
Residential Mortgages	**501**	532
Other Retail	**1,086**	1,052
Total RWA subject to Standardised approach	**1,628**	1,625
Credit risk RWA for securitisation exposures	**780**	602
Credit Valuation Adjustment RWA	**10,107**	13,213
Exposures to Central Counterparties RWA	**506**	576
RWA for Other Assets	**3,723**	2,918
Total Credit risk RWA	**106,986**	113,517
Market risk RWA	**13,211**	10,773
Operational risk RWA	**10,291**	10,495
Interest rate risk in the banking book RWA	**1,856**	1,579
Total RWA	**132,344**	136,364

[1] Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

3. Credit Risk Measurement

3.1 Macquarie's Credit Risk Exposures

Disclosures in this section have been prepared on a gross credit 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 exposure at default on drawn and 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 a 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.

APS 330 Table 4(a)

Portfolio Type	**As at 31 December 2022 $m**	As at 30 September 2022 $m
Corporate[1]	**79,998**	93,157
SME Corporate[2]	**8,765**	8,507
Sovereign	**41,974**	50,102
Bank	**8,947**	10,347
Residential Mortgages	**124,475**	119,502
Other Retail	**5,593**	6,027
Retail SME	**2,746**	2,989
Other Assets[3]	**7,057**	7,498
Total Gross Credit Exposure	**279,555**	298,129

[1] Corporate includes specialised lending exposure of $6,411 million as at 31 December 2022 (30 September 2022: $6,850 million).
[2] SME Corporate includes specialised lending exposure of $3,526 million as at 31 December 2022 (30 September 2022: $3,368 million).
[3] The major components of Other Assets are related party exposures, fixed assets and unsettled trades.

APS 330 Table 4(a) (continued)

	As at 31 December 2022				
		Off balance sheet			
	On balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average exposures[1] $m
Subject to IRB approach					
Corporate	24,459	12,767	36,320	73,546	79,906
SME Corporate	4,166	1,073	-	5,239	5,189
Sovereign	36,805	4,872	297	41,974	46,038
Bank	2,428	2,812	3,707	8,947	9,647
Residential Mortgages	108,287	15,372	-	123,659	121,149
Other Retail	4,019	-	-	4,019	4,196
Retail SME	2,730	16	-	2,746	2,868
Total IRB approach	182,894	36,912	40,324	260,130	268,992
Specialised Lending	5,420	1,633	2,884	9,937	10,078
Subject to Standardised approach					
Corporate	-	41	-	41	41
Residential Mortgages	800	16	-	816	840
Other Retail	1,574	-	-	1,574	1,615
Total Standardised approach	2,374	57	-	2,431	2,495
Other Assets	5,047	835	1,175	7,057	7,278
Total Gross Credit Exposures	195,735	39,437	44,383	279,555	288,842

[1] Average exposures have been calculated on 31 December 2022 and 30 September 2022 spot positions.

APS 330 Table 4(a) (continued)

	As at 30 September 2022				
		Off balance sheet			
	On balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average exposures[1] $m
Subject to IRB approach					
Corporate	22,932	12,400	50,934	86,266	82,438
SME Corporate	4,134	1,005	-	5,139	5,106
Sovereign	44,811	4,977	314	50,102	46,785
Bank	3,549	2,997	3,801	10,347	9,992
Residential Mortgages	103,830	14,809	-	118,639	116,238
Other Retail	4,372	-	-	4,372	4,563
Retail SME	2,978	11	-	2,989	3,134
Total IRB approach	186,606	36,199	55,049	277,854	268,255
Specialised Lending	5,187	1,659	3,372	10,218	9,838
Subject to Standardised approach					
Corporate	-	41	-	41	41
Residential Mortgages	846	17	-	863	878
Other Retail	1,655	-	-	1,655	1,613
Total Standardised approach	2,501	58	-	2,559	2,532
Other Assets	5,919	740	839	7,498	7,497
Total Gross Credit Exposures	200,213	38,656	59,260	298,129	288,121

[1] Average exposures have been calculated on 30 September 2022 and 30 June 2022 spot positions.

4. Provisioning

4.1 Provisions by Counterparty Type

The table below details impaired facilities, past due and specific provisions.

APS 330 Table 4(b)[1]

	As at 31 December 2022			As at 30 September 2022		
	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	**216**	**183**	**(133)**	368	134	(151)
SME Corporate	**150**	**54**	**(25)**	84	38	(25)
Residential Mortgages	**222**	**199**	**(6)**	210	208	(6)
Other Retail	**97**	**4**	**(38)**	107	3	(44)
Retail SME	**63**	**6**	**(16)**	74	6	(18)
Total IRB approach	**748**	**446**	**(218)**	843	389	(244)
Subject to Standardised approach						
Residential Mortgages	**-**	**-**	**-**	-	-	-
Other Retail	**10**	**5**	**(10)**	12	4	(10)
Total Standardised approach	**10**	**5**	**(10)**	12	4	(10)
Other Assets	**–**	**–**	**–**	–	–	–
Total	**758**	**451**	**(228)**	855	393	(254)
Additional regulatory specific provisions			**(185)**			(180)

[1] FAQs published by APRA on 10 Mar 22 clarified that ADIs should continue to make disclosures based on the current APS 330, using the terms as defined in Prudential Standard APS 220 Credit Quality (revoked APS 220).

APS 330 Table 4(b)[1] (continued)

	For the 3 months to 31 December 2022		For the 3 months to 30 September 2022	
	Charges for Specific provisions $m	Write-offs[2] $m	Charges for Specific provisions $m	Write-offs[2] $m
Subject to IRB approach				
Corporate	-	-	(7)	-
SME Corporate	-	-	-	-
Residential Mortgages	-	-	(1)	-
Other Retail	-	-	-	-
Retail SME	-	-	-	-
Total IRB approach	-	-	(8)	-
Subject to Standardised approach				
Other Retail	-	-	-	-
Total Standardised approach	-	-	-	-
Total	-	-	(8)	-

4.2 General Reserve for Credit Losses

APS 330 Table 4(c)[1]

	As at 31 December 2022 $m	As at 30 September 2022 $m
General reserve for credit losses before tax	**394**	375
Tax effect	**(94)**	(89)
General reserve for credit losses	**300**	286

[1] FAQs published by APRA on 10 Mar 22 clarified that ADIs should continue to make disclosures based on the current APS 330, using the terms as defined in Prudential Standard APS 220 Credit Quality (revoked APS 220).
[2] 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.

5. Securitisation

5.1 Securitisation Activity

Over the 3 months to 31 December 2022, 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 31 December 2022		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure Type	**ADI originated $m**	**ADI as sponsor $m**	**$m**
Banking Book			
Residential Mortgages[1]	**5,037**	–	–
Credit cards and other personal loans	-	–	–
Auto and equipment finance[1]	-	–	–
Other	-	–	–
Total Banking Book	**5,037**	–	–
Trading Book			
Residential Mortgages	–	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance	–	–	–
Total Trading Book	–	–	–

	For the 3 months to 30 September 2022		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure Type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages[1]	3,403	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance[1]	–	–	–
Other	–	–	–
Total Banking Book	3,403	–	–
Trading Book			
Residential Mortgages	–	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance	–	–	–
Total Trading Book	–	–	–

[1] Exposures that have been transferred between different structures may also have been originated within the same period which would result in those exposures being included twice.

5.2 Exposures Arising from Securitisation Activity by Asset Type

This table sets out the on and off-balance sheet securitisation exposures originated or purchased, broken down by asset type.

APS 330 Table 5(b)

	As at 31 December 2022		
	Total outstanding exposures[1]		
Exposure Type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	**63,526**	**23**	**63,549**
Credit cards and other personal loans	**204**	**-**	**204**
Auto and equipment finance	**3,994**	**18**	**4,012**
Other	**353**	**-**	**353**
Total Banking Book	**68,077**	**41**	**68,118**
Trading Book			
Residential Mortgages	**-**	**-**	**-**
Credit cards and other personal loans	**-**	**-**	**-**
Auto and equipment finance	**-**	**-**	**-**
Other	**-**	**-**	**-**
Total Trading Book	**-**	**-**	**-**

	As at 30 September 2022		
	Total outstanding exposures[1]		
Exposure Type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	62,380	68	62,448
Credit cards and other personal loans	114	58	172
Auto and equipment finance	4,400	88	4,488
Other	304	-	304
Total Banking Book	67,198	214	67,412
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 $64,808 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group (30 September 2022: $64,329 million).

6. 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 the leverage ratio minimum regulatory requirement of 3%, effective from 1 January 2018. APRA released the final 'Prudential Standard APS 110 Capital Adequacy' on 29 November 2021 which has a minimum requirement for the leverage ratio of 3.5% effective 1 January 2023.

At 31 December 2022, Macquarie's leverage ratio was 5.2%, an increase of 0.5% vs. 30 September 2022. This increase was primarily driven by a reduction in leverage exposure as a result of market movements in commodity derivatives and a decrease in liquidity holdings, partially offset by growth in the home loan portfolio.

Capital and total exposures	**31 December 2022 $m**	30 September 2022 $m	30 June 2022 $m	31 March 2022 $m
Tier 1 Capital	**19,961**	19,876	18,896	17,272
Total exposures	**384,047**	418,822	372,868	348,235
Macquarie Level 2 regulatory group Leverage ratio	**5.2%**	4.7%	5.1%	5.0%

7. Liquidity Coverage Ratio Disclosure

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

	Liquidity Coverage Ratio disclosure template	For the 3 months to 31 December 2022 Total unweighted value (average) $m	For the 3 months to 31 December 2022 Total weighted value (average) $m	For the 3 months to 30 September 2022[1] Total unweighted value (average) $m	For the 3 months to 30 September 2022[1] Total weighted value (average) $m
	Liquid assets, of which:				
1	High quality liquid assets (HQLA)		**63,111**		65,749
2	Alternative liquid assets (ALA)		**1,643**		4,054
3	Reserve Bank of New Zealand (RBNZ) securities		**-**		-
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	**74,430**	**7,275**	67,797	6,588
5	Stable deposits	**24,224**	**1,211**	22,254	1,113
6	Less stable deposits	**50,206**	**6,064**	45,543	5,475
7	Unsecured wholesale funding, of which:	**44,686**	**23,386**	43,920	22,914
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	**18,534**	**3,572**	19,009	3,717
9	Non-operational deposits (all counterparties)	**20,574**	**14,236**	19,381	13,667
10	Unsecured debt	**5,578**	**5,578**	5,530	5,530
11	Secured wholesale funding		**3,260**		2,769
12	Additional requirements, of which:	**48,060**	**26,823**	49,590	27,708
13	Outflows related to derivatives exposures and other collateral requirements	**27,158**	**24,572**	29,960	25,516
14	Outflows related to loss of funding on debt products	**452**	**452**	480	480
15	Credit and liquidity facilities	**20,450**	**1,799**	19,150	1,712
16	Other contractual funding obligations	**15,097**	**15,058**	15,206	15,187
17	Other contingent funding obligations	**10,861**	**669**	9,949	589
18	**Total cash outflows**		**76,471**		75,755
	Cash Inflows				
19	Secured lending (e.g., reverse repos)	**42,146**	**24,247**	44,904	17,384
20	Inflows from fully performing exposures	**3,445**	**2,743**	3,522	2,862
21	Other cash inflows	**24,562**	**24,562**	24,645	24,645
22	**Total cash inflows**	**70,153**	**51,552**	73,071	44,891
23	**Total liquid assets**		**64,754**		69,803
24	**Total net cash outflows[2]**		**31,147**		38,579
25	**Liquidity Coverage Ratio (%)[3]**		**208%**		181%

[1] Comparatives information for 30 September 2022 has been restated to conform to the MBL Basel III Pillar 3 Disclosures Restatements issued on 28 February 2023 where applicable.
[2] APRA imposed a 15% add-on to the Net Cash Outflow (NCO) component of the LCR calculation, effective from 1 April 2021. This add-on increased to 25% from 1 May 2022. For the 3 months to 31 December 2022 an average NCO overlay of $6,229 million is included in the disclosed balance of $31,147 million (3 months to 30 September 2022 overlay of $7,716 million is included in the disclosed balance of $38,579 million).
[3] The LCR for the 3 months to 31 December 2022 is calculated from 62 daily LCR observations (3 months to 30 September 2022 was calculated from 64 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 31 December 2022 was 208% (based on 62 daily observations). This represents an increase of 27% from the 3 month LCR to 30 September 2022, as a result of a decrease in NCOs partially offset by a decrease in liquid assets.

Liquidity management is performed centrally by Group Treasury, with oversight from the MGL and MBL Asset and Liability Committees (ALCO), the MGL and MBL Boards and the Risk Management Group (RMG). Furthermore, the Board approved Liquidity Policy and Risk Tolerance is designed to ensure Macquarie maintains sufficient liquidity to meet its obligations as they fall due.

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 high-quality liquid assets (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 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 prefunding 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.

Liquid Assets

In addition to cash and central bank deposits, Macquarie's LCR liquid assets include Australian Dollar Commonwealth Government and semi-Government securities, foreign currency HQLA securities and Macquarie's allocation under the Committed Liquidity Facility (CLF).

APRA wrote to all LCR ADIs on 10 September 2021 advising that no ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022 and that ADIs should reduce their usage of the CLF to zero by the end of 2022, subject to financial market conditions. Macquarie's average CLF allocation for the 3 months to 31 December 2022 is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Consistent with the industry-wide phase out of the CLF, Macquarie's CLF allocation reduced from $2,425 million to zero as at December 2022.

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.

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. 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.

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 Capital 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.
Bank Group	MBL and its subsidiaries.
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 (CET1)	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 deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
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, Probability of Default and Loss given Default.
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.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
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 1 Regulatory Group	MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities.
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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Unless otherwise specified all information is at 31 December 2022.

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- 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 super equivalence).