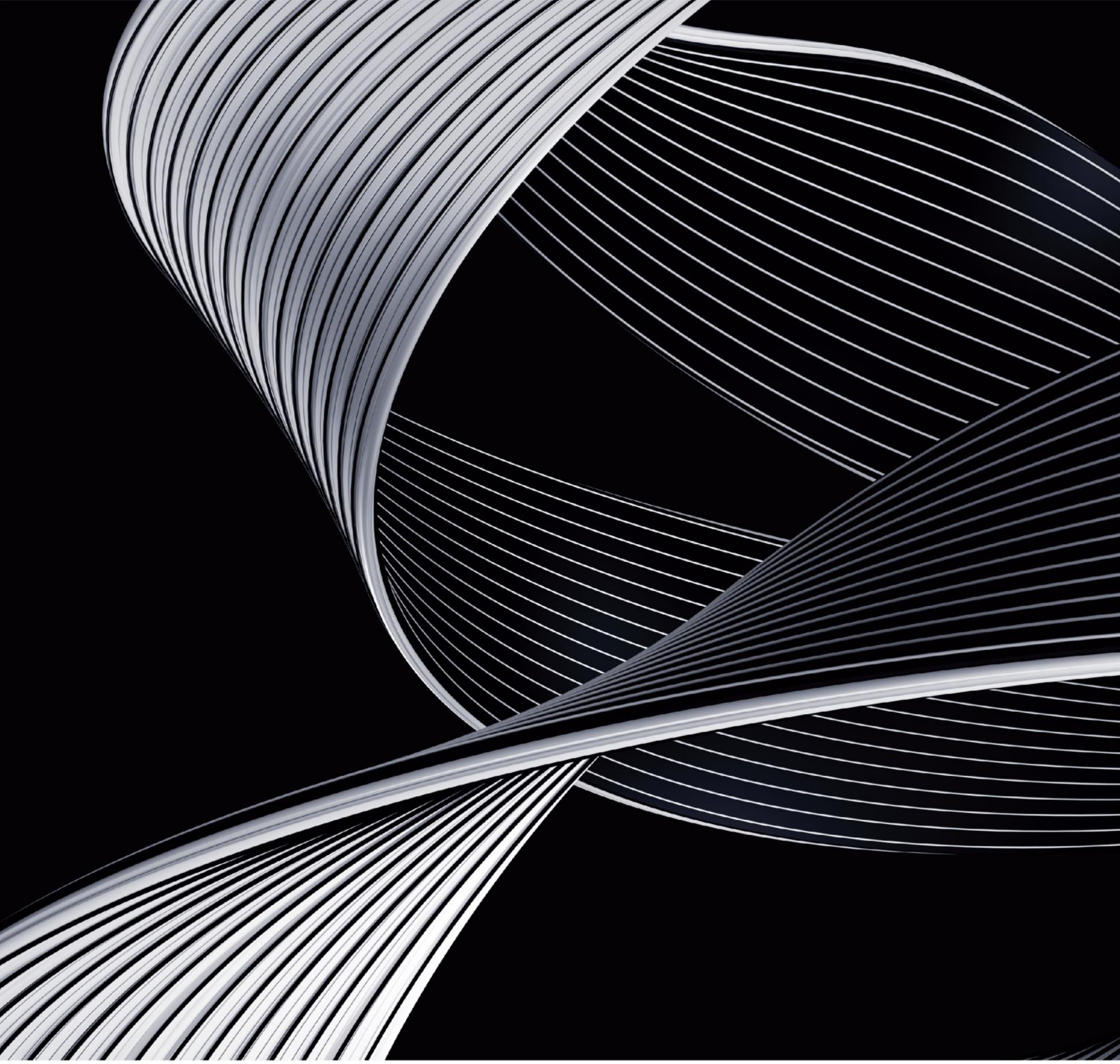

MBL Basel III Pillar 3 Capital Disclosures

June 2021

Macquarie Bank Limited
ACN 008 583 542

MACQUARIE BANK

ASX Release

MACQUARIE BANK RELEASES JUNE PILLAR 3 DISCLOSURE DOCUMENT

24 Aug 2021 – The Macquarie Bank Limited June 2021 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 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 2021 together with the 31 March 2021 comparatives where appropriate.

This report also describes Macquarie's risk management policies and risk management framework and the measures adopted to monitor and report within this framework. Detailed in this report are the major components of capital structure, the key risk exposures and the associated capital requirements. The key risk exposures are 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.

On 1 April 2021, APRA announced actions required regarding MBL's risk management practices and ability to calculate and report key prudential ratios. APRA increased MBL's operational capital requirement and made adjustments to requirements for certain liquidity prudential ratios, effective from 1 April 2021. The actions relate to specific intra-group funding arrangements as well as breaches of APRA's reporting standards on liquidity between 2018 and 2020. APRA noted that the breaches are historical and do not impact the current overall soundness of Macquarie Group's capital and liquidity positions. While specific historical matters leading to these actions have been addressed, Macquarie acknowledges that continued work is required on its risk governance and operating platform and has programs in place to strengthen capital and liquidity reporting and its risk management framework. Macquarie will work closely with APRA on these programs through a period of intensified supervision and is working with APRA to determine any necessary restatements of selected historical returns.

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 30 June 2021**	As at 31 March 2021
Common Equity Tier 1 capital ratio[1]	**12.1%**	12.6%
Tier 1 capital ratio[1]	**13.7%**	14.3%
Total capital ratio[1]	**18.1%**	18.8%
Leverage ratio	**5.2%**	5.5%
Liquidity coverage ratio[1,2,3]	**171%**	174%

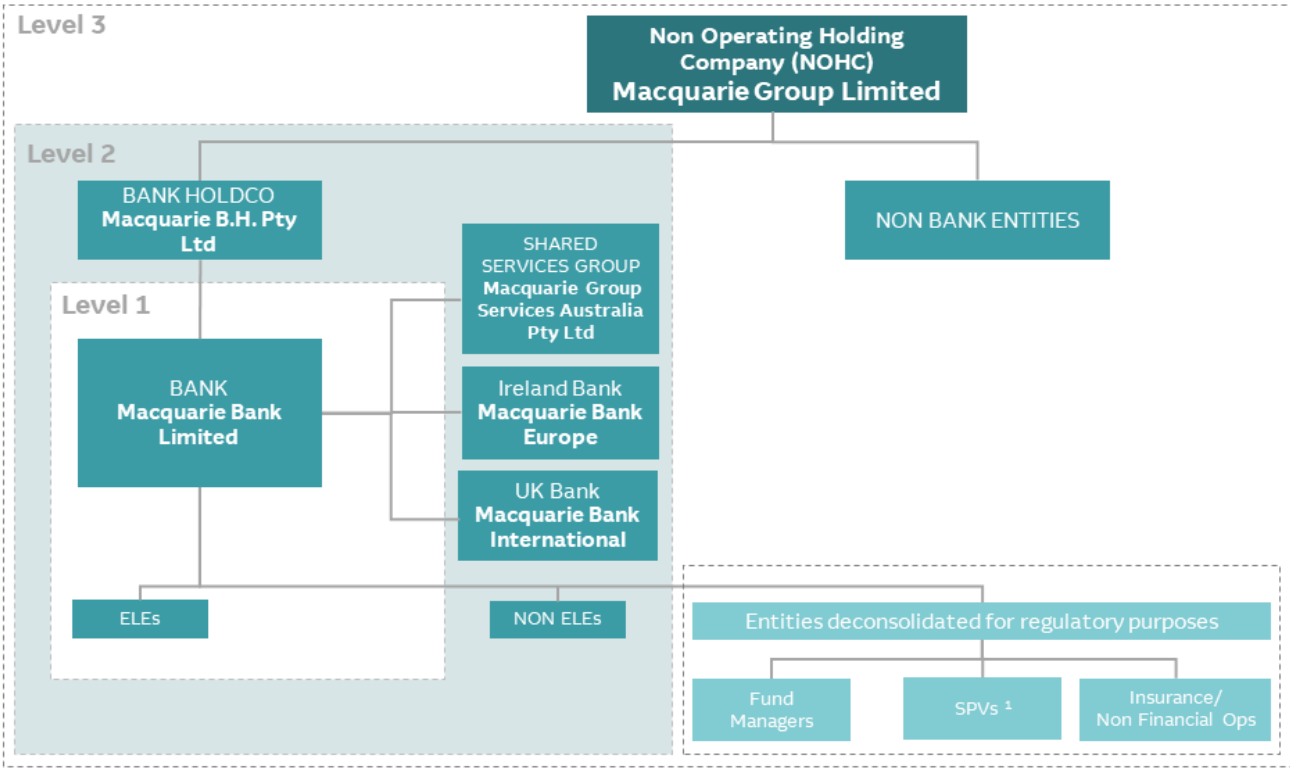
[1] The Macquarie Level 2 regulatory group capital and liquidity ratios are above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.
[2] The Liquidity Coverage Ratio for the 3 months to 30 June 2021 is calculated from 62 daily LCR observations (31 March 2021 is calculated from 62 daily LCR observations).
[3] As announced on 1 April 2021, APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, effective from 1 April 2021. This Net Cash Outflow add-on is included in the 3 month average LCR to 30 June 2021. The pro forma 3 month average LCR to 31 March 2021 including this add-on is 151%.

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, as described below.

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.

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 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 presentation in the current year, unless otherwise stated.

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

2. Risk Weighted Assets

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 30 June 2021 $m	As at 31 March 2021 $m
Credit risk		
Subject to IRB approach		
Corporate	**28,044**	25,444
SME Corporate	**4,565**	4,629
Sovereign	**2,357**	1,199
Bank	**1,599**	1,423
Residential Mortgages	**22,712**	21,461
Other Retail	**3,364**	3,501
Retail SME	**2,927**	2,952
Total RWA subject to IRB approach	**65,568**	60,609
Specialised lending exposures subject to slotting criteria[1]	**7,920**	6,847
Subject to Standardised approach		
Corporate	**85**	92
Residential Mortgages	**667**	690
Other Retail	**1,356**	1,513
Total RWA subject to Standardised approach	**2,108**	2,295
Credit risk RWA for securitisation exposures	**805**	759
Credit Valuation Adjustment RWA	**6,965**	3,931
Exposures to Central Counterparties RWA	**492**	736
RWA for Other Assets	**2,564**	2,412
Total Credit risk RWA	**86,422**	77,589
Market risk RWA	**6,713**	5,660
Operational risk RWA	**10,246**	10,337
Interest rate risk in the banking book RWA	**541**	414
Total RWA	**103,922**	94,000

[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 the Level 2 regulatory group as defined in Section 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 2021 $m**	As at 31 March 2021 $m	Average Exposures[1] $m
Corporate[2]	**53,215**	47,211	50,213
SME Corporate[3]	**7,613**	7,398	7,506
Sovereign	**28,876**	15,925	22,401
Bank	**8,460**	7,402	7,931
Residential Mortgages	**86,795**	81,799	84,297
Other Retail	**7,745**	8,182	7,964
Retail SME	**4,396**	4,400	4,398
Other Assets[4]	**7,545**	5,920	6,732
Total Gross Credit Exposure	**204,645**	178,237	191,442

[1] Average exposures have been calculated using 31 March 2021 and 30 June 2021 quarter end spot positions.
[2] Corporate includes specialised lending exposure of $5,429 million as at 30 June 2021 (31 March 2021: $4,526 million).
[3] SME Corporate includes specialised lending exposure of $2,561 million as at 30 June 2021 (31 March 2021: $2,357 million).
[4] The major components of Other Assets are unsettled trades, related party exposures and fixed assets.

APS 330 Table 4(a) (continued)

	As at 30 June 2021				
		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	**15,784**	**8,906**	**23,011**	**47,701**	**45,147**
SME Corporate	**4,081**	**971**	**–**	**5,052**	**5,047**
Sovereign	**21,151**	**7,494**	**231**	**28,876**	**22,401**
Bank	**3,565**	**1,584**	**3,311**	**8,460**	**7,931**
Residential Mortgages	**73,296**	**12,415**	**–**	**85,711**	**83,194**
Other Retail	**6,328**	**–**	**–**	**6,328**	**6,468**
Retail SME	**4,387**	**9**	**–**	**4,396**	**4,398**
Total IRB approach	**128,592**	**31,379**	**26,553**	**186,524**	**174,586**
Specialised Lending	**4,365**	**1,063**	**2,562**	**7,990**	**7,436**
Subject to Standardised approach					
Corporate	**–**	**85**	**–**	**85**	**89**
Residential Mortgages	**1,084**	**–**	**–**	**1,084**	**1,103**
Other Retail	**1,417**	**–**	**–**	**1,417**	**1,496**
Total Standardised approach	**2,501**	**85**	**–**	**2,586**	**2,688**
Other Assets	**5,960**	**903**	**682**	**7,545**	**6,732**
Total Gross Credit Exposures	**141,418**	**33,430**	**29,797**	**204,645**	**191,442**

	As at 31 March 2021				
		Off Balance sheet			
	On Balance Sheet $m	Non-market related $m	Market related $m	Total $m	Average Exposures[2] $m
Subject to IRB approach					
Corporate	14,232	9,261	19,099	42,592	43,020
SME Corporate	3,949	1,092	–	5,041	5,016
Sovereign	12,496	3,242	187	15,925	13,566
Bank	3,189	1,477	2,736	7,402	7,497
Residential Mortgages	68,787	11,890	–	80,677	78,390
Other Retail	6,608	–	–	6,608	6,758
Retail SME	4,389	11	–	4,400	4,497
Total IRB approach	113,650	26,973	22,022	162,645	158,744
Specialised Lending	4,093	955	1,836	6,884	6,732
Subject to Standardised approach					
Corporate	–	92	–	92	94
Residential Mortgages	1,122	–	–	1,122	1,132
Other Retail	1,574	–	–	1,574	1,535
Total Standardised approach	2,696	92	–	2,788	2,761
Other Assets	4,393	919	608	5,920	5,896
Total Gross Credit Exposures	124,832	28,939	24,466	178,237	174,133

[1] Average exposures have been calculated on 31 March 2021 and 30 June 2021 quarter end spot positions.
[2] Average exposures have been calculated on 31 December 2020 and 31 March 2021 quarter end spot positions.

4. 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 2021			As at 31 March 2021		
	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	**462**	**14**	**(164)**	344	13	(154)
SME Corporate	**84**	**56**	**(22)**	165	49	(42)
Residential Mortgages	**507**	**157**	**(9)**	442	196	(6)
Other Retail	**142**	**–**	**(41)**	117	–	(32)
Retail SME	**99**	**–**	**(26)**	95	3	(25)
Total IRB approach	**1,294**	**227**	**(262)**	1,163	261	(259)
Subject to Standardised approach						
Other Retail	**44**	**2**	**(24)**	48	1	(24)
Total Standardised approach	**44**	**2**	**(24)**	48	1	(24)
Total	**1,338**	**229**	**(286)**	1,211	262	(283)
Additional regulatory specific provisions[1]			**(257)**			(285)

	For the 3 months to 30 June 2021		For the 3 months to 31 March 2021	
	Charges for Specific provisions $m	**Write-offs**[2] **$m**	Charges for Specific provisions $m	Write-offs[2] $m
Subject to IRB approach				
Corporate	**(47)**	**–**	(32)	–
SME Corporate	**(2)**	**–**	(6)	–
Residential Mortgages	**–**	**–**	–	–
Other Retail	**(14)**	**–**	(6)	–
Retail SME	**(5)**	**–**	(5)	–
Total IRB approach	**(68)**	**–**	(49)	–
Subject to Standardised approach				
Other Retail	**(2)**	**–**	(9)	–
Total Standardised approach	**(2)**	**–**	(9)	–
Total	**(70)**	**–**	(58)	–

[1] Includes Stage II provisions deemed ineligible for General Reserve for Credit Losses. Combined with $59 million (31 March 2021: $76 million) of Stage III provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Retail

[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.

4.1 General Reserve for Credit Losses

APS 330 Table 4(c)

	As at 30 June 2021 $m	As at 31 March 2021 $m
General reserve for credit losses before tax	**394**	384
Tax effect	**(105)**	(96)
General reserve for credit losses	**289**	288

5. Securitisation

5.1 Securitisation Activity

Over the 3 months to 30 June 2021, Macquarie has undertaken the following securitisation activity, presented in accordance with Prudential Standard APS 120: Securitisation. 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 2021		
	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]	**9,027**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance[1]	**71**	**–**	**–**
Other	**–**	**–**	**–**
Total Banking Book	**9,098**	**–**	**–**
Trading Book			
Residential Mortgages	**–**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance	**–**	**–**	**–**
Total Trading Book	**–**	**–**	**–**

	For the 3 months to 31 March 2021		
	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]	8,675	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance[1]	346	–	–
Other	–	–	–
Total Banking Book	9,021	–	–
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 30 June 2021		
	Total outstanding exposures securitised[1]		
Exposure Type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	**56,127**	**2**	**56,129**
Credit cards and other personal loans[2]	**183**	**–**	**183**
Auto and equipment finance	**2,851**	**148**	**2,999**
Other	**241**	**115**	**356**
Total Banking Book	**59,402**	**265**	**59,667**
Trading Book			
Residential Mortgages	**–**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance	**–**	**–**	**–**
Other	**–**	**–**	**–**
Total Trading Book	**–**	**–**	**–**

	As at 31 March 2021		
	Total outstanding exposures securitised[1]		
Exposure Type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	49,814	–	49,814
Credit cards and other personal loans[2]	190	–	190
Auto and equipment finance	3,217	187	3,404
Other	229	109	338
Total Banking Book	53,450	296	53,746
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 $56,468 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group (31 March 2021: $50,755 million).
[2] Relates to invested securitisation positions.

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 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, effective from 1 January 2023.

Macquarie Bank Group's June 2021 APRA leverage ratio has decreased by 0.3% from the March 2021 APRA leverage ratio of 5.5%. This is primarily driven by higher exposures from loan assets and derivatives market movements, in addition to funds drawn down on the term funding facility.

Capital and total exposures	**30 June 2021 $m**	31 March 2021 $m	31 December 2020 $m	30 September 2020 $m
Tier 1 Capital	**14,205**	13,468	12,855	13,699
Total exposures	**272,584**	245,384	245,166	233,135
Leverage ratio				
Macquarie Level 2 regulatory group Leverage ratio	**5.2%**	5.5%	5.2%	5.9%

7. Liquidity Coverage Ratio Disclosures

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

	Liquidity Coverage Ratio disclosure template	For the 3 months to 30 June 2021 Total unweighted value (average) $m	For the 3 months to 30 June 2021 Total weighted value (average) $m	For the 3 months to 31 March 2021 Total unweighted value (average) $m	For the 3 months to 31 March 2021 Total weighted value (average) $m
	Liquid assets, of which:				
1	High quality liquid assets (HQLA)		**28,020**		25,413
2	Alternative liquid assets (ALA)		**15,136**		10,640
3	Reserve Bank of New Zealand (RBNZ) securities		**-**		-
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	**50,056**	**5,325**	47,962	5,225
5	Stable deposits	**14,249**	**712**	13,138	657
6	Less stable deposits	**35,807**	**4,613**	34,824	4,568
7	Unsecured wholesale funding, of which:	**36,929**	**18,683**	36,841	19,762
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	**16,743**	**3,205**	15,423	2,877
9	Non-operational deposits (all counterparties)	**17,434**	**12,726**	17,240	12,707
10	Unsecured debt	**2,752**	**2,752**	4,178	4,178
11	Secured wholesale funding		**776**		1,163
12	Additional requirements, of which:	**27,697**	**11,410**	28,074	12,291
13	Outflows related to derivatives exposures and other collateral requirements	**10,758**	**9,616**	11,415	10,352
14	Outflows related to loss of funding on debt products	**255**	**255**	498	498
15	Credit and liquidity facilities	**16,684**	**1,539**	16,161	1,441
16	Other contractual funding obligations	**11,518**	**11,499**	10,315	10,265
17	Other contingent funding obligations	**9,634**	**496**	9,632	499
18	**Total cash outflows**		**48,189**		49,205
	Cash Inflows				
19	Secured lending (e.g. reverse repos)	**23,816**	**6,693**	24,397	7,742
20	Inflows from fully performing exposures	**3,707**	**3,260**	4,153	3,718
21	Other cash inflows	**16,227**	**16,227**	17,040	17,040
22	**Total cash inflows**	**43,750**	**26,180**	45,590	28,500
23	**Total liquid assets**		**43,156**		36,053
24	**Total net cash outflows**[1]		**25,310**		20,705
25	**Liquidity Coverage Ratio (%)**[2,3]		**171%**		174%

[1] For the 3 months to 30 June 2021 an average Net Cash Outflow overlay of $3,301 million is included in the disclosed balance of $25,310 million.
[2] The LCR for the 3 months to 30 June 2021 is calculated from 62 daily LCR observations (3 months to 31 March 2021 was calculated from 62 daily LCR observations).
[3] The pro forma 3 month average LCR to 31 March 2021 including a 15% add-on to the Net Cash outflow component is 151%.

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 2021 was 171% (based on 62 daily observations), including a 15% NCO add-on required by APRA from 1 April 2021. This represented a decrease of 3% from the 3 month LCR to 31 March, as a result of an increase in NCOs partially offset by an increase in liquid assets.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee (ALCO) 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 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.

Liquid Assets

In addition to cash and central bank deposits, Macquarie's liquid assets portfolio includes Australian Dollar Commonwealth Government and semi Government securities, foreign currency HQLA securities and Macquarie's allocations under the Committed Liquidity Facility (CLF) and the Term Funding Facility (TFF).

Macquarie's CLF allocation of $7,900 million as at 30 June 2021, as well as the average undrawn balance of Macquarie's TFF allowances over the June quarter, are reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. Note the disclosed balance of $15,136 million does not include 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 and is considered an ongoing 'utilisation' of the CLF).

Macquarie drew down $9,533 million of its TFF Supplementary and Additional Allowances on 24 June 2021. As at 30 June 2021, Macquarie had drawn $11,257 million of its total TFF Allowance.

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.

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.
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 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.