

# MBL Basel III Pillar 3 Capital Disclosures

**December 2023**

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**MACQUARIE  
BANK**

## **ASX Release**

### **MACQUARIE BANK RELEASES DECEMBER PILLAR 3 DISCLOSURE DOCUMENT**

20 February 2024 - The Macquarie Bank Limited December 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 31 December 2023 together with the 30 September 2023 comparatives where appropriate. References to Macquarie in this report refer to the Level 2 regulatory group which includes MBL, further details are provided in Section 1.1 Scope of Application.

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

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

## APS 330 Table 3 (f)

<b>Capital, Liquidity and Leverage Ratios - Level 2 regulatory group</b>	<b>As at 31 December 2023</b>	<b>As at 30 September 2023</b>
Common Equity Tier 1 capital ratio	<b>13.4%</b>	13.2%
Tier 1 capital ratio	<b>15.3%</b>	15.2%
Total capital ratio	<b>20.7%</b>	20.8%
Leverage ratio	<b>5.0%</b>	5.0%
Liquidity coverage ratio <sup>1,2</sup>	<b>217%</b>	199%

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%<sup>3</sup>. 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 31 December 2023, the Macquarie Level 2 regulatory group capital and liquidity ratios are above the regulatory minimum required by APRA, and the Board imposed internal minimum requirement.

<sup>1</sup> The Liquidity Coverage Ratio for the 3 months to 31 December 2023 is calculated from 62 daily LCR observations (30 September 2023 is calculated from 64 daily LCR observations).

<sup>2</sup> APRA imposed a 15% add-on to the Net Cash Outflow component of the LCR calculation, effective from 1 April 2021. This add-on increased to 25% from 1 May 2022. Accordingly, the 3 month average LCR to 31 December 2023 and the 3 month average LCR to 30 September 2023 includes a 25% NCO add-on.

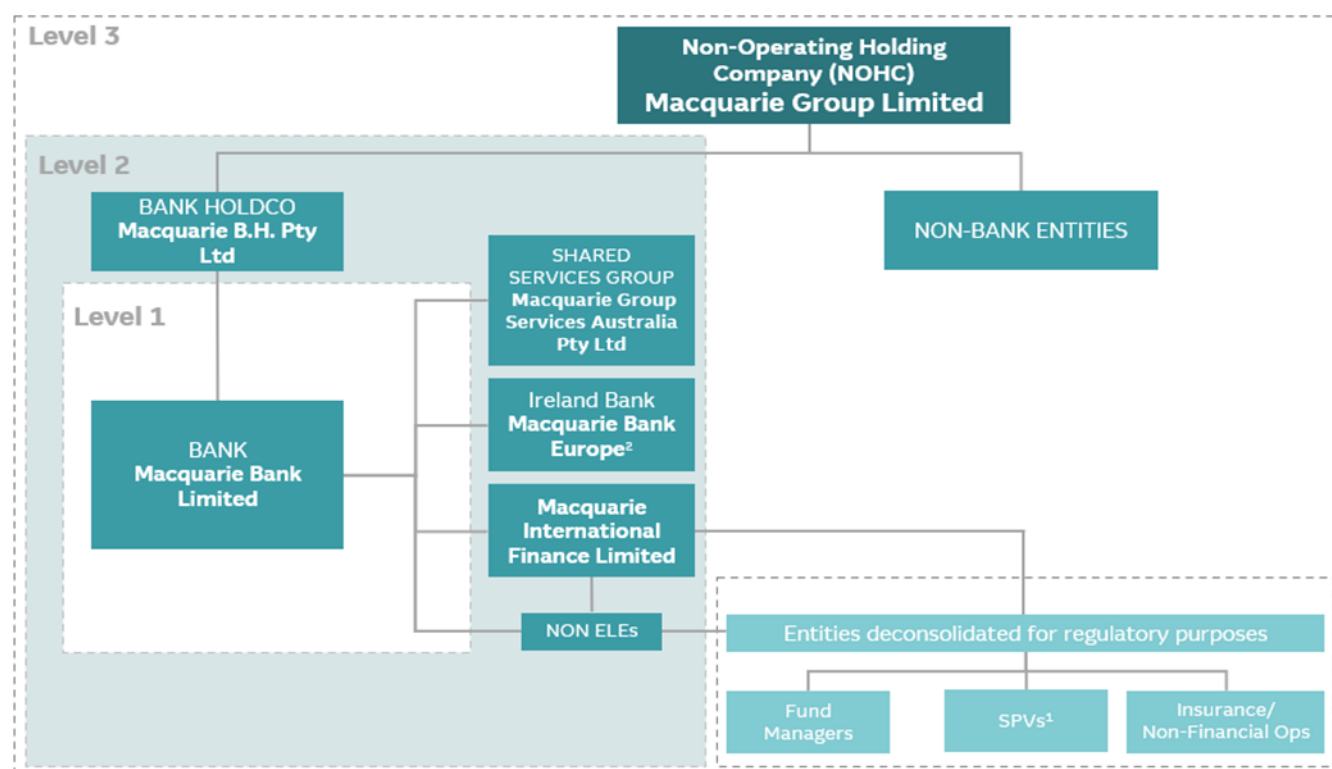
<sup>3</sup> The CCyB of the Level 2 regulatory group as at 31 Dec 2023 is 0.71%, which is rounded to 0.75% for presentation purposes. The individual CCyB varies by jurisdiction and the CCyB of the Level 2 regulatory group is calculated as a weighted average based on exposures in different jurisdictions at period end.

# 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:



<sup>1</sup> These are securitisation vehicles that achieve Regulatory Capital Relief per APS 120.

<sup>2</sup> Disclosure of Macquarie Bank Europe's Pillar 3 document is available on Macquarie's website.

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

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

## 1.2 Report Conventions

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

All numbers in this report are in Australian Dollars and have been rounded to the nearest million, unless otherwise stated. Where necessary, comparative information has been restated to conform with changes in the current year, unless otherwise stated. Averages have been prepared in this report for certain disclosures as required by APS 330.

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

## 2. Risk Weighted Assets (RWA)

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

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

APS 330 Table 3(a) to (e)

	As at 31 December 2023 \$m	As at 30 September 2023 \$m
<b>Credit risk</b>		
Subject to IRB approach		
Corporate <sup>1</sup>	30,054	29,291
SME Corporate	8,357	8,445
Sovereign	376	317
Financial Institution <sup>2</sup>	10,270	10,232
Residential Mortgages <sup>3</sup>	22,703	22,256
Other Retail	1,556	1,704
Retail SME	1,277	1,390
<b>Total RWA subject to IRB approach</b>	<b>74,593</b>	<b>73,635</b>
<b>Specialised lending exposures subject to slotting criteria<sup>4</sup></b>	<b>6,728</b>	<b>6,591</b>
Subject to Standardised approach		
Corporate	1,882	2,234
Residential Mortgages	692	729
Other Retail	815	848
<b>Total RWA subject to Standardised approach</b>	<b>3,389</b>	<b>3,811</b>
<b>Credit risk RWA for securitisation exposures</b>	<b>719</b>	<b>685</b>
<b>Credit Valuation Adjustment RWA</b>	<b>9,567</b>	<b>8,679</b>
<b>Exposures to Central Counterparties RWA</b>	<b>567</b>	<b>594</b>
<b>RWA for Other Assets<sup>5</sup></b>	<b>3,917</b>	<b>3,788</b>
<b>Total Credit risk RWA</b>	<b>99,480</b>	<b>97,783</b>
<b>Market risk RWA</b>	<b>8,993</b>	<b>9,011</b>
<b>Operational risk RWA</b>	<b>15,828</b>	<b>15,828</b>
<b>Interest rate risk in the banking book RWA</b>	<b>3,173</b>	<b>3,706</b>
<b>Total RWA</b>	<b>127,474</b>	<b>126,328</b>

<sup>1</sup> 'Corporate' asset class includes Large Corporates.

<sup>2</sup> 'Financial Institution' asset class includes banks and other corporate financial institutions.

<sup>3</sup> Residential mortgages RWA as at 31 December 2023 includes a \$2.3bn overlay as advised by APRA for the purpose of calibrating MBL's IRB residential mortgages model.

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

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

# 3. Credit Risk Measurement

## 3.1 Macquarie's Credit Risk Exposures

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

Exposures have been based on a Level 2 regulatory group as defined in Section 1.1. The gross credit risk exposures in this section will differ from the disclosures in the MBL and its subsidiaries, the Consolidated Entity financial report as gross credit risk exposures include off balance sheet exposures and 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	As at
	31 December 2023	30 September 2023
	\$m	\$m
Corporate <sup>1</sup>	57,217	57,553
SME Corporate <sup>2</sup>	10,851	10,729
Sovereign	31,152	28,898
Financial Institution	28,144	26,763
Residential Mortgages	137,285	134,060
Other Retail	4,256	4,611
Retail SME	1,940	2,121
Other Assets <sup>3</sup>	6,146	5,617
<b>Total Gross Credit Exposure</b>	<b>276,991</b>	<b>270,352</b>

<sup>1</sup> Corporate includes specialised lending exposure of \$6,355 million as at 31 December 2023 (30 September 2023: \$6,342 million).

<sup>2</sup> SME Corporate includes specialised lending exposure of \$59 million as at 31 December 2023 (30 September 2023: \$65 million).

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

APS 330 Table 4(a) (continued)

	As at 31 December 2023				Average exposures <sup>1</sup> \$m
	On balance Sheet \$m	Off balance sheet		Total \$m	
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	20,923	3,368	23,489	47,780	47,740
SME Corporate	8,779	1,963	50	10,792	10,728
Sovereign	25,814	5,072	266	31,152	30,025
Financial Institution	7,366	8,812	11,966	28,144	27,454
Residential Mortgages	121,075	15,451	-	136,526	134,892
Other Retail	2,975	-	-	2,975	3,094
Retail SME	1,927	13	-	1,940	2,031
<b>Total IRB approach</b>	<b>188,859</b>	<b>34,679</b>	<b>35,771</b>	<b>259,309</b>	<b>255,962</b>
<b>Specialised Lending subject to slotting criteria</b>	<b>2,871</b>	<b>721</b>	<b>2,822</b>	<b>6,414</b>	<b>6,411</b>
<b>Subject to Standardised approach</b>					
Corporate	1,850	370	862	3,082	3,297
Residential Mortgages	704	55	-	759	781
Other Retail	964	317	-	1,281	1,340
<b>Total Standardised approach</b>	<b>3,518</b>	<b>742</b>	<b>862</b>	<b>5,122</b>	<b>5,418</b>
<b>Other Assets</b>	<b>6,106</b>	<b>40</b>	<b>-</b>	<b>6,146</b>	<b>5,882</b>
<b>Total Gross Credit Exposures</b>	<b>201,354</b>	<b>36,182</b>	<b>39,455</b>	<b>276,991</b>	<b>273,672</b>

<sup>1</sup> Average exposures have been calculated on 31 December 2023 and 30 September 2023 spot positions.



APS 330 Table 4(a) (continued)

	As at 30 September 2023			Total \$m	Average exposures <sup>1</sup> \$m
	On balance Sheet \$m	Off balance sheet			
		Non-market related \$m	Market related \$m		
<b>Subject to IRB approach</b>					
Corporate	20,849	3,617	23,233	47,699	46,787
SME Corporate	8,358	2,195	111	10,664	10,321
Sovereign	23,795	4,989	114	28,898	33,359
Financial Institution	6,500	9,042	11,221	26,763	27,520
Residential Mortgages	117,308	15,949	-	133,257	130,794
Other Retail	3,213	-	-	3,213	3,332
Retail SME	2,107	14	-	2,121	2,219
<b>Total IRB approach</b>	<b>182,130</b>	<b>35,806</b>	<b>34,679</b>	<b>252,615</b>	<b>254,331</b>
<b>Specialised Lending subject to slotting criteria</b>	<b>2,666</b>	<b>810</b>	<b>2,931</b>	<b>6,407</b>	<b>6,331</b>
<b>Subject to Standardised approach</b>					
Corporate	2,269	371	872	3,512	3,360
Residential Mortgages	750	53	-	803	820
Other Retail	1,067	331	-	1,398	1,402
<b>Total Standardised approach</b>	<b>4,086</b>	<b>755</b>	<b>872</b>	<b>5,713</b>	<b>5,581</b>
<b>Other Assets</b>	<b>5,575</b>	<b>42</b>	<b>-</b>	<b>5,617</b>	<b>5,435</b>
<b>Total Gross Credit Exposures</b>	<b>194,457</b>	<b>37,413</b>	<b>38,482</b>	<b>270,352</b>	<b>271,678</b>

<sup>1</sup> Average exposures have been calculated on 30 September 2023 and 30 June 2023 spot positions.

# 4. Provisioning

## 4.1 Provisions by Counterparty Type

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

APS 330 Table 4(b)

	As at 31 December 2023				For the 3 months to 31 December 2023	
	Gross Credit Exposure \$m	Non- Performing		Specific Provisions \$m	Charges for Specific Provisions \$m	Write- offs <sup>1</sup> \$m
		< 90 Days Past Due \$m	≥ 90 Days Past Due \$m			
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	54,135	323	280	(163)	(15)	-
SME Corporate <sup>2</sup>	10,851	158	92	(39)	(8)	-
Sovereign	31,152	-	-	-	-	-
Financial Institution	28,144	-	36	(36)	-	-
Residential Mortgages	136,526	423	328	(22)	(2)	-
Other Retail	2,975	67	16	(24)	-	-
Retail SME	1,940	42	15	(15)	(1)	-
<b>Total IRB approach</b>	<b>265,723</b>	<b>1,013</b>	<b>767</b>	<b>(299)</b>	<b>(26)</b>	<b>-</b>
<b>Subject to Standardised approach</b>						
Corporate	3,082	-	-	-	-	-
Residential Mortgages	759	-	-	-	-	-
Other Retail	1,281	13	8	(21)	-	-
<b>Total Standardised approach</b>	<b>5,122</b>	<b>13</b>	<b>8</b>	<b>(21)</b>	<b>-</b>	<b>-</b>
<b>Other Assets</b>	<b>6,146</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>276,991</b>	<b>1,026</b>	<b>775</b>	<b>(320)</b>	<b>(26)</b>	<b>-</b>
<b>Additional regulatory specific provisions</b>				<b>(137)</b>		

<sup>1</sup> 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.

<sup>2</sup> IRB Corporate and SME Corporate include specialised lending.

APS 330 Table 4(b) continued

	As at 30 September 2023				For the 3 months to 30 September 2023	
	Gross Credit Exposure \$m	Non- Performing		Specific Provisions \$m	Charges for Specific Provisions \$m	Write- offs <sup>1</sup> \$m
		< 90 Days Past Due \$m	≥ 90 Days Past Due \$m			
<b>Subject to IRB approach</b>						
Corporate <sup>2</sup>	54,041	205	276	(155)	(22)	-
SME Corporate <sup>2</sup>	10,729	154	98	(39)	(5)	-
Sovereign	28,898	-	-	-	-	-
Financial Institution	26,763	-	37	(37)	-	-
Residential Mortgages	133,257	378	320	(18)	(2)	-
Other Retail	3,213	76	15	(29)	-	-
Retail SME	2,121	42	15	(16)	-	-
<b>Total IRB approach</b>	<b>259,022</b>	<b>855</b>	<b>761</b>	<b>(294)</b>	<b>(29)</b>	<b>-</b>
<b>Subject to Standardised approach</b>						
Corporate	3,512	-	-	-	-	-
Residential Mortgages	803	-	-	-	-	-
Other Retail	1,398	14	8	(20)	-	-
<b>Total Standardised approach</b>	<b>5,713</b>	<b>14</b>	<b>8</b>	<b>(20)</b>	<b>-</b>	<b>-</b>
Other Assets	5,617	-	-	-	-	-
<b>Total</b>	<b>270,352</b>	<b>869</b>	<b>769</b>	<b>(314)</b>	<b>(29)</b>	<b>-</b>
<b>Additional regulatory specific provisions</b>				<b>(153)</b>		

## General Provisions

APS 330 Table 4(c)

	As at 31 December 2023 \$m	As at 30 September 2023 \$m
General provisions before tax	325	327
Tax effect	(89)	(90)
<b>General provisions</b>	<b>236</b>	<b>237</b>

<sup>1</sup> 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.

<sup>2</sup> IRB Corporate and SME Corporate includes specialised lending.

# 5. Securitisation

## 5.1 Securitisation Activity

Over the 3 months to 31 December 2023, Macquarie has undertaken the following securitisation activity. Macquarie may or may not retain an exposure to securitisation SPVs to which Macquarie has sold assets.

APS 330 Table 5(a)

Exposure Type	For the 3 months to 31 December 2023		Recognised gain or loss on sale \$m
	Value of loans sold or originated into securitisation		
	ADI originated \$m	ADI as sponsor \$m	
<b>Banking Book</b>			
Residential Mortgages <sup>1</sup>	10,441	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	281	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>10,722</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

Exposure Type	For the 3 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	
<b>Banking Book</b>			
Residential Mortgages <sup>1</sup>	4,001	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance <sup>1</sup>	1,747	-	-
Other	-	-	-
<b>Total Banking Book</b>	<b>5,748</b>	<b>-</b>	<b>-</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

## 5.2 Exposures Arising from Securitisation Activity by Asset Type

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

APS 330 Table 5(b)

Exposure Type	As at 31 December 2023		
	Total outstanding exposures <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
Residential Mortgages	66,687	32	66,719
Credit cards and other personal loans	129	-	129
Auto and equipment finance	4,529	-	4,529
Other	500	50	550
<b>Total Banking Book</b>	<b>71,845</b>	<b>82</b>	<b>71,927</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

Exposure Type	As at 30 September 2023		
	Total outstanding exposures <sup>1</sup>		
	On balance sheet \$m	Off balance sheet \$m	Total exposures \$m
<b>Banking Book</b>			
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
<b>Total Banking Book</b>	<b>69,908</b>	<b>135</b>	<b>70,043</b>
<b>Trading Book</b>			
Residential Mortgages	-	-	-
Credit cards and other personal loans	-	-	-
Auto and equipment finance	-	-	-
Other	-	-	-
<b>Total Trading Book</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Included in the above are assets of \$68,506 million in securitisation entities where Macquarie continues to hold capital behind the underlying pool of securitised assets in Level 2 regulatory group (30 September 2023: \$66,613 million).

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## 6. Leverage Ratio Disclosures

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

Prudential Standard APS 110 Capital Adequacy requires a minimum leverage ratio of 3.5% effective 1 January 2023. Macquarie's leverage ratio was 5.0% at 31 December 2023. There was an increase in the total exposures primarily driven by growth in the mortgages portfolio and liquidity holdings, offset by higher Tier 1 Capital, resulting in a neutral impact to the leverage ratio quarter on quarter.

	<b>31 December 2023</b>	30 September 2023	30 June 2023	31 March 2023
<b>Capital and total exposures</b>	<b>\$m</b>	\$m	\$m	\$m
<b>Tier 1 Capital</b>	<b>19,526</b>	19,175	19,161	19,478
<b>Total exposures</b>	<b>390,366</b>	382,147	367,418	375,561
<b>Macquarie Level 2 regulatory group Leverage ratio</b>	<b>5.0%</b>	5.0%	5.2%	5.2%

# 7. Liquidity Coverage Ratio Disclosure

## Liquidity Coverage Ratio disclosure template

APS 330 Table 20

Liquidity Coverage Ratio disclosure template	For the 3 months to 31 December 2023		For the 3 months to 30 September 2023	
	Total unweighted value (average) \$m	Total weighted value (average) \$m	Total unweighted value (average) \$m	Total weighted value (average) \$m
<b>Liquid assets, of which:</b>				
1 High quality liquid assets (HQLA)		48,430		48,410
2 Alternative liquid assets (ALA)		-		-
3 Reserve Bank of New Zealand (RBNZ) securities		-		-
<b>Cash outflows</b>				
4 Retail deposits and deposits from small business customers, of which:	90,817	8,917	86,987	8,636
5 Stable deposits	30,015	1,501	27,036	1,352
6 Less stable deposits	60,802	7,416	59,951	7,284
7 Unsecured wholesale funding, of which:	38,249	19,476	38,821	20,041
8 Operational deposits (all counterparties) and deposits in networks for cooperative banks	15,650	2,768	15,808	2,810
9 Non-operational deposits (all counterparties)	17,857	11,966	17,884	12,102
10 Unsecured debt	4,742	4,742	5,129	5,129
11 Secured wholesale funding		1,073		1,572
12 Additional requirements, of which:	41,176	19,922	40,400	19,209
13 Outflows related to derivatives exposures and other collateral requirements	19,119	17,618	18,700	16,896
14 Outflows related to loss of funding on debt products	287	287	223	223
15 Credit and liquidity facilities	21,770	2,017	21,477	2,090
16 Other contractual funding obligations	14,917	14,895	12,435	12,388
17 Other contingent funding obligations	11,585	635	10,293	592
<b>18 Total cash outflows</b>		<b>64,918</b>		<b>62,438</b>
<b>Cash Inflows</b>				
19 Secured lending (e.g. reverse repos)	40,834	23,660	44,611	22,371
20 Inflows from fully performing exposures	2,990	2,060	2,930	2,163
21 Other cash inflows	21,333	21,333	18,399	18,399
<b>22 Total cash inflows</b>	<b>65,157</b>	<b>47,053</b>	<b>65,940</b>	<b>42,933</b>
<b>23 Total liquid assets</b>		<b>48,430</b>		<b>48,410</b>
<b>24 Total net cash outflows<sup>1</sup></b>		<b>22,332</b>		<b>24,382</b>
<b>25 Liquidity Coverage Ratio (%)<sup>2</sup></b>		<b>217%</b>		<b>199%</b>

<sup>1</sup> APRA imposed a 15% add-on to the Net Cash Outflow (NCO) component of the LCR calculation, effective from 1 April 2021. This add-on increased to 25% from 1 May 2022.

For the 3 months to 31 December 2023 an average NCO overlay of \$4,466 million is included in the disclosed balance of \$22,332 million (3 months to 30 September 2023 overlay of \$4,876 million is included in the disclosed balance of \$24,382 million).

<sup>2</sup> The LCR for the 3 months to 31 December 2023 is calculated from 62 daily LCR observations (3 months to 30 September 2023 was calculated from 64 daily LCR observations).

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## 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 2023 was 217% (based on 62 daily observations). This represents an increase of 18% from the 3 month LCR to 30 September 2023, as a result of a reduction in NCOs and an increase in liquid assets.

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

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

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

### Liquid Assets

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

### Net Cash Outflows (NCOs)

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

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

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

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

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

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

**Other contractual funding obligations and other cash inflows:** includes other gross flows not profiled elsewhere in the LCR. The volumes in these categories are large relative to Macquarie's total cash outflows and inflows. In addition to derivative inflows noted above, key balances in these categories include:



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- **Segregated client funds placed with Macquarie:** Macquarie acts as a clearing agent for clients on various futures exchanges. Clients place margin with Macquarie and Macquarie places this margin either directly with the exchange, holds it in other segregated external asset accounts or retains a portion on deposit with Macquarie. Some of the balances are recorded on a gross basis on Macquarie's balance sheet and APRA require these to be profiled as gross inflows and outflows in the LCR.
  - **Security and broker settlement balances:** these represent securities that have been purchased or sold by Macquarie that have not yet settled and broker balances where stock has been bought or sold on behalf of clients, but payment has not been made to / received from the client. APRA require these balances to be reflected on a gross basis in the LCR as 100% weighted inflows and outflows. The net effect of these balances on Macquarie's average LCR is minimal.

# Appendix 1 Glossary of Terms

ADI	Authorised Deposit-taking Institution.
Additional Tier 1 Capital	A capital measure defined by APRA comprising high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> <li>• Provide a permanent and unrestricted commitment of funds</li> <li>• Are freely available to absorb losses</li> <li>• Rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer; and</li> <li>• Provide for fully discretionary capital distributions.</li> </ul>
Additional Tier 1 Capital deductions	An amount deducted in determining Additional Tier 1 Capital, as defined in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital.
ALA	Alternative Liquid Assets.
APRA	Australian Prudential Regulation Authority.
ADI Prudential Standards (APS)	APRA's ADI Prudential Standards. For more information refer to APRA website.
Bank Group	MBL and its subsidiaries.
Central counterparty	A clearing house or exchange that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and therefore ensuring the future performance or open contracts.
Common Equity Tier 1 capital (CET1)	A capital measure defined by APRA comprising the highest quality components of capital that fully satisfy all the following essential characteristics: <ul style="list-style-type: none"> <li>• Provide a permanent and unrestricted commitment of funds</li> <li>• Are freely available to absorb losses</li> <li>• Do not impose any unavoidable servicing charge against earnings; and</li> <li>• Rank behind the claims of depositors and other creditors in the event of winding up.</li> <li>• Common equity tier 1 capital comprises Paid Up Capital, Retained Earnings, and certain reserves.</li> </ul>
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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# Disclaimer

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Unless otherwise specified all information is at 31 December 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 super equivalence).