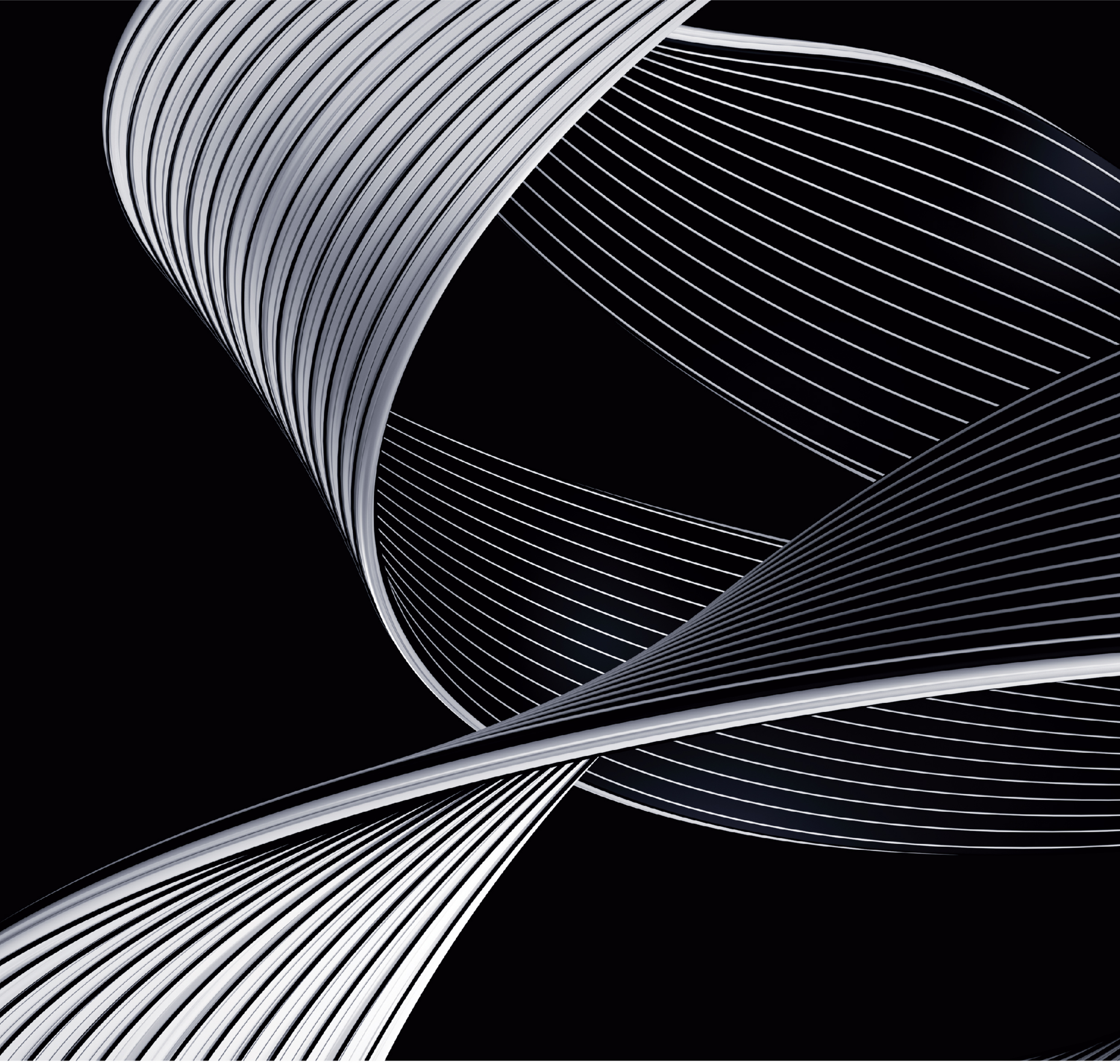

MBL Basel III Pillar 3 Capital Disclosures

December 2021

Macquarie Bank Limited
ACN 008 583 542

MACQUARIE BANK

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ASX Release

MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT

24 Feb 2022 – The Macquarie Bank Limited December 2021 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.

Contents

Introduction

Macquarie Bank Limited (MBL) is an Authorised Deposit taking Institution (ADI) regulated by the Australian Prudential Regulation Authority (APRA). MBL is accredited under the Foundation Internal Ratings Based Approach (FIRB) for credit risk, the Advanced Measurement Approach (AMA) for operational risk, the Internal Model Approach (IMA) for market risk and interest rate risk in the banking book. These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

APRA has implemented the Basel III framework, and in some areas has gone further by introducing stricter requirements (APRA super equivalence). This report details MBL's disclosures as required by APRA Prudential Standard APS 330: Public Disclosure as at 31 December 2021 together with the 30 September 2021 comparatives where appropriate.

This report also describes Macquarie's risk management policies and risk management framework and the measures adopted to monitor and report within this framework. Detailed in this report are the major components of capital structure, the key risk exposures and the associated capital requirements. The key risk exposures are credit risk (including securitisation exposures, credit valuation adjustment, and exposures to central counterparties), market risk, operational risk and interest rate risk in the banking book.

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

APS 330 Table 3 (f)

Capital, Liquidity and Leverage Ratios – Level 2 regulatory group	**As at 31 December 2021**	As at 30 September 2021
Common Equity Tier 1 capital ratio	**12.2%**	11.7%
Tier 1 capital ratio	**14.1%**	13.7%
Total capital ratio	**18.1%**	17.8%
Leverage ratio	**5.1%**	5.3%
Liquidity coverage ratio[1,2]	**177%**	179%

APRA requires Authorised Deposit taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk weighted assets of 8.5%, including the 2.5% capital conservation buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI specific minimum capital ratios which may be higher than these levels.
At 31 December 2021, the Macquarie Level 2 regulatory group capital and liquidity ratios are above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.

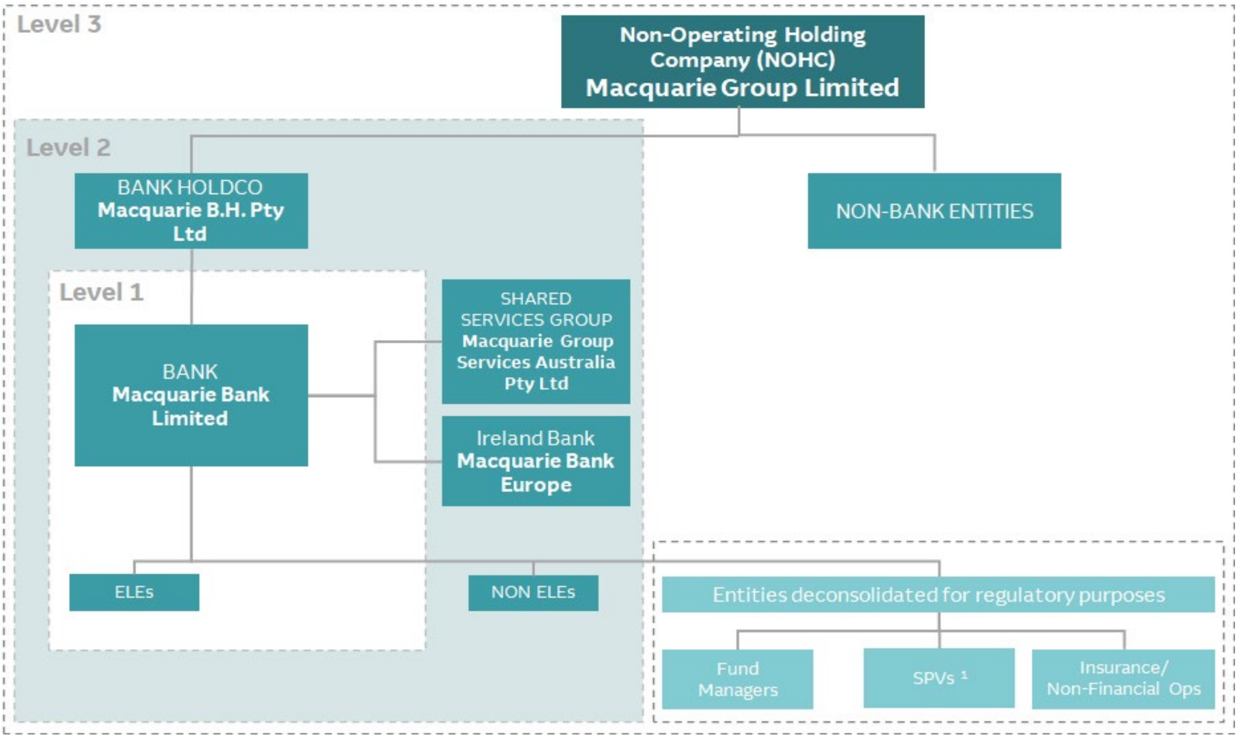
[1] The Liquidity Coverage Ratio for the 3 months to 31 December 2021 is calculated from 63 daily LCR observations (30 September 2021 is calculated from 65 daily LCR observations).
[2] APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, effective from 1 April 2021. This Net Cash Outflow add-on is included in the 3-month average LCR to 31 December 2021 and 30 September 2021.

1. Overview

1.1 Scope of Application

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

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



1. These are securitisation vehicles that achieve Regulatory Capital Relief per APS 120.

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

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

1.2 Report Conventions

The disclosures in this report are not required to be audited by an external auditor. However, the disclosures have been prepared on a basis consistent with information submitted to APRA. Under the revised APS 310 Audit and Related Matters, the information submitted to APRA is required to be either audited or reviewed by an external auditor at Macquarie's year end, being 31 March.

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

All numbers in this report are in Australian Dollars and have been rounded to the nearest million, unless otherwise stated.

Where necessary, comparative information has been restated to conform with changes in the current year, unless otherwise stated.

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

2. Risk Weighted Assets (RWA)

RWA are a risk-based measure of exposures used in assessing overall capital usage of the Level 2 regulatory group. When applied against eligible regulatory capital the overall capital adequacy ratio is determined. RWA are calculated in accordance with APRA Prudential Standards.

The table below sets out the RWA exposures for the Macquarie Level 2 regulatory group.

APS 330 Table 3 (a) to (e)

	As at 31 December 2021 $m	As at 30 September 2021 $m
Credit risk		
Subject to IRB approach		
Corporate	**34,729**	35,880
SME Corporate	**4,533**	4,506
Sovereign	**3,382**	2,517
Bank	**1,553**	1,762
Residential Mortgages	**25,183**	23,436
Other Retail	**2,913**	3,168
Retail SME	**2,677**	2,832
Total RWA subject to IRB approach	**74,970**	74,101
Specialised lending exposures subject to slotting criteria[1]	**8,365**	8,628
Subject to Standardised approach		
Corporate	**51**	86
Residential Mortgages	**608**	638
Other Retail	**1,247**	1,200
Total RWA subject to Standardised approach	**1,906**	1,924
Credit risk RWA for securitisation exposures	**739**	877
Credit Valuation Adjustment RWA	**9,225**	7,778
Exposures to Central Counterparties RWA	**581**	522
RWA for Other Assets	**2,835**	2,626
Total Credit risk RWA	**98,621**	96,456
Market risk RWA	**10,541**	8,607
Operational risk RWA	**10,297**	10,366
Interest rate risk in the banking book RWA	**536**	454
Total RWA	**119,995**	115,883

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

3. Credit Risk Measurement

3.1 Macquarie's Credit Risk Exposures

Disclosures in this section have been prepared on a gross credit exposure basis. Gross credit risk exposure relates to the potential loss that Macquarie would incur as a result of a default by an obligor. The gross credit risk exposures are calculated as the exposure at default on drawn and undrawn facilities along with derivatives and repurchase agreements. The exposure at default is calculated in a manner consistent with APRA Prudential Standards.

Exposures have been based on a Level 2 regulatory group as defined in Section 1.1. The gross credit risk exposures in this section will differ from the disclosures in the MBL and its subsidiaries, the Consolidated Entity financial report as gross credit risk exposures include off balance sheet exposures but exclude the exposures of subsidiaries which have been deconsolidated for APRA reporting purposes.

The exposures below exclude the impact of:

- Credit risk mitigation
- Securitisation exposures
- CVA
- Central counterparty exposures
- Trading book on balance sheet exposures; and
- Equity exposures

APS 330 Table 4 (a)

Portfolio Type	**As at 31 December 2021 $m**	As at 30 September 2021 $m
Corporate[1]	**72,017**	70,757
SME Corporate[2]	**8,020**	7,844
Sovereign	**48,134**	31,495
Bank	**7,946**	8,420
Residential Mortgages	**100,873**	92,863
Other Retail	**7,370**	7,539
Retail SME	**4,079**	4,259
Other Assets[3]	**6,169**	8,091
Total Gross Credit Exposure	**254,608**	231,268

[1] Corporate includes specialised lending exposure of $5,933 million as at 31 December 2021 (30 September 2021: $6,020 million).
[2] SME Corporate includes specialised lending exposure of $2,879 million as at 31 December 2021 (30 September 2021: $2,813 million).
[3] The major components of Other Assets are unsettled trades, related party exposures, and fixed assets.

APS 330 Table 4 (a) (continued)

	As at 31 December 2021				
		Off balance sheet			
	On balance sheet $m	Non-market related $m	Market related $m	Total $m	Average exposures[1] $m
Subject to IRB approach					
Corporate	19,681	12,249	34,102	66,032	65,342
SME Corporate	4,125	1,016	–	5,141	5,086
Sovereign	40,130	7,798	206	48,134	39,815
Bank	2,574	1,766	3,606	7,946	8,183
Residential Mortgages	85,169	14,718	–	99,887	95,857
Other Retail	5,688	–	–	5,688	5,869
Retail SME	4,071	8	–	4,079	4,169
Total IRB approach	161,438	37,555	37,914	236,907	224,320
Specialised Lending	4,892	1,306	2,614	8,812	8,823
Subject to Standardised approach					
Corporate	–	52	–	52	69
Residential Mortgages	986	–	–	986	1,012
Other Retail	1,682	–	–	1,682	1,586
Total Standardised approach	2,668	52	–	2,720	2,666
Other Assets	4,343	1,175	651	6,169	7,130
Total Gross Credit Exposures	173,341	40,088	41,179	254,608	242,938

[1] Average exposures have been calculated on 31 December 2021 and 30 September 2021 spot positions.

APS 330 Table 4 (a) (continued)

	As at 30 September 2021				
		Off balance sheet			
	On balance sheet $m	Non-market related $m	Market related $m	Total $m	Average exposures[1] $m
Subject to IRB approach					
Corporate	18,097	11,468	35,086	64,651	56,176
SME Corporate	4,082	949	–	5,031	5,042
Sovereign	24,516	6,774	205	31,495	30,186
Bank	3,777	1,438	3,205	8,420	8,440
Residential Mortgages	78,544	13,282	–	91,826	88,769
Other Retail	6,050	–	–	6,050	6,189
Retail SME	4,251	8	–	4,259	4,328
Total IRB approach	139,317	33,919	38,496	211,732	199,128
Specialised Lending	4,596	1,569	2,668	8,833	8,412
Subject to Standardised approach					
Corporate	–	86	–	86	86
Residential Mortgages	1,037	–	–	1,037	1,061
Other Retail	1,489	–	–	1,489	1,453
Total Standardised approach	2,526	86	–	2,612	2,599
Other Assets	6,397	860	834	8,091	7,818
Total Gross Credit Exposures	152,836	36,434	41,998	231,268	217,957

[1] Average exposures have been calculated on 30 September 2021 and 30 June 2021 spot positions.

4. Provisioning

4.1 Provisions by Counterparty Type

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

APS 330 Table 4 (b)

	As at 31 December 2021			As at 30 September 2021		
	Impaired Facilities $m	**Past Due >90 days $m**	**Specific Provisions $m**	Impaired Facilities $m	Past Due >90 days $m	Specific Provisions $m
Subject to IRB approach						
Corporate	**292**	**13**	**(198)**	309	14	(203)
SME Corporate	**69**	**46**	**(24)**	69	62	(25)
Residential Mortgages	**198**	**276**	**(2)**	177	257	(2)
Other Retail	**139**	**–**	**(44)**	150	–	(46)
Retail SME	**110**	**0**	**(32)**	122	–	(33)
Total IRB approach	**808**	**335**	**(300)**	827	333	(309)
Subject to Standardised approach						
Other Retail	**19**	**1**	**(11)**	37	1	(23)
Total Standardised approach	**19**	**1**	**(11)**	37	1	(23)
Other Assets[1]	**–**	**–**	**–**	1	–	(1)
Total	**827**	**336**	**(311)**	865	334	(333)
Additional regulatory specific provisions[2]			**(233)**			(235)

[1] Includes other assets acquired through security enforcement subsequent to facility foreclosure.
[2] Includes Stage II provisions deemed ineligible for GRCL. Combined with $62 million (30 September 2021: $56 million) of Stage III provisions (which are not specific provisions on impaired facilities) primarily related to IRB Corporate and Retail.

APS 330 Table 4 (b) (continued)

	For the 3 months to 31 December 2021		For the 3 months to 30 September 2021	
	Charges for Specific provisions $m	**Write-offs[1] $m**	Charges for Specific provisions $m	Write-offs[1] $m
Subject to IRB approach				
Corporate	**(4)**	**–**	(34)	–
SME Corporate	**(2)**	**–**	(2)	–
Residential Mortgages	**(1)**	**–**	(1)	–
Other Retail	**–**	**–**	(14)	–
Retail SME	**(2)**	**–**	(7)	–
Total IRB approach	**(9)**	**–**	(58)	–
Subject to Standardised approach				
Other Retail	**–**	**–**	(2)	–
Total Standardised approach	**–**	**–**	(2)	–
Total	**(9)**	**–**	(60)	–

4.2 General Reserve for Credit Losses

APS 330 Table 4 (c)

	As at 31 December 2021 $m	As at 30 September 2021 $m
General reserve for credit losses before tax	**428**	424
Tax effect	**(110)**	(109)
General reserve for credit losses	**318**	314

4.3 Repayment Deferrals Reporting

In accordance with APS 220 Attachment E, Macquarie has applied the regulatory capital approach specified to those loans where the COVID 19 repayment deferral was granted.

The table below shows loans subject to COVID 19 payment pause:

	As at 31 December 2021 $m		As at 30 September 2021 $m	
COVID-19 Payment Pause	**Loan Count**	**Exposure $m**	**Loan Count**	**Exposure $m**
Personal Banking (Home Loans and Credit Cards)	**244**	**143**	773	461
Vehicle and Asset Finance (inc. Wholesale)	**1,524**	**49**	3,354	111
Business Banking	**–**	**–**	18	11
Total	**1,768**	**192**	4,145	583

[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.

5. Securitisation

5.1 Securitisation Activity

Over the 3 months to 31 December 2021, Macquarie has undertaken the following securitisation activity, presented in accordance with Prudential Standard APS 120: Securitisation. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

APS 330 Table 5 (a)

	For the 3 months to 31 December 2021		
	Value of loans sold or originated into securitisation		**Recognised gain or loss on sale**
Exposure Type	**ADI originated $m**	**ADI as sponsor $m**	**$m**
Banking Book			
Residential Mortgages[1]	**3,289**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance[1]	**235**	**–**	**–**
Other	**–**	**–**	**–**
Total Banking Book	**3,524**	**–**	**–**
Trading Book			
Residential Mortgages	**–**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance	**–**	**–**	**–**
Total Trading Book	**–**	**–**	**–**

	For the 3 months to 30 September 2021		
	Value of loans sold or originated into securitisation		Recognised gain or loss on sale
Exposure Type	ADI originated $m	ADI as sponsor $m	$m
Banking Book			
Residential Mortgages[1]	12,875	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance[1]	147	–	–
Other	–	–	–
Total Banking Book	13,022	–	–
Trading Book			
Residential Mortgages	–	–	–
Credit cards and other personal loans	–	–	–
Auto and equipment finance	–	–	–
Total Trading Book	–	–	–

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

5.2 Exposures Arising from Securitisation Activity by Asset Type

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

APS 330 Table 5 (b)

	As at 31 December 2021		
	Total outstanding exposures[1]		
Exposure Type	**On balance sheet $m**	**Off balance sheet $m**	**Total exposures $m**
Banking Book			
Residential Mortgages	**59,366**	**2**	**59,368**
Credit cards and other personal loans	**167**	**–**	**167**
Auto and equipment finance	**2,422**	**120**	**2,542**
Other	**312**	**103**	**415**
Total Banking Book	**62,267**	**225**	**62,492**
Trading Book			
Residential Mortgages	**–**	**–**	**–**
Credit cards and other personal loans	**–**	**–**	**–**
Auto and equipment finance	**–**	**–**	**–**
Other	**–**	**–**	**–**
Total Trading Book	**–**	**–**	**–**

	As at 30 September 2021		
	Total outstanding exposures[1]		
Exposure Type	On balance sheet $m	Off balance sheet $m	Total exposures $m
Banking Book			
Residential Mortgages	60,538	3	60,541
Credit cards and other personal loans	187	-	187
Auto and equipment finance	2,679	119	2,798
Other	268	111	379
Total Banking Book	63,672	233	63,905
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 $59,504 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group (30 September 2021: $60,499 million).

6. Leverage Ratio Disclosures

The leverage ratio is a non-risk-based ratio that is intended to restrict the build-up of excessive leverage in the banking system and acts as a supplementary measure to create a back stop for the risk-based capital requirements.

The Basel Committee on Banking Supervision (BCBS), in December 2017, confirmed the leverage ratio minimum regulatory requirement of 3%, effective from 1 January 2018. APRA released the final 'Prudential Standard APS 110 Capital Adequacy' on 30 November 2021 which has a minimum requirement for the leverage ratio of 3.5% effective 1 January 2023.

At 31 December 2021, Macquarie's leverage ratio was 5.1%, a decrease of 0.2% from 30 September 2021. This reduction was primarily driven by an increase in on-balance sheet exposures resulting from a) growth in the home loan portfolio and b) increased liquidity holdings and was partially offset by higher Tier 1 capital attributable to earnings and additional share capital issuance.

Capital and total exposures	**31 December 2021 $m**	30 September 2021 $m	30 June 2021 $m	31 March 2021 $m
Tier 1 Capital	**16,946**	15,921	14,205	13,468
Total exposures	**331,362**	303,204	272,584	245,384
Leverage ratio				
Macquarie Level 2 regulatory group Leverage ratio	**5.1%**	5.3%	5.2%	5.5%

7. Liquidity Coverage Ratio Disclosure

Liquidity Coverage Ratio disclosure template

APS 330 Table 20

		For the 3 months to 31 December 2021		For the 3 months to 30 September 2021	
	Liquidity Coverage Ratio disclosure template	**Total unweighted value (average) $m**	**Total weighted value (average) $m**	Total unweighted value (average) $m	Total weighted value (average) $m
	Liquid assets, of which:				
1	High quality liquid assets (HQLA)		**41,881**		37,139
2	Alternative liquid assets (ALA)		**9,700**		8,821
3	Reserve Bank of New Zealand (RBNZ) securities		**–**		–
	Cash outflows				
4	Retail deposits and deposits from small business customers, of which:	**58,293**	**6,198**	54,459	5,962
5	Stable deposits	**17,260**	**863**	15,664	783
6	Less stable deposits	**41,033**	**5,335**	38,795	5,179
7	Unsecured wholesale funding, of which:	**38,571**	**19,030**	39,528	20,835
8	Operational deposits (all counterparties) and deposits in networks for cooperative banks	**17,506**	**3,423**	17,173	3,349
9	Non-operational deposits (all counterparties)	**16,430**	**10,972**	17,907	13,038
10	Unsecured debt	**4,635**	**4,635**	4,448	4,448
11	Secured wholesale funding		**684**		494
12	Additional requirements, of which:	**36,845**	**17,966**	30,626	13,017
13	Outflows related to derivatives exposures and other collateral requirements	**17,015**	**15,803**	12,332	10,927
14	Outflows related to loss of funding on debt products	**420**	**420**	479	479
15	Credit and liquidity facilities	**19,410**	**1,743**	17,815	1,611
16	Other contractual funding obligations	**14,426**	**14,404**	12,213	12,181
17	Other contingent funding obligations	**10,111**	**549**	9,576	495
18	**Total cash outflows**		**58,831**		52,984
	Cash Inflows				
19	Secured lending (e.g., reverse repos)	**23,254**	**8,351**	26,428	9,513
20	Inflows from fully performing exposures	**4,088**	**3,560**	3,815	3,332
21	Other cash inflows	**21,545**	**21,545**	17,842	17,842
22	**Total cash inflows**	**48,887**	**33,456**	48,085	30,687
23	**Total liquid assets**		**51,581**		45,960
24	**Total net cash outflows**[1]		**29,181**		25,642
25	**Liquidity Coverage Ratio (%)**[2]		**177%**		179%

[1] APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, effective from 1 April 2021. For the 3 months to 31 December 2021 an average Net Cash Outflow overlay of $3,806 million is included in the disclosed balance of $29,181 million (3 months to 30 September 2021 overlay of $3,345 million is included in the disclosed balance of $25,642).

[2] The LCR for the 3 months to 31 December 2021 is calculated from 63 daily LCR observations (3 months to 30 September 2021 was calculated from 65 daily LCR observations).

The Liquidity Coverage Ratio (LCR)

The LCR requires unencumbered liquid assets be held to cover expected net cash outflows (NCOs) under a regulatory-defined stress scenario lasting 30 calendar days. Macquarie's 3 month average LCR to 31 December 2021 was 177% (based on 63 daily observations), including a 15% NCO add-on required by APRA from 1 April 2021. This represented a decrease of 2% from the 3-month LCR to 30 September 2021, as a result of an increase in NCOs partially offset by an increase in liquid assets.

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

Macquarie sets internal management and Board approved minimum limits for the LCR above the regulatory minimum level and monitors its aggregate LCR position against these limits on a daily basis. Macquarie also monitors the LCR position on a standalone basis for major currencies in which it operates, with the high-quality liquid assets (HQLA) portfolio being denominated and held in both Australian Dollars and a range of other currencies. This ensures that liquid assets are maintained consistent with the distribution of liquidity needs by currency, allowing for an acceptable level of currency mismatches.

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

Liquid Assets

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

Macquarie's CLF allocation of $9,700 million is reflected in the disclosure template under 'Alternative Liquid Assets (ALA)'. As previously foreshadowed, APRA wrote to all LCR ADIs on 10 Sep 21 advising that no ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022 and that ADIs should reduce their usage of the CLF to zero by the end of 2022, subject to financial market conditions.

Net Cash Outflows (NCOs)

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

Retail and SME deposits: assumed regulatory outflow relating to deposits from retail and SME customers that are at call or potentially callable within 30 days.

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

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

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

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

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

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

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

Appendix 1 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and • provide for fully discretionary capital distributions.
Additional Tier 1 Capital deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
AMA	Advanced Measurement Approach (for determining operational risk).
APRA	Australian Prudential Regulation Authority.
ADI Prudential Standards (APS)	APRA's ADI Prudential Standards. For more information refer to APRA website.
Bank Group	MBL and its subsidiaries.
Central counterparty	A clearing house or exchange that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and therefore ensuring the future performance or open contracts.
Common Equity Tier 1 capital (CET1)	A capital measure defined by APRA comprising the highest quality components of capital that fully satisfy all the following essential characteristics: • provide a permanent and unrestricted commitment of funds; • are freely available to absorb losses; • do not impose any unavoidable servicing charge against earnings; and • rank behind the claims of depositors and other creditors in the event of winding up. Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.
Common Equity Tier 1 Capital deductions	An amount deducted in determining Common Equity Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Capital Ratio	Common Equity Tier 1 Capital net of Common Equity Tier 1 deductions expressed as a percentage of RWA.
CVA	Credit Valuation Adjustment. The risk of mark-to-market losses on the expected counterparty risk to OTC derivatives.
Deconsolidated entities	Entities involved in conducting insurance, funds management and non-financial operations including special purpose vehicles (SPV) for which Macquarie has satisfied APS 120 Attachment A operational requirements for regulatory capital relief.
EAD	Exposure at Default – the gross exposure under a facility (the amount that is legally owed to the ADI) upon default of an obligor.
EL	Expected Loss, which is a function of EAD, Probability of Default and Loss given Default.
ELE	Extended Licensed Entity is an entity that is treated as part of the ADI ('Level 1') for the purpose of measuring the ADI's capital adequacy and exposures to related entities. The criterion for qualification as an ELE is detailed in the APRA Prudential Standards.
FIRB	Foundation Internal Ratings Based Approach (for determining credit risk).
HQLA	High Quality Liquid Assets
Impaired assets	An asset for which the ultimate collectability of principal and interest is compromised.
LCR	Liquidity Coverage Ratio

Level 1 Regulatory Group	MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities.
Level 2 Regulatory Group	MBL, its parent Macquarie B.H. Pty Ltd and MBL's subsidiaries but excluding deconsolidated entities for APRA reporting purposes.
Level 3 Regulatory Group	MGL and its subsidiaries but excluding entities required to be deconsolidated for regulatory reporting purposes.
Macquarie	Level 2 regulatory group
Macquarie Group	MGL and its subsidiaries.
MBL	Macquarie Bank Limited ABN 46 008 583 542
MBL Consolidated Group	MBL and its subsidiaries.
NCO	Net Cash Outflows
NSFR	Net Stable Funding Ratio
Risk-weighted assets (RWA)	A risk-based measure of an entity's exposures, which is used in assessing its overall capital adequacy.
SME	Small – Medium Enterprises
SPV's	Special purpose vehicles or securitisation vehicles.
Tier 1 Capital	Tier 1 capital comprises of (I) Common Equity Tier 1 Capital; and (ii) Additional Tier 1 Capital.
Tier 1 Capital Deductions	Tier 1 capital deductions comprises of (i) Common Equity Tier 1 Capital deductions; and (ii) Additional Tier 1 Capital deductions.
Tier 1 Capital Ratio	Tier 1 Capital net of Tier 1 Capital Deductions expressed as a percentage of RWA.
Tier 2 Capital	A capital measure defined by APRA, comprising other components of capital which contribute to the strength of the entity.
Tier 2 Capital Deductions	An amount deducted in Tier 2 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
Total Capital	Tier 1 Capital plus Tier 2 Capital less Total Capital Deductions.
Total Capital Ratio	Total Capital expressed as a percentage of RWA.

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  - Difference in implementation of Basel III framework i.e., APRA has introduced stricter requirements (APRA super equivalence).