Note 29

Capital management strategy

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

The Consolidated Entity's capital management objectives are to:

- continue to support the Consolidated Entity's credit rating
- ensure sufficient capital resource to support the Consolidated Entity's business and operational requirements
- maintain sufficient capital to exceed externally imposed capital requirements, and
- safeguard the Consolidated Entity's ability to continue as a going concern.

The Consolidated Entity's capital management strategy uses both the internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify the Consolidated Entity's aggregate level of risk. The ECM is used in the Consolidated Entity to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA.

A subsidiary of the Company, MBL, is accredited by APRA to apply the Basel II Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk.

Regulatory capital requirements are measured at three levels of consolidation within the Consolidated Entity. MBL and certain subsidiaries which meet the APRA definition of Extended Licensed Entities are reported as Level 1. Level 2 consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management, non-financial operations and special purpose vehicles. Level 3 consists of Level 2 group plus the Non-Banking Group. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. Under the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWAs plus Tier 1 deductions using prevailing APRA ADI Prudential Standards, and
- the non-ADI group capital requirement, using the Consolidated Entity's ECM. Transactions internal to the Consolidated Entity are excluded.

The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The Consolidated Entity's Level 3 eligible capital is defined by APRA as Group Capital (ordinary equity plus reserves plus hybrids) less regulatory adjustments required for the Banking Group, less certain reserves of the Non-Banking Group.

The Consolidated Entity has satisfied its externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.