

MBL Basel III Pillar 3 Capital Disclosures

September 2023

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**MACQUARIE
BANK**

ASX Release

MACQUARIE BANK RELEASES SEPTEMBER PILLAR 3 DISCLOSURE DOCUMENT

23 November 2023 – The Macquarie Bank Limited September 2023 Pillar 3 disclosure document was released today. 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 and 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 super equivalence). This report details MBL's disclosures as required by APRA Prudential Standard APS 330 Public Disclosure (APS 330) as at 30 September 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 also describes Macquarie's Risk Management Framework (RMF) and the supporting frameworks, policies and the measures adopted to monitor and report on the RMF. Detailed in this report are the key components of Macquarie's 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. Each of these risks are individually discussed in later sections of this report where the individual risk components, measurement techniques and management practices are detailed. This report also presents information on the leverage and liquidity ratios.

Ratios for Capital, Leverage and Liquidity are set out below.

APS 330 Table 6 (g)

Capital, Liquidity and Leverage Ratios – Level 2 regulatory group	As at 30 September 2023	As at 31 March 2023
Common Equity Tier 1 capital ratio	13.2%	13.7%
Tier 1 capital ratio	15.2%	15.6%
Total capital ratio	20.8%	21.3%
Leverage ratio	5.0%	5.2%
Liquidity coverage ratio ^{1,2}	199%	214%
Net stable funding ratio ³	114%	124%

Capital Ratios – Level 1 regulatory group⁴		
Common Equity Tier 1 capital ratio	12.1%	12.6%
Tier 1 capital ratio	14.1%	14.6%
Total capital ratio	20.0%	20.5%

The minimum Common Equity Tier 1 (CET1) ratio in accordance with Prudential Standard APS 110 Capital Adequacy (APS 110) is 9%. This includes the industry minimum CET1 requirement of 4.5%, capital conservation buffer (CCB) of 3.75% and a countercyclical capital buffer (CCyB) of 0.75%⁵. The corresponding ratios for Tier 1 and Total capital are 10.5% and 12.5% 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 September 2023, the Macquarie Level 1 and 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 September 2023 is calculated from 64 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 30 September 2023 and the 3 month average LCR to 31 March 2023 includes a 25% NCO add-on.

³ APRA imposed a 1% decrease to the Available Stable Funding component of the NSFR calculation, effective from 1 April 2021.

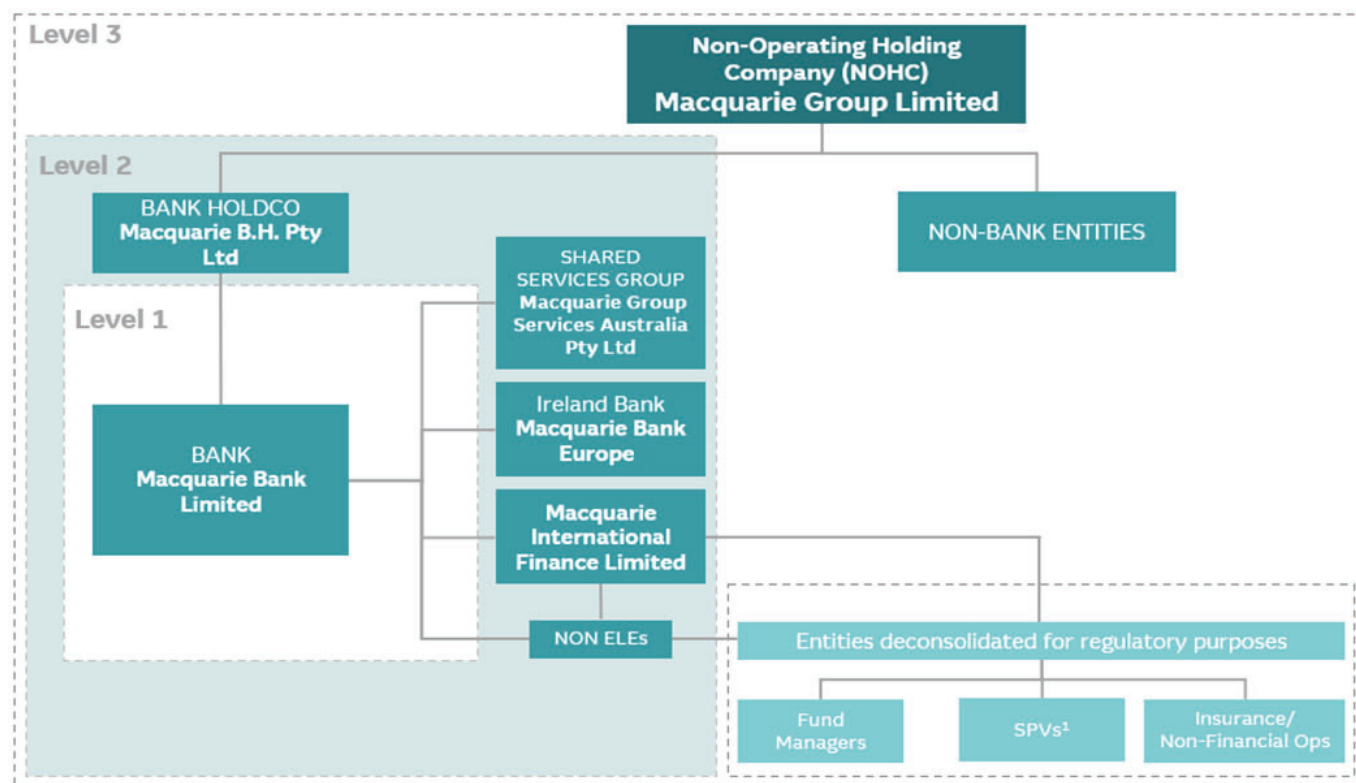
⁴ APRA imposed a Level 1 operational capital overlay of \$A500m on MBL, effective from 1 April 2021.

⁵ The CCyB of the Level 2 regulatory group as at 30 September 2023 is 0.71%, which is rounded to 0.75% 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 period end. Refer to Appendix 1 for further details on CCyB.

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.

Reporting levels are in accordance with APRA definitions contained in APS 110. MBL represents the Level 1 regulatory group. The Level 2 regulatory group 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. Equity investments into these entities by the Level 2 group are required to be deducted from Common Equity Tier 1 (CET1) capital under APRA Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111). The subsidiaries which are deconsolidated for regulatory purposes include mortgage and leasing special purpose vehicles (SPVs) for which Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief and entities conducting insurance, funds management and non-financial operations. These deconsolidated entities result in the Macquarie Level 2 group for regulatory purposes differing from MBL and its subsidiaries, the Consolidated Entity for accounting purposes. Therefore, the disclosures made in this report are for a different group of entities to those made in the financial report of MBL and its subsidiaries, the Consolidated Entity. A list of entities deconsolidated for Level 2 reporting purposes is included in Appendix 2.

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.

MBL is part of the larger Macquarie Group Limited Consolidated Group (MGL Group), which includes Macquarie Group Limited (MGL) and its subsidiaries (referred to as 'Level 3'). APS 330 does not require disclosures relating to the Level 3 Group, however, some limited Level 3 disclosures are made in this report (refer Section 4.0).

Comments on policies in this report generally reflect policies adopted across the MGL Group, unless it is stated that the policies are specific to any one part of the group.

1.2 Frequency

The qualitative disclosures in this report are required to be updated on an annual basis and more frequently if significant changes to policies are made. This report has been updated as at 30 September 2023 and policies disclosed within are effective at this time. The capital adequacy and summarised credit risk exposure quantitative disclosures are published on a quarterly basis. All other quantitative disclosures are published semi-annually in conjunction with Macquarie's half year (30 September) and annual (31 March) reporting cycles.

1.3 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.

1.4 Overview of the Basel III Regulatory Capital Framework

Basel III is designed to raise the resilience of the banking sector by strengthening the regulatory capital framework. The framework seeks to increase the sensitivity to risk in the capital calculations and to ensure that this is aligned with an ADI's internal processes for assessing risk. Consequently, there are a number of different approaches to risk calculation that allows use of internal models to calculate regulatory capital. A bank may be accredited to use the advanced approaches when it can demonstrate the integrity and sophistication of its risk management framework. It must also ensure that its internal estimates of risk are fully integrated into corporate governance functions as well as internal calculations of capital. Further to this, the most advanced approaches are available if a bank has sufficient depth and history of default data to enable it to generate its own Loss Given Default (LGD) and Probability of Default (PD) estimates based on its own loss experience.

The requirements of Basel III are contained within three broad sections or 'Pillars'.

1.4.1 Pillar 1

The first section of the Basel III framework covers the rules by which Risk Weighted Assets (RWA) and capital adequacy must be calculated.

Macquarie has been approved by APRA to apply the FIRB approach for credit risk capital calculation. This approach utilises the PD and internal rating assigned to the obligor. The exposure is weighted using this internal PD and a LGD value set by APRA. APRA-assigned Credit Conversion Factors are applied to off balance sheet exposures based on the nature of the exposure. Market risk and interest rate risk in the banking book is calculated using the Internal Model Approach. Operational risk is calculated using the Standardised Measurement Approach.

1.4.2 Pillar 2

Pillar 2 (the Supervisory Review Process) of the Basel III framework requires ADIs to make their own assessments of capital adequacy in light of their risk profile and to have a strategy in place for maintaining their capital levels. Macquarie's Internal Capital Adequacy Assessment Process (ICAAP) addresses its requirements under Pillar 2.

The ICAAP is part of Macquarie's overall risk management framework; its key features include:

- Comprehensive risk assessment process
- Internal assessment of capital adequacy using Macquarie's economic capital model (refer Section 4.1)
- Risk appetite setting (refer Section 4.2)
- Capital management plans designed to ensure the appropriate level and mix of capital given Macquarie's risk profile; and
- Regular reporting of capital adequacy and monitoring of risk profile against risk appetite.

Macquarie's ICAAP is subject to Board and Senior Management oversight and internal control review.

1.4.3 Pillar 3

These disclosures have been formulated in response to the requirements of Pillar 3 of the Basel III Framework. APRA has laid down the minimum standards for market disclosure in its APS 330.

This report includes a breakdown of both on and off-balance sheet exposures, RWA and Liquidity measures. The report consists of sections covering:

- Risk Governance and Risk Management Framework
- Capital Structure
- Capital Adequacy
- Credit Risk Measurement
- Calculation of Credit Risk Exposures
- Provisioning
- Credit Risk Mitigation
- Securitisation
- Credit Valuation Adjustment
- Exposures to Central Counterparties
- Market Risk
- Equity Risk
- Operational Risk
- Leverage Ratio
- Liquidity Coverage Ratio
- Net Stable Funding Ratio

2. Risk Governance and Risk Management Framework

2.1 Risk Governance at Macquarie

2.1.1 Role of the Board

The role of the MBL Board is to promote the long-term interests of MBL, taking into account obligations it must discharge as an authorised deposit-taking institution.

The MBL Board is ultimately responsible for MBL's Risk Management Framework (RMF) and the oversight of its operation by Management. The MBL Board approves the MBL Risk Appetite Statement and the Group's Risk Management Strategy.

2.1.2 Role of Management

The Group Heads of the Operating and Central Service Groups are responsible for implementation of the risk management framework in their Groups. They are required semi-annually to attest that key risks have been identified and are adequately controlled in their Groups. These management representations support the sign-off of the half year and the full year financial statements.

2.1.3 Three lines of defence

Macquarie's approach to risk management adopts the 'three lines of defence' model which sets risk ownership responsibilities functionally independent from oversight and assurance:

- primary responsibility for day-to-day risk management lies with the business. The risk owner is the first line of defence. All staff throughout Macquarie are expected to manage risks in accordance with the risk management framework
- the Risk Management Group (RMG) forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to Macquarie's material risks
- Internal Audit, as the third line, provides independent and objective risk-based assurance on the compliance with, and effectiveness of, Macquarie's financial and risk management framework.

2.2 Macquarie's Risk Management Framework

Macquarie's RMF is the totality of systems, structures, policies, processes and people within Macquarie that identify, measure, monitor, report and control or mitigate internal and external sources of material risk. Material risks are those that could have a material impact, financial or non-financial on Macquarie. Macquarie's material risks include aggregate, asset, conduct, country, credit, environmental and social, equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic, tax, and work health and safety risks. The RMF is applied appropriately throughout Macquarie.

2.2.1 Core risk management principles

Macquarie's approach to risk management is based on stable and robust core risk management principles. These are:

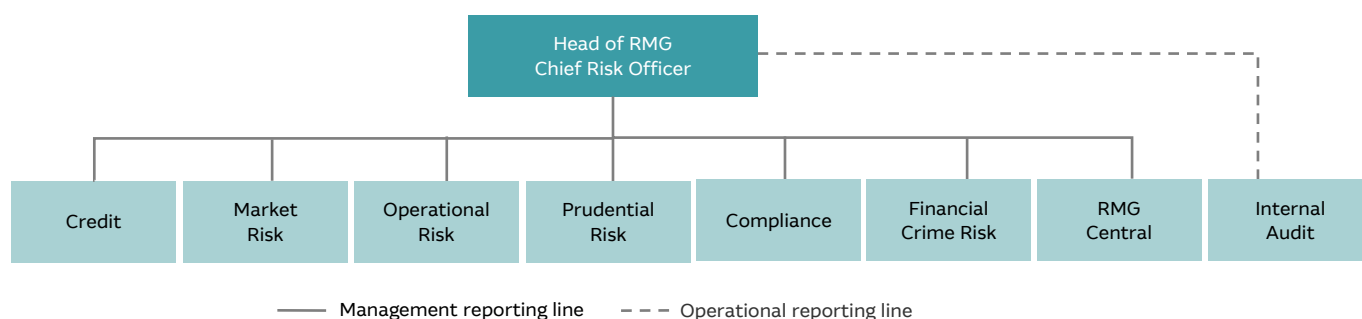
- **Ownership of risk at the business level:** Group Heads are responsible for ownership of material risks that arise in, or because of, the business operations, including identification, measurement, evaluation, monitoring, control and mitigation of these risks. Before making decisions, clear analysis of the risks is sought to ensure those decisions are consistent with the risk appetite and strategy of Macquarie.
- **Understanding worst case outcomes:** Macquarie's risk management approach is based on examining the consequences of worst-case outcomes and determining whether these are acceptable and within Macquarie's risk appetite. This approach is adopted for all material risk types and is often achieved by stress testing. Macquarie operates a number of sophisticated quantitative risk management processes, but the foundation of the approach is the informed consideration of both quantitative and qualitative inputs by experienced professionals.

- **Requirement for an independent sign off by RMG:** Macquarie places significant importance on having a strong, independent risk management function charged with signing off all material risk acceptance decisions. It is essential that RMG has the capability to do this effectively. RMG has invested in recruiting skilled professionals from a range of industries, including those with trading or advisory and capital markets experience. For all material proposals, RMG's opinion must be sought at an early stage in the decision-making process. The approval document submitted to senior management must include independent input from RMG on risk and return.

2.3 Risk Management Group Structure

RMG, which forms the second line of defence, is an independent and centralised function responsible for independent and objective review and challenge, oversight, monitoring and reporting in relation to Macquarie's material risks. RMG designs and oversees the implementation of the risk management framework.

RMG is structured into specialist functional divisions (depicted below) and adopts an integrated approach to risk analysis and management across risk classes. RMG's assessment and monitoring of risks involves a collaborative effort across the divisions to ensure a detailed analysis takes place both at the individual and aggregate risk level.



2.4 Internal Audit

The Internal Audit Division, as the third line, provides independent and objective risk-based assurance to the Board Audit Committee (BAC), Board, other relevant Board Committees and senior management on the compliance with, and effectiveness of, Macquarie's financial and risk management framework, including its governance, systems, structures, policies, processes and people for managing material risks. The Internal Audit division assesses whether material risks have been properly identified by management and reported to the Board or relevant Board Committees, and whether key internal controls have been properly designed and are operating effectively and sustainably to mitigate those material risks.

The BAC has primary power of direction over the Internal Audit Division and is accountable for reviewing the effectiveness of the Internal Audit function. The Head of Internal Audit reports functionally to the BAC and is primarily accountable to it. The Head of Internal Audit has unrestricted access to the BAC (and its Chair) and meets privately with the BAC members at least annually. The BAC monitors and reviews the performance, objectives, rating, remuneration and degree of independence of the Head of Internal Audit. The BAC also approves any appointment and removal of the Head of Internal Audit. The Head of Internal Audit reports operationally to the CRO for day-to-day management. For audit matters relating to RMG, the role of the CRO is substituted by the CEO.

3. Capital Structure

3.1 Total Available Capital

The Macquarie Level 2 regulatory group capital supply is detailed in the table below.

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Common Equity Tier 1 capital		
Paid-up ordinary share capital	10,148	10,161
Retained earnings	8,698	9,135
Reserves	1,302	1,057
Gross Common Equity Tier 1 capital	20,148	20,353
Regulatory adjustments to Common Equity Tier 1 capital:		
Goodwill	41	39
Deferred tax assets	963	1,044
Net other fair value adjustments	169	150
Intangible component of investments in subsidiaries and other entities	40	39
Capitalised expenses	752	717
Shortfall in provisions for credit losses	246	218
Equity exposures	1,044	998
Capitalised Software	9	12
Other Common Equity Tier 1 capital deductions	172	76
Total Common Equity Tier 1 capital deductions	3,436	3,293
Net Common Equity Tier 1 capital	16,712	17,060
Additional Tier 1 capital		
Additional Tier 1 capital instruments	2,463	2,418
Gross Additional Tier 1 capital	2,463	2,418
Deductions from Additional Tier 1 capital	-	-
Net Additional Tier 1 capital	2,463	2,418
Total Net Tier 1 capital	19,175	19,478
Tier 2 capital		
Tier 2 capital instruments and other	7,106	7,154
Total capital base	26,281	26,632

3.2 Common Equity Tier 1 Capital

Macquarie's Common Equity Tier 1 capital under Basel III consists of ordinary share capital, retained earnings and certain reserves.

3.3 Additional Tier 1 Capital

Macquarie's Tier 1 capital consists of Common Equity Tier 1 capital and Additional Tier 1 capital (hybrids).

Macquarie's Additional Tier 1 capital consists of Macquarie Additional Capital Securities (MACS), Bank Capital Notes 2 (BCN2) and Bank Capital Notes 3 (BCN3).

MACS were issued by MBL, acting through its London Branch in March 2017. MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or every 5th anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (where a person acquires control of MBL or MGL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

BCN2 were issued by MBL in June 2020 and are quoted on the Australian Securities Exchange. The BCN2 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 4.70% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

BCN3 were issued by MBL in August 2021 and are quoted on the Australian Securities Exchange. The BCN3 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 2.90% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 September 2028, 7 March 2029, or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 8 September 2031; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

3.4 Tier 2 Capital

Macquarie's Tier 2 capital consists of a portion of certain credit loss reserves plus subordinated debt instruments.

MBL has issued cumulative convertible subordinated debt amounting to \$US750 million in June 2015, \$A750 million in May 2020, \$US750 million in June 2020, \$US1,000 million in March 2021, \$A750 million in June 2021, \$A850 million in June 2022 and \$US1,000 million in January 2023 which are Basel III compliant. This is reported at the value of liability at the period end date adjusted for any amortisation required under APS 111.

3.5 Restrictions on Capital

The Macquarie group maintains an internal capitalisation framework to ensure a prudent approach to managing subsidiary capitalisation and ratings. Various restrictions or costs exist on the transfer of capital within the Macquarie accounting consolidated group. For example:

- Regulated and licensed entities such as Australian Financial Services Licensed (AFSL) entities are required to maintain minimum capital levels to comply with their regulatory requirements. Macquarie seeks to maintain a sufficient level of capital within these entities to ensure compliance with these regulations
- Where retained earnings are transferred from related entities, tax costs may be payable on repatriation which may reduce the actual amount of available capital
- As an ADI, Macquarie is subject to the prudential limits imposed by APRA Prudential Standard APS 222 Associations with Related Entities
- The Financial Management Group (FMG) and RMG also manage and monitor internal limits on exposures to related entities which, combined with APRA's prudential limits, seeks to minimise contagion risk.

4. Capital Adequacy

4.1 Capital Management

4.1.1 Capital management strategy

Macquarie's capital management strategy is to maximise shareholder value through optimising the mix, level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The capital management objectives are to maintain sufficient capital resources to:

- Support Macquarie's business and operational requirements
- Safeguard interests of depositors and Macquarie's ability to continue as a going concern
- Exceed regulatory requirements; and
- Support Macquarie's credit rating.

Macquarie's capital management strategy uses both internal and external measures of capital. Internally, Macquarie has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify MGL Group's and MBL Group's aggregate level of risk, including for specific risk types such as equity, credit, market and operational risk. Externally, Macquarie is subject to minimum capital requirements imposed by APRA on a Level 1, Level 2 and Level 3 basis.

The two measures of capital are used to support business decision making including:

- Capital adequacy assessment
- Risk appetite setting; and
- Risk adjusted performance measurement.

4.1.2 Capital adequacy assessment

Capital adequacy is assessed on a regulatory and economic basis¹ for both MGL Group (Level 3) and the Level 1 and 2 regulatory groups. The assessment is conducted in accordance with the ICAAP framework (refer Section 1.4.2), with results reported to the MGL Board, MBL Board and senior management on a regular basis, together with projections of capital adequacy under a range of scenarios.

Capital requirements are assessed as follows:

Entity	Regulatory (Basel III)	Economic (ECAM)
Level 1 regulatory group	Capital to cover RWA and regulatory deductions, according to APRA's ADI prudential standards	n/a ¹
Level 2 regulatory group	Capital to cover RWA and regulatory deductions, according to APRA's ADI prudential standards	Internal model, covering exposures of the Bank Group
Level 3 regulatory group (MGL Group)	Level 2 regulatory group capital requirement plus economic capital requirement of the Non-Bank Group	Internal model, covering all exposures of the MGL Group

The Non-Bank Group's capital requirement is calculated using Macquarie's ECAM. The ECAM is based on similar principles and models as the Basel III regulatory capital framework for banks, as shown in the table below with both calculating capital at a one year, 99.9% confidence level. The table below shows a comparison of Basel III and ECAM methodologies for key risk types.

¹ Economic capital adequacy is assessed for MGL Group and MBL Group only.

Risk ¹	Basel III ²	ECAM
Credit	Capital requirement generally determined by Basel III IRB formula, with some parameters specified by the regulator (e.g. loss given default estimates for wholesale counterparties)	Capital requirement generally determined by Basel III IRB formula, but with internal estimates of key parameters
Equity	Harmonised Basel III: 250% or 400% risk weight, depending on the type of investment. Deduction from Common Equity Tier 1 above a threshold APRA Basel III: 100% Common Equity Tier 1 deduction ³	Capital requirement generally determined by an extension of Basel III credit model to cover equity exposures. Capital requirement between 34% and 84% of face value; average 55%
Market	3 times 10-day 99% Value at Risk (VaR) plus 3 times 10-day 99% Stressed Value at Risk (SVaR), plus a specific risk charge	Scenario based approach
Operational	Standardised Measurement Approach	Advanced Measurement Approach

The MGL Group and the Level 1 and 2 regulatory groups are well capitalised. Surplus capital is available to support growth, provide strategic flexibility, accommodate regulatory change and capital volatility. Macquarie actively manages the sensitivity of its capital position to foreign currency movements in order to reduce volatility.

4.2 Risk Appetite Setting

Macquarie's risk appetite is the degree of risk that the Group is prepared to accept in pursuit of its strategic objectives and business plan. This is detailed in Macquarie's Board approved *Risk Appetite Statement* (RAS). The RAS describes Macquarie's risk appetite, being the nature and amount of risk that Macquarie is willing to accept in pursuit of an appropriate and resilient long-term return on its capital. The RAS states transactions must generate returns proportionate to the risks. Accordingly, a risk and return analysis is required for all significant new deals, products and businesses.

The RAS is accessible to all staff and is referred to in the *Code of Conduct*. The principles of the RAS are implemented primarily through the following mechanisms:

4.2.1 Policies

Policies are a key tool to ensure that risks taken are consistent with the Board approved RAS. They set out the principles that govern the acceptance and management of risks. They are designed to influence and determine all major decisions and actions, and all activities must take place within the boundaries set by them.

4.2.2 Limits

In many cases, limits translate risk appetite principles into hard constraints on individual businesses. These consist of granular limits for specific risk types as well as the Global Risk Limit that constrains Macquarie's aggregate level of risk. Macquarie sets the Global Risk Limit with reference not only to capital but also to earnings so that in a prolonged, severe downturn, earnings and surplus capital are sufficient to cover losses and maintain market confidence in Macquarie.

Under Macquarie's 'no limits, no dealing' approach, compliance with specific limits is monitored by the Business and RMG. These granular limits are set to allow businesses to achieve their near-term plans while promoting a reassessment of the opportunity and associated risks as the limit is approached.

¹ The ECAM also covers non-traded interest rate risk and the risk on assets held as part of business operations, including fixed assets, goodwill, intangible assets and capitalised expenses.

² Basel III requirements shown. APRA has implemented the Basel III framework (APRA Basel III), and in some areas has introduced stricter requirements (APRA super equivalence).

³ Includes all Banking Book equity investments, plus net long Trading Book holdings in financial institutions.

4.2.3 New product and business approval process

All new businesses and significant changes to existing products, processes or systems are subject to a rigorous, interactive approval process that adheres to the principles stated in the RAS. This results in constructive dialogue on risk matters between RMG and the relevant business.

This formal process is designed so that the proposed transaction or operation can be managed properly, without creating unwanted risks for Macquarie. All relevant risks are reviewed to ensure they are identified and addressed prior to implementation. These risks are also monitored on an ongoing basis. The approvals of RMG, FMG, Legal and Governance and other relevant stakeholders within Macquarie are obtained.

RMG also checks that all necessary internal approvals are obtained prior to commencement. The Operational Risk division within RMG oversees the new product and business approval process.

4.2.4 The Risk Appetite Test – An aggregate stress test

The key tool that the Board uses to quantify aggregate risk appetite is the Risk Appetite Test. This is a Macquarie wide stress test that seeks to confirm that we maintain throughout, and emerge from a severe economic downturn with sufficient capital to meet our minimum regulatory requirements without taking any mitigating actions.

The Risk Appetite Test asserts that potential losses must be less than the Global Risk Limit, which comprises underlying earnings that Macquarie can achieve in a downturn (downturn forward earnings capacity) plus surplus regulatory capital. Consideration is also given to the year-by-year outcome of the modelled downturn scenario to ensure that market confidence is maintained.

Operating Groups and Divisions estimate downturn forward earnings capacity under a downturn scenario provided to them by RMG. RMG reviews the estimates for consistency with scenario assumptions and across groups.

Aggregate risk breaks down into two categories:

- **Business risk**, meaning decline in earnings through deterioration in volumes and margins due to market conditions; and
- **Potential losses**, including potential credit losses, write downs of equity investments, operational risk losses and losses on trading positions.

Business risk is captured by the difference in base case and downturn forward earnings estimates. Potential losses are quantified using stress testing models, which translate scenario parameters (GDP, unemployment, interest rates etc) into loss and transition rates. A principal use of the Risk Appetite Test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments and other equity investments. Any changes to the ERL are sized to ensure that even under full use of this limit and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

4.3 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 6 (b) to (f)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Credit risk		
Subject to IRB approach		
Corporate ¹	29,291	29,994
SME Corporate	8,445	7,374
Sovereign	317	450
Financial Institution	10,232	11,289
Residential Mortgages ²	22,256	21,066
Other Retail	1,704	2,048
Retail SME	1,390	1,682
Total RWA subject to IRB approach	73,635	73,903
Specialised lending exposures subject to slotting criteria³	6,591	6,973
Subject to Standardised approach		
Corporate	2,234	1,778
Residential Mortgages	729	801
Other Retail	848	867
Total RWA subject to Standardised approach	3,811	3,446
Credit risk RWA for securitisation exposures	685	636
Credit Valuation Adjustment RWA	8,679	8,975
Exposures to Central Counterparties RWA	594	476
RWA for Other Assets⁴	3,788	3,076
Total Credit risk RWA	97,783	97,485
Market risk RWA	9,011	9,743
Operational risk RWA	15,828	15,828
Interest rate risk in the banking book RWA	3,706	1,920
Total RWA	126,328	124,976

¹ 'Corporate' asset class includes Large Corporates.

² Residential mortgages RWA as at 30 September 2023 includes a \$2.3bn overlay as advised by APRA for purposes of calibrating MBL's IRB residential mortgages model.

³ Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings.

⁴ The major components of Other Assets are unsettled trades, fixed assets and residual value of operating leases.

APS 330 Table 6 (h) & (i)

APS 110 introduced a capital floor which places a limit on the internal modelling of RWA, setting total IRB RWA to a minimum of 72.5% of the RWA calculated under the standardised approach. The table below presents MBL's capital floor at 30 September 2023. There was no capital floor adjustment required.

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
RWA under the standardised approach		
Credit Risk RWA	142,331	139,513
<i>of which residential mortgages subject to IRB approach</i>	46,362	44,004
Market Risk RWA	9,011	9,743
Operational Risk RWA	15,828	15,828
Interest rate risk in the banking book RWA	-	-
Total	167,170	165,084
RWA prior to application of capital floor		
Credit Risk RWA	97,783	97,485
<i>of which residential mortgages subject to IRB approach</i>	22,256	21,066
Market Risk RWA	9,011	9,743
Operational Risk RWA	15,828	15,828
Interest rate risk in the banking book RWA	3,706	1,920
Total	126,328	124,976
Capital floor (72.5% of RWA under the standardised approach)	121,198	119,686
Capital floor adjustment	N/A	N/A

5. Credit Risk Measurement

5.1 Credit Risk Overview

Credit risk is defined as the risk that a counterparty will fail to complete its contractual obligations when they fall due (default risk) or changes in the creditworthiness of the obligor (migration risk). The consequent loss is either the amount of the loan or financial obligation not paid back, the change in the value of a non-traded debt instrument, or the loss incurred in replicating a trading contract with a new counterparty.

RMG Credit maintains a comprehensive and robust framework for the identification, analysis and monitoring of credit risks arising in each business. Key aspects of this framework are detailed below.

5.2 Credit Risk Management

Macquarie's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of initial credit limits is delegated to specific individuals.

Credit risk approvals reflect two principles:

- A requirement for dual sign off; and
- A requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them.

5.2.1 Approval of Exposures

The MGL and MBL Boards are responsible for establishing the framework for approving credit exposures. The MGL and MBL Boards delegate discretions to approve credit exposure to designated individuals within the Group whose capacity to prudently exercise authority has been assessed.

Operating Groups are assigned modest levels of credit discretions. Credit exposures above these levels are assessed independently by RMG and approved by experienced RMG staff, MBL CEO, MGL CEO, MBL Board and MGL Board as required.

Macquarie enforces a strict 'no limit, no dealing' rule. All proposed transactions are analysed and approved by designated individuals before they can proceed.

All wholesale credit exposures are assessed at least once a year, or more frequently if required. Retail credit exposures are monitored on a portfolio basis.

5.2.2 Assessment of Macquarie Ratings

All corporate, sovereign and bank counterparties (wholesale) customer limits and exposures are allocated a Macquarie Group rating (MQ rating) which broadly correspond with Standard and Poor's (S&P) and Moody's Investor Services credit ratings. Each MQ rating has been assigned a PD derived from Standard and Poor's long-term average one year default rates for similarly rated obligors. A LGD percentage is additionally assigned to each limit and exposure, reflecting the economic loss estimated to result if default occurs, taking into account the security supporting the credit exposure.

Ratings provided by External Credit Assessment Institutions (ECAI) are considered throughout the rating process but are supplementary to the internal rating process.

The table on next page outlines the internal MQ Ratings relative to ECAI ratings.

MQ ratings are used to:

- Assess the default risk of credit exposures for management reporting, credit approval of limits, risk attribution and regulatory purposes
- Assist in credit decisions by providing guidelines and tools that promote a more consistent analytical approach
- Assist in the process of sharing credit knowledge (including knowledge of specialised and unique companies, industries and products); and
- Provide a basis for disclosing and reporting to investors and the market.

Each MQ rating band is associated with an estimate of the PD by the counterparty on its financial obligations and provides a consistent measure across the Level 2 regulatory group. Applicable at either the borrower or transaction level, a rating must be justified and set as part of the credit approval and review process.

The ratings process combines a quantitative analysis by way of scoring industry specific risk factors and a qualitative assessment based on expert judgement.

Rating System

Macquarie	S&P	Moody's
MQ1	AAA	Aaa
MQ2	AA+	Aa1
	AA	Aa2
	AA-	Aa3
MQ3	A+	A1
MQ4	A	A2
MQ5	A-	A3
MQ6	BBB+	Baa1
MQ7	BBB	Baa2
MQ8	BBB-	Baa3
MQ9	BB+	Ba1
MQ10	BB	Ba2
MQ11	BB-	Ba3
MQ12	B+	B1
MQ13	B	B2
MQ14	B-	B3
MQ15	CCC+	Caa1
	CCC	Caa2
	CCC-	Caa3
MQ16	CC	Ca
	C	C
MQ99	D	D

For wholesale counterparties, Macquarie utilises a number of industry templates and a sovereign template to assess the appropriate MQ ratings. These industry templates are designed to ensure that Macquarie ratings take into account the different risk factors that affect different industries. Analysts are required to input a range of quantitative and qualitative factors and then consider the MQ rating output. At the same time as considering the appropriate MQ rating, analysts are also required to consider the appropriate LGD. For economic capital purposes, LGDs are stressed estimates, taking into account the security, jurisdiction, seniority and quality of the balance sheet. For regulatory capital, MBL uses the APRA supervisory estimates for LGDs.

For retail counterparties, PDs and LGDs are assigned to retail pools. Retail exposures are allocated to pools, such that each pool has homogenous risk. PDs and LGDs are calculated using the following methods:

- **PDs:** calculate the long run average default rate from the internal and external default data available for each pool. When internal data is not available in sufficient quantity, external data is used but only in the case where it is relevant to the pool.
- **LGDs:** consider a downturn scenario and the loss that would be incurred for this scenario on defaulted loans in each pool.

Macquarie applies a standard definition of default in accordance with Prudential Standard APS 220 Credit Risk Management. An obligor is considered defaulted when it is either (i) 90 days past due; or (ii) unlikely to pay. 'Unlikely to pay' is defined in Macquarie policies based on APRA standards.

All templates and models are validated annually by RMG Model Risk Management with oversight from the Credit Models Review Committee. Validation includes the following activities:

- Validation of wholesale MQ ratings templates
- Wholesale ratings migration analysis

-
- Validation of wholesale PD, LGD and Exposure at Default (EAD) estimates
 - Validation of retail PD, LGD and EAD estimates; and
 - Validation of any new or changes to existing credit risk models.

Macquarie has developed system functionality to support the allocation of internal ratings. This application ensures that all supporting factors and weightings are stored together with the system generated rating. Approvers have access to all of these details through the credit approval process. Details are also maintained of any rating override which must be accompanied by specific commentary from the credit analyst, and which is subject to regular review.

Macquarie considers that ratings are an integral part of determining the creditworthiness of the obligor. However, Macquarie does not believe that model and template output should replace thorough and thoughtful analysis. In addition to the system details, credit analysts must also provide specific justification of the internal rating as part of their overall credit analysis of each counterparty. Credit approvers consider and approve the internal rating for the counterparty in relation to the size and tenor of their proposed credit limits.

All proposals for significant deals, products and businesses must contain an analysis of risk adjusted returns, based on the ECAM which for credit exposures is a function of the assessed credit rating (together with other factors such as maturity and estimates of LGD). In assessing these proposals, the Executive Committee and Board consider these returns together with other relevant factors. They therefore form an important element in ensuring the visibility and impact of the MQ rating to the overall risk acceptance decision.

Risk adjusted performance metrics for each business unit are prepared on a regular basis and distributed to senior management and the Board as well as to business units. These performance metrics are based on Regulatory Capital and Economic Capital usage and are a factor when allocations of performance-based remuneration are determined for each business.

5.2.3 Measuring and Monitoring Exposures

Credit exposures are calculated differently according to the nature of the obligation. Materially all loan assets are reported at amortised cost, whereas derivative contracts are reported at fair value according to both internal and external regulatory measures of Counterparty Credit Exposure. Exposures are assessed in the context of the replacement cost of the contract should the counterparty default prior to the maturity of the trade. For regulatory purposes, EAD is calculated according to the Standardised Approach to Counterparty Credit Risk (SA CCR) outlined in APRA ADI Prudential Standards 180 (APS 180) and comprises of replacement cost (RC) and potential future exposure (PFE). The RC is a function of derivative revaluation, collateralisation and the terms of any variation margin agreement in place with a counterparty. The PFE is a function of the outstanding notional of derivative contracts with a counterparty, the nature of these contracts, the level of collateralisation and whether these contracts are subject to variation margining. The sum of the RC and the PFE is subject to a regulatory prescribed scaling factor, the alpha multiplier, which equals 1.4.

The internal measure of counterparty credit exposure is calculated as a function of market movements. A range of exposure profiles are calculated using models based simulated scenarios through the life of the portfolio, the resultant exposure is then ranked to reflect different confidence levels. At a minimum, counterparty credit limits are set for all businesses against a consistent low probability (high confidence) profile. The effect of this limit framework is to ensure that there is a low probability of exposures exceeding the original approved limit. The models and parameters used to determine future asset prices and consequent portfolio exposures are reviewed and approved by RMG quarterly, significant changes in volatility or market conditions result in more frequent reviews.

High confidence level exposure measures are supplemented by regular and ad hoc exposure sensitivity analysis to evaluate the effect of extreme stress on the portfolio.

Exposure relating to derivatives are calculated on a net basis where appropriate legal netting arrangements are in effect. The details of what products can be netted for each counterparty are recorded in legal documentation systems. These systems are tightly integrated into the exposure calculation functionality and serve to ensure that netting is only performed when the legal basis for this has been formally assessed and confirmed.

Where trading gives rise to settlement risk, this risk is normally assessed at full face value of the settlement amount. However, Macquarie utilises a number of market standard clearing mechanisms to ensure that the bulk of settlements are effected on a secured basis or through exchanges where a Delivery vs payment (DVP) settlement process is ensured.

Contingent exposures arising from the issuance of guarantees, letters of credit and performance bonds are also reported daily.

On and off-balance sheet exposures are considered together for approval, monitoring and reporting purposes. Credit exposures of all types are calculated and reported daily.

Each business is responsible for calculating their credit exposures to ensure that they stay within credit limits. In addition, these exposures are supplied to RMG Credit on a daily basis for centralised limit monitoring. Any excesses identified are investigated and escalated as appropriate to both business line and RMG management. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to limits and/or their MQ rating. Furthermore, other indicators of deterioration in credit quality are regularly monitored, such as share price and credit default swap spread movements, covenant breaches and external credit ratings downgrades. Where appropriate, these are reported to senior management and where recoverability is in doubt, appropriate provisions are held.

A review of the Credit, Equity and Asset Portfolio analysing exposure concentrations by counterparty, region, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to manage and limit large exposures to single counterparties and sectoral concentrations.

5.2.4 Credit Assurance

Credit Assurance (CA) is a centralised function within RMG which independently verifies the effectiveness of Macquarie's credit risk management. The role of the CA is to provide an independent assurance of analysis and process to support credit quality and the effectiveness of credit controls.

Key responsibilities are:

- Assuring the quality of wholesale credit approvals through sample testing
- Reporting on the effectiveness (design and performance) of RMG Credit's critical controls including sample testing to ensure compliance with key Credit policies and the effectiveness of critical controls; and
- Overseeing Business (Retail) CA functions in Banking and Financial Services (BFS) and Commodities and Global Markets (CGM).

RMG CA reports to the RMG Head of Operational Risk and Governance to ensure independence. In addition to regular reporting to senior management and the Chief Risk Officer, CA is required to report at least annually to the Board. In the interim, matters that require Board attention are reported via the Chief Risk Officer.

5.3 Macquarie's Credit Risk Exposures

Credit exposures are disclosed in the following pages based on:

- Geographic distribution
- Maturity profile
- Measurement approach
- Risk weight banding; and
- Risk grade.

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 and exclude the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes.

The exposures below exclude the impact of:

- Credit risk mitigation (discussed in Section 8)
- Securitisation exposures (discussed in Section 9)

- CVA (discussed in Section 10)
- Central counterparty exposures (discussed in Section 11)
- Trading book on balance sheet exposures (discussed in Section 12); and
- Equity exposures (discussed in Section 13).

APS 330 Table 7(b)

Portfolio Type	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Corporate ¹	57,553	56,902
SME Corporate ²	10,729	9,665
Sovereign	28,898	44,157
Financial Institution	26,763	26,025
Residential Mortgages	134,060	126,632
Other Retail	4,611	5,250
Retail SME	2,121	2,492
Other Assets ³	5,617	5,364
Total Gross Credit Exposures	270,352	276,487

	As at 30 September 2023			Total \$m	Average exposures ⁴ \$m
	On balance Sheet \$m	Off balance sheet Non-market related \$m	Market related \$m		
Subject to IRB approach					
Corporate	20,849	3,617	23,233	47,699	47,338
SME Corporate	8,358	2,195	111	10,664	10,127
Sovereign	23,795	4,989	114	28,898	36,528
Financial Institution	6,500	9,042	11,221	26,763	26,394
Residential Mortgages	117,308	15,949	-	133,257	129,503
Other Retail	3,213	-	-	3,213	3,453
Retail SME	2,107	14	-	2,121	2,307
Total IRB approach	182,130	35,806	34,679	252,615	255,649
Specialised Lending subject to slotting criteria	2,666	810	2,931	6,407	6,652
Subject to Standardised approach					
Corporate	2,269	371	872	3,512	3,308
Residential Mortgages	750	53	-	803	843
Other Retail	1,067	331	-	1,398	1,478
Total Standardised approach	4,086	755	872	5,713	5,628
Other Assets	5,575	42	-	5,617	5,491
Total Gross Credit Exposures	194,457	37,413	38,482	270,352	273,420

¹ Corporate includes specialised lending exposure of \$6,342 million as at 30 September 2023 (31 March 2023: \$6,823 million).

² SME Corporate includes specialised lending exposure of \$65 million as at 30 September 2023 (31 March 2023: \$75 million).

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

⁴ Average exposures have been calculated on 30 September 2023 and 31 March 2023 spot positions.

APS 330 Table 7(b) (continued)

	As at 31 March 2023			Total \$m	Average exposures ¹ \$m
	On balance Sheet \$m	Off balance sheet			
		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	268,268
Specialised Lending subject to slotting criteria	2,256	1,142	3,500	6,898	8,558
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	4,051
Other Assets	5,337	27	-	5,364	6,431
Total Gross Credit Exposures	200,503	36,639	39,345	276,487	287,308

¹ Average exposures have been calculated on 31 March 2023 and 30 September 2022 spot positions.

5.4 Credit Risk by Geographic Distribution

The credit risk exposures below have been based on a geographical split by domicile of the counterparty.

APS 330 Table 7(c)

Portfolio Type	As at 30 September 2023				
	Asia Pacific \$m	Australia \$m	EMEA ¹ \$m	Americas \$m	Total \$m
Corporate	4,620	12,177	19,603	21,153	57,553
SME Corporate	29	10,517	16	167	10,729
Sovereign	96	22,453	5,936	413	28,898
Financial Institution	2,113	3,221	10,639	10,790	26,763
Residential Mortgages	406	133,277	228	149	134,060
Other Retail	111	4,252	-	248	4,611
Retail SME	-	2,121	-	-	2,121
Other Assets	923	2,017	1,418	1,259	5,617
Total Gross Credit Exposures	8,298	190,035	37,840	34,179	270,352

Portfolio Type	As at 31 March 2023				
	Asia Pacific \$m	Australia \$m	EMEA ¹ \$m	Americas \$m	Total \$m
Corporate	3,834	11,617	21,204	20,247	56,902
SME Corporate	32	9,538	-	95	9,665
Sovereign	99	37,883	6,082	93	44,157
Financial Institution	1,973	3,659	9,657	10,736	26,025
Residential Mortgages	413	125,859	219	141	126,632
Other Retail	97	4,896	2	255	5,250
Retail SME	-	2,492	-	-	2,492
Other Assets	703	2,361	1,571	729	5,364
Total Gross Credit Exposures	7,151	198,305	38,735	32,296	276,487

¹ EMEA represents Europe, United Kingdom, Middle East and Africa.

5.5 Credit Risk Distribution by Counterparty Type

The credit risk exposures below have been classified based on counterparty split of the exposure.

APS 330 Table 7(d)

Portfolio Type	As at 30 September 2023				Total \$m
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	
Corporate	9,107	592	47,705	149	57,553
SME Corporate	804	-	8,856	1,069	10,729
Sovereign	27,964	934	-	-	28,898
Financial Institution	24,784	910	1,069	-	26,763
Residential Mortgages	506	-	4,562	128,992	134,060
Other Retail	99	12	264	4,236	4,611
Retail SME	51	-	1,526	544	2,121
Other Assets	1,467	552	3,597	1	5,617
Total Gross Credit Exposures	64,782	3,000	67,579	134,991	270,352

Portfolio Type	As at 31 March 2023				Total \$m
	Financial Institution \$m	Government \$m	Corporate \$m	Retail \$m	
Corporate	8,797	366	47,610	129	56,902
SME Corporate	704	-	7,847	1,114	9,665
Sovereign	42,063	2,092	2	-	44,157
Financial Institution	24,066	786	1,173	-	26,025
Residential Mortgages	614	-	4,262	121,756	126,632
Other Retail	49	-	273	4,928	5,250
Retail SME	37	-	1,799	656	2,492
Other Assets	1,722	658	2,984	-	5,364
Total Gross Credit Exposures	78,052	3,902	65,950	128,583	276,487

5.6 Credit Risk by Maturity Profile

The credit risk exposures below have been based on residual contractual maturity of the exposure.

APS 330 Table 7(e)

Portfolio Type	As at 30 September 2023			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	30,178	24,040	3,335	57,553
SME Corporate	2,892	6,850	987	10,729
Sovereign	24,877	1,889	2,132	28,898
Financial Institution	22,906	2,524	1,333	26,763
Residential Mortgages	103	485	133,472	134,060
Other Retail	1,016	3,060	535	4,611
Retail SME	309	1,794	18	2,121
Other Assets	3,168	356	2,093	5,617
Total Gross Credit Exposures	85,449	40,998	143,905	270,352

Portfolio Type	As at 31 March 2023			Total \$m
	≤1 year \$m	1 ≤ 5 years \$m	> 5 years \$m	
Corporate	32,074	21,549	3,279	56,902
SME Corporate	2,625	6,040	1,000	9,665
Sovereign	34,570	7,200	2,387	44,157
Financial Institution	21,157	3,655	1,213	26,025
Residential Mortgages	97	539	125,996	126,632
Other Retail	734	3,868	648	5,250
Retail SME	317	2,157	18	2,492
Other Assets	3,672	279	1,413	5,364
Total Gross Credit Exposures	95,246	45,287	135,954	276,487

Macquarie is approved by APRA to use the Basel III Foundation Internal Ratings Based (FIRB) Approach for credit risk for its wholesale portfolios. Approval for the FIRB approach enables Macquarie to rely on its own internal estimates for some of the necessary credit risk components in determining the capital requirement for a given credit exposure. Internal estimates are used for PD and Maturity, while for wholesale exposures APRA provided estimates must be used for LGD and Exposure at Default (EAD).

A number of retail businesses have been accredited to use the Internal Ratings Based (IRB) Approach, whereby retail exposures are assigned to pools based on both borrower and transaction risk and where the PD and LGD estimates are derived from Macquarie's loss history for exposures in that pool.

Macquarie has a number of portfolios which do not have a statistically significant loss history and therefore do not qualify for the IRB approach to credit risk. Accordingly, the Standardised approach is applied to these portfolios and they are assessed periodically to determine if a change to the IRB approach can be substantiated.

Other portfolios will remain Standardised either because they are in run off or have been approved by APRA as such. The obligors in these portfolios are not rated by any of the recognised ECAI (S&P & Moody's) as they are primarily composed of individual borrowers or small businesses. Consequently, these exposures are risk weighted at 100%.

A summary of the applicable IRB or Standardised treatment to the Macquarie credit portfolios is set out in the table below.

Exposure Type	Approach	Treatment
Primarily all credit exposures to Corporate (including SME Corporate), Financial Institution and Sovereign counterparties	IRB	MQ rating is mapped to the S&P ratings scale S&P historical default data is used to estimate a PD for each rating grade
Income Producing Real Estate (IPRE)	IRB	MQ rating is mapped to the S&P ratings scale S&P historical default data is used to estimate a PD for each rating grade
All exposures subject to Supervisory Slotting Treatment	IRB	Exposure is slotted based on a combination of its MQ rating and LGD, with APRA determined supervisory risk weights assigned to each exposure
Macquarie originated auto and equipment lease exposures in Australia ¹	IRB	Through-the-cycle pool PDs and downturn LGDs
Macquarie originated and purchased Residential Mortgages in Australia	IRB	Through-the-cycle pool PDs and downturn LGDs An APRA approved LGD model has been applied to the portfolio, taking into account the regulatory requirement of a 10% LGD floor.
Other Residential Mortgages	Standardised	Risk Weighted per APS 112 Capital Adequacy: Standardised Approach to Credit Risk
Other auto and equipment lease exposures in Australia	Standardised	Risk Weighted per APS 112 Capital Adequacy: Standardised Approach to Credit Risk
Credit card exposures in Australia	Standardised	75% risk-weighted
Personal loan exposures in Australia	Standardised	75% risk-weighted
Margin loan exposures in Australia	Standardised	A 20% risk-weight prescribed in APS 112 Capital Adequacy: Standardised Approach to Credit Risk
Related party exposures	Standardised	Risk Weighted per APS 112 Capital Adequacy: Standardised Approach to Credit Risk

¹ Excludes loans to self managed superannuation funds secured by residential property and reverse mortgages, which are considered as other residential mortgages under standardised approach.

6. Calculation of Credit Risk Exposures

6.1 Credit Risk Exposures by Measurement Approach

The table below sets out the gross exposures by Basel III portfolio class as required by APRA under APS 330.

APS 330 Table 7(i)

Portfolio Type	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Subject to IRB approach		
Corporate ¹	54,041	53,799
SME Corporate ²	10,729	9,665
Sovereign	28,898	44,157
Financial Institution	26,763	26,025
Residential Mortgages	133,257	125,749
Other Retail	3,213	3,693
Retail SME	2,121	2,492
Total IRB approach	259,022	265,580
Subject to Standardised approach		
Corporate	3,512	3,103
Residential Mortgages	803	883
Other Retail	1,398	1,557
Total Standardised approach	5,713	5,543
Other Assets	5,617	5,364
Total Gross Credit Exposures	270,352	276,487

¹ Corporate includes specialised lending exposure of \$6,342 million as at 30 September 2023 (31 March 2023: \$6,823 million).

² SME Corporate includes specialised lending exposure of \$65 million as at 30 September 2023 (31 March 2023: \$75 million).

6.2 Credit Risk Exposures by Risk Weight

The tables below detail total credit exposures by risk weight bandings for the standardised portfolio and risk weightings for specialised lending exposures.

The disclosure of Standardised exposures below shows gross credit exposures before and after the impact of risk mitigation by collateral and guarantees.

APS 330 Table 8(b) Standardised Approach Exposures

Risk Weight	As at 30 September 2023		As at 31 March 2023	
	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m	Total Gross Credit Exposure \$m	Exposure after mitigation by eligible collateral & guarantees \$m
0%	-	-	-	-
> 0% ≤ 20%	-	-	-	-
> 20% ≤ 50%	1,956	1,561	1,459	1,157
> 50% ≤ 75%	1,036	1,036	1,080	1,080
> 75% ≤ 100%	2,703	2,242	2,985	2,052
> 100% ≤ 150%	18	18	19	19
> 150%	-	-	-	-
Total	5,713	4,857	5,543	4,308

6.2.1 IRB Approach Exposures

Specialised lending exposures subject to supervisory slotting

Risk Weight	Gross Credit Exposure	
	As at 30 September 2023 \$m	As at 31 March 2023 \$m
70%	126	191
90%	2,688	3,176
115%	3,505	3,445
250%	21	20
Default	-	1
Total	6,340	6,833

6.3 Credit Risk Exposures by Risk Grade

This section sets out the gross credit exposures split by PD for Non-Retail portfolios and Expected Loss (EL) for Retail portfolios.

The tables below provide a breakdown of gross credit exposures into each PD band for the Non-Retail portfolios under the Basel III FIRB classes of Corporate, SME Corporate, Sovereign and Financial Institution as shown in Section 6.1.

APS 330 Table 9(d)

	As at 30 September 2023 PD Grade								Total Gross Credit Exposure \$m
	0 <= 0.05% \$m	0.05% <= 0.15% \$m	0.15% <= 0.4% \$m	0.4% <= 1% \$m	1% <= 5% \$m	5% <=15% \$m	15% <= 100% \$m	Default \$m	
Non-Retail									
Corporate	1,457	8,601	17,403	10,596	11,126	3,821	376	661	54,041
SME Corporate	-	12	426	3,370	5,025	1,550	94	252	10,729
Sovereign	28,782	89	12	13	-	2	-	-	28,898
Financial Institution	9,005	9,923	4,201	2,474	1,017	80	26	37	26,763
Total Gross Credit Exposures	39,244	18,625	22,042	16,453	17,168	5,453	496	950	120,431

	As at 31 March 2023 PD Grade								Total Gross Credit Exposure \$m
	0 <= 0.05% \$m	0.05% <= 0.15% \$m	0.15% <= 0.4% \$m	0.4% <= 1% \$m	1% <= 5% \$m	5% <=15% \$m	15% <= 100% \$m	Default \$m	
Non-Retail									
Corporate	1,664	7,664	16,703	12,001	11,073	3,794	303	598	53,799
SME Corporate	-	12	370	3,312	4,398	1,287	48	238	9,665
Sovereign	44,042	70	18	1	12	5	9	-	44,157
Financial Institution	8,573	7,654	5,914	2,696	1,001	128	22	37	26,025
Total Gross Credit Exposures	54,279	15,400	23,005	18,010	16,484	5,214	382	873	133,646

Included within Total Gross Credit Exposures in the previous page are exposures for undrawn commitments. These undrawn commitment exposures are set out in the following tables.

APS 330 Table 9(d)

Undrawn Commitments	As at 30 September 2023 PD Grade								Total Gross Credit Exposure \$m
	0 <= 0.05%	0.05% <= 0.15%	0.15% <= 0.4%	0.4% <= 1%	1% <= 5%	5% <=15%	15% <= 100%	Default	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Corporate	34	364	630	764	951	263	-	5	3,011
SME Corporate	-	12	229	745	756	159	3	28	1,932
Sovereign	11	-	-	12	-	-	-	-	23
Financial Institution	-	90	12	4	4	-	20	-	130
Total Undrawn Commitments	45	466	871	1,525	1,711	422	23	33	5,096

Undrawn Commitments	As at 31 March 2023 PD Grade								Total Gross Credit Exposure \$m
	0 <= 0.05%	0.05% <= 0.15%	0.15% <= 0.4%	0.4% <= 1%	1% <= 5%	5% <=15%	15% <= 100%	Default	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Corporate	34	202	439	695	1,220	336	4	-	2,930
SME Corporate	-	12	80	643	593	131	1	9	1,469
Sovereign	11	-	-	-	12	-	-	-	23
Financial Institution	-	48	10	20	7	1	5	-	91
Total Undrawn Commitments	45	262	529	1,358	1,832	468	10	9	4,513

The tables below provide a breakdown of gross credit exposures into each EL category for the Retail portfolios under the Basel III classes of Residential Mortgages, Other Retail and Retail SME as shown in Section 6.1.

APS 330 Table 9(d)

Retail	As at 30 September 2023 Expected Loss Categories					Total Gross Credit Exposure \$m
	0	0.1%	0.3%	3%	10%	
	<= 0.1%	<= 0.3%	<= 3%	<= 10%	<= 100%	
	\$m	\$m	\$m	\$m	\$m	
Residential Mortgages	115,957	15,665	669	257	709	133,257
Other Retail	-	1,641	1,235	246	91	3,213
Retail SME	36	95	1,814	119	57	2,121
Total Gross Credit Exposures	115,993	17,401	3,718	622	857	138,591

Retail	As at 31 March 2023 Expected Loss Categories					Total Gross Credit Exposure \$m
	0	0.1%	0.3%	3%	10%	
	<= 0.1%	<= 0.3%	<= 3%	<= 10%	<= 100%	
	\$m	\$m	\$m	\$m	\$m	
Residential Mortgages	109,371	14,779	729	301	569	125,749
Other Retail	-	1,843	1,438	301	111	3,693
Retail SME	33	107	2,115	164	73	2,492
Total Gross Credit Exposures	109,404	16,729	4,282	766	753	131,934

Included within Total Gross Credit Exposures in the tables above are exposures for undrawn commitments. These undrawn commitment exposures are set out in the following tables.

APS 330 Table 9(d)

Undrawn Commitments	As at 30 September 2023 Expected Loss Categories					Total \$m
	0	0.1%	0.3%	3%	10%	
	<= 0.1%	<= 0.3%	<= 3%	<= 10%	<= 100%	
	\$m	\$m	\$m	\$m	\$m	
Residential Mortgages	15,647	233	43	12	13	15,948
Retail SME	14	-	-	-	-	14
Total Undrawn Commitments	15,661	233	43	12	13	15,962

Undrawn Commitments	As at 31 March 2023 Expected Loss Categories					Total \$m
	0	0.1%	0.3%	3%	10%	
	<= 0.1%	<= 0.3%	<= 3%	<= 10%	<= 100%	
	\$m	\$m	\$m	\$m	\$m	
Residential Mortgages	14,337	250	37	10	9	14,643
Retail SME	14	-	1	-	-	15
Total Undrawn Commitments	14,351	250	38	10	9	14,658

7. Provisioning

7.1 Non-Performing Facilities

Facilities are classified as non-performing when there is doubt regarding the collectability of some or all of the contractual payments due from a counterparty. The contractual payments include principal outstanding, interest and other related charges. In addition, facilities that are more than 90 calendar days past contractual due date are by default classified as non-performing.

Exposures will be assessed for specific provisions where there is objective evidence of impairment. Objective evidence of impairment may include market, economic or legal factors impacting upon the ability of a counterparty to meet their repayment obligations. The assessment process consists of a comparison of the carrying value of the exposure and the present value of its estimated future cash flows (recoverable amount).

The estimation of expected future cash flows takes into consideration:

- External valuations of the asset (taking into account the value of any security held)
- Costs of recovery; and
- The timeframe for realisation of recovery and/or sale of security.

The estimated future cash flows are discounted at the effective interest rate to determine the recoverable amount of the financial asset.

For the purposes of this report, past dues represent the full amount outstanding, not just the amount that is past due.

7.2 Specific Provisions and General Provisions

7.2.1 Specific Provisions

Facilities that are assessed as non-performing are subject to a recoverability test. Specific provisions are calculated as per the APRA Prudential Standard APS 220 Credit Risk Management (APS 220) and are generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate for that exposure.

7.2.2 General Provisions

The General Provisions is required under APS 220 to cover credit losses prudently estimated but not certain to arise over the full life of all individual facilities making up the credit risk portfolio.

Provisions representing 12 months expected credit loss (ECL) on performing loans (referred to as stage I provisions under AASB 9), are allocated to General Provisions as they are held against future, presently unidentified losses. ECL provisions are determined based on the point in time probability of default (PD) over the next 12 months and the lifetime losses associated with such PD, adjusted for forward looking information.

7.2.3 Additional Regulatory Specific Provisions

Lifetime ECL provisions on underperforming and nonperforming loans (referred to as stage II provisions under AASB 9) deemed ineligible to be included in the General Provisions, are considered regulatory specific provisions. Lifetime ECL provisions are determined with reference to the financial asset's lifetime PD and the lifetime losses associated with that PD, adjusted for forward looking information.

7.3 Regulatory Expected Loss (REL)

REL represents the estimated future credit losses expected to be incurred in a portfolio. For non-defaulted exposures, REL is calculated as a function of the outstanding exposure, PD and LGD whereas REL for defaulted Corporate, Sovereign and Financial Institution exposures under the FIRB approach is determined as the product of LGD and EAD. LGDs are defined by APRA for Corporate, Financial Institution and Sovereign. Specialised lending exposures subject to supervisory slotting criteria are measured using APRA determined risk weightings. For defaulted retail exposures under the IRB approach, REL is based on the best estimate of loss. The excess of REL over eligible provisions is required by APRA to be deducted from Common Equity Tier 1 capital. Eligible provisions include credit related provisions, partial write offs, and discounts on defaulted assets excluding purchased defaulted assets. As at 30 September 2023, the total REL was \$1,014 million (31 March 2023: \$939 million), with the excess of REL over eligible provisions resulting in a Common Equity Tier 1 deduction of \$246 million (31 March 2023: \$218 million).

7.4 Provisions by Counterparty Type

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

APS 330 Table 7(f)

	As at 30 September 2023				As at 31 March 2023			
	Non-performing				Non-performing			
	Gross Credit Exposure \$m	< 90 Days Past Due \$m	≥ 90 Days Past Due \$m	Specific Provisions \$m	Gross Credit Exposure \$m	< 90 Days Past Due \$m	≥ 90 Days Past Due \$m	Specific Provisions \$m
Subject to IRB approach								
Corporate	54,041	205	276	(155)	53,799	130	141	(93)
SME Corporate	10,729	154	98	(39)	9,665	110	127	(33)
Sovereign	28,898	-	-	-	44,157	-	-	-
Financial Institutions	26,763	-	37	(37)	26,025	-	37	(36)
Residential Mortgages	133,257	378	320	(18)	125,749	279	282	(15)
Other Retail	3,213	76	15	(29)	3,693	92	20	(30)
Retail SME	2,121	42	15	(16)	2,492	52	22	(19)
Total IRB approach	259,022	855	761	(294)	265,580	663	629	(226)
Subject to Standardised approach								
Corporate	3,512	-	-	-	3,103	-	-	-
Residential Mortgages	803	-	-	-	883	-	-	-
Other Retail	1,398	14	8	(20)	1,557	18	9	(24)
Total Standardised approach	5,713	14	8	(20)	5,543	18	9	(24)
Other Assets	5,617	-	-	-	5,364	-	-	-
Total	270,352	869	769	(314)	276,487	681	638	(250)
Additional regulatory specific provisions				(153)				(173)

APS 330 Table 9(e)

	For the 6 months to 30 September 2023		For the 6 months to 31 March 2023	
	Charges for Specific provisions \$m	Write-offs ¹ \$m	Charges for Specific provisions \$m	Write-offs ¹ \$m
Subject to IRB approach				
Corporate	(69)	-	(71)	-
SME Corporate	(10)	-	(6)	-
Residential Mortgages	(4)	-	(4)	-
Retail SME	(1)	-	(1)	-
Total IRB approach	(84)	-	(82)	-
Subject to Standardised approach				
Other Retail	(1)	-	(4)	-
Total Standardised approach	(1)	-	(4)	-
Total	(85)	-	(86)	-

7.5 Provisions by Geographic Region

The tables below split non-performing facilities and provisions by geographic region. Note that the geographic split has been based on the domicile of the counterparty.

APS 330 Table 7(g)

Geographic Region	As at 30 September 2023			
	Non-Performing		Specific Provisions \$m	General Provisions \$m
	< 90 Days Past Due	≥ 90 Days Past Due		
Australia	718	461	(146)	(275)
EMEA	142	123	(82)	(15)
Americas	9	169	(86)	(36)
Asia Pacific	-	16	-	(1)
Total	869	769	(314)	(327)
Additional regulatory specific provisions			(153)	

Geographic Region	As at 31 March 2023			
	Non-Performing		Specific Provisions \$m	General Provisions \$m
	< 90 Days Past Due	≥ 90 Days Past Due		
Australia	609	461	(134)	(337)
EMEA	16	144	(83)	(12)
Americas	56	6	(33)	(33)
Asia Pacific	0	27	-	(1)
Total	681	638	(250)	(383)
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.

7.6 General Provisions

APS 330 Table 7(j)

	As at 30 September 2023	As at 31 March 2023
	\$m	\$m
General provisions before tax	327	383
Tax effect	(90)	(100)
General provisions	237	283

7.7 Movement in Provisions

The table below shows the movement of provisions over the 6 months to 30 September 2023.

APS 330 Table 7(h)

	General Provisions \$m	Specific Provisions and Additional Specific provision \$m	Total \$m
Provisions as at 31 March 2023	383	423	806
Charges (net of reversals) during the period	(71)	55	(16)
Assets written off or sold, previously provided for	-	-	-
Net transfer from/(to) other provisions	14	(14)	-
Adjustments for foreign exchange fluctuations	1	3	4
Provisions as at 30 September 2023	327	467	794

7.8 Analysis of Expected Credit Model Performance versus Actual Results

APS 330 Table 9(f)

The table below relates only to Macquarie's portfolios measured under the IRB approach and compares actual results of the current reporting period to the average estimate.

Portfolio Type	PD		Exposure at default Estimate to Actual Ratio	LGD	
	Estimated %	Actual %		Estimated %	Actual %
Corporate (including SME) ¹	3.79%	2.48%	N/A	N/A	N/A
Sovereign ¹	1.09%	0.00%	N/A	N/A	N/A
Financial Institution ¹	1.19%	0.29%	N/A	N/A	N/A
Residential Mortgages ²	1.01%	0.86%	101%	18.19%	2.57%
Other Retail ²	2.13%	2.10%	112%	46.26%	20.07%

¹ Macquarie is accredited under the Foundation Internal Ratings Based Approach (FIRB). As the LGD and EAD assumptions under FIRB are set by APRA for these portfolio types, disclosure of actual against estimates does not facilitate meaningful assessment of the performance of internal rating processes for these portfolios. The PD average estimates reported for wholesale exposures (Corporate, SME Corporate, Sovereign, Financial Institution) are over the March 2022 to September 2023 period due to new asset classes under APRA's revised bank capital framework. Estimated PD for wholesale exposures includes unrated counterparties which are assigned the highest non-defaulted PD grade as per APRA's revised bank capital framework.

² Includes exposures disclosed as Retail SME. The PD average estimates reported for retail exposures (Residential Mortgages, Other Retail) are over the January 2008 to September 2023 period.

8. Credit Risk Mitigation

8.1 Netting and Collateral Management

Netting arises where a single legal obligation is created covering all transactions included in a netting agreement. The most common form of netting which Macquarie applies for these purposes is close out netting.

Netting is applied to a counterparty balance only when appropriate documentation governing transactions between the Macquarie entity and the counterparty has been entered into, Legal Risk Management has confirmed that it is legally effective to net with that counterparty, and APRA Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112), has been complied with.

8.1.1 Collateral Valuation and Management

RMG Credit limits are set, and the related exposures are calculated before taking any non-cash collateral into consideration other than for securities finance transactions where liquid financial instruments are an inherent part of the lending arrangement. Typically, collateral is required for all but short dated, vanilla trading activity.

A wide variety of collateral can be accepted depending on the counterparty and the nature of the exposure. Some of the most common forms are charges over:

- Cash or gold deposits
- Debt or equity securities
- Company assets; and
- Commercial or residential property.

Guarantees are frequently requested from banks, parent or associated companies. Relative ratings between the obligor and guarantor are monitored as part of the regulatory capital calculation process as mitigation will normally cease to be eligible if the rating of the guarantor falls below that of the underlying obligor. Collateral taken in the form of tradeable securities is revalued daily by the same application systems which are used to trade those particular products. Credit default swaps are not a common form of credit risk mitigation. Macquarie policies require that all security is taken in conjunction with a formal written agreement which gives Macquarie direct and unconditional rights over the collateral in the event of default by the obligor.

To mitigate credit risk Macquarie makes frequent use of margining arrangements. In these cases, counterparties post collateral daily in the form of cash or liquid securities to cover outstanding trading positions. Macquarie also engages in reciprocal margining agreements with counterparties under International Swaps and Derivatives Association (ISDA) or similar agreements where the Credit Support Annex can contain provisions whereby margining thresholds may vary in relation to the credit ratings of the respective parties. Macquarie is compliant with OTC Margin reforms in all legal jurisdictions with respect to thresholds, minimum transfer amounts and rounding for affected counterparties in those jurisdictions. Collateral and funding requirements due to credit ratings downgrade(s) are incorporated into Macquarie's liquidity stress scenarios, which consider liquidity obligations for a twelve-month period under both a systemic and combined name and systemic crisis scenario. These scenarios are embedded in the MGL and MBL Liquidity Policies, alongside Macquarie's liquidity risk appetite. The increase in collateral and funding requirements as a result of credit rating downgrade(s) is included as an outflow in these scenarios, explicitly ensuring that Macquarie has sufficient funding coverage in these events.

All details regarding security together with netting/margining rules are recorded in collateral management systems which support the operational control framework.

Specific policy and protocols govern the acceptance of real estate as collateral.

Prior to acceptance, all real estate collateral will undergo a valuation assessment in line with approved policy requirements and, in the case of independent valuations, must also undergo a formal review process by which it is assessed for quality, adherence to policy and standing instructions. The escalation of this review and acceptance process depends on:

- The type of property being valued
- The dollar value of the property being valued; and
- The proposed loan to value ratio (LVR).

The value of all real estate collateral is assessed regularly and is re-valued where appropriate, be it on an asset specific basis or a market assessment across a pool of assets, such as residential mortgages. The interval between revaluation is contingent on the type of property, dollar value of the property being valued, LVR, the market conditions that have prevailed since the valuation was conducted and counterparty performance. All prior claims on the property collateral are recorded and taken into consideration when calculating the available security value.

8.1.2 Wrong Way Risk

Specific wrong way risk occurs when exposure to the counterparty exhibits strong positive correlation with the counterparty's probability of default. RMG Credit runs a monthly monitoring process to ensure that all instances of specific wrong way risk are identified and appropriately escalated. General wrong way risk occurs when the probabilities of counterparty defaults are positively correlated with counterparty exposure which results from market risk factor movements. Macquarie considers these correlations as part of the credit assessment process and has daily reports which identify asset sensitivities across a range of dimensions including industry/peer group, counterparty and rating grade.

8.2 Exposures Mitigated by Eligible Collateral

Eligible financial collateral is defined in APS 112 as cash, certificates of deposit, bank bills, certain rated debt issues and listed equities. Other items that are eligible for recognition as collateral include mortgages over commercial or residential real estate (subject to the satisfaction of certain requirements listed in APS 113).

As noted, Macquarie takes a wide range of collateral of which only a portion is eligible under APS 112 and APS 113. All collateral is recorded in appropriate systems with clear definition by type and eligibility status. Ineligible collateral under APRA standards is excluded from the capital calculation process.

Some types of collateral which are eligible by definition may be determined to be ineligible or adjusted with an appropriate haircut at the time of calculation due to mismatches of maturity or currency between the collateral and the underlying exposures.

For capital adequacy purposes, eligible cash collateral is considered in calculating the capital requirement. For non-cash collateral, a regulatory haircut is applied to both the gross credit exposure and the value of the collateral, and these adjusted amounts are used as the basis of calculating the capital requirement.

The tables on the following page show gross credit exposures by Basel III portfolio and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives.

APS 330 Table 10(b) & (c)

Measurement Approach	As at 30 September 2023			
	Total Gross Credit Exposure ¹ \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
Subject to IRB approach				
Corporate	54,041	1,203	1,247	8,263
SME Corporate	10,729	202	5,389	-
Sovereign	28,898	-	-	-
Financial Institution	26,763	440	58	92
Residential Mortgages	133,257	-	-	-
Other Retail	3,213	-	-	-
Retail SME	2,121	-	-	-
Total IRB approach	259,022	1,845	6,694	8,355
Subject to Standardised approach				
Corporate	3,512	582	-	-
Residential Mortgages	803	-	-	-
Other Retail	1,398	-	-	274
Total Standardised approach	5,713	582	-	274
Other assets	5,617	-	-	-
Total	270,352	2,427	6,694	8,629

Measurement Approach	As at 31 March 2023			
	Total Gross Credit Exposure ¹ \$m	Eligible Financial Collateral \$m	Other Eligible Collateral \$m	Exposures Covered by Guarantees \$m
Subject to IRB approach				
Corporate	53,799	573	917	7,726
SME Corporate	9,665	180	4,880	-
Sovereign	44,157	-	-	3
Financial Institution	26,025	472	1	95
Residential Mortgages	125,749	-	-	-
Other Retail	3,693	-	-	-
Retail SME	2,492	-	-	-
Total IRB approach	265,580	1,225	5,798	7,824
Subject to Standardised approach				
Corporate	3,103	811	-	13
Residential Mortgages	883	3	-	-
Other Retail	1,557	-	-	408
Total Standardised approach	5,543	814	-	421
Other Assets	5,364	-	-	-
Total	276,487	2,039	5,798	8,245

¹ Per APS 180, the impact of eligible collateral for market related contracts is embedded in the calculation of total gross credit exposures and is not separately reported as eligible financial collateral.

8.3 Counterparty Credit risk

Counterparty Credit Risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value for any Group entity at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

Regulatory capital is allocated to CCR exposures using the SA CCR calculation, which reflects expected exposure to the counterparty and its risk rating. Economic capital also reflects correlations and diversification impacts across risk types.

As at 30 September 2023, a unilateral one notch and two notch downgrade in the MBL's rating would have resulted in a further \$221 million and \$118 million (credit rating downgrade postings are cumulative) of collateral being posted to other counterparties respectively. Collateral stress tests are also conducted on the MBL's counterparties so that it can monitor for likely collateral stresses in the event of a counterparty downgrade.

APS 330 Table 11(b)

	As at 30 September 2023	As at 31 March 2023
	\$m	\$m
Exposure at default for counterparty exposures		
Replacement cost excluding collateral	26,441	25,386
Replacement cost with eligible collateral (A)	10,198	12,024
Potential future exposure (PFE) (B)	17,359	16,234
Exposure at default [(A+B) * 1.4]	38,581	39,560
Comprising:		
Interest rate	1,256	1,453
Credit	90	111
Equity	2,918	2,161
Foreign exchange	7,428	8,028
Commodity	26,889	27,807
Exposure at default	38,581	39,560

APS 330 Table 11(c)

	As at 30 September 2023		As at 31 March 2023	
	Protection Bought \$m	Protection Sold \$m	Protection Bought \$m	Protection Sold \$m
Notional amount of credit derivatives				
Own credit portfolio	2,448	1,977	3,056	1,978
Client intermediation activities	-	-	-	-
Total	2,448	1,977	3,056	1,978
Credit default swaps (CDS)	2,401	1,977	3,056	1,978
Total return swaps	47	-	-	-
Total	2,448	1,977	3,056	1,978

9. Securitisation

9.1 Overview

A securitisation is defined as “a financing structure where the cash flow from a pool is used to make payments on obligations to at least two tranches or classes of creditors (typically holders of debt securities), with each tranche or class entitled to receive payments from the pool before or after another class of creditors, thereby reflecting different levels of credit risk.”

Macquarie engages in a range of activities in the securitisation market, including playing the following roles:

- Originator, Arranger, Manager and Servicer on Macquarie mortgage and auto and equipment finance securitisation programs
- Lead Manager on Macquarie originated and third-party securitisations
- Swap Counterparty to Macquarie originated and third-party securitisations
- Warehouse facility provider to several third-party originators
- Liquidity facility provider to several third-party originators and provider of redraw facilities to all Macquarie Mortgage SPVs; and
- Investor in third party securitisation transactions.

Macquarie has also established contingent liquidity securitisation SPVs that issue and hold Residential Mortgage-Backed Securities (RMBS) eligible for repurchase with the RBA.

Macquarie may, as sponsor, use the following types of special purpose vehicles to securitise third party exposures:

- Trusts, and
- Special purpose companies

issuing RMBS or asset backed securities (ABS).

Following are the affiliated entities which the MGL group manages or advises, and which can invest either in the securitisation exposures that Macquarie has securitised or in SPVs for whom Macquarie is a sponsor (i.e. manager, adviser, dealer or liquidity and/or credit enhancement provider):

- Macquarie Australian Diversified Income Fund
- Macquarie Core Australian Fixed Interest Fund
- Macquarie Corporate Bond Fund
- Macquarie Debt Market Opportunity Fund
- Macquarie Dynamic Bond Fund
- Macquarie Enhanced Australian Fixed Interest Fund
- Macquarie Global Income Opportunities Fund
- Macquarie Income Opportunities Fund
- Macquarie Managed Income Fund
- Macquarie True Index Cash Fund
- Macquarie True Index Global Bond Fund
- Macquarie True Index Sovereign Bond Fund
- Macquarie Wholesale Australian Fixed Interest Fund

Any investments by these entities (if any) in securitisation exposures that Macquarie has securitised or sponsored does not form a majority of their investment portfolios and their investment represents a small percentage of the relevant securitisation issue.

9.1.1 Securitisation Risk Management

RMG is responsible for overseeing the management of the risk arising from all securitisation exposures. RMG approves all securitisation transactions and exposures arising from securitisation activity.

RMG Prudential Risk reviews transactions where Macquarie acts as originator, manager or sponsor to ensure compliance with APS 120 and other regulations. RMG Credit sets limits on securitisation exposures and reviews transactions to identify all risks involved. RMG Market Risk reviews market exposures associated with securitisations, such as swaps, and other exposures held in the trading book. Macquarie's primary risk mitigant is the limit framework and approval process governing exposures to securitisations.

In addition to credit risk, securitised assets can be subject to liquidity risk, interest rate risk, and in some instances FX risk. The nature and scale of these risks varies from transaction to transaction. All securitised assets are subject to a degree of operational risk associated with documentation and the collection of cashflows.

Securitisation exposures are measured daily and monitored by RMG. RMG completes an annual review of all securitisation exposures and limits. Regulatory capital is calculated on all securitisation exposures using the available approaches in APS 116 and APS 120.

Macquarie applies the following approaches to the calculation of regulatory capital for securitisation exposures under APS 120:

- The External Ratings Based approach (ERBA); or
- The Supervisory Formula Approach (SFA).

If one of the above approaches does not apply to an exposure, then the exposure will be deducted from Common Equity Tier 1 Capital (CET1).

S&P and Moody's Ratings have all been used to rate Macquarie securitisations.

Mitigation of credit risk on securitisation exposures is performed in accordance with Macquarie's overall credit risk mitigation policy. Details of the policy can be found in Section 8.0 of this disclosure.

9.1.2 Accounting for Securitisation

Securitisation transactions undertaken by Macquarie are accounted for in accordance with Australian Accounting Standards. As noted, securitised positions are managed in a number of SPVs.

Where these SPVs are deconsolidated for regulatory purposes under APS 120, they still need to be assessed under Australian Accounting Standards to determine whether these SPVs should be considered part of the accounting consolidated group.

Control exists when the parent is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over that entity. In Macquarie's case, it has been determined that under Australian Accounting Standards, Macquarie consolidates Macquarie mortgage SPVs and auto and equipment finance SPVs. The assets and liabilities in these SPVs detailed in the tables within this section are consolidated into the Macquarie accounting consolidated group on the basis Macquarie controls those SPVs.

Banking book securitised assets consolidated by Macquarie are held on the balance sheet at amortised cost. Securitised exposures in the trading book are held at fair value through profit or loss. There has been no material change to the methods of valuation from the prior period.

If there are circumstances where Macquarie is required to provide financial support for securitised assets, a relevant liability is recognised on the Bank's balance sheet. Where a liability does not currently exist but could arise in the future as a result of uncertain events not wholly within Macquarie's control, a contingent liability is disclosed unless the possibility of an outflow of resources is remote. A contingent liability is not recognised on the Bank's balance sheet as an actual liability.

Further information on accounting policies as they relate to securitisation exposures, including key assumptions and inputs to valuation processes and Macquarie's policies on accounting consolidation, can be found in the Macquarie Bank Limited financial report.

9.2 Securitisation Exposures

9.2.1 Originating ADI Securitisation Exposures

The table below sets out the assets originated or sponsored by Macquarie where the exposures have subsequently been securitised.

Macquarie has not undertaken any synthetic securitisation in the banking and trading book.

APS 330 Table 12(g) and (o)

Exposure Type	As at 30 September 2023		
	Total outstanding exposures securitised		
	ADI originated assets ¹ \$m	ADI as sponsor ² \$m	Other \$m
Banking Book			
Residential Mortgages	62,771	46	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	3,842	-	-
Total Banking Book	66,613	46	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-
Total	66,613	46	-

Exposure Type	As at 31 March 2023		
	Total outstanding exposures securitised		
	ADI originated assets ¹ \$m	ADI as sponsor ² \$m	Other \$m
Banking Book			
Residential Mortgages	63,456	51	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,733	-	-
Total Banking Book	66,189	51	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
Total Trading Book	-	-	-
Total	66,189	51	-

¹ Included in the above are assets of \$66,613 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group (31 March 2023: \$66,189 million).

² Included in the above are exposures held in third party warehouse funding facilities.

9.2.2 Performance of Assets Securitised

The assets below have been originated and securitised by Macquarie. The table below identifies the total exposures along with the exposures of non-performing assets.

APS 330 Table 12(h)

Exposure Type	As at 30 September 2023		
	Total outstanding exposures securitised		
	Total outstanding exposures ¹ \$m	Non-performing ² \$m	ADI recognised loss from exposures securitised \$m
Residential Mortgages	62,771	348	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	3,842	53	-
Total	66,613	401	-

Exposure Type	As at 31 March 2023		
	Total outstanding exposures securitised		
	Total outstanding exposures ¹ \$m	Non performing ² \$m	ADI recognised loss from exposures securitised \$m
Residential Mortgages	63,456	306	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	2,733	27	-
Total	66,189	333	-

¹ Included in the above are assets of \$66,613 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory group (31 March 2023: \$66,189 million).

² Included in the above are Non performing facilities of \$401 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in the Level 2 regulatory Group (31 March 2023: \$333 million).

9.2.3 Summary of Outstanding Exposures Intended to be Securitised

APS 330 Table 12(i) and (p)

Macquarie may securitise assets depending on a variety of factors, including market conditions and business requirements. The table below sets out identified assets as at the reporting date which are intended to be put into securitisation deals.

Exposure Type	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Banking Book		
Residential Mortgages ¹	4,343	1,100
Credit cards and other personal loans	-	-
Auto and equipment finance ¹	207	-
Total Banking Book	4,550	1,100
Trading Book		
Residential Mortgages	-	-
Credit cards and other personal loans	-	-
Auto and equipment finance	-	-
Total Trading Book	-	-

¹ This exposure is intended for funding only securitisation.

9.2.4 Securitisation Activity

Over the 6 months to 30 September 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 12(j) and (q)

Exposure Type	For the 6 months to 30 September 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	8,938	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	1,747	-	-
Other	-	-	-
Total Banking Book	10,685	-	-
Trading Book			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Total Trading Book	-	-	-

Exposure Type	For the 6 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	10,792	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance ¹	-	-	-
Other	-	-	-
Total Banking Book	10,792	-	-
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.

Originating ADI Securitisation Exposures

APS 330 Table 12(r) - Trading Book

Exposure Type	As at 30 September 2023			
	Total outstanding exposures securitised			
	Standard Approach		IMA Approach	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

Exposure Type	As at 31 March 2023			
	Total outstanding exposures securitised			
	Standard Approach		IMA Approach	
	Traditional \$m	Synthetic \$m	Traditional \$m	Synthetic \$m
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

9.2.5 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 12(k) and (s)

Exposure Type	As at 30 September 2023		
	Total outstanding exposures ¹		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
Banking Book			
Residential Mortgages	64,454	38	64,492
Credit cards and other personal loans	169	-	169
Auto and equipment finance	4,787	54	4,841
Other	498	43	541
Total Banking Book	69,908	135	70,043
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 \$66,613 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).

9.2.6 Exposure by Risk Weight Band

Banking Book

APS 330 Table 12(l)

Risk weight band	As at 30 September 2023		As at 31 March 2023	
	Securitisation exposures subject to ERBA			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=<20%	1,122	222	1,289	255
>20%-50%	15	6	7	3
>50%-100%	92	54	97	59
>100%-140%	-	-	-	-
Total	1,229	282	1,393	317

Risk weight band	As at 30 September 2023		As at 31 March 2023	
	Securitisation exposures subject to SFA			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=<20%	1,727	259	1,519	228
>20%-50%	458	144	345	91
>50%-100%	-	-	-	-
>100%-150%	-	-	-	-
>150%-650%	-	-	-	-
>650%-<1250%	-	-	-	-
Total	2,185	403	1,864	319

Risk weight band	As at 30 September 2023		As at 31 March 2023	
	Securitisation exposures subject to risk weight cap			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
=<20%	-	-	-	-
>20%-50%	-	-	-	-
>50%-100%	-	-	-	-
>100%-150%	-	-	-	-
>150%-650%	-	-	-	-
>650%-<1250%	-	-	-	-
Total	-	-	-	-

Exposure Type	As at 30 September 2023		As at 31 March 2023	
	CET1 Deduction			
	\$m		\$m	
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	16	17	16	17
Total	16	17	16	17

Trading Book

APS 330 Table 12(t) & (u)

Risk weight band	As at 30 September 2023		As at 31 March 2023	
	Securitisation exposure subject to Standard Approach			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
= < 20%	-	-	-	-
>20%-50%	-	-	-	-
>50%-100%	-	-	-	-
>100%-140%	-	-	-	-
Total	-	-	-	-

Risk weight band	As at 30 September 2023		As at 31 March 2023	
	Securitisation exposure subject to IMA Approach			
	Gross Credit Exposure \$m	Risk Weighted Assets \$m	Gross Credit Exposure \$m	Risk Weighted Assets \$m
= < 20%	-	-	-	-
>20%-50%	-	-	-	-
>50%-100%	-	-	-	-
>100%-150%	-	-	-	-
>150%-650%	-	-	-	-
>650%-<1250%	-	-	-	-
Total	-	-	-	-

Exposure Type	As at 30 September 2023		As at 31 March 2023	
	CET1 Deduction			
	\$m		\$m	
Residential Mortgages	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
Other	-	-	-	-
Total	-	-	-	-

9.2.7 Resecuritisation Exposure

APS 330 Table 12(n) and (w)

Exposure Type	As at	As at
	30 September 2023	31 March 2023
	Gross Credit Exposure ¹	
	\$m	\$m
Banking book		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	-	-
Exposure to Guarantors by ratings:	-	-
Total banking book	-	-
Trading book		
Exposures with Credit Risk Mitigation	-	-
Exposures without Credit Risk Mitigation	-	-
Exposures to Guarantors by ratings:	-	-
Total trading book	-	-

¹ Exposures deducted from CET1 capital.

10. Credit Valuation Adjustment

Under Basel III and in accordance with APS 180 Capital Adequacy: Counterparty Credit Risk, ADI's are subject to a capital charge for potential mark to market losses on OTC derivatives (i.e. credit valuation adjustments) associated with a deterioration in the credit worthiness of a counterparty. APS 180 also allows an ADI to include eligible CVA hedges in the calculation of the CVA risk capital charge.

The CVA RWA is shown in the table below.

	As at 30 September 2023	As at 31 March 2023
	\$m	\$m
CVA capital		
Total CVA RWA	8,679	8,975

11. Exposure to Central Counterparties

Under Basel III and in accordance with APS 180 Capital Adequacy: Counterparty Credit Risk, ADI's are required to hold capital against exposures arising from trades cleared by central counterparties. This includes outstanding trade exposures, collateral placed with the clearing house (excluding collateral placed in bankruptcy remote manner), and default fund contributions.

The RWA on exposures arising from cleared trades as at 30 September 2023 is \$594 million (31 March 2023: \$476 million). Details of the components of these exposures are shown in the tables below.

	As at 30 September 2023		
	Trade Exposure	Prefunded Default Fund Contribution	RWA
	\$m	\$m	\$m
Central counterparty trade exposure			
Exposures to qualifying central counterparty	13,943	812	594
Exposures to non-qualifying central counterparty	-	-	-
Total central counterparty exposures	13,943	812	594

	As at 31 March 2023		
	Trade Exposure	Prefunded Default Fund Contribution	RWA
	\$m	\$m	\$m
Central counterparty trade exposure			
Exposures to qualifying central counterparty	14,176	659	476
Exposures to non-qualifying central counterparty	-	-	-
Total central counterparty exposures	14,176	659	476

12. Market Risk

12.1 Market Risk

Market risk is the risk of adverse changes in the value of Macquarie's trading positions as a result of changes in market conditions. Macquarie is exposed to the following risks:

- **Price:** The risk of loss due to changes in price of a risk factor (interest rates, foreign exchange, commodities etc.)
- **Volatility:** The risk of loss due to changes in the volatility of a risk factor
- **Basis:** Risk of imperfect correlation between offsetting investments in a hedging strategy
- **Correlation:** Risk that the actual correlation between two assets or variables is different from the assumed correlation
- **Illiquid market:** Risk of inability to sell assets or close out positions in thinly traded markets at close to the last market prices
- **Concentration:** Risk of over concentration of trading exposures in certain markets and products
- **Valuation adjustments (XVA):** Risk of valuation adjustments to derivative positions; specifically, Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA).

Macquarie has long favoured transparent scenario analysis over complex statistical modelling as the cornerstone of risk measurement.

12.1.1 Market Risk Structure and Governance

RMG Market Risk is the second line risk function that assesses, monitors and reports on market risk. The operating groups own market risk arising from their activities, with independent monitoring and oversight by RMG Market Risk.

The RMG Market Risk function oversees Traded Market Risk (including VaR) and Non-Traded Market Risk (including IRRBB). Market Risk Limits Policy outlines the framework and processes for managing market risk at Macquarie, including the setting and approval of market risk limits and the monitoring and reporting of market risk exposures.

Traded Market Risk is governed by the Market Risk Committee (MRC), which meets on a quarterly basis. The MRC was established by Macquarie's Executive Committee to oversee the Value at Risk (VaR) model, the Trading Book Policy Statement and to review key information concerning the effectiveness of the Market Risk function. Its composition includes certain members of the Executive Committee, with the CRO as Chairman.

Interest Rate Risk in the Banking Book (IRRBB) is governed by the Asset and Liability Committee (ALCO). The ALCO oversees the IRRBB management framework, the Non-Traded Market Risk Policy and approves changes to aggregate IRRBB limits. It meets at least five times throughout the year and is comprised of the members of the Executive Committee, with the CFO as Chairman.

12.2 Aggregate Measures of Market Risk

Macquarie's appetite for market risk is set by the Board as part of the Risk Appetite Statement and cascaded down through aggregate and division level limits.

12.2.1 Traded market risk

Aggregate traded market risk is constrained by two risk measures, Value at Risk (VaR) and the Macro Economic Linkages (MEL) stress scenarios. RMG Market Risk monitor traded market risk limits daily, with MEL monitored on T+1 basis and VaR on a T+2 basis.

The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days. The MEL scenario uses the contingent loss approach to capture simultaneous, worst case movements across all major markets. Whereas MEL focuses on extreme price movements, VaR focuses on unexceptional changes in price so that it does not account for losses that could occur beyond the 99% level of confidence. Stress testing therefore remains the predominant focus of RMG as it is considered to be the most effective mechanism to reduce Macquarie's exposure to unexpected market events.

12.2.2 Interest rate risk in the banking book (IRRBB)

Aggregate IRRBB is constrained by two measures, Economic Value Sensitivity (EVS) and Earnings at Risk (EaR). The EVS metric measures the change in net present value of the banking book as a result of changes in interest rates. The EaR model constrains the impact on reported income for a change in interest rates, including the Net Interest Income for accrual portfolios.

12.3 Traded Market Risk

All trading activities contain calculated elements of risk taking. Macquarie is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG and reported to senior management on a regular basis. Market Risk source exposures directly from the front office risk management system.

RMG monitors positions within Macquarie according to a limit structure that sets limits for all exposures in all markets. Limits are applied at a granular level to individual trading desks, through increasing levels of aggregation to Divisions and Operating Groups, and ultimately, Macquarie. This approach removes the need for future correlations or scenarios to be precisely predicted as all risks are stressed to the extreme and accounted for within the risk profile agreed for each business and Macquarie in aggregate.

Limits are approved by senior management with appropriate authority for the size and nature of the risk and Macquarie adheres to a strict 'no limit, no dealing' policy. If a product or position has not been authorised and given a limit structure by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Macquarie and Macquarie Bank Boards.

RMG sets three complementary limit structures:

- **Contingent loss limits:** Worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **Position limits:** Volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **Value at Risk (VaR) limits:** Statistical measure based on a 10-day holding period and a 99% confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a one-day VaR against hypothetical and actual daily trading profit or loss.

The risk of loss from incorrect or inappropriate pricing and hedging models is mitigated by the requirement for all new pricing models to be independently tested by the specialists within the Model Risk Management team in RMG.

12.3.1 Value at Risk Model

VaR provides a statistically based summary of overall market risk in the Group. The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 9,300 benchmarks, using volatilities and correlations based on three years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example, one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example, crude oil as opposed to heating oil, or gas traded at different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

The integrity of the VaR model is tested against daily hypothetical and actual trading outcomes (profit and loss) and reported to APRA quarterly.

12.3.2 Macro-Economic Linkage Model

MEL scenarios are large, simultaneous, 'worst case' movements in global markets. The MEL scenarios consider very large movements in a number of markets at once, based on Macquarie's understanding of the economic linkages between markets. The MEL scenarios reflect a market 'shock' or 'gap' as opposed to a sustained deterioration.

12.3.3 Market Risk Capital Requirement

APRA has approved the use of Macquarie's internal model to calculate regulatory capital for market risk under APS 116.

The internal model calculation is based upon:

- Value at Risk using a 10-day time horizon at a 99% confidence level
- Stressed Value at Risk using a 10-day time horizon at a 99% confidence level
- Regulatory capital for debt security specific risk is calculated using the APRA standard method (see Section 12.2.3).

The sum of the VaR and debt security specific risk amounts is scaled by 12.5 in accordance with APRA policy to arrive at the traded market risk RWA, which was \$9,011 million as at 30 September 2023 (31 March 2023: \$9,743 million).

There were no hypothetical or actual trading losses that exceeded the 1 day 99% VaR calculated for the 6 months ended 30 September 2023. The observed number of back testing exceptions indicates continued acceptable operation of the VaR model.

12.3.4 Value at Risk Figures (10 day 99%)

APS 330 Table 14(f)

	For the 6 months to 30 September 2023				For the 6 months to 31 March 2023			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR (30-Sep) \$m	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m
Commodities	86	128	51	63	144	358	85	87
Equities ¹	10	17	7	10	8	16	5	7
Foreign Exchange	9	19	2	7	12	25	5	15
Interest Rates	17	25	10	12	21	36	7	7
Aggregate	84	130	52	62	141	349	78	84

12.3.5 Stressed Value at Risk Figures (10 day 99%)

APS 330 Table 14(f)

	For the 6 months to 30 September 2023				For the 6 months to 31 March 2023			
	VaR over the current reporting period				VaR over the previous reporting period			
	Mean value \$m	Max value \$m	Min value \$m	VaR (30-Sep) \$m	Mean value \$m	Max value \$m	Min value \$m	VaR (31-Mar) \$m
Commodities	107	136	91	111	148	331	107	113
Equities ¹	22	36	11	20	14	26	5	16
Foreign Exchange	24	48	10	28	25	53	10	35
Interest Rates	42	58	31	34	33	55	15	26
Aggregate	104	129	81	104	132	309	94	105

12.3.6 Debt Security Specific Risk Figures

Regulatory capital for Macquarie's debt security specific risk (including securitisations held in the trading book) is calculated using the APRA standard method.

APS 330 Table 13(b)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Debt specific risk	133	55

The specific risks referred to above arise from movements in credit curves in the Macquarie trading book.

¹ Equities figures incorporate the Equity specific risk amount.

12.4 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate exposures, where possible, are transferred into the trading books of Commodities and Global Markets and Group Treasury and managed under traded market risk limits. The residual risks in the banking book are not material but are nevertheless monitored and constrained by RMG and reported to senior management monthly. Macquarie measures and monitors interest rate risk on both an economic value and earnings basis. IRRBB is measured on a monthly basis using an APRA approved repricing gap model with monthly bucketing of exposures.

The total IRRBB capital is calculated for each currency in accordance with APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs). Macquarie's internal model sums the change in economic value or earnings arising from the following risk categories:

- Repricing and yield curve (parallel and non-parallel moves)
- Basis (imperfect correlation between indices of the same tenor)
- Optionality (breakdowns in assumptions used for hedging); and
- Embedded gains and losses (difference between the fair value and book value arising from past interest rate movements).

A standardised calculation for credit spread risk in the banking book is also included in MBL's total IRRBB capital.

Macquarie includes expectations of client behaviour where appropriate, including prepayments on loans & leases, and pull-through assumptions on fixed rate commitments. This is supported by stresses to these assumptions within the 'Optionality' risk calculation. Any change to these assumptions requires approval by the Risk Management Group.

12.4.1 IRRBB Risk Weighted Assets (RWAs)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
IRRBB RWA	3,706	1,920

12.4.2 IRRBB Economic Value Sensitivity by Currency

APS 330 Table 17(b)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
	Change in economic value	
Stress testing: interest rate shock applied	\$m	\$m
AUD		
200 basis point parallel increase	5.6	13.8
200 basis point parallel decrease	(8.2)	(16.6)
CAD		
200 basis point parallel increase	-	-
200 basis point parallel decrease	-	-
EUR		
200 basis point parallel increase	(6.3)	(5.3)
200 basis point parallel decrease	5.5	4.9
GBP		
200 basis point parallel increase	(0.2)	1.8
200 basis point parallel decrease	0.2	(1.9)
USD		
200 basis point parallel increase	(9.5)	(4.9)
200 basis point parallel decrease	9.9	4.8

Note that the brackets in the above table indicate a loss in economic value due to movements in interest rates.

12.4.3 IRRBB Regulatory Capital Requirement

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
IRRBB regulatory capital requirement - AUD	297	154

13. Equity Risk

Equity risk is the risk of loss arising from banking book equity type exposures. These exposures include:

- Holdings in specialised funds managed by Macquarie
- Property equity, including property trusts and direct property equity investments; and
- Other equity investments.

All of the above equity risk positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board by reference to the Risk Appetite Test that is described further in the Capital Adequacy Section 4. When the Board sets the limit, it also considers the level of earnings, capital and market conditions. RMG reviews the limit periodically and reports the results of the review to the MGL/MBL Risk Committee and the Board.

13.1 Accounting for Equity Holdings in the Banking Book

Equity investment positions have varying accounting treatments depending on the nature of the exposure. These include:

- Equity accounting for investments in associates and Joint Ventures
- Investment fair valued through profit or loss. Macquarie has not elected to designate any equity positions as fair value through OCI.

In addition to equity investment positions in the Banking Book, Macquarie also has equity investments in trading portfolios at fair value through profit or loss, which are included in the Market Risk calculation.

13.1.1 Investments in Associates and Joint Ventures

Equity accounting is applied to investments in which Macquarie has significant influence or joint control (joint ventures). These equity investments are described as Investments in Associates and Joint Ventures within this document. Equity accounting is applied such that Macquarie's share of its investee's post acquisition profit or losses are recorded in Macquarie's Consolidated Income Statement, and the share of its post-acquisition movements in other comprehensive income in Macquarie's Consolidated Statement of Comprehensive Income. Dividends or distributions from associates or joint ventures reduce the carrying amount of the investment to the extent that they are returns of capital. Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised in the Consolidated Income Statement as part of other impairment charges/reversals. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

13.1.2 Fair value Investments through profit or loss

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at the measurement date.

Gains and losses arising from subsequent changes in fair value of equity investments are recognised in the Consolidated Income Statement as investment income within net other operating income.

13.2 Equity Investments

The table below details the carrying value of equity investments held by Macquarie, in comparison to the applicable fair value of these equities. The categorisation of listed and unlisted investments is required for APRA regulatory reporting purposes – these include the equity investments under each of the accounting classifications outlined above. Valuations have been based on the requirements of accounting standards.

APS 330 Table 16(b) and (c)

	As at 30 September 2023		As at 31 March 2023	
	Carrying value \$m	Fair value ² \$m	Carrying value \$m	Fair value ² \$m
Equity investments¹				
Value of listed (publicly traded) equities	54	54	65	65
Value of unlisted (privately held) equities	780	780	718	718
Total	834	834	783	783

13.3 Capital Requirements Arising from Equity Risks

Equity investments are deducted from Common Equity Tier 1 capital under APRA's version of the Basel III rules.

APS 330 Table 16(f)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Deduction amount		
Equity investments ³	764	742

13.4 Gains and Losses on Equity Investments

APS 330 Table 16(d) and (e)

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Gains / (losses) on equity investments		
Cumulative realised gains/(losses) ⁴	35	38
Total unrealised gains/(losses)	(10)	(29)
Total unrealised gains/(losses) included in Tier 1	(10)	(29)

¹ At MBL and its subsidiaries, the Consolidated Entity.

² Includes Investments in Associates which are equity accounted and not fair valued and undrawn commitments (off balance sheet) which are deemed in the nature of equity for Regulatory Capital purposes.

³ At Level 2 regulatory group.

⁴ Gains are defined as proceeds on sale less costs net of provisions.

14. Operational Risk

Operational risk is inherent in Macquarie's business. Macquarie defines operational risk as the risk of loss resulting from inadequate or failed internal processes, controls or systems or from external events. It also includes the failure or inadequate management of other risk types.

14.1 Macquarie's Operational Risk Management Framework

14.1.1 Operational Risk Objectives

Macquarie's *Operational Risk Management Framework* (ORMF) is designed to identify, assess and manage operational risks across the organisation. The key objectives of the framework are:

- Risk identification, analysis and acceptance
- Developing control frameworks to support the management of material risks
- Execution and monitoring of risk management practices
- Reporting and escalation of risk information on a routine and exception basis.

14.1.2 Operational Risk Management Process

Operating Groups and Central Service Groups implement the ORMF in a manner that is tailored to their specific operational risk profile. However, a group-wide risk and control management framework exists to ensure consistency and alignment to minimum standards, including the following mandatory elements:

- A robust change management process to ensure operational risks in new activities or products are identified, addressed, and managed prior to implementation
- A risk and control self-assessment process to identify material risks that arise through the delivery of business activities and assess how these risks are managed across both Operating Groups and Central Service Groups
- Recording operational risk incidents in a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
- Allocation of operational risk capital to Macquarie businesses as a tool to further encourage positive behaviour in Macquarie's day to day management of operational risk
- Macquarie wide policies that require a consistent approach and minimum standards on specific operational risk matters
- Embedded Business Operational Risk Managers (BORMs) in Operating Groups who act as delegates of the Operating Group Head. These representatives are required to assess whether operational risks are addressed appropriately and that the ORMF is executed within their area.

14.1.3 Structure and Organisation of the Operational Risk Function

Most Macquarie operational risk staff operate at the business level. The BORMs are responsible for embedding operational risk management practices within their business to support the identification and management of risks across their business group. They report directly to the relevant business and have a dotted reporting line to the Head of RMG Operational Risk.

RMG Operational Risk is a division of RMG and is managed separately from other risk disciplines within RMG. RMG Operational Risk is responsible for defining the ORMF and the group-wide minimum standards in relation to operational risk and control management.

RMG regularly reports on the operational risk profile and the effectiveness of the Framework to the Board Risk Committee (BRiC) and to senior management.

14.2 Operational Risk Capital Calculation

Macquarie holds operational risk capital to absorb potential losses arising from operational risk exposures.

Macquarie utilises the Standardised Measurement Approach to assess operational risk capital on an annual basis, as required by APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk.

14.2.1 Operational Risk – RWA

	As at 30 September 2023 \$m	As at 31 March 2023 \$m
Operational Risk RWA	15,828	15,828

15. 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 5.0% at 30 September 2023, a decrease of 0.2% compared to 30 June 2023. This was primarily due to higher total exposures driven by the growth in mortgages and business banking portfolio during the quarter.

	30 September 2023	30 June 2023	31 March 2023	31 December 2022 ¹
Capital and total exposures	\$m	\$m	\$m	\$m
Tier 1 Capital	19,175	19,161	19,478	19,961
Total exposures	382,147	367,418	375,561	384,047
Macquarie Level 2 regulatory group Leverage ratio	5.0%	5.2%	5.2%	5.2%

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

15.1 Leverage Ratio Disclosure Template

APS 330 Table 18

Item	As at 30 September 2023 \$m
On-balance sheet exposures	
1 On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	252,206
2 (Asset amounts deducted in determining Tier 1 capital)	(2,792)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	249,414
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	31,435
5 Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	34,300
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Australian Accounting Standards	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(13,437)
8 (Exempted central counterparty (CCP) leg of client-cleared trade exposures)	(4,641)
9 Adjusted effective notional amount of written credit derivatives	1,762
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(1,612)
11 Total derivative exposures (sum of rows 4 to 10)	47,807
SFT exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	55,827
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(484)
14 CCR exposure for SFT assets	5,687
15 Agent transaction exposures	-
16 Total SFT exposures (sum of rows 12 to 15)	61,030
Other off-balance sheet exposures	
17 Off-balance sheet exposure at gross notional amount	26,656
18 (Adjustments for conversion to credit equivalent amounts)	(2,760)
19 Other off-balance sheet exposures (sum of rows 17 and 18)	23,896
Capital and total exposures	
20 Tier 1 Capital	19,175
21 Total exposures (sum of rows 3, 11, 16 and 19)	382,147
Leverage ratio	
22 Leverage ratio	5.0%

15.2 Summary Comparison of Accounting Assets versus Leverage Ratio Exposure Measure

Item	As at 30 September 2023 \$m
1 Total consolidated assets as per published financial report	336,970
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	1,088
3 Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	14,227
5 Adjustment for SFTs (i.e., repos and similar secured lending)	3,219
6 Adjustment for off-balance sheet exposures (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	23,896
7 Other adjustments	2,747
8 Leverage ratio exposure	382,147

16. Liquidity Coverage Ratio Disclosure

16.1.1 Liquidity Coverage Ratio disclosure template

APS 330 Table 20

Liquidity Coverage Ratio disclosure template	For the 3 months to 30 September 2023		For the 3 months to 30 June 2023	
	Total unweighted value (average) \$m	Total weighted value (average) \$m	Total unweighted value (average) \$m	Total weighted value (average) \$m
Liquid assets, of which:				
1 High quality liquid assets (HQLA)		48,410		54,032
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:	86,987	8,636	83,183	8,282
5 Stable deposits	27,036	1,352	25,706	1,285
6 Less stable deposits	59,951	7,284	57,477	6,997
7 Unsecured wholesale funding, of which:	38,821	20,041	40,008	19,583
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	15,808	2,810	17,594	3,276
9 Non-operational deposits (all counterparties)	17,884	12,102	18,899	12,792
10 Unsecured debt	5,129	5,129	3,515	3,515
11 Secured wholesale funding		1,572		831
12 Additional requirements, of which:	40,400	19,209	37,393	17,793
13 Outflows related to derivatives exposures and other collateral requirements	18,700	16,896	17,245	15,990
14 Outflows related to loss of funding on debt products	223	223	256	256
15 Credit and liquidity facilities	21,477	2,090	19,892	1,547
16 Other contractual funding obligations	12,435	12,388	13,081	13,040
17 Other contingent funding obligations	10,293	592	10,310	621
18 Total cash outflows		62,438		60,150
Cash Inflows				
19 Secured lending (e.g., reverse repos)	44,611	22,371	36,035	18,995
20 Inflows from fully performing exposures	2,930	2,163	2,986	2,216
21 Other cash inflows	18,399	18,399	18,462	18,462
22 Total cash inflows	65,940	42,933	57,483	39,673
23 Total liquid assets		48,410		54,032
24 Total net cash outflows¹		24,382		25,595
25 Liquidity Coverage Ratio (%)²		199%		211%

¹APRA 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 September 2023 an average NCO overlay of \$4,876 million is included in the disclosed balance of \$24,382 million (3 months to 30 June 2023 overlay of \$5,119 million is included in the disclosed balance of \$25,595 million).

² The LCR for the 3 months to 30 September 2023 is calculated from 64 daily LCR observations (3 months to 30 June 2023 was calculated from 61 daily LCR observations).

16.1.2 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 September 2023 was 199% (based on 64 daily observations). This represents a decrease of 12% from the 3 month LCR to 30 June 2023, driven by a reduction in liquid assets only 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.

16.1.3 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.

16.1.4 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.

17. Net Stable Funding Ratio Disclosures

17.1.1 Net Stable Funding Ratio disclosure template

APS 330 Table 21

As at 30 September 2023						
	Unweighted value by residual maturity				Weighted value \$m	
	No maturity \$m	<6 months \$m	>=6 months to < 1yr \$m	>= 1yr \$m		
Net Stable Funding Ratio disclosure template						
Available Stable Funding (ASF) Item						
1	Capital	20,151	-	-	9,568	29,719
2	Regulatory Capital	20,151	-	-	9,568	29,719
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	82,091	17,702	-	-	91,350
5	Stable deposits	28,305	2,420	-	-	29,189
6	Less stable deposits	53,786	15,282	-	-	62,161
7	Wholesale funding	27,302	55,917	20,360	31,502	56,344
8	Operational deposits	15,313	2	-	-	7,658
9	Other wholesale funding	11,989	55,915	20,360	31,502	48,686
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other Liabilities	7,775	24,455	152	1,067	(643)
12	NSFR derivative liabilities	-	13,243	-	-	-
13	All other liabilities and equity not included in the above categories ¹	7,775	11,212	152	1,067	(643)
14	Total ASF	137,319	98,074	20,512	42,137	176,770
Required Stable Funding (RSF) Item						
15(a)	Total NSFR (HQLA)	14,658	9,935	240	8,486	2,260
15(b)	ALA	-	-	-	9,533	953
15(c)	RBNZ securities	-	-	-	-	-
16	Deposits held at other financial institutions for operational purposes	1,516	-	-	-	758
17	Performing loans and securities	29,525	52,138	9,190	130,823	120,873
18	Performing loans to financial institutions secured by Level 1 HQLA	8,310	11,081	-	-	1,940
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	14,047	25,271	222	1,122	7,165
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	659	6,279	490	31,918	23,813
21	With a risk weight of less than or equal to 35% under APS 112	-	383	103	1,796	1,420
22	Performing residential mortgages	-	6,423	4,921	97,182	79,170

¹ APRA has imposed a 1% decrease to the Available Stable Funding component of the NSFR calculation, effective from 1 April 2021. An overlay of \$1,786 million, equal to a 1% decrease to the ASF component, is included in the disclosed 'No maturity' balance of \$7,775 million.

		As at 30 September 2023				
		Unweighted value by residual maturity				
			>=6 months			
		No maturity	<6 months	to < 1yr	>= 1yr	Weighted
		\$m	\$m	\$m	\$m	value
						\$m
Net Stable Funding Ratio disclosure template						
23	With a risk weight equal to 35%	-	1,417	1,298	95,325	67,614
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	6,509	3,084	3,557	601	8,785
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	8,574	4,443	250	46,602	28,698
27	Physical traded commodities, including gold	5,588	-	-	-	4,750
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	-	-	-	9,790	8,321
29	NSFR derivative assets	-	-	-	12,695	-
30	NSFR derivative liabilities before deduction of variation margin	-	-	-	19,205	3,841
31	All other assets not included in the above categories	2,986	4,443	250	4,912	11,786
32	Off-balance sheet items	-	-	-	24,175	1,105
33	Total RSF	54,273	66,516	9,680	219,619	154,648
34	Net Stable Funding Ratio (%)					114%

17.1.2 Net Stable Funding Ratio disclosure template

APS 330 Table 21

		As at 30 Jun 2023				
		Unweighted value by residual maturity				
		No maturity	<6 months	>=6 months to < 1yr	>= 1yr	Weighted value
Net Stable Funding Ratio disclosure template		\$m	\$m	\$m	\$m	\$m
Available Stable Funding (ASF) Item						
1	Capital	19,925	-	-	9,365	29,290
2	Regulatory Capital	19,925	-	-	9,365	29,290
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers	78,040	18,751	-	-	88,493
5	Stable deposits	25,437	2,181	-	-	26,237
6	Less stable deposits	52,603	16,570	-	-	62,256
7	Wholesale funding	27,107	58,355	17,367	30,602	54,689
8	Operational deposits	15,342	-	-	-	7,671
9	Other wholesale funding	11,765	58,355	17,367	30,602	47,018
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other Liabilities	7,360	20,288	346	589	(970)
12	NSFR derivative liabilities	-	11,379	-	-	-
13	All other liabilities and equity not included in the above categories ¹	7,360	8,909	346	589	(970)
14	Total ASF	132,432	97,394	17,713	40,556	171,502
Required Stable Funding (RSF) Item						
15(a)	Total NSFR (HQLA)	22,826	8,027	431	8,475	2,385
15(b)	ALA	-	-	-	11,256	1,126
15(c)	RBNZ securities					
16	Deposits held at other financial institutions for operational purposes	1,640	-	-	-	820
17	Performing loans and securities	29,447	42,111	9,676	123,512	115,810
18	Performing loans to financial institutions secured by Level 1 HQLA	5,227	10,383	-	-	1,606
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	13,611	18,180	738	1,221	6,358
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	1,522	4,334	874	30,098	21,276
21	With a risk weight of less than or equal to 35% under APS 112	-	352	115	1,730	1,370
22	Performing residential mortgages	-	6,763	4,824	90,928	75,787
23	With a risk weight equal to 35%	-	1,335	1,241	90,918	65,042
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	9,087	2,451	3,240	1,265	10,783
25	Assets with matching interdependent liabilities	-	-	-	-	-

¹ APRA imposed a 1% decrease to the Available Stable Funding component of the NSFR calculation, effective from 1 April 2021. An overlay of \$1,732 million, equal to a 1% decrease to the ASF component, is included in the disclosed 'No maturity' balance of \$7,360 million.

		As at 30 Jun 2023				
		Unweighted value by residual maturity				
			>=6 months			
		No maturity	<6 months	to < 1yr	>= 1yr	Weighted
Net Stable Funding Ratio disclosure template		\$m	\$m	\$m	\$m	value
						\$m
26	Other assets	7,046	4,527	239	44,238	27,824
27	Physical traded commodities	4,525	-	-	-	3,846
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties (CCPs)	-	-	-	9,844	8,368
29	NSFR derivative assets	-	-	-	13,145	1,766
30	NSFR derivative liabilities before deduction of variation margin	-	-	-	16,965	3,393
31	All other assets not included in the above categories	2,521	4,527	239	4,284	10,451
32	Off-balance sheet items	-	-	-	22,809	1,035
33	Total RSF	60,959	54,665	10,346	210,290	149,000
34	Net Stable Funding Ratio (%)	-	-	-	-	115%

17.1.3 The Net Stable Funding Ratio (NSFR)

The NSFR is a twelve-month structural funding metric, requiring that “available stable funding” (ASF) be sufficient to cover “required stable funding” (RSF), where ‘stable’ funding has an actual or assumed maturity of greater than twelve months. Macquarie’s NSFR as at 30 September 2023 was 114% and 115% as at 30 June 2023. The NSFR decreased over the quarter as a result of an increase in RSF only partially offset by an increase in ASF.

The NSFR seeks to encourage ADIs to fund their activities with more stable sources of funding on an ongoing basis, and thereby promote greater balance sheet resilience. It also aims to reduce an ADI’s reliance on less stable sources of funding. These requirements are in line with Macquarie’s Board approved Liquidity Policy and Risk Tolerance.

Macquarie sets internal management and Board approved minimum limits for the NSFR above the regulatory minimum level and monitors its aggregate NSFR position against these limits on a daily basis.

Whilst the NSFR and LCR are regulatory minima, Macquarie also models a number of additional internal liquidity scenarios covering both market wide and Macquarie name specific crises. Macquarie actively considers the impact of business decisions on the NSFR and LCR, as well as other internal liquidity metrics that form part of its broader liquidity risk management framework.

Macquarie’s NSFR fluctuates as a result of normal business activities and, accordingly, ongoing fluctuations in the reported NSFR are expected and are not necessarily indicative of a changing risk appetite. Some examples of factors that can influence the NSFR include wholesale funding activities (such as prefunding expected future asset growth), growth in home loans and customer deposits, equity and hybrids issuance, the degree of activity in Macquarie’s capital markets facing businesses, and a variety of other external market considerations.

17.1.4 Calculation of the Net Stable Funding Ratio

Under the regulatory rules, Available Stable Funding factors are applied to Macquarie’s capital and liabilities; while Required Stable Funding factors are applied to assets and off-balance sheet exposures. This calculation is shown in table 21 on pages 67 to 70 and is based on spot balances.

Appendix 1 Regulatory Capital Reconciliation

Common Disclosures Template

The capital disclosures detailed in the template below represents Basel III common disclosure requirements. These tables should be read in conjunction with Section 1.2 Regulatory Balance sheet and Section 1.3 Reconciliation between common disclosures template and the Regulatory Balance Sheet.

	As at 30 September 2023	
	\$m	Table Reference
Common Equity Tier 1 capital: instruments and reserves		
1	10,148	Table f
2	8,500	
3	1,302	
4	-	
5	-	
6	19,950	
Common Equity Tier 1 capital: regulatory adjustments		
7	-	
8	41	Table b
9	56	Table b
10	79	Table a
11	119	
12	13	
13	-	
14	50	
15	-	
16	-	
17	-	
18	-	Table c
19	-	Table c
20	-	
21	-	Table a
22	-	
23	-	Table c
24	-	
25	-	Table a
	151	

	Common Equity Tier 1 Capital (Harmonised)¹	19,441	
	APRA Specific Regulatory Adjustments		
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	2,729	
26a	of which: treasury shares	-	
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	-	
26c	of which: deferred fee income	198	
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	510	Table c
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	884	Table a
26f	of which: capitalised expenses	752	
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	534	Table c
26h	of which: covered bonds in excess of asset cover in pools	-	
26i	of which: undercapitalisation of a non-consolidated subsidiary	-	
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	247	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	3,238	
29	Common Equity Tier 1 Capital (APRA)	16,712	
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	2,463	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	2,463	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group ATI)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 Capital before regulatory adjustments	2,463	Table d
	Additional Tier 1 Capital: Regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	-	
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	-	
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	-	

¹ 'Harmonised' Basel III estimates are calculated in accordance with the updated BCBS Basel III framework, noting that MB is not regulated by the BCBS and so impacts shown are indicative only.

42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	2,463	
45	Tier 1 Capital (T1=CET1+AT1)	19,175	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	7,094	Table e
47	Directly issued capital instruments subject to phase out from Tier 2	-	Table e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group T2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	12	
51	Tier 2 Capital before regulatory adjustments	7,106	
	Tier 2 Capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
55	Significant investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-	
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	-	
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	-	
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	-	
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	7,106	
59	Total capital (TC=T1+T2)	26,281	
60	Total risk-weighted assets based on APRA standards	126,328	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	13.2%	
62	Tier 1 (as a percentage of risk-weighted assets)	15.2%	
63	Total capital (as a percentage of risk-weighted assets)	20.8%	
64	Buffer requirement (minimum CET1 requirement of 4.5% plus capital conservation buffer of 3.75% plus any countercyclical buffer requirements expressed as a percentage of risk-weighted assets)	8.96%	
65	of which: capital conservation buffer requirement	3.75%	
66	of which: ADI-specific countercyclical buffer requirements	0.71%	Table h
67	of which: G-SIB buffer requirement (not applicable)	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)¹	13.2%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	N/A	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	N/A	
71	National total capital minimum ratio (if different from Basel III minimum)	N/A	

¹ This represents CET1 ratio of the ADI, less any common equity used to meet the ADI's Tier 1 and Total Capital requirements.

Amount below thresholds for deductions (not risk-weighted)			
72	Non-significant investments in the capital of other financial entities	124	Table c
73	Significant investments in the ordinary shares of financial entities	386	Table c
74	Mortgage servicing rights (net of related tax liability)	N/A	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	884	Table a
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	164	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	504	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 instruments due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Regulatory Balance Sheet as at 30 September 2023

	Macquarie Bank Group Consolidated ¹ \$m	Adjustment ² \$m	Level 2 Regulatory Balance Sheet \$m	Template/ Reconciliation Table Reference
Assets				
Cash and bank balances	25,542	(50)	25,492	
Cash collateralised lending and reverse repurchase agreements	57,811	-	57,811	
Trading assets	19,205	(8)	19,197	
Margin money and settlement assets	17,137	(2)	17,135	
Derivative assets	28,909	(737)	28,172	
Financial Investments	17,440	-	17,440	
Held for sale and other assets ³	9,114	(349)	8,765	Table b
Loan assets	149,514	142	149,656	
Due from related body corporate entities	6,107	1,960	8,067	
Property, plant and equipment and right-of-use assets	5,189	(25)	5,164	
Investment in regulatory non-consolidated subsidiaries ²	-	196	196	Table c
Deferred tax assets	1,002	(39)	963	Table a
Total Assets	336,970	1,088	338,058	
Liabilities				
Cash collateral borrowing and repurchase agreements	13,507	-	13,507	
Trading liabilities	8,145	-	8,145	
Margin money and settlement liabilities	20,714	(1)	20,713	
Derivative liabilities	29,344	(3)	29,341	
Deposits	135,892	1	135,893	
Other liabilities	9,808	(497)	9,311	
Due to related body corporate entities	15,899	1,590	17,489	
Issued debt securities and other borrowings	74,030	(1)	74,029	
Deferred tax liabilities	14	17	31	
Total Liabilities excluding loan capital	307,353	1,106	308,459	
Loan capital	9,461	-	9,461	Table d
Total liabilities	316,814	1,106	317,920	
Net assets	20,156	(18)	20,138	
Equity				
Contributed equity	10,148	-	10,148	Table f
Reserves	1,303	-	1,303	Row 3
Retained earnings	8,705	(18)	8,687	Row 2
Total capital and reserves attributable to the ordinary equity holder of Macquarie Bank Limited	20,156	(18)	20,138	
Non-controlling Interests	-	-	-	Table g
Total equity	20,156	(18)	20,138	

¹ As per Macquarie Bank Limited financial report as at 30 September 2023.

² Reflects the deconsolidation of certain subsidiaries for APRA reporting purposes. The subsidiaries which are deconsolidated for regulatory purposes include entities conducting insurance, funds management and non-financial operations. Assets and Liabilities of mortgage and leasing special purpose vehicles (SPV) where Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief are not included in the Level 2 regulatory group.

³ The intangible component of investments in non-consolidated subsidiaries is included in held for sale and other assets

Reconciliation between Common Disclosures Template and Level 2 Regulatory Balance Sheet

Table a	30 September	Template Reference
	2023 \$m	
Deferred Tax Assets		
Total Deferred Tax Assets per Level 2 Regulatory Balance Sheet	963	
Less: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(79)	Row 10
Less: Deferred tax assets (temporary differences) – Amounts below prescribed threshold	(884)	Row 26e, 75
Total per Common Disclosure Template – Deferred Tax Asset – amount exceed 10%/15% threshold	-	Row 21 / 25

Table b	30 September	Template Reference
	2023 \$m	
Intangible Assets		
Total Intangible Assets reported in Held for sale and other assets per Level 2 Regulatory Balance Sheet	97	
Less: capitalised software and other intangibles	(16)	Row 9
Less: intangible component of deconsolidated subsidiaries	(40)	Row 9
Total per Common Disclosure Template – Goodwill	41	Row 8

Table c	30 September	Template Reference
	2023 \$m	
Equity Investments		
Significant investment in financial entities ^{1,2}	386	Row 73
Non-significant investment in financial entities ¹	124	Row 72
Total Investments in financial institutions	510	Row 26d
Investment in commercial entities ^{1,2}	534	Row 26g
Total Equity Investments before applying prescribed threshold	1,044	
Less: amounts risk weighted under Harmonised Basel III guidelines	(1,044)	
Total per Common Disclosure Template – Equity Investments	-	Row 18, 19, 23

¹ Equity Investments are classified in the Level 2 Regulatory Balance Sheet across Financial Investments, Investment in regulatory non-consolidated subsidiaries and Held for sale and other assets. In addition, the Level 2 regulatory group has undrawn commitments (off balance sheet) which are deemed in the nature of equity for Regulatory Capital purposes.

² Included in significant investment in financial entities is \$171 million of equity investments in regulatory non-consolidated subsidiaries. Included in investment in commercial entities is \$35 million of equity investments in regulatory non-consolidated subsidiaries.

	30 September 2023 \$m	Template Reference
Table d		
Additional Tier 1 Capital		
Total Loan Capital per Level 2 Regulatory Balance Sheet	9,461	
Less: Accrued interest	(9)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital ¹	15	Included in Row 26f
Less: Fair value hedge adjustments ²	88	
Less: Tier 2 capital instruments reported in Table e	(7,092)	Table e
Additional Tier 1 Capital (MACS, BCN2 and BCN3)	2,463	
Less: Basel III transitional amortisation	-	
Total per Common Disclosure Template - Additional Tier 1 Capital	2,463	Row 36

Additional Tier 1 Capital Instruments		
Macquarie Additional Capital Securities	1,167	
Macquarie Bank Capital Notes 2	641	
Macquarie Bank Capital Notes 3	655	
Total per Common Disclosure Template - Additional Tier 1 Capital	2,463	Row 36

	30 September 2023 \$m	Template Reference
Table e		
Total Tier 2 Capital per Balance Sheet		
Total Tier 2 Capital per Balance Sheet	7,092	Table d
Less: Accrued Interest	(74)	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	22	Included in Row 26f
Less: Fair value hedge adjustments ²	754	
Less: Amortisation as per APS 111 (per Para 21 of Attachment G)	(700)	
Total per Common Disclosure Template - Tier 2 Capital	7,094	Row 46+47

Tier 2 Capital Instruments		
2 Subordinated Debts - USD750m each - fully qualified Tier 2 instrument	1,634	
2 Subordinated Debts - AUD750m each - fully qualified Tier 2 instrument	1,500	
Subordinated Debt - AUD850m - fully qualified Tier 2 instrument	850	
2 Subordinated Debts - USD1.0bn each - fully qualified Tier 2 instrument	3,110	
Total per Common Disclosure Template - Tier 2 Capital	7,094	Row 46+47

	30 September 2023 \$m	Template Reference
Table f		
Contributed Equity		
Total Contributed Equity as per Level 2 Regulatory Balance Sheet	10,148	
Add: Capitalised expenses deducted in Common Equity Tier 1 Capital	-	Included in Row 26f
Total per Common Disclosure Template - Contributed Equity	10,148	Row 1

¹ Unamortised issue cost relating to capital instruments are netted against each instrument on the Level 2 Regulatory Balance Sheet. For regulatory capital purposes, the unamortised costs are deducted at CET1 as part of capitalised expenses in row 26f of the Common Disclosures Template.

² For regulatory capital purposes, APRA requires these instruments to be included as if they were unhedged.

	30 September 2023 \$m	Template Reference
Table g		
Non-Controlling Interests		
Total Non-Controlling Interests as per Level 2 Regulatory Balance Sheet	-	
Less: other non-controlling interests not included in capital	-	
Total per Common Disclosure Template - Non-Controlling Interests	-	Row 5

Countercyclical Capital Buffer

The Countercyclical Capital Buffer (CCyB) is an extension of the capital conservation buffer which must be held in the form of CET1 capital, ranging from 0 to 3.5%. The CCyB is designed to ensure that ADIs build up capital buffers when excess aggregate credit growth is judged to be associated with a build-up of system wide risk. The CCyB is calculated as the weighted average of the jurisdictional buffers set by the relevant national authority where an ADI has private sector credit exposures, excluding exposures to Banks and Sovereigns.

Table h	RWA \$m	Jurisdictional buffer	Countercyclical buffer requirement ¹	Template Reference
Australia	48,249	1.000%	0.5078%	
United Kingdom	7,414	2.000%	0.1560%	
Germany	1,137	0.750%	0.0090%	
Luxembourg	699	0.500%	0.0037%	
Netherlands	699	1.000%	0.0074%	
France	685	0.500%	0.0036%	
Ireland	547	0.500%	0.0029%	
Hong Kong	373	1.000%	0.0039%	
Denmark	154	2.500%	0.0040%	
Sweden	129	2.000%	0.0027%	
Norway	105	2.500%	0.0028%	
Slovakia	76	1.500%	0.0012%	
Czech Republic	66	2.250%	0.0016%	
Croatia	7	0.500%	0.0000%	
Romania	4	0.500%	0.0000%	
Estonia	3	1.000%	0.0000%	
Bulgaria	2	1.500%	0.0000%	
Iceland	-	2.000%	0.0000%	
Others	34,674	0.000%	0.0000%	
Total	95,023		0.7066%	Row 66

¹ Calculated as each country's share of total private sector credit exposures multiplied by the CCyB applicable to each country.

Appendix 2 List of Entities Deconsolidated from the Level 2 Regulatory Group for APRA Reporting Purposes

30 September 2023	Total Assets ^{1,2,3,4}	Total Liabilities ^{1,2,3,4}
Funds Management		
Bond Street Custodians Limited	22	-
Macquarie Fonds GmbH	-	-
Macquarie Fondsmanagement GmbH	1	-
Macquarie Investment Management Ltd	192	8
Macquarie Investment Services Limited	18	-
Macquarie Life Pty Limited	2	-
Macquarie Management GmbH	-	-
Macquarie Prism Pty Limited	4	1
Macquarie Securities Management Pty Limited	-	-
Macquarie Treuermögen GmbH	-	-
Non-Financial Operations		
Avenal Power Center, LLC	14	12
Capital Meters Limited	19	9
Comercializadora Energia de la Reforma S. de R.L. de C.V.	31	10
Corona Energy Limited	34	-
Corona Energy Retail 1 Limited	62	20
Corona Energy Retail 2 Limited	73	38
Corona Energy Retail 3 Limited	7	-
Corona Energy Retail 4 Limited	429	408
Corona Gas Management Limited	15	11
Digital Asset Lease Co, LLC	4	1
Ion Energy Pte. Limited	-	-
Liberty Green Renewables Indiana, LLC	3	1
Macquarie Corona Energy Holdings Limited	22	7
Macquarie Energy Services Pty Limited	6	-
Macquarie Equipment Finance Services Limited	1	1
Macquarie Equipment Trading (Shanghai) Co., Ltd	-	-
Macquarie Semiconductor and Technology Inc.	41	33
PropertyIQ Pty Limited	7	-
Resource Marine Pte. Limited	11	1

¹ These balances, along with any Australian GAAP adjustment where required, are included in Macquarie Bank Group's audited Australian GAAP financial report for the period ended 30 September 2023. The financial report under local GAAP of certain entities may be subjected to separate audits from the Macquarie Bank Group audit and these audits may not be complete as at the date of this report.

² The total assets and liabilities should not be aggregated as certain entities are holding companies for other entities in the table shown above.

³ Numbers are rounded to the nearest \$A million.

⁴ The assets and liabilities for deconsolidated subsidiaries includes receivables from and payables to related entities.

Sustainable Feedstocks Group Limited	9	1
Sustainable Feedstocks Group Guangdong Limited	17	14
Insurance		
Macquarie (Bermuda) Limited	37	33

Appendix 3 List of APRA Quantitative Tables

APS 330 Table	Title	Section No
Attachment A	Common Disclosures Template	Appendix 1
Attachment D		
6 (b) to (f)	Risk Weighted Assets (RWA)	4.3
6 (g)	Capital Ratios	Introduction
7 (b)	Macquarie's Credit Risk Exposures	5.3
7 (c)	Credit Risk by Geographic Distribution	5.4
7 (d)	Credit Risk Distribution by Counterparty Type	5.5
7 (e)	Credit Risk by Maturity Profile	5.6
7 (f)	Provisions by Counterparty Type	5.3 & 7.4
7 (g)	Provisions by Geographic Region	7.5
7 (h)	Movement in Provisions	7.7
7 (i)	Credit Risk Exposures by Measurement Approach	5.3 & 6.1
7 (j)	General Provisions	7.6
8 (b)	Credit Risk Exposures by Risk Weight	6.2
9 (d)	Credit Risk Exposures by Risk Grade	6.3
9 (e)	Provisions by Counterparty Type	7.4
9 (f)	Analysis of Expected Credit Model Performance versus Actual Results	7.8
10 (b) & (c)	Exposures Mitigated by Eligible Collateral	8.2
11 (b)	Credit Equivalent Amounts for Counterparty Exposures	8.3
11 (c)	Notional Amount of Credit Derivatives	8.3
12 (g) & (o)	Originating ADI Securitisation Exposures	9.2.1
12 (h)	Performance of Assets Securitised	9.2.2
12 (i) & (p)	Summary of Outstanding Exposures Intended to be Securitised	9.2.3
12 (j), (q) & (r)	Securitisation Activity	9.2.4
12 (k) & (s)	Exposure by Type of Asset	9.2.5
12 (l)	Exposure by Risk Weight Band - Banking Book	9.2.6
12 (t)	Exposure by Risk Weight Band - Trading Book	9.2.6
12 (u)	RWA by Risk Weight Band - Trading Book	9.2.6
12 (n) & (w)	Re-securitisation Exposure	9.2.7
13 (b)	Debt Security Specific Risk Figures	12.3.6
14 (f)	Value at Risk Figures	12.3.4
14 (f)	Stressed Value at Risk Figures	12.3.5
16 (b) & (c)	Equity Investments	13.2
16 (d) & (e)	Gains and Losses on Equity Investments	13.4
16 (f)	Capital Requirements Arising from Equity Risks	13.3
17 (b)	Interest Rate Risk in the Banking Book	12.4.2
Attachment E		
18	Leverage Ratio Disclosure Template	15.1
19	Summary Comparison of Accounting Assets versus Leverage Ratio Exposure Measure	15.2
Attachment F		
20	Liquidity Coverage Ratio Disclosure Template	16.0
21	Net Stable Funding Ratio Disclosure Template	17.0

Appendix 4 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	<p>A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics:</p> <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.
Associates	<p>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.</p>
ASF	Available Stable Funding.
Bank Group	MBL and its subsidiaries.
Basel III IRB Formula	A formula to calculate RWA, as defined in Prudential Standard APS 113 - Capital Adequacy: Internal Ratings-based Approach to Credit risk.
BAC	Board Audit Committee.
BCBS	Basel Committee on Banking Supervision.
BCN 2	<p>BCN2 were issued by MBL in June 2020 and are quoted on the Australian Securities Exchange. The BCN2 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 4.70% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 21 December 2025, 21 June 2026 or 21 December 2026 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN2 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 21 December 2028; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
BCN 3	<p>BCN3 were issued by MBL in August 2021 and are quoted on the Australian Securities Exchange. The BCN3 pay discretionary, quarterly floating rate cash distributions equal to three-month BBSW plus 2.90% per annum margin, adjusted for franking credits. These instruments are non-cumulative and unsecured and may be redeemed at face value on 7 September 2028, 7 March 2029, or 7 September 2029 (subject to certain conditions being satisfied) or earlier in specified circumstances. The BCN3 can be converted into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates; mandatorily exchanged on 8 September 2031; exchanged earlier upon an acquisition event (with the acquirer gaining control of MGL or MBL); where MBL's Common Equity Tier 1 capital ratio falls below 5.125%; or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).</p>
BFS	Banking and Financial Services Group.

The Board, Macquarie Bank Board	The Board of Voting Directors of Macquarie Bank Limited.
BRC	Board Remuneration Committee.
BRiC	Board Risk Committee.
CA	Credit Assurance.
CAF	Corporate and Asset Finance Group.
CAGR	Compound Annual Growth Rate.
CEO	Managing Director and Chief Executive Officer.
CGM	Commodities and Global Markets Group.
CFO	Chief Financial Officer.
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.
CCE	Current Credit Exposure. The sum of the positive mark-to-market value (or replacement cost) of market-related contracts entered into by the ADI.
CCR	Counterparty Credit Risk.
CEA	Credit Equivalent Amount. The on-balance sheet equivalent value of an off balance sheet transaction.
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.
CLF	Committed Liquidity Facility.
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.
CRO	Chief Risk Officer.
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.
Directors' Profit Share (DPS)	The DPS plan comprises exposure to a notional portfolio of Macquarie-managed funds. Retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as 'notional' because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities. If the notional investment results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.
DSR	Debt Specific Risk.
DSU	Deferred Share Unit issued under the MEREP.
DVP	Delivery versus Payment.

EAD	Exposure at Default - the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
ECAI	External Credit Assessment Institution.
ECAM	Economic Capital Adequacy Model.
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.
EMEA	Europe, Middle East & Africa.
ERL	Equity Risk Limit - Board imposed limit by which equity risk positions are managed.
ERBA	External Rating Based Approach.
Executive Key Management Personnel (Executive KMP)	Members of Executive Committee of MBL.
Executive Voting Director	An Executive Board Member.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
FMG	Financial Management Group.
GAAP	Generally Accepted Accounting Principles.
GRCC	Group Risk and Compliance Committee.
HQLA	High Quality Liquid Assets.
ICAAP	Internal Capital Adequacy Assessment Process.
IRRBB	Interest Rate Risk in the Banking Book.
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised.
ISDA	International Swaps and Derivatives Association.
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.
LGD	Loss given default is defined as the economic loss which arises upon default of the obligor.
LVR	Loan to Value Ratio.
Macquarie	Level 2 regulatory group.
Macquarie Group	MGL and its subsidiaries.
Malus	The discretion of the Board (from 2012) to reduce or eliminate unvested profit share amounts where it determines that an employee's action or inaction has caused the Macquarie Group significant reputational harm, caused a significant or unexpected financial loss or caused the Macquarie Group to make a material financial restatement.
MACS	On 8 March 2017, MBL, acting through its London Branch, issued \$US750 million of Macquarie Additional Capital Securities (MACS). MACS are subordinated, unsecured notes that pay discretionary, non-cumulative, semi-annual fixed rate cash distributions. Subject to certain conditions the MACS may be redeemed on 8 March 2027, or each fifth anniversary thereafter. MACS can be exchanged for a variable number of fully paid MGL ordinary shares on an acquisition event (with the acquirer gaining control of MGL or MBL), where MBL's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).
MAM	Macquarie Asset Management Group.
MBL	Macquarie Bank Limited ABN 46 008 583 542.
MBL Consolidated Group	MBL and its subsidiaries.
MEREP	Macquarie Group Employee Retained Equity Plan.
MFHPL	Macquarie Financial Holdings Pty Limited.
MGL	Macquarie Group Limited ABN 94 122 169 279.

NCO	Net Cash Outflows.
Non-Bank Group	MGL, MFHPL and its subsidiaries.
NPAT	Net Profit after Tax.
NSFR	Net Stable Funding Ratio.
Operating Group	The Operating Groups consist of MAM, CAF, CGM, BFS and Macquarie Capital.
ORMF	Operational Risk Management Framework.
PCE, PFCE	Potential Credit Exposure (PCE) / Potential Future Credit Exposure (PFCE). The potential exposures arising on a transaction calculated as the notional principal amount multiplied by a credit conversion factor specified by APRA.
PD	Probability of Default. The likelihood of an obligor not satisfying its financial obligations.
Post-2009 DPS	Retained directors' profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity.
PSU	Performance Share Unit issued under the MEREP.
Reserve Bank of Australia (RBA)	Central bank of Australia with responsibility over monetary policy.
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
RAS	Risk Appetite Statement.
RMG	Risk Management Group.
ROE	Return on Ordinary Equity.
RSF	Required Stable Funding.
RSU	Restricted Share Unit issued under the MEREP.
RMBS	Residential Mortgage-Backed Securities.
Senior Executive	Macquarie Group's combined Division Director and Executive Director population.
Senior Management	Members of Macquarie Group's Executive Committee and Executive Directors who have significant management or risk responsibility in the organisation.
SFA	Supervisory Formula Approach.
SFT	Securities Financing Transactions (SFT). SFTs are transactions such as repurchase agreements, reverse repurchase agreements and security lending and borrowing, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.
SME	Small - Medium Enterprises.
SPV's	Special purpose vehicles or securitisation vehicles.
SMA	Standardised Measurement Approach (for determining operational risk).
Subordinated debt	Debt issued by Macquarie for which agreements between Macquarie and the lenders provide, in the event of liquidation, that the entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of Macquarie. Subordinated debt is classified as liabilities in the Macquarie financial report and may be included in Tier 2 Capital.
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.
TSR	Total Shareholder Return.
VaR	Value-at-Risk.

Disclaimer

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Unless otherwise specified all information is at 30 September 2023.

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).