

MBL Basel III Pillar 3 Capital Disclosures

June 2023

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ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

23 August 2023 - The Macquarie Bank Limited June 2023 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 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. Operational risk is subject to the Standardised Measurement Approach (SMA).

APRA has implemented the Basel Committee's Basel III framework, and in some areas has introduced stricter requirements (APRA superequivalence). This report details MBL's disclosures as required by APRA Prudential Standard APS 330: Public Disclosure (APS 330) as at 30 June 2023 together with the 31 March 2023 comparatives where appropriate. References to Macquarie in this report refer to the Level 2 regulatory group which includes MBL. Further details are provided in Section 1.1 Scope of Application.

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) along with the supporting frameworks and policies, and the monitoring, reporting of the RMF are described in the half year and full year Pillar 3 reports.

APS 330 Table 3 (f)

Capital, Liquidity and Leverage Ratios – Level 2 regulatory group	As at	As at
	30 June 2023	31 March 2023
Common Equity Tier 1 capital ratio	13.6%	13.7%
Tier 1 capital ratio	15.5%	15.6%
Total capital ratio	21.1%	21.3%
Leverage ratio	5.2%	5.2%
Liquidity coverage ratio ^{1,2}	211%	214%

The minimum Common Equity Tier 1 (CET1) ratio in accordance with Prudential Standard APS 110 - Capital Adequacy is 8.75%. This includes the industry minimum CET1 requirement of 4.5%, capital conservation buffer (CCB) of 3.75% and a countercyclical capital buffer (CCyB) of 0.5%³. The corresponding ratios for Tier 1 and Total capital are 10.25% and 12.25%, respectively. APRA also requires ADIs to maintain a minimum leverage ratio of 3.5%. In addition, APRA may impose ADI-specific minimum ratios which may be higher than these levels. At 30 June 2023, 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.

¹ The Liquidity Coverage Ratio for the 3 months to 30 June 2023 is calculated from 61 daily LCR observations (31 March 2023 is calculated from 63 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. Accordingly, the 3 month average LCR to 31 March 2023 and the 3 month average LCR to 30 June 2023 includes a 25% NCO add-on.

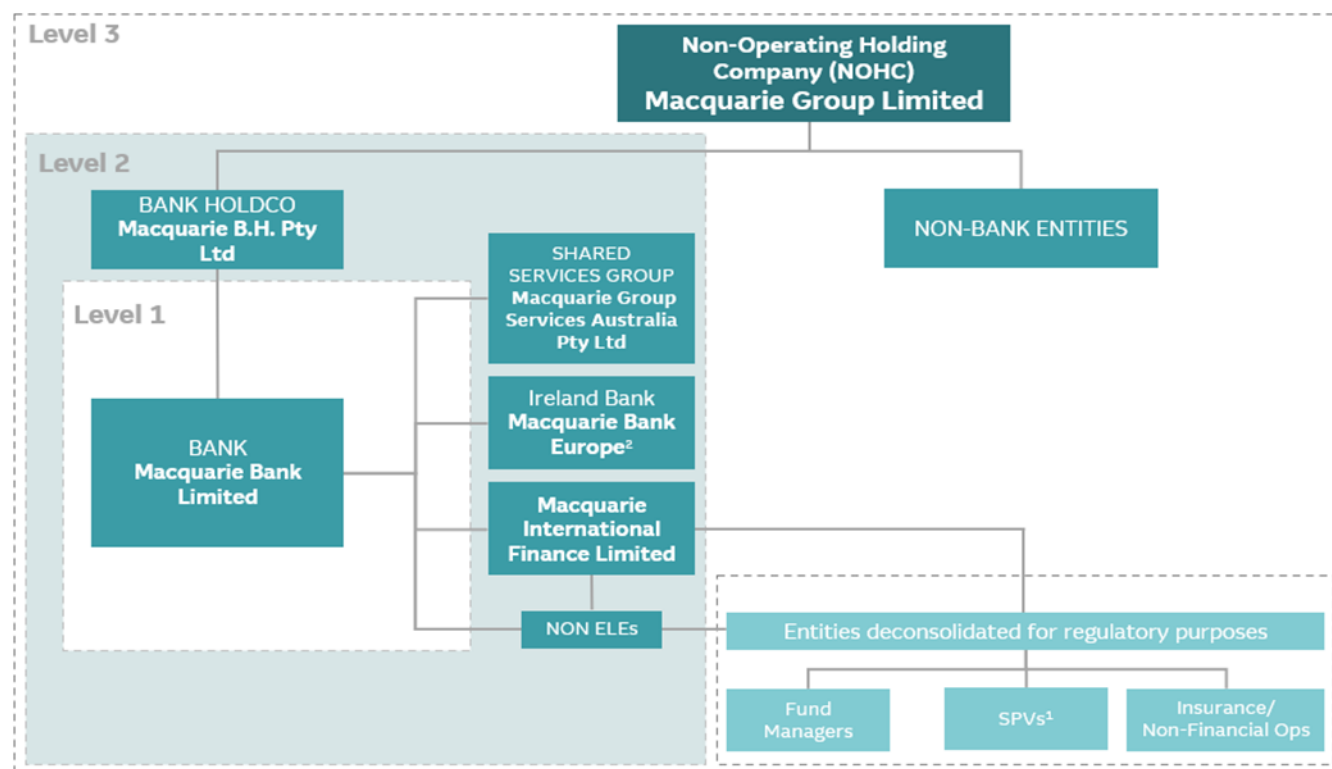
³ The CCyB of the Level 2 regulatory group as at 30 June 2023 is 0.63%, which is rounded to 0.5% for presentation purposes. The individual CCyB varies by jurisdiction and the CCyB of the Level 2 regulatory group is calculated as a weighted average based on exposures in different jurisdictions at that time.

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.

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. Averages have been prepared in this report for certain disclosures as required by APS 330.

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 for the Macquarie Level 2 regulatory group.

APS 330 Table 3 (a) to (e)

	As at 30 June 2023 \$m	As at 31 March 2023 \$m
Credit risk		
Subject to IRB approach		
Corporate ¹	29,048	29,994
SME Corporate	7,710	7,374
Sovereign	398	450
Financial Institution ²	11,134	11,289
Residential Mortgages ³	21,643	21,066
Other Retail	1,876	2,048
Retail SME	1,539	1,682
Total RWA subject to IRB approach	73,348	73,903
Specialised lending exposures subject to slotting criteria⁴	6,410	6,973
Subject to Standardised approach		
Corporate	2,136	1,778
Residential Mortgages	762	801
Other Retail	843	867
Total RWA subject to Standardised approach	3,741	3,446
Credit risk RWA for securitisation exposures	609	636
Credit Valuation Adjustment RWA	9,202	8,975
Exposures to Central Counterparties RWA	509	476
RWA for Other Assets⁵	3,134	3,076
Total Credit risk RWA	96,953	97,485
Market risk RWA	8,861	9,743
Operational risk RWA	15,828	15,828
Interest rate risk in the banking book RWA	1,842	1,920
Total RWA	123,484	124,976

¹ 'Corporate' asset class includes Large Corporates.

² 'Financial Institution' asset class includes banks and other corporate financial institutions.

³ Residential mortgages RWA as at 30 June 2023 includes a \$2.3bn overlay as advised by APRA for the purpose of calibrating MBL's IRB residential mortgages model.

⁴ Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

⁵ The major components of Other Assets are unsettled trades, fixed assets and residual value of operating leases.

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 30 June 2023 \$m	As at 31 March 2023 \$m
Corporate ¹	55,263	56,902
SME Corporate ²	10,050	9,665
Sovereign	37,820	44,157
Financial Institution	28,277	26,025
Residential Mortgages	129,167	126,632
Other Retail	4,856	5,250
Retail SME	2,317	2,492
Other Assets ³	5,253	5,364
Total Gross Credit Exposure	273,003	276,487

¹ Corporate includes specialised lending exposure of \$6,183 million as at 30 June 2023 (31 March 2023: \$6,823 million).

² SME Corporate includes specialised lending exposure of \$72 million as at 30 June 2023 (31 March 2023: \$75 million).

³ The major components of Other Assets are unsettled trades, fixed assets and residual value of operating leases.

APS 330 Table 4(a) (continued)

	As at 30 June 2023				
	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	18,651	2,920	24,303	45,874	47,097
SME Corporate	8,293	1,633	51	9,977	9,784
Sovereign	32,059	5,659	102	37,820	40,989
Financial Institution	7,838	10,009	10,430	28,277	27,151
Residential Mortgages	112,983	15,348	-	128,331	127,040
Other Retail	3,450	-	-	3,450	3,572
Retail SME	2,302	15	-	2,317	2,405
Total IRB approach	185,576	35,584	34,886	256,046	258,036
Specialised Lending subject to slotting criteria	2,492	875	2,888	6,255	6,577
Subject to Standardised approach					
Corporate	1,519	426	1,262	3,207	3,155
Residential Mortgages	788	48	-	836	860
Other Retail	1,069	337	-	1,406	1,482
Total Standardised approach	3,376	811	1,262	5,449	7,506
Other Assets	5,213	40	-	5,253	4,637
Total Gross Credit Exposures	196,657	37,310	39,036	273,003	274,745

¹ Average exposures have been calculated on 30 June 2023 and 31 March 2023 spot positions.

APS 330 Table 4(a) (continued)

	As at 31 March 2023			Total \$m	Average exposures ¹ \$m
	On balance Sheet \$m	Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	18,919	3,230	24,827	46,976	
SME Corporate	7,824	1,723	43	9,590	
Sovereign	40,030	4,037	90	44,157	
Financial Institution	5,170	10,879	9,976	26,025	
Residential Mortgages	111,106	14,643	-	125,749	
Other Retail	3,693	-	-	3,693	
Retail SME	2,477	15	-	2,492	
Total IRB approach	189,219	34,527	34,936	258,682	259,406
Specialised Lending subject to slotting criteria	2,256	1,142	3,500	6,898	8,418
Subject to Standardised approach					
Corporate	1,656	538	909	3,103	
Residential Mortgages	832	51	-	883	
Other Retail	1,203	354	-	1,557	
Total Standardised approach	3,691	943	909	5,543	3,987
Other Assets	5,337	27	-	5,364	6,211
Total Gross Credit Exposures	200,503	36,639	39,345	276,487	278,021

¹ Only sub totals in respect to average exposures are reported due to the change in asset classes under APRA's revised bank capital framework. Average exposures have been calculated on 31 March 2023 and 31 December 2022 spot positions.

4. Provisioning

4.1 Provisions by Counterparty Type

The table below details non-performing facilities and specific provisions.

APS 330 Table 4(b)

	As at 30 June 2023				For the 3 months to 30 June 2023	
	Gross Credit Exposure \$m	Non- Performing		Specific Provisions \$m	Charges for Specific Provisions \$m	Write- offs ¹ \$m
		< 90 Days Past Due \$m	≥ 90 Days Past Due \$m			
Subject to IRB approach						
Corporate ²	52,056	167	182	(132)	(47)	-
SME Corporate ²	10,050	96	111	(36)	(5)	-
Sovereign	37,820	-	-	-	-	-
Financial Institution	28,277	-	37	(36)	-	-
Residential Mortgages	128,331	300	300	(17)	(2)	-
Other Retail	3,450	86	19	(30)	-	-
Retail SME	2,317	47	19	(17)	(1)	-
Total IRB approach	262,301	696	668	(268)	(55)	-
Subject to Standardised approach						
Corporate	3,207	-	-	-	-	-
Residential Mortgages	836	-	-	-	-	-
Other Retail	1,406	20	9	(25)	(1)	-
Total Standardised approach	5,449	20	9	(25)	(1)	-
Other Assets	5,253	-	-	-	-	-
Total	273,003	716	677	(293)	(56)	-
Additional regulatory specific provisions				(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.

² IRB Corporate and SME Corporate include specialised lending.

APS 330 Table 4(b) continued

	As at 31 March 2023				For the 3 months to 31 March 2023	
	Gross Credit Exposure \$m	Non- Performing		Specific Provisions \$m	Charges for Specific Provisions \$m	Write- offs ¹ \$m
		< 90 Days Past Due \$m	≥ 90 Days Past Due \$m			
Subject to IRB approach						
Corporate ²	53,799	130	141	(93)	(54)	-
SME Corporate ²	9,665	110	127	(33)	(6)	-
Sovereign	44,157	-	-	-	-	-
Financial Institution	26,025	-	37	(36)	-	-
Residential Mortgages	125,749	279	282	(15)	(2)	-
Other Retail	3,693	92	20	(30)	-	-
Retail SME	2,492	52	22	(19)	(1)	-
Total IRB approach	265,580	663	629	(226)	(63)	-
Subject to Standardised approach						
Corporate	3,103	-	-	-	-	-
Residential Mortgages	883	-	-	-	-	-
Other Retail	1,557	18	9	(24)	(3)	-
Total Standardised approach	5,543	18	9	(24)	(3)	-
Other Assets	5,364	-	-	-	-	-
Total	276,487	681	638	(250)	(66)	-
Additional regulatory specific provisions				(173)		

General Provisions

APS 330 Table 4(c)

	As at 30 June 2023 \$m	As at 31 March 2023 \$m
General provisions before tax	357	383
Tax effect	(97)	(100)
General provisions	260	283

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.

² IRB Corporate and SME Corporate includes specialised lending.

5. Securitisation

5.1 Securitisation Activity

Over the 3 months to 30 June 2023, 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 30 June 2023		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
Banking Book			
Residential Mortgages ¹	4,937	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	-	-	-
Other	-	-	-
Total Banking Book	4,937	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

Exposure Type	For the 3 months to 31 March 2023		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
Banking Book			
Residential Mortgages ¹	5,754	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	-	-	-
Other	-	-	-
Total Banking Book	5,754	-	-
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)

Exposure Type	As at 30 June 2023		
	Total outstanding exposures ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	65,196	65	65,261
Credit cards and other personal loans	200	-	200
Auto and equipment finance	3,121	45	3,166
Other	331	-	331
Total Banking Book	68,848	110	68,958
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-

Exposure Type	As at 31 March 2023		
	Total outstanding exposures ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	65,358	-	65,358
Credit cards and other personal loans	211	-	211
Auto and equipment finance	3,510	24	3,534
Other	360	-	360
Total Banking Book	69,439	24	69,463
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 \$65,920 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group (31 March 2023: \$66,189 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.

Prudential Standard APS 110 Capital Adequacy requires a minimum leverage ratio of 3.5% effective 1 January 2023. Macquarie's leverage ratio was 5.2% at 30 June 2023. There was a reduction in total exposures driven by a decrease in liquidity holdings; partially offset by lower Tier 1 capital which is resulting in a neutral impact to the leverage ratio quarter on quarter.

	30 June 2023 \$m	31 March 2023 \$m	31 December 2022 ¹ \$m	30 September 2022 ¹ \$m
Capital and total exposures				
Tier 1 Capital	19,161	19,478	19,961	19,876
Total exposures	367,418	375,561	384,047	418,822
Macquarie Level 2 regulatory group Leverage ratio	5.2%	5.2%	5.2%	4.7%

¹ Comparatives have not been restated for APRA's revised bank capital framework which came into effect from 1 January 2023.

7. Liquidity Coverage Ratio Disclosure

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

	For the 3 months to 30 June 2023		For the 3 months to 31 March 2023	
	Total unweighted value (average) \$m	Total weighted value (average) \$m	Total unweighted value (average) \$m	Total weighted value (average) \$m
Liquidity Coverage Ratio disclosure template				
Liquid assets, of which:				
1 High quality liquid assets (HQLA)		54,032		57,295
2 Alternative liquid assets (ALA)		-		-
3 Reserve Bank of New Zealand (RBNZ) securities		-		-
Cash outflows				
4 Retail deposits and deposits from small business customers, of which:	83,183	8,282	80,155	7,925
5 Stable deposits	25,706	1,285	25,037	1,252
6 Less stable deposits	57,477	6,997	55,118	6,673
7 Unsecured wholesale funding, of which:	40,008	19,583	43,015	22,497
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	17,594	3,276	18,067	3,428
9 Non-operational deposits (all counterparties)	18,899	12,792	19,061	13,182
10 Unsecured debt	3,515	3,515	5,887	5,887
11 Secured wholesale funding		831		989
12 Additional requirements, of which:	37,393	17,793	41,071	20,916
13 Outflows related to derivatives exposures and other collateral requirements	17,245	15,990	20,267	18,940
14 Outflows related to loss of funding on debt products	256	256	350	350
15 Credit and liquidity facilities	19,892	1,547	20,454	1,626
16 Other contractual funding obligations	13,081	13,040	12,702	12,673
17 Other contingent funding obligations	10,310	621	10,259	616
18 Total cash outflows		60,150		65,616
Cash Inflows				
19 Secured lending (e.g., reverse repos)	36,035	18,995	39,295	21,251
20 Inflows from fully performing exposures	2,986	2,216	3,178	2,436
21 Other cash inflows	18,462	18,462	20,494	20,494
22 Total cash inflows	57,483	39,673	62,967	44,181
23 Total liquid assets		54,032		57,295
24 Total net cash outflows¹		25,595		26,794
25 Liquidity Coverage Ratio (%)²		211%		214%

¹ 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 30 June 2023 an average NCO overlay of \$5,119 million is included in the disclosed balance of \$25,595 million (3 months to 31 March 2023 overlay of \$5,359 million is included in the disclosed balance of \$26,794 million).

² The LCR for the 3 months to 30 June 2023 is calculated from 61 daily LCR observations (3 months to 31 March 2023 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 2023 was 211% (based on 61 daily observations). This represents a decrease of 3% from the 3 month LCR to 31 March 2023, driven by a reduction in liquid assets partially offset by a decrease in NCOs.

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 notes and coins and balances held with central banks, Macquarie's LCR liquid assets include Australian Dollar Commonwealth Government and semi-Government securities as well as certain HQLA-qualifying foreign currency securities.

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. In addition to derivative inflows noted above, key balances in these categories include:

- **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: <ul style="list-style-type: none"> • 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.
ALA	Alternative Liquid Assets
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: <ul style="list-style-type: none"> • 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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- 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).