BASE LISTING DOCUMENT DATED 21 MAY 2014

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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Non-collateralised Structured Products Base Listing Document relating to Structured Products to be issued by

MACQUARIE BANK

MACQUARIE BANK LIMITED

(ABN 46 008 583 542)

(incorporated under the laws of Australia)

This document, for which we accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to Macquarie Bank Limited (the "**Issuer**", "**Macquarie Bank**", "**we**" or "**us**") and our warrants, callable bull/bear contracts ("**CBBCs**") and other structured products (together, the "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

We, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The Structured Products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute general unsecured contractual obligations of us as the Issuer and of no other person and will rank equally among themselves with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon the creditworthiness of us, and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Other than Macquarie Bank Limited ABN 46 008 583 542 (Macquarie Bank Limited), any Macquarie Group entity noted in this document is not an authorised deposit taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The Structured Products do not represent deposits or other liabilities of Macquarie Bank Limited or any other member of the Macquarie Group. Macquarie Bank Limited does not guarantee the payment or repayment of any moneys owing to the Structured Products holders or the return of any principal invested or any particular rate of return or otherwise provide assurance in respect of the obligations of that entity, unless noted otherwise. The holding of the Structured Products is subject to investment risk, including possible delays in repayment and loss of income and principal invested. Structured Products do not represent deposits or liabilities in relation to protected accounts with Macquarie Bank Limited.

Sponsor
Macquarie Capital Securities Limited

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What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or an invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

A supplemental listing document will be issued on the issue date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time), together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Product. You should carefully study the risk factors set out in the Listing Documents.

What are our credit ratings?

Our long term credit ratings as of 20 May 2014 were:

Rating agency	*Credit ratings**
Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**")	A
Moody's Investors Service, Inc. ("**Moody's**")	A2

* Credit ratings are subject to change or withdrawal at anytime within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our ratings from time to time.

Our credit ratings are only an assessment by the rating agencies of our overall financial capacity to pay our debts.

A is among the top three major credit rating categories and is the sixth highest investment-grade ranking of the ten investment-grade ratings (including + or - modifiers) assigned by S&P.

A2 is among the top three major credit rating categories and is the sixth highest investment-grade ranking of the ten investment-grade ratings (including 1, 2 and 3 modifiers) assigned by Moody's.

Please refer to the brief guide in Appendix 4 to this document for more information about credit ratings.

Rating agencies usually receive a fee from the companies that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;

(b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;

(c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the above date are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products;

(d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and

(e) a credit rating may be downgraded if the credit quality of the Issuer declines.

The Structured Products are not rated.

Are we regulated by the Hong Kong Monetary Authority as referred to in Rule 15A.13(2) or by the Securities and Futures Commission as referred to in Rule 15A.13(3) of the Listing Rules?

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also regulated by, among others, the Australian Prudential Regulation Authority.

Are we subject to any litigation?

Contingent liabilities exist in respect of current claims against entities within us, our subsidiaries and affiliates (the "**Group**"). These claims are confidential. Where necessary, appropriate provisions have been made in the financial statements. Save as disclosed in this document, the Group does not consider that the outcome of any such claims known to exist at this date, either individually or in aggregate, is likely to have a material effect on its operations or financial position.

Authorisation for the issue of the Structured Products

The issue of the Structured Products was authorised by our board of directors on 29 August 2002.

Has our financial position changed since last financial year-end?

Save as disclosed in this document, there has been no material adverse change in our financial or trading position since 31 March 2014. You may access our latest publicly available financial information by visiting our website at *www.macquarie.com*.

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 percent and the Securities and Futures Commission charges a transaction levy of 0.003 percent in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

Taxation in Hong Kong

An investor would only be subject to Hong Kong profits tax if (a) it were to carry on a trade, profession or business in Hong Kong and (b) profits from that trade, profession or business were to arise in or be derived from Hong Kong. Hong Kong profits tax will not be payable in respect of profits of capital in nature. However, gains which are considered to be derived from trading activity as opposed to mere investment activity carried on in Hong Kong may potentially be subject to Hong Kong profits tax.

You do not need to pay any Hong Kong stamp duty in respect of purely cash settled Structured Products.

Where Hong Kong stock is to be delivered, stamp duty will normally be payable since any person who effects a sale or purchase of "Hong Kong Stock", as defined in the Stamp Duty Ordinance (Cap 117, The Laws of Hong Kong), whether as principal or as agent and whether such transaction is effected in Hong Kong or elsewhere, is required to execute a contract note evidencing such sale or purchase and have such contract note stamped with Hong Kong stamp duty.

Where the underlying shares are not Hong Kong stock (as defined in the Stamp Duty Ordinance) but are shares listed in other jurisdictions, stamp duty and other taxes may be payable on the transfer of such shares under the laws of such other jurisdictions.

Placing, sale and grey market dealings

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us. See the section "Placing and Sale" for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party.

The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of the HKEx at *http://www.hkexnews.hk*.

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of Macquarie Capital Securities Limited at Level 18, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong:

(a) our published 2014 annual report for the year ended 31 March 2014 ("**2014 Annual Report**");

(b) the consent letter issued by PricewaterhouseCoopers ("**Auditor**");

(c) this document (and any addendum to this document) and the relevant supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and

(d) the instrument executed by us by way of deed poll on 30 May 2006 which constitutes the Structured Products.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the cost of making such copies.

The Listing Documents are also available on:

(a) the website of the HKEx at *http://www.hkexnews.hk*; and

(b) our website at *www.warrants.com.hk*.

各上市文件亦可於下列網站瀏覽:

(a) 香港交易所披露易網站 *http://www.hkexnews.hk/index_c.htm*; 及

(b) 我們的網站 *www.warrants.com.hk* 。

Has the Auditor consented to the inclusion of its report in this document?

Our Auditor has given and has not withdrawn its written consent to the inclusion of its report dated 2 May 2014 relating to our financial statements for the year ended 31 March 2014 in this document and/or the references to its name in this document, in the form and context in which they are included. The independent audit report was not prepared for incorporation into this document. The Auditor does not hold our shares or shares in any member of our group, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any member of our group.

Authorised Representatives

We have appointed Luiz Mazzali and Kathleen Kan (c/o Macquarie Capital Securities Limited, Level 18, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong) to accept services of process and notices pursuant to the Listing Rules.

How can you get further information about Macquarie Bank or the Structured Products?

You may visit *www.macquarie.com* and/or *www.warrants.com.hk* to obtain further information about us and/or the Structured Products.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

HKEx, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions set out in Appendix 1 and the Product Conditions applicable to the relevant series of Structured Products set out in Appendix 2 and Appendix 3 (together, the "**Conditions**").

GENERAL

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Product in any jurisdiction (other than Hong Kong) where action for the purpose is required.

UNITED STATES OF AMERICA

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Structured Products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to U.S. persons, except as permitted by the base placing agreement between us and the Sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Structured Products which are the subject of the offering contemplated by this document as completed by the relevant supplemental listing document in relation thereto to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 per Relevant Member State or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State, as permitted under the Prospectus Directive subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Structured Products shall require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Structured Products to the public" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

UNITED KINGDOM

Each dealer has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Structured Products in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

AUSTRALIA

This document is not a prospectus, product disclosure statement or any other disclosure document for the purposes of the Corporations Act 2001 (Cth) (the "**Act**"). This document has not been, and will not be, lodged with the Australian Securities and Investments Commission, ASX Limited or any other government agency in Australia. Each dealer will be required to represent and agree that, unless the applicable final terms otherwise provides, it:

(a) has not offered or invited applications, and will not make any offer, or invite applications, for the issue, sale or purchase of any Structured Product in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this document, any addendum to this document and the relevant Supplemental Listing Document or any other offering material or advertisement relating to any Structured Product in Australia,

Unless:

(a) the offeree or invitee is a "wholesale client", "sophisticated investor" or "professional investor" (as defined in the Act);

(b) the minimum aggregate consideration payable by each offeree or invitee is at least A$500,000 (or its equivalent in other currencies but disregarding moneys lent by the offeror or its associates); or

(c) the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Chapter 7 of the Act.

Section 708(19) of the Act provides that an offer of debentures for issue or sale does not need disclosure to investors under Part 6D.2 of the Act if the issuer is an Australian authorised deposit-taking institution ("**ADI**"). As at the date of this document, we are an ADI.

What is a derivative warrant?

A derivative warrant linked to a share, a unit, an index or other asset (each an "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price or Strike Level on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

Our warrants are European style warrants. That means they can only be exercised on the Expiry Date. A warrant will, upon exercise on the Expiry Date, entitle the holder to a cash amount called the "**Cash Settlement Amount**" (if positive) according to the relevant Product Conditions of that warrant.

You will receive the Cash Settlement Amount (if any) less any Exercise Expenses upon settlement at expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry.

How do our warrants work?

The potential payoff of the warrant is calculated by us by reference to the difference between:

(a) for a warrant linked to a share or a unit, the Exercise Price and the Average Price; and

(b) for a warrant linked to an index, the Strike Level and the Closing Level.

Call warrants

A call warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the warrant.

A call warrant will be exercised if the Average Price/Closing Level is greater than the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), an investor in the call warrant will lose all of his investment.

Put warrants

A put warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the warrant.

A put warrant will be exercised if the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Exercise Price/Strike Level is at or below the Average Price/Closing Level (as the case may be), an investor in the put warrant will lose all of his investment.

Other types of warrants

The supplemental listing document applicable to other types of warrants will specify the type of such warrants.

Where can you find the Product Conditions applicable to our warrants?

You should review the Product Conditions applicable to each type of the warrants before your investment.

The Product Conditions applicable to each type of our warrants are set out in Parts A to C of Appendix 2 (as may be supplemented by any addendum or the relevant supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or Strike Level (as the case may be);

(b) the value and volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset over time);

(c) the time remaining to expiry: generally, the longer the remaining life of a warrant, the greater its value;

(d) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(e) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(f) the supply and demand for the warrant;

(g) our related transaction cost; and/or

(h) our creditworthiness.

What is your maximum loss in warrants?

Your maximum loss in warrants will be your entire investment amount plus any transaction costs.

How can you get information about the warrants after issue?

You may visit the HKEx website at *http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our warrants.

What are CBBCs?

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

(a) shares listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index;

(c) unit trusts listed on the Stock Exchange; and/or

(d) overseas securities, indices, currencies or commodities (such as oil, gold and platinum).

A list of eligible Underlying Assets for CBBCs is available on the website of the HKEx at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/underlying_latest.htm*.

CBBCs are issued either as bull CBBCs or bear CBBCs, allowing you to take either bullish or bearish positions on the Underlying Asset. Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset. Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See "What are the mandatory call features of CBBCs?" below for further information.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs. See "Category R CBBCs vs Category N CBBCs" below for further information.

If no Mandatory Call Event occurs, the CBBCs may be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level. See "Category R CBBCs vs Category N CBBCs" below.

What are the mandatory call features of CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price/Spot Level of the Underlying Asset is:

(a) at or below the Call Price/Call Level (in the case of a bull CBBC); or

(b) at or above the Call Price/Call Level (in the case of a bear CBBC),

at any time during the Observation Period.

The Observation Period starts from and includes the Observation Commencement Date of the relevant CBBCs and ends on and includes the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event; and

(b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session,

will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities listed on the Stock Exchange ("**Single Equity CBBCs**") or CBBCs over single unit trust listed on the Stock Exchange ("**Single Unit Trust CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (in the case of a bull CBBC) or is at or above the Call Price (in the case of a bear CBBC); or

(b) in respect of CBBCs over index ("**Index CBBCs**"), the time the relevant Spot Level is published by the Index Compiler at which the Spot Level is at or below the Call Level (in the case of a bull CBBC) or is at or above the Call Level (in the case of a bear CBBC),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category R CBBCs vs. Category N CBBCs

The supplemental listing document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category R CBBCs**" refer to CBBCs for which the Call Price/Call Level is different from their Strike Price/Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of a bull CBBC, the difference between the Minimum Trade Price/Minimum Index Level of the Underlying Asset and the Strike Price/Strike Level; and

(b) in respect of a bear CBBC, the difference between the Strike Price/Strike Level and the Maximum Trade Price/ Maximum Index Level of the Underlying Asset.

"**Category N CBBCs**" refer to CBBCs for which the Call Price/Call Level is equal to their Strike Price/Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

You must read the relevant Product Conditions and the relevant supplemental listing document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

If a Mandatory Call Event occurs, you may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Minimum Trade Price/Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of bear CBBCs, the Maximum Trade Price/Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price/Strike Level.

If no Mandatory Call Event occurs, you may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Closing Price/Closing Level is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of bear CBBCs, the Closing Price/Closing Level is equal to or greater than the Strike Price/ Strike Level.

How is the funding cost calculated?

The issue price of a CBBC represents the difference between the initial reference Spot Price/Spot Level of the Underlying Asset and the Strike Price/Strike Level, plus the applicable initial funding cost as at the launch date.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant supplemental listing document and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price/Strike Level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends or distributions in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant supplemental listing document.

Do you own the Underlying Asset?

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

Where can you find the Product Conditions applicable to our CBBCs?

You should review the Product Conditions applicable to each type of the CBBCs before your investment.

The Product Conditions applicable to each type of our CBBCs are set out in Parts A to C of Appendix 3 (as may be supplemented by any addendum or the relevant supplemental listing document).

What are the factors determining the price of a CBBC?

The price of a CBBC tends to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price/Strike Level and the Call Price/Call Level (as the case may be);

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value (if any) payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index (as the case may be);

(f) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index (as the case may be);

(g) the supply and demand for the CBBCs;

(h) the probable range of the Cash Settlement Amount;

(i) our related transaction cost; and/ or

(j) our creditworthiness.

What is your maximum loss in CBBCs?

Your maximum loss in CBBCs will be your entire investment amount plus any transaction costs.

How can you get information about the CBBCs after issue?

You may visit the HKEx website at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/Intro.htm* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

BUSINESS

Macquarie Bank Limited, incorporated on 26 April 1983, is an indirect subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an Authorised Deposit-taking Institution (ADI). Macquarie Group Limited is regulated by APRA as a Non-Operating Holding Company (NOHC) of an ADI.

Under the NOHC structure, Macquarie's banking and non-banking businesses operate in two separate groups under Macquarie Group Limited; the Banking Group (which includes Macquarie Bank Limited and its subsidiaries) and the Non-Banking Group (Macquarie Financial Holdings Limited, Macquarie Group Services and their subsidiaries). Both the Banking and the Non-Banking Groups are wholly-owned by Macquarie Group Limited.

The Banking Group comprises five operating groups: Fixed Income, Currencies & Commodities (excluding certain assets of the Credit Trading business and some other less financially significant activities), Macquarie Securities (excluding the Cash division and certain activities of the Derivatives division in certain jurisdictions), Banking & Financial Services, Macquarie Funds (excluding the Macquarie Infrastructure and Real Assets division) and Corporate & Asset Finance.

The Non-Banking Group comprises Macquarie Capital, the Cash division and certain activities of the Derivatives division in certain jurisdictions of Macquarie Securities, the Macquarie Infrastructure and Real Assets Division of Macquarie Funds and certain assets of the Credit Trading business and some other less financially significant activities of Fixed Income, Currencies and Commodities.

The registered office of Macquarie Bank is at Level 3, 25 National Circuit, Forrest ACT 2603, Australia. Macquarie Bank's principal place of business is at No. 1 Martin Place, Sydney, NSW 2000, Australia.

Macquarie Securities Group was formed in April 2008 by merging the operating activities of the Equity Markets Group (excluding the Fund Products Division) and the Macquarie Capital Securities Division of Macquarie Capital.

Macquarie Securities Group is comprised of two divisions:

Cash

The Cash division is a full service institutional cash equities broker in the Asia Pacific region. It provides equity capital markets products and services through a joint venture with Macquarie Capital. The Cash division forms part of the Non Banking Group, except in respect of the Cash division's activities in Hong Kong and its Australian based clearing and settlement activities for cash equities and exchange traded options, each of which form part of the Banking Group.

Derivatives

The Derivatives division combines the group's retail derivatives and arbitrage trading businesses, including sales of retail derivatives, arbitrage trading, equity finance and capital management. The Derivatives division predominantly forms part of the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.

DIRECTORS AND EMPLOYEES

Directors' Experience and Special Responsibilities

H Kevin McCann AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 73)
Independent Chairman since 17 March 2011
Independent Voting Director since December 1996 (of Macquarie Group since August 2007)

Kevin McCann is currently a Director of the United States Studies Centre at the University of Sydney, a Director of Evans and Partners Pty Limited and a Director of Sydney Institute of Marine Science. Mr McCann is a Fellow of the University of Sydney Senate, Chair of its Safety and Risk Management Committee and member of its Finance and Audit, Investment and Commercialisation and Nominations and Appointments Committees. Mr McCann is also a member of the Australian Treasury Advisory Council and the University of Sydney Business School Advisory Board. He is Chairman of the National Library of Australia Foundation, a member of the European Australian Business Council, the Corporate Governance Committee of the Australian Institute of Company Directors, and the Evans and Partners Advisory Board. Mr McCann was a Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was previously Chairman of Origin Energy Limited, Triako Resources Limited, Healthscope Limited and ING Management Limited and a Director of BlueScope Steel Limited.

Greg C Ward, BEc (Macquarie), MEc (Macquarie), FCA, F Fin (age 46)
Managing Director and Chief Executive Officer since December 2011
Executive Voting Director since December 2011

Greg Ward joined Macquarie on listing in 1996 and was appointed Chief Financial Officer in 1997. In December 2011, Mr Ward became the Managing Director and Chief Executive Officer of Macquarie Bank Limited and a member of its Board. He is also the Deputy Managing Director and a member of the Board Risk Committee of Macquarie Group Limited.

Prior to working with Macquarie, Mr Ward held senior roles with Westpac Banking Corporation and PricewaterhouseCoopers. Mr Ward was also an inaugural member of the Federal Treasury's Financial Reporting Panel and served as a Board member of the Australian Accounting Standards Board from September 1999 to February 2003. Mr Ward is currently a member of the Macquarie University Council, a director of the Financial Markets Foundation for Children and a Board member of the Australian Brandenburg Orchestra.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 55)
Executive Voting Director since May 2008 (of Macquarie Group since February 2008)
Managing Director and Chief Executive Officer of Macquarie Group since May 2008

Nicholas Moore joined Macquarie's Corporate Services Division in 1986. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Investment Banking Group on its inception in 2001. In this role, he oversaw significant growth in Macquarie's net income through the global growth of the advisory, fund management, financing and securities businesses. Currently, Mr Moore is also Chairman of the Police and Community Youth Clubs NSW Limited, a Director of the Centre for Independent Studies and Chairman of the University of NSW Business School Advisory Council.

Gary R Banks AO, BEc (Hons) (Monash), MEc (ANU) (age 64)
Independent Voting Director since August 2013 (of Macquarie Group since August 2013)
Member of the Board Audit Committee

Gary Banks is Dean and Chief Executive Officer of the Australia and New Zealand School of Government (ANZSOG). He was Chairman of the Australian Productivity Commission from its inception in 1998 until 2012. He is a Professorial Fellow at the University of Melbourne and Adjunct Professor at the Australian National University. Professor Banks currently chairs the Regulatory Policy Committee of the Organisation for Economic Co-operation and Development (OECD) and is a Member of the Advisory Board of the Melbourne Institute and the Prime Minister's Business Advisory Council. He was previously a Senior Economist with the GATT Secretariat in Geneva, Visiting Fellow at the Trade Policy Research Centre in London, Projects Director with the Centre for International Economics in Canberra and has been a consultant to the World Bank, OECD and World Trade Organisation. He chaired the Regulation Taskforce in 2006 and the Infrastructure Stream at the Prime Minister's 2020 Summit.

Michael J Coleman, MComm (UNSW), FCA, FCPA, FAICD (age 63)
Independent Voting Director since November 2012 (of Macquarie Group since November 2012)
Chairman of the Board Audit Committee

Michael Coleman was a senior audit partner with KPMG for 30 years. He was KPMG's inaugural National Managing Partner Assurance and Advisory from 1998 to 2002, National Managing Partner for Risk and Regulation from 2002 to 2010 and Regional Leader for Asia Pacific Quality and Risk Management from 2002 to 2011. Mr Coleman is currently Deputy Chairman of the Financial Reporting Council, a member of the Audit Committee of the Reserve Bank of Australia, Chairman of the Reporting Committee and a member of the NSW Council of the Australian Institute of Company Directors, and a member of the Advisory Board of Norton Rose Fulbright Australia. He is also Chairman of Planet Ark Environmental Foundation, Chair of the Advisory Board of the Centre for Accounting and Assurance Services Research at UNSW, Director of Osteoporosis Australia and board member of Belvoir Street Theatre Foundation Ltd. Previously Mr Coleman was Chairman of ING Management Limited.

Patricia A Cross, BSc (Hons) (Georgetown), FAICD (age 54)
Independent Voting Director since August 2013 (of Macquarie Group since August 2013)
Member of the Board Audit Committee

Patricia Cross is currently a director of Aviva plc, and a founding director of the Grattan Institute. She is also an Australian Indigenous Education Foundation ambassador. Mrs Cross has extensive international financial and banking experience, through senior executive roles with Chase Manhattan Bank and Chase Investment Bank, Banque Nationale de Paris and National Australia Bank. At National Australia Bank, Mrs Cross was responsible for the Wholesale Banking and Finance Division and was a member of the Executive Committee. Previously she was a Director of Qantas Airways Limited, National Australia Bank Limited, JBWere Limited, Wesfarmers Limited, AMP Limited, Suncorp-Metway Limited, Chairman of Qantas Superannuation Limited, and Deputy Chairman of the Transport Accident Commission of Victoria.

Mrs Cross has held a number of honorary government positions, including five years as a founding member of the Financial Sector Advisory Council, APEC Business Advisory Council, and as a member of the Panel of Experts to the Australia as a Financial Centre Forum. She has also served on a wide range of not for profit boards, including the Murdoch Childrens Research Institute. In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry.

Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD (age 65)
Independent Voting Director since May 2011 (of Macquarie Group since May 2011)

Ms Grady has been a full time independent director of public companies and not-for-profit boards since 1994. She is currently a member of the McKinsey Advisory Council, the Centre for Ethical Leadership/Melbourne Business School, the NSW Innovation and Productivity Council and the Heads Over Heels Advisory Board. She is Chair of Ascham School and the Hunger Project Australia. Previously she was a Director of BlueScope Steel Limited, Woolworths Limited, Goodman Group, Wattyl Limited, Lend Lease US Office Trust, Lend Lease Limited, MLC and a Trustee of the Sydney Opera House. She was also President of Chief Executive Women and a member of the UTS Business School Advisory Board.

Ms Grady was formerly a partner at McKinsey & Company where she spent 15 years consulting to clients in a broad range of industries on strategic and operational issues. She was a worldwide leader of the firm's Organisation and Change Management Practice and the first woman outside the United States to be elected to McKinsey's global partnership. In Australia, she headed McKinsey's Consumer Goods, Retailing and Marketing Practice Group. Ms Grady was made a member of the Order of Australia in 2009 for her contribution to business and to the promotion of women leaders and in 2001 received a Centenary Medal for service to Australian society through business leadership.

Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin (age 54)
Independent Voting Director since March 2010 (of Macquarie Group since March 2010)
Member of the Board Audit Committee

Michael Hawker was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, Mr Hawker held a range of positions at Westpac, including Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of positions at Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe. Currently, Mr Hawker is Chairman of the George Institute for Global Health, a member of the George Institute for Global Health (UK) and a Director of Aviva Plc Group, the largest insurance provider in the UK. He is also Director of Washington H Soul Pattinson and Company Limited and Chairman of Australian Rugby Union and SANZAR (South African, New Zealand and Australian Rugby). Mr Hawker is a member of the International Rugby Board Council, the Executive Committee of the International Rugby Board and of the board of trustees of the Giant Steps Foundation. He was previously President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, a board member of the Geneva Association and a member of the Financial Sector Advisory Council. Mr Hawker is additionally the founder of the Australian Business in the Community Network.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 66)
Independent Voting Director since June 2003 (of Macquarie Group since August 2007)
Member of the Board Audit Committee

Peter Kirby was Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries PLC group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere. Currently he is Chairman of DuluxGroup Limited. Mr Kirby's previous directorships include Chairman and Director of Medibank Private Limited, Director of Orica Limited and the Beacon Foundation.

Helen M Nugent AO, BA (Hons) (Qld), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 65)
Independent Voting Director since June 1999 (of Macquarie Group since August 2007)

Helen Nugent is currently Chairman of Funds SA, Chairman of Veda and a Director of Origin Energy Limited. Previously, Dr Nugent has been involved in the financial services sector as Director of Strategy at Westpac Banking Corporation, Chairman of Swiss Re (Australia) Limited and a Non-Executive Director of the State Bank of New South Wales and Mercantile Mutual. In addition, she was previously Chairman of Hudson (Australia and New Zealand) and a Director of UNiTAB, Carter Holt Harvey, Australia Post and Herbert Smith Freehills. She has also been a Partner at McKinsey and Company.

Dr Nugent has been actively involved in the arts and education. In the arts, she is Chairman of the National Portrait Gallery and was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, she is currently Chancellor of Bond University and President of Cranbrook School. Dr Nugent is also a member of the Australian Olympic Foundation's Investment Advisory Committee. Previously she was a member of the Bradley Review into Higher Education and Professor in Management and Director of the MBA Program at the Australian Graduate School of Management.

Nicola M Wakefield Evans, BJuris/BLaw (UNSW), MAICD (age 53)
Independent Voting Director since February 2014 (of Macquarie Group since February 2014)

Nicola Wakefield Evans is currently a director of Lend Lease Corporation Limited, Toll Holdings Limited and BUPA Australia & New Zealand Group. She is also a member of the Advisory Board at the University of New South Wales Law School and a director of Asialink at the University of Melbourne. Ms Wakefield Evans has extensive experience as a corporate finance lawyer at King & Wood Mallesons (previously Mallesons Stephen Jaques), where she was a partner for over 20 years, including Managing Partner, Practice division (Sydney) from 2004 to 2007, and Managing Partner, International (Hong Kong) from 2007 to 2010.

Ms Wakefield Evans is a member of the Australian Institute of Company Directors, the International Bar Association and Chief Executive Women. She holds a Bachelor of Jurisprudence and Laws and is a qualified lawyer in Australia, Hong Kong and the United Kingdom. She was also included in the Australian Financial Review and Westpac Group's inaugural list of 'Australia's 100 Women of Influence'.

Peter H Warne, BA (Macquarie) FAICD (age 58)
Independent Voting Director since July 2007 (of Macquarie Group since August 2007)

Peter Warne was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. Mr Warne was a Director of the Sydney Futures Exchange (SFE) from 1990 and served as Deputy Chairman from 1995 to 1999. When the SFE merged with the Australian Securities Exchange (ASX Limited) in July 2006, he became a Director of ASX Limited, a position he still holds. Currently, Mr Warne is on the boards of other listed entities, including Chairman of ALE Property Group, Chairman of OzForex Group Limited and Deputy Chairman of Crowe Horwath Australasia Limited. He is also a Director of Securities Research Centre of Asia Pacific Limited and of New South Wales Treasury Corporation, a member of the Advisory Board of the Australian Office of Financial Management and a Patron of Macquarie University Foundation. He is a former Director of Next Financial Limited, Macquarie Capital Alliance Group and a former Chairman and Director of TEYS Limited.

The Company Secretary of Macquarie Bank is Dennis Leong. Paula Walsh and Ida Lawrance are assistant company secretaries of Macquarie Bank.

The business address of each Voting Director and the Company Secretary is No. 1 Martin Place, Sydney, NSW 2000, Australia.

As at 31 March 2014, Macquarie Group Limited had over 13,913 employees worldwide.

Not all of the risk factors described below will be applicable to a particular series of Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investments in the Structured Products. Please read the following section together with the risk factors set out in the relevant supplemental listing document.

General risks relating to us

Non-collateralised structured products

The Structured Products are not secured on any of our assets or any collateral. Each series of Structured Products constitutes our general unsecured contractual obligations and of no other person and will rank equally with our other unsecured contractual obligations and unsecured and unsubordinated debt. At any given time, the number of our Structured Products outstanding may be substantial.

Repurchase of our Structured Products

Our Group may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

Our creditworthiness

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under these products against:

(a) any company which issues the underlying shares;

(b) the trustee or the manager of the underlying trust; or

(c) any index compiler of the underlying index.

We do not guarantee the repayment of your investment in any Structured Product.

Any downgrading of our rating by rating agencies such as S&P and Moody's could result in a reduction in the value of the Structured Products.

No deposit liability or debt obligation

We are obliged to deliver to you the Cash Settlement Amount (if any) under the Conditions upon expiry. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

Structured Products are not bank deposits and they are not liabilities in relation to protected accounts with Macquarie Bank Limited (ADI). They are unsecured obligations of Macquarie Bank, and in the event of the winding up of Macquarie Bank, they would rank equally with other unsecured obligations and liabilities of Macquarie Bank, in the order of their priority. Section 13A(3) of the Banking Act provides that if Macquarie Bank becomes unable to meet its obligations or suspends payment, the assets of Macquarie Bank in Australia are to be available to satisfy specified liabilities in priority to all other liabilities of Macquarie Bank (including the obligations of Macquarie Bank under the Structured Products). The specified liabilities include first, certain obligations of Macquarie Bank to APRA in respect of amounts payable by APRA to holders of protected accounts and any administration costs incurred by APRA, and then as the next priority other liabilities of Macquarie Bank in Australia in relation to protected accounts that account-holders keep with the ADI, following this any debts that the ADI owes to the Reserve Bank of Australia and any liabilities under a certified support contract (certified under section 11CB of the Banking Act) and then, other liabilities, in the order of their priority.

Conflicts of interest

The Group is a diversified financial institution with relationships in countries around the world. The Group engages in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for our own account or the account of others. In addition, the Group, in connection with our other business activities, may possess or acquire material information about the Underlying Assets or may issue or update research reports on the Underlying Assets. Such activities, information and/or research reports may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Group:

(a) has no obligation to disclose such information about the Underlying Assets or such activities. The Group and our officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

(b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share, unit or other security or in a commercial banking capacity for the issuer of any share, units or other security or the trustee or the manager of the trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

General risks relating to Structured Products

You may lose all your investment in the Structured Products

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest, foreign exchange, time value, market, and/or political risks. Structured Products may expire worthless.

Options, warrants and asset linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The prices of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the price or level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

The Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the entire amount of your investment and transaction costs.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on your investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset as may be specified in the relevant supplemental listing document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in the anticipated direction.

The value of the Structured Products may be disproportionate or opposite to movement in the price/level of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the price/level of the Underlying Assets is increasing (for a call warrant or a bull CBBC), the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset specified in the relevant supplemental listing document, you should recognise the complexities of utilizing Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict:

(a) if and to what extent a secondary market may develop in any series of Structured Products;

(b) at what price such series of Structured Products will trade in the secondary market; and

(c) whether such market will be liquid or illiquid.

The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is closed out, the number of Structured Products outstanding in that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time decay

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the length of the period remaining to expiration and expectations concerning the range of possible future price/level of the Underlying Assets. The value of a Structured Product is likely to decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

Exchange rate risk

There may be an exchange rate risk in the case of Structured Products where the Cash Settlement

Amount will be converted from a foreign currency into the Settlement Currency. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation.

Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the General Conditions and/or the relevant Product Conditions using a fixed exchange rate. The cost to us of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products, which will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar Structured Product issued without such a quanto feature.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See "Do you need to pay any tax?" in the section headed "Important Information" for further information.

Modification to the Conditions

Under the Conditions, we may without your consent, effect any modification of the terms and conditions of the Structured Products or Instrument which in our opinion, is:

(a) not materially prejudicial to the interest of the Structured Products holders generally (without considering the circumstances of any individual Structured Products holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Possible early termination for illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (i) for us to perform our obligations under the Structured Products in whole or in part as a result of: (a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or (b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (a) and (b), a "**Change in Law Event**"); or (ii) for us or any of our affiliates to maintain our hedging arrangements with respect to the Structured Products due to a Change in Law Event. We may at our absolute discretion terminate the Structured Products. In such event, we will, if and to the extent permitted by applicable law, pay an amount calculated by us to be the fair market value of the Structured Products prior to such termination notwithstanding the illegality or impracticability less our cost of unwinding any related hedging arrangements.

Foreign Account Tax Compliance withholding may affect payments on the Structured Products

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

While the Structured Products are in dematerialized form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. An Issuer's obligations under the Structured Products are discharged once it has paid the clearing systems and an Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

FATCA IS PARTICULARLY COMPLEX. EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO DETERMINE HOW THIS LEGISLATION MIGHT AFFECT EACH INVESTOR IN ITS PARTICULAR CIRCUMSTANCES.

Risks relating to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to:

(a) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the shares or units would normally be entitled to; or

(b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, speculation and (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

You must be experienced with dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

In the case of Structured Products relating to a single equity or a unit trust ("**Security**"), certain corporate events relating to the Security require or, as the case may be, permit us to make certain adjustments or amendments to the General Conditions and/or the relevant Product Conditions. You have limited anti-dilution protection under the General Conditions and the relevant Product Conditions of the Structured Products. We may in a commercially reasonable manner adjust, among other things, the Entitlement, the Exercise Price (if applicable), the Call Price (if applicable), the Strike Price (if applicable) or any other terms (including without limitation the Closing Price of the Security) of any series of Structured Product for events such as rights issue, bonus issue, subdivision, consolidation, cash distribution or restructuring event. However, we are not required to make an adjustment for every event that may affect a Security, in which case the market price of the Structured Products and the return upon the expiry of the Structured Products may be affected.

In addition, if the Security ceases to be listed on the Stock Exchange during the term of the Structured Products, we may make adjustments and/or amendments to the rights attaching to the Structured Products pursuant to the Conditions of the Structured Products. Such adjustments and/or amendments will be conclusive and binding on you.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more shares comprising in the index are not trading. If this occurs on the Valuation Date but such occurrence does not constitute a Market Disruption Event under the Conditions then the value of such share(s) may not be included in the level of the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

Suspension of trading

If the Underlying Asset of a series of Structured Products is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products will be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. In such circumstances, you should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

Delay in settlement

Unless otherwise specified in the General Conditions and/or the relevant Product Conditions, in the case of any expiry of Structured Products, there may be a time lag between the date on which the Structured Products expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of expiry and the determination of the settlement amount will be specified in the General Conditions and/or the relevant Product Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such Structured Products arising from our determination that a Market Disruption Event, Settlement Disruption Event or delisting of a company or trust has occurred at any relevant time or that adjustments are required in accordance with the General Conditions and/or the relevant Product Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the General Conditions and the relevant Product Conditions.

Risks relating to Structured Products over trusts

General risks

In the case of Structured Products relate to the units of a trust:

(a) neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

Where the Underlying Asset of Structured Products comprises the units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Synthetic exchange traded funds

Additionally, where the Underlying Asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

Risk relating to CBBCs

Correlation between the price of a CBBC and the price/level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price/level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price/level of the Underlying Asset.

Mandatory Call Event is irrevocable except in limited circumstances

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Price/Call Level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Non-recognition of Post MCE Trades

The Stock Exchange and its recognised exchange controller, HKEx, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEx) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

Residual Value will not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event will not include the residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of a Category R CBBC upon a Mandatory Call Event.

Delay in announcements of a Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called. You must however be aware that there may be delay in the announcements of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Our hedging activities may adversely affect the price/level of the Underlying Asset

We and/or any of our affiliates may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the offering of any CBBCs, we and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any of our affiliates, we and/or any of our affiliates may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price/level of the Underlying Asset and/or the value of CBBCs and which could be deemed to be adverse to your interests. We and/or our affiliates are likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we and/or our affiliates provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Unwinding of hedging arrangements

The trading and/or hedging activities of us or our affiliates related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset and may trigger a Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, our unwinding activities may cause a fall or rise (as the case may be) in the trading price/level of the Underlying Asset, leading to a Mandatory Call Event as a result of such unwinding activities.

In respect of Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of Category R CBBCs, before the occurrence of a Mandatory Call Event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value for the CBBCs.

Risk relating to the legal form of the Structured Products

Each series of Structured Products will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

Structured Products issued in global registered form and held on your behalf within a clearing system effectively means that the evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your broker/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEx website and/or released by HKSCC to its participants via CCASS. You will need to check the HKEx website regularly and/or rely on your brokers/ custodians to obtain such notices/ announcements; and

(e) following the expiry date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount in accordance with the General Conditions and the relevant Product Conditions to HKSCC Nominees Limited as the "**holder**" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

Fee arrangements with brokers and conflicts of interest of brokers

We may enter into fee arrangements with brokers and/or any of its affiliates with respect to the primary market in the Structured Products. You should note that any brokers with whom we have a fee arrangement does not, and cannot be expected to deal, exclusively in the Structured Products, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

Effect of the combination of risk factors unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

APPENDIX 1 — GENERAL CONDITIONS OF STRUCTURED PRODUCTS

These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the relevant Product Conditions set out in Appendix 2 and Appendix 3 to this Base Listing Document and the relevant Supplemental Listing Document in relation to the particular series of Structured Products. These General Conditions, the relevant Product Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document together constitute the Conditions of the relevant Structured Products, and will be endorsed on the Global Certificate representing the relevant Structured Products. The relevant Supplemental Listing Document in relation to the issue of any series of Structured Products may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these General Conditions and the relevant Product Conditions, replace or modify these General Conditions and the relevant Product Conditions for the purpose of such series of Structured Products.

1. Definitions

"**Applicable Law**" means any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power;

"**Base Listing Document**" means the base listing document relating to the Structured Products dated 21 May 2014 and issued by the Issuer (including any addenda to such base listing document issued by the Issuer from time to time);

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Cash Settlement Amount**" has the meaning given to it in the relevant Product Conditions;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**CCASS Settlement Day**" has the meaning ascribed to the terms "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Conditions**" means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Structured Products;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**General Conditions**" means these general terms and conditions. These General Conditions apply to each series of Structured Products;

"**Global Certificate**" means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

"**HKEx**" means Hong Kong Exchanges and Clearings Limited;

"**HKSCC**" means Hong Kong Securities Clearing Company Limited;

"**Holder**" means each person who is for the time being shown in the Register as the holder of the Structured Products, and such person shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Structured Products;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Instrument**" means an instrument by way of deed poll dated 30 May 2006 and executed by the Issuer;

"**Issuer**" means Macquarie Bank Limited;

"**Nominee**" means HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS);

"**Product Conditions**" means, in respect of each series of Structured Product, the product specific terms and conditions that apply to that particular series of Structured Product;

"**Register**" means, in respect of each series of Structured Products, the register of the Holders of such series kept by the Issuer outside of Hong Kong;

"**Sponsor**" means Macquarie Capital Securities Limited;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Structured Products**" means derivative warrants ("**Warrants**"), callable bull/bear contracts ("**CBBCs**") or such other structured products to be issued by the Issuer from time to time. References to "Structured Products" are to be construed as references to a particular series of Structured Products and, unless the context otherwise requires, any further Structured Products issued pursuant to General Condition 9; and

"**Supplemental Listing Document**" means the supplemental listing document relating to a particular series of Structured Products.

2. Form, Status, Transfer, Title and Additional Costs and Expenses

2.1 The Structured Products are issued in registered form subject to and with the benefit of the Instrument. The Holders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Sponsor.

The Structured Products are represented by a Global Certificate. No definitive certificate will be issued. The Structured Products can only be exercised by HKSCC or the Nominee.

2.2 The settlement obligation of the Issuer in respect of the Structured Products represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Structured Products represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of structured products, deposit liabilities of the Issuer or a debt obligation of any kind.

2.3 Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

2.4 Holders shall note that they shall be responsible for additional costs and expenses in connection with any exercise of the Structured Products including the Exercise Expenses which amount shall, subject to the applicable Product Conditions and to the extent necessary, be payable to the Issuer and collected from the Holders.

3. Rights and Exercise Expenses relating to Structured Products

3.1 Every Board Lot initially entitles the Holder, upon due exercise and upon compliance with the applicable Product Conditions, the rights to receive payment of the Cash Settlement Amount, if any.

3.2 Upon exercise of the Structured Products, the Holder will be required to pay a sum equal to all the expenses resulting from the exercise of such Structured Products. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with the applicable Product Conditions.

4. Sponsor

4.1 The Sponsor will not assume any obligation or duty to or any relationship of agency or trust for the Holder.

4.2 The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Structured Products are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holder in accordance with General Condition 8.

5. Purchase

The Issuer or any of its subsidiaries may at any time purchase Structured Products at any price in the open market or by tender or by private treaty. Any Structured Products so purchased may be held or resold or surrendered for cancellation.

6. Global Certificate

A Global Certificate representing the Structured Products will be deposited within CCASS in the name of the Nominee. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

7. Meetings of Holders and Modification

7.1 *Meetings of Holders*. The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 percent of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 percent of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

7.2 *Modification*. The Issuer may, without the consent of the Holder, effect any modification of the terms and conditions of the Structured Products or the Instrument which, in the opinion of the Issuer, is:

(a) not materially prejudicial to the interests of the Holder generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holder and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with General Condition 8 but failure to give such notice will not affect the validity of such modification.

8. Notices

All notices to the Holder will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

9. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holder, to create and issue further structured products so as to form a single series with the Structured Products.

10. Illegality or Impracticability

The Issuer is entitled to terminate the Structured Products if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Structured Products, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Structured Products due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Structured Product held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 8.

11. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under the Conditions will be made in good faith and in a commercially reasonable manner.

12. Governing Law

The Structured Products and the Instrument are governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the Structured Products) shall be deemed to have submitted for all purposes in connection with the Structured Products and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13. Language

A Chinese translation of these General Conditions and the applicable Product Conditions will be made available for collection during normal office hours from the Sponsor's office. In the event of any inconsistency between the Chinese translation and the English version of these General Conditions and/or the applicable Product Conditions, the English version of these General Conditions and/or the applicable Product Conditions shall prevail.

14. Prescription

Claims against the Issuer for payment of any amount in respect of the Structured Products will become void unless made within ten years of the Expiry Date and thereafter, any sums payable in respect of such Structured Products shall be forfeited and shall revert to the Issuer.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS

PART A — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Valuation Date during the one-half hour period that ends at the close of trading, of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single equities;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Average Price is determined in accordance with the Conditions;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments

3.1 *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's Closing Price on the day of announcement by the Company, or it is instructed by the Stock Exchange.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

5. Delisting

5.1 If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

PART B — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED INDEX WARRANTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level - Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level - Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Closing Level**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Supplemental Listing Document;

"**Listing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

(ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of the cash settled Index Warrants;

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to adjustment in accordance with Product Condition 3;

"**Successor Index Compiler**" has the meaning given to it in Product Condition 3.1; and

"**Valuation Date**" shall have the meaning given to it in the relevant Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments to the Index

3.1 *Successor Index Compiler Calculates and Reports Index*. If the Index is (a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or (b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 *Modification and Cessation of Calculation of Index*. If (a) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or (b) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

PART C — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(a) in the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Designated Bank Account**" means the relevant bank account designated by the Holder;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on any Valuation Date during the one-half hour period that ends at the close of trading, of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Product Conditions**" means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single unit trusts;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (a) the Expiry Date; and (b) the day on which the Average Price is determined in accordance with the Conditions;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

2. Exercise of Warrants

2.1 Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Product Conditions) is positive (without notice being given to the Holder). The Holder will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holder the Cash Settlement Amount (if any) in accordance with Product Condition 2.5.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately thereafter and all rights of the Holders and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.4 Subject to exercise of Warrants in accordance with these Product Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Holder from the Register in respect of the number of Warrants which are the subject of a valid exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

2.5 Upon exercise of Warrants in accordance with these Product Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

2.6 The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Product Condition 2.5.

3. Adjustments

3.1 *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of Units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving trust in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (**"Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 *Cash Distribution*. No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special dividend or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's Closing Price on the day of announcement by the Trust, or it is instructed by the Stock Exchange.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Unit

OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Termination or Liquidation

4.1 In the event of a Termination or liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

4.2 For the purpose of this Product Condition 4, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (d) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

APPENDIX 3 — PRODUCT CONDITIONS OF CBBCS

PART A — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Company**" means the Company specified as such in the relevant Supplemental Listing Document;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time on any Trading Day during the Observation Period;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call

Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEx and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date,

whichever is the earlier.

3. Adjustments

3.1 *Rights Issues*

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 *Cash Distribution*

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's Closing Price on the day of announcement by the Company, or it is instructed by the Stock Exchange.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the Applicable Law.

5. Delisting

5.1 If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

PART B — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBC:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is different from the Strike Level;

“**Closing Level**” has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Designated Bank Account**” means the relevant bank account designated by each Holder;

“**Divisor**” means the number specified as such in the relevant Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**First Exchange Rate**” means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

“**Index**” means the index specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Index Business Day**” means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

“**Index Compiler**” has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Index Currency Amount**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Index Exchange**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Interim Currency**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Listing Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Mandatory Call Event**” occurs when the Spot Level is:

(a) in the case of a series of bull CBBCs, at or below the Call Level; or

(b) in the case of a series of bear CBBCs, at or above the Call Level,

at any time on any Index Business Day during the Observation Period;

“**Market Disruption Event**” means:

(a) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of the following events:

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

(ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by the relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which the Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

   (i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

   (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only; and

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Supplemental Listing Document;

"**Minimum Index Level**" means the lowest Spot Level during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Price Source**", if applicable, has the meaning given to it in the relevant Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{Index Currency Amount} \times \text{One Board Lot}}{\text{Divisor}}$$

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions (as the case may be);

"**Spot Level**" means:

(a) if no Price Source is specified, the spot level of the Index as compiled and published by the Index Compiler; or

(b) if a Price Source is specified, the spot level of the Index as published on the Price Source;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEx and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable (such as miscalculation of the index level by the Index Compiler) and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the

Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities comprising the Index.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date,

whichever is the earlier.

3. Adjustments to the Index

3.1 *Successor Index Compiler Calculates and Reports Index*

If the Index is:

(a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or

(b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 *Modification and Cessation of Calculation of Index*

If:

(a) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities and other routine events); or

(b) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

PART C — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meanings given to them in the General Conditions or the relevant Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**General Conditions**" means the general terms and conditions of Structured Products set out in Appendix 1 to the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time on any Trading Day during the Observation Period;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in: (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(ii) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x One Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day after (a) the end of the MCE Valuation Period or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 *Automatic exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBCs which have not been automatically exercised will expire worthless.

2.3 *Mandatory Call Event*

(a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 8. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of HKEx and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 *Entitlement*

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date or in the event that the CBBCs have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer and Sponsor*

None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to the Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Units.

2.9 *Liability of Issuer and Sponsor*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date,

whichever is the earlier.

3. Adjustments

3.1 *Rights Issues*

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one percent or less of the Entitlement, then no adjustment will be made unless it is instructed by the Stock Exchange. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivisions; and

(b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation shall have taken effect.

3.4 *Restructuring Events*

If it is announced that the Trust is to or may merge with or into another trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving trust in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Trading Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 *Cash Distribution*

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's Closing Price on the day of announcement by the Trust, or it is instructed by the Stock Exchange.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Unit

OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Product Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Product Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 8.

4. Termination or liquidation

4.1 In the event of a Termination or liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the

Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the Applicable Law.

4.2 For the purposes of this Product Condition 4, "**Termination**" means (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (c) the Trustee ceases to be authorized under the Trust to hold the property of the Trust in its name and perform its obligation under the Trust Deed; or (d) the Trust ceases to be authorized as an authorized collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to the General Conditions and these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holder, make such adjustments to the entitlements of the Holder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holder in accordance with General Condition 8 as soon as practicable after they are determined.

Sponsor:

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

APPENDIX 4 — A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Appendix 4 is based on, extracted or reproduced from the website of S&P at https://ratings.standardandpoors.com and the website of Moody's at https://www.moodys.com, as of the day immediately preceding the date of this document. Information appearing on those websites does not form part of this document, and we accept no responsibility for the accuracy or completeness of the information appearing on those websites, except that we have accurately extracted and reproduced such information in this Appendix 4 and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Appendix 4 and/or what a credit rating means, you should seek independent professional advice.

What is a credit rating?

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

What do the credit ratings mean?

Below are guidelines issued by S&P and Moody's on what each of their investment-grade ratings means, as of the day immediately preceding the date of this document.

S&P long-term issuer credit ratings

AAA
An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA
An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A
An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB
An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Plus (+) or minus (-)
The above ratings (except for 'AAA') may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Please refer to https://ratings.standardandpoors.com/about/about-credit-ratings for further details.

Moody's long-term ratings definitions

Aaa
Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa
Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A
Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa
Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Modifiers "1", "2" and "3"
Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to https://www.moodys.com/Pages/amr002002.aspx for further details.

Rating Outlooks

A rating outlook indicates the potential direction of a long-term credit rating over the intermediate term (for example, this is typically six months to two years for S&P). A rating outlook issued by S&P or Moody's will usually indicate whether the potential direction is likely to be "positive", "negative", "stable" or "developing". Please refer to the abovementioned websites of the relevant credit rating agencies for further details regarding rating outlooks published by the relevant credit rating agencies.

Our annual financial statements for the year ended 31 March 2014 and independent audit report set out in this Appendix 5 are extracted from the 2014 Annual Report. Unless otherwise stated, these financial statements have been prepared in accordance with our usual accounting policies and procedures.

References to page numbers in this Appendix 5 are to the pages in our annual financial statements for the year ended 31 March 2014 and independent audit report extracted from the 2014 Annual Report.

The financial statements of Macquarie Bank for the year ended 31 March 2014 included in this Base Listing Document have been audited by PricewaterhouseCoopers, Chartered Accountants, as stated in its opinion appearing therein. The audit opinion of PricewaterhouseCoopers for these financial statements was provided to the addressees of the report at the date of its issue and is subject to the disclaimers and qualifications contained therein. To the extent permitted by law, PricewaterhouseCoopers expressly disclaims and accepts no responsibility to any party other than the addressees of such report at the date of its issue.

Macquarie Bank Limited
2014 Financial Report
Contents

The Financial Report was authorised for issue by the Directors on 2 May 2014.
The Consolidated Entity has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2014

	Notes	**Consolidated 2014 $m**	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Interest and similar income		**4,316**	4,394	**3,352**	3,203
Interest expense and similar charges		**(2,601)**	(2,966)	**(2,273)**	(2,491)
Net interest income	2	**1,715**	1,428	**1,079**	712
Fee and commission income	2	**1,685**	1,513	**237**	127
Net trading income	2	**1,602**	1,278	**1,408**	1,057
Share of net profits of associates and joint ventures accounted for using the equity method	2	**14**	40	**–**	–
Other operating income and charges	2	**470**	342	**961**	1,173
Net operating income		**5,486**	4,601	**3,685**	3,069
Employment expenses	2	**(1,684)**	(1,511)	**(999)**	(875)
Brokerage, commission and trading-related expenses	2	**(697)**	(523)	**(448)**	(287)
Occupancy expenses	2	**(140)**	(145)	**(93)**	(93)
Non-salary technology expenses	2	**(100)**	(88)	**(64)**	(52)
Other operating expenses	2	**(1,470)**	(1,305)	**(964)**	(855)
Total operating expenses		**(4,091)**	(3,572)	**(2,568)**	(2,162)
Operating profit before income tax		**1,395**	1,029	**1,117**	907
Income tax expense	4	**(621)**	(355)	**(366)**	(86)
Profit after income tax		**774**	674	**751**	821
Profit attributable to non-controlling interests:					
Macquarie Income Preferred Securities	5	**(4)**	(4)	**–**	–
Other non-controlling interests		**–**	1	**–**	–
Profit attributable to non-controlling interests		**(4)**	(3)	**–**	–
Profit attributable to equity holders of Macquarie Bank Limited		**770**	671	**751**	821
Distributions paid or provided for on:					
Macquarie Income Securities	5	**(18)**	(21)	**–**	–
Convertible debentures	5	**–**	–	**(4)**	(4)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**752**	650	**747**	817

The above income statements should be read in conjunction with the accompanying notes.

Statements of comprehensive income
for the financial year ended 31 March 2014

	Notes	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Profit after income tax		**774**	674	**751**	821
Other comprehensive income/(expense) [1]:					
Available for sale investments, net of tax	29	**(18)**	10	**(20)**	66
Cash flow hedges, net of tax	29	**18**	(10)	**(5)**	7
Share of other comprehensive income/(expense) of associates and joint ventures, net of tax	29	**–**	(2)	**–**	–
Exchange differences on translation of foreign operations, net of hedge and tax		**506**	(29)	**13**	(4)
Total other comprehensive income/(expense)		**506**	(31)	**(12)**	69
Total comprehensive income		**1,280**	643	**739**	890
Total comprehensive income/(expense) is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**1,244**	622	**735**	886
Macquarie Income Securities holders		**18**	21	**–**	–
Macquarie Income Preferred Securities holders		**18**	1	**–**	–
Convertible debenture holders		**–**	–	**4**	4
Other non-controlling interests		**–**	(1)	**–**	–
Total comprehensive income		**1,280**	643	**739**	890

(1) All items of other comprehensive income/(expense) may be reclassified subsequently to profit or loss.

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Statements of financial position
as at 31 March 2014

	Notes	Consolidated 2014 $m	Consolidated 2013[1] $m	Bank 2014 $m	Bank 2013 $m
Assets					
Receivables from financial institutions	6	**16,151**	12,607	**14,778**	10,857
Trading portfolio assets	7	**21,640**	18,853	**19,472**	16,323
Derivative assets		**12,468**	14,595	**11,591**	13,513
Investment securities available for sale	8	**12,182**	14,190	**11,196**	15,641
Other assets	9	**8,302**	7,895	**5,035**	4,836
Loan assets held at amortised cost	10	**57,170**	49,218	**34,978**	25,653
Other financial assets at fair value through profit or loss	12	**2,195**	4,645	**2,094**	3,358
Due from related body corporate entities	31	**2,244**	1,060	**2,029**	994
Due from subsidiaries	31	**–**	–	**26,228**	19,791
Property, plant and equipment	13	**6,045**	5,352	**328**	221
Interests in associates and joint ventures accounted for using the equity method	14	**551**	528	**110**	175
Intangible assets	15	**785**	795	**57**	55
Investments in subsidiaries	16	**–**	–	**4,588**	4,243
Deferred tax assets	18	**178**	262	**90**	363
Total assets		**139,911**	130,000	**132,574**	116,023
Liabilities					
Trading portfolio liabilities	19	**2,459**	1,384	**2,344**	1,371
Derivative liabilities		**11,748**	14,725	**11,498**	14,588
Deposits	20	**42,302**	40,966	**41,624**	39,992
Other liabilities	21	**8,521**	8,147	**5,277**	4,520
Payables to financial institutions	22	**16,573**	15,180	**16,362**	14,644
Other financial liabilities at fair value through profit or loss	23	**937**	919	**1,959**	739
Due to related body corporate entities	31	**7,443**	5,456	**6,833**	5,250
Due to subsidiaries	31	**–**	–	**14,835**	7,758
Debt issued at amortised cost	24	**37,255**	31,826	**20,508**	16,306
Provisions	25	**86**	104	**60**	68
Deferred tax liabilities	18	**625**	435	**132**	236
Total liabilities excluding loan capital		**127,949**	119,142	**121,432**	105,472
Loan capital					
Subordinated debt at amortised cost		**2,464**	2,203	**2,464**	2,203
Total loan capital	27	**2,464**	2,203	**2,464**	2,203
Total liabilities		**130,413**	121,345	**123,896**	107,675
Net assets		**9,498**	8,655	**8,678**	8,348
Equity					
Contributed equity	28	**8,101**	8,077	**8,157**	8,152
Reserves	29	**(68)**	(560)	**22**	34
Retained earnings	29	**1,388**	1,046	**499**	162
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**9,421**	8,563	**8,678**	8,348
Non-controlling interests	29	**77**	92	**–**	–
Total equity		**9,498**	8,655	**8,678**	8,348

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of changes in equity
for the financial year ended 31 March 2014

	Notes	Contributed equity[1] $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
						Consolidated	
Balance at 1 April 2012		8,077	(532)	1,658	9,203	68	9,271
Profit after income tax		–	–	671	671	3	674
Other comprehensive expense, net of tax		–	(28)	–	(28)	(3)	(31)
Total comprehensive (expense)/income		–	(28)	671	643	–	643
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,283)	(1,283)	–	(1,283)
Non-controlling interests:							
Contributions of equity, net of transaction costs		–	–	–	–	27	27
Distributions paid or provided for		–	–	–	–	(3)	(3)
		–	–	(1,283)	(1,283)	24	(1,259)
Balance at 31 March 2013		**8,077**	**(560)**	**1,046**	**8,563**	**92**	**8,655**
Profit after income tax		**–**	**–**	**770**	**770**	**4**	**774**
Other comprehensive income, net of tax		**–**	**492**	**–**	**492**	**14**	**506**
Total comprehensive income		**–**	**492**	**770**	**1,262**	**18**	**1,280**
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	**–**	**–**	**(428)**	**(428)**	**–**	**(428)**
Non-controlling interests:							
Distributions of equity, net of transaction costs		**–**	**–**	**–**	**–**	**(29)**	**(29)**
Distributions paid or provided for		**–**	**–**	**–**	**–**	**(4)**	**(4)**
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	**24**	**–**	**–**	**24**	**–**	**24**
		24	**–**	**(428)**	**(404)**	**(33)**	**(437)**
Balance at 31 March 2014		**8,101**	**(68)**	**1,388**	**9,421**	**77**	**9,498**

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i) - Summary of significant accounting policies.

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Non-controlling interests $m	Total equity $m
							Bank
Balance at 1 April 2012		8,155	(35)	607	8,727	–	8,727
Profit after income tax		–	–	821	821	–	821
Other comprehensive income, net of tax		–	69	–	69	–	69
Total comprehensive income		–	69	821	890	–	890
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,266)	(1,266)	–	(1,266)
Other equity movements:							
Return of capital to ultimate parent entity in relation to share-based payments	28	(3)	–	–	(3)	–	(3)
		(3)	–	(1,266)	(1,269)	–	(1,269)
Balance at 31 March 2013		**8,152**	**34**	**162**	**8,348**	**–**	**8,348**
Profit after tax		**–**	**–**	**751**	**751**	**–**	**751**
Other comprehensive expense, net of tax		**–**	**(12)**	**–**	**(12)**	**–**	**(12)**
Total comprehensive income		**–**	**(12)**	**751**	**739**	**–**	**739**
Transactions with equity holders in their capacity as equity holders:							
Dividends and distributions paid or provided for	5	**–**	**–**	**(414)**	**(414)**	**–**	**(414)**
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	28	**5**	**–**	**–**	**5**	**–**	**5**
		5	**–**	**(414)**	**(409)**	**–**	**(409)**
Balance at 31 March 2014		**8,157**	**22**	**499**	**8,678**	**–**	**8,678**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of cash flows
for the financial year ended 31 March 2014

	Notes	Consolidated 2014 $m	Consolidated 2013[1] $m	Bank 2014 $m	Bank 2013 $m
Cash flows (used in)/from operating activities					
Interest received		**4,117**	4,208	**3,377**	3,075
Interest and other costs of finance paid		**(2,582)**	(2,982)	**(2,246)**	(2,526)
Dividends and distributions received		**24**	64	**561**	1,136
Fees and other non-interest income received		**2,545**	2,301	**697**	577
Fees and commissions paid		**(688)**	(670)	**(440)**	(429)
Net (payments for)/proceeds from trading portfolio assets and other financial assets/liabilities		**(951)**	(138)	**(1,773)**	1,336
Payments to suppliers		**(1,370)**	(1,265)	**(335)**	(983)
Employment expenses paid		**(1,591)**	(1,445)	**(956)**	(829)
Income tax paid		**(82)**	(679)	**(101)**	(547)
Life investment contract premiums received, disposal of investement assets and other unitholder contributions		**1,191**	2,029	**–**	–
Life insurance contract payments and payments for investment assets		**(1,123)**	(1,965)	**–**	–
Net loan assets granted		**(7,108)**	(1,185)	**(6,716)**	(5,328)
Recovery of loans previously written off	2	**17**	15	**6**	4
Net increase in amounts due to other financial institutions, deposits and other borrowings		**6,753**	1,427	**5,495**	4,790
Net cash flows (used in)/from operating activities	30	**(848)**	(285)	**(2,431)**	276
Cash flows from investing activities					
Net proceeds from investment securities available for sale		**3,875**	1,423	**3,990**	871
Proceeds from the disposal of associates and subsidiaries, net of cash deconsolidated		**58**	484	**463**	159
Payments for the acquisition of associates and subsidiaries, net of cash acquired		**(121)**	(813)	**(345)**	(316)
Proceeds from the disposal of property, plant and equipment, leased assets and intangible assets		**104**	176	**–**	–
Payments for the acquisition of property, plant and equipment, leased assets and intangible assets		**(519)**	(504)	**(110)**	(228)
Net cash flows from investing activities		**3,397**	766	**3,998**	486

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

	Notes	Consolidated 2014 $m	Consolidated 2013[1] $m	Bank 2014 $m	Bank 2013 $m
Cash flows used in financing activities					
Proceeds from non-controlling interests		**100**	29	**–**	–
Repayment of subordinated debt		**–**	(299)	**–**	(299)
Dividends and distributions paid		**(432)**	(1,288)	**(410)**	(1,266)
Net cash flows used in financing activities		**(332)**	(1,558)	**(410)**	(1,565)
Net increase/(decrease) in cash and cash equivalents		**2,217**	(1,077)	**1,157**	(803)
Cash and cash equivalents at the beginning of the financial year		**11,168**	12,245	**9,500**	10,303
Cash and cash equivalents at the end of the financial year	30	**13,385**	11,168	**10,657**	9,500

(1) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements
for the financial year ended 31 March 2014

Note 1
Summary of significant accounting policies

(i) Basis of preparation

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (which includes Australian Interpretations by virtue of AASB 1048 *Interpretation of Standards)* and the *Corporations Act 2001 (Cth)* and the *Banking Act 1959*.

Compliance with IFRS as issued by the IASB

Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has also been prepared in accordance with and complies with IFRS as issued by the IASB.

Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain other assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Bank and its subsidiaries (Consolidated Entity) and the consolidated financial report such as:

- fair value of financial assets and liabilities (note 39);
- impairment of loan assets held at amortised cost, investment securities available for sale and interests in associates and joint ventures (notes 1(xii), 1(xiii), 10 and 14);
- acquisitions and disposals of subsidiaries and associates and joint ventures (notes 1(ii), 14 and 43);
- distinguishing between whether assets or a business is acquired (note 1(iii));
- determination of control of structured entities (notes 1(ii), 10 and 36);
- determination of whether dividends and distributions received are recognised as income or a return of capital (note 1(vi));
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (notes 1(vii), 4 and 18); and
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (notes 1(xvi) and 15).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

New Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

The following key Accounting Standards and amendments to Accounting Standards became applicable in the current financial year:

AASB 10 replaces the previous guidance on control and retains the core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity. Whereas the control definition in the previous guidance focussed on 'risks and rewards', AASB 10 focuses on the combination of power, exposure to variable returns and ability to use the power to affect the returns. The Consolidated Entity's accounting policy for Principles of consolidation in accordance with AASB 10 is provided in note 1(ii).

Application of AASB 10 has resulted in the deconsolidation of certain entities that were previously consolidated due to exposure to a majority of risks and rewards; however the Consolidated Entity either does not have power over the relevant activities, or is not exposed to significant variable returns of the entity, or both. This includes entities where client monies are invested and the investors absorb substantially all the variable returns of the entity (leaving the Consolidated Entity with insignificant returns). Further, for such entities the Consolidated Entity acts as an agent for the investors as a result of their substantive right to remove the Consolidated Entity from its role as manager. For other entities, the Consolidated Entity has a majority of the risk of loss through its derivatives, however does not have significant variable returns since those derivatives create exposure that is passed through the entity and absorbed by investors.

The transitional provisions permit prior period comparatives to not be restated where the accounting outcome under the previous guidance is the same as that under AASB 10 as at the date of initial application, 1 April 2013. For all other situations, comparatives are restated retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as if AASB 10 had always been applied.

Initial application has resulted in a decrease in Life investment contracts and other unitholder investment assets (included in Other assets as at 31 March 2014) and Total assets, with a corresponding decrease in Life investment contracts and other unitholder liabilities (included in Other liabilities as at 31 March 2014) and Total liabilities. The amount of the adjustment to each of these financial statement line items is $6,037 million as at 31 March 2013 and $4,612 million as at 1 April 2012. Further, Contributed equity and Other assets are increased by $7 million as at 31 March 2013 and $6 million as at 1 April 2012 due to the reclassification of treasury shares. Initial application has not affected basic and diluted earnings per share in these periods.

The amount of the adjustment for each line item affected in the Consolidated statement of cash flows is as follows:

Consolidated statement of cash flows (extract)

	Consolidated 2013 $m Amount of adjustment
Cash flows from operating activities:	
Life investment contract premiums received, disposal of investment assets and other unitholder contributions	(7,139)
Life investment contract payments, payments for investment assets and other unitholder maturities	7,139
Net cash flows used in operating activities	–

Initial application of AASB 11, AASB 127 (Dec 2012) and AASB 128 (Dec 2012) has not resulted in any material impact in the current or prior financial year.

AASB 12 sets out disclosures for interests in entities that are subsidiaries, associates, joint ventures and unconsolidated structured entities. The application of AASB 12 in the current financial year has not affected any of the amounts recognised in the financial statements, however has resulted in additional disclosures of structured entities as provided in note 36 AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time.

AASB 13 *Fair value measurement*

AASB 13 became effective in the current financial year. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. In accordance with the transitional provisions, AASB 13 has been applied prospectively from 1 April 2013. The application of AASB 13 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional fair value disclosures as provided in note 39.

AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

AASB 2012-2 requires additional disclosures of enforceable master netting arrangements and their effect, even if assets and liabilities are not offset on the statement of financial position. In accordance with the transitional provisions, AASB 2012-2 has been applied retrospectively. The application of AASB 2012 in the current financial year has not had a material impact on the financial position nor performance of the Consolidated Entity, however has resulted in additional disclosures of certain netting arrangements as provided in note 40.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

AASB 2011-9 requires items included in other comprehensive income (OCI) in the Statement of comprehensive income (including prior period comparatives) to be grouped according to whether they may be reclassified subsequently to profit or loss. For the year ended 31 March 2014, all items have been presented as "Items that may be reclassified subsequently to profit or loss".

New Accounting Standards and amendments to Accounting Standards that are not yet effective

AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

AASB 2012-3 amends AASB 132 *Financial Instruments: Presentation* to clarify that to set off an asset with a liability:

- the right of set-off must be available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy
- certain gross settlement mechanisms (such as through a clearing house) may be equivalent to net settlement
- master netting arrangements where the legal right of offset is only enforceable on the occurrence of a future event (such as default of the counterparty) continue to not meet the requirements for netting.

AASB 2012-3 is effective for annual reporting periods beginning on or after 1 January 2014. The Consolidated Entity will first apply AASB 2012-3 in the financial year beginning 1 April 2014. The Consolidated Entity is continuing to assess the impact of AASB 2012-3.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

AASB 2011-4 removes the individual Key Management Personnel disclosure requirements from AASB 124 *Related Party Disclosures,* and is effective for annual reporting periods beginning on or after 1 July 2013. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2014. Whilst the amendments may reduce the disclosures provided, it will not affect any of the amounts recognised in the financial statements.

AASB 9 *Financial Instruments* and consequential amendments

AASB 9 includes the classification, measurement, recognition and derecognition requirements for financial instruments. A financial asset is measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise to cash flows on specified dates that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in OCI, but upon realisation, those accumulated changes in value are not recycled to the income statement. Dividends on such investments are recognised in profit or loss, unless they clearly represent a recovery of the cost of the investment. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

In respect of financial liabilities, the component of change in fair value of financial liabilities designated at fair value through profit or loss due to an entity's own credit risk are presented in OCI, unless such presentation creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of changes in credit risk) are presented in profit or loss. All other key requirements for classification and measurement of financial liabilities have been carried forward unamended from AASB 139. The recognition and derecognition requirements in AASB 139 have also been retained and relocated to AASB 9 unamended.

AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* makes amendments to AASB 9 to: (i) replace the general hedge accounting requirements to more closely align hedge accounting with risk management activities undertaken when hedging financial and non-financial risks; (ii) permit fair value changes due to changes in 'own credit risk' of financial liabilities measured at fair value to be recognised through other comprehensive income, without applying all other requirements of AASB 9 at the same time; and (iii) defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2017. This application date is subject to review and is expected to be revised by the IASB.

The Consolidated Entity is continuing to assess the full impact of adopting AASB 9.

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*

AASB 2013-5 defines an investment entity and provides an exception to the consolidation requirements in AASB 10. Investment entities are required to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. However, where a non-investment entity parent ultimately controls an investment entity, the parent must still consolidate the investment entity and all the underlying subsidiaries, reversing fair value used by the investment entity. The amendments also set out new disclosure requirements for investment entities.

AASB 2013-5 is effective for annual reporting periods beginning on or after 1 January 2014. The Consolidated Entity will first apply the amendments in the financial year beginning 1 April 2014. Initial application is not expected to result in any material impact for the Consolidated Entity.

(ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) over which the Bank has the power to direct the relevant activities, exposure to significant variable returns and the ability to utilise power to affect the Consolidated Entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

Structured entities

Structured entities (SEs) are those entities where voting rights do not have a significant effect on its returns, such as where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities. When assessing whether the Consolidated Entity controls (and therefore consolidates) an SE, judgement is required about whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE.

The Consolidated Entity has power over, and is exposed to significant variable returns through the residual risk associated with its Mortgage SEs and other SEs. The Consolidated Entity is further able to use its power to affect its variable returns in the SEs. The underlying assets, liabilities, revenues and expenses of the SEs are reported in the consolidated statement of financial position and consolidated income statement.

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Bank owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, respectively.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statement from the date on which control commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Bank and Consolidated Entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to direct the relevant activities of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Bank are carried in its financial statements at cost less impairment in accordance with AASB 127 *Separate Financial Statements.*

Interests in associates and joint ventures accounted for using the equity method

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control, and are accounted for under the equity method except those which are classified as held for sale.The equity method of accounting is applied in the consolidated financial report and involves the recognition of the Consolidated Entity's share of its associates' and joint ventures' post-acquisition profits or losses in the consolidated income statement, and the share of its post-acquisition movements in reserves.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

(iii) Business combinations

The purchase method of accounting is used to account for all business combinations (excepting business combinations involving entities or businesses under common control) which occurred before 1 April 2010. From 1 April 2010, business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of exchange plus, for business combinations occurring before 1 April 2010, any costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure any NCI relating to ordinary shares either at fair value or at the NCI's proportionate share of the fair value of the identifiable assets and liabilities. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration given in business combinations occurring from 1 April 2010, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Distinguishing between whether assets or a business is acquired involves judgement. Some of the factors that the Consolidated Entity uses in identifying a business combination are:

– the nature of the Consolidated Entity's industry and business model, which affects the nature of an input, process or output;
– whether the acquisition included at least a majority of the critical inputs (e.g. tangible or intangible assets, and intellectual property) and a majority of the critical processes (e.g. strategic processes, skilled and experienced workforce);
– the relative ease of replacing the critical processes not acquired by either integrating within the Consolidated Entity's existing processes or sub-contracting them to third parties; and
– the presence of goodwill.

Combinations between entities or businesses under common control

Combinations between entities under common control are business combinations in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory. In the Consolidated Entity's financial statements, assets and liabilities of the acquired entities are measured at the carrying amounts recognised previously in the seller's consolidated financial statements at the date of the combination. In the Bank's financial statements, assets and liabilities of the acquired businesses are measured at the carrying amounts recognised previously in the seller's financial statements at the date of the combination. Any difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in equity.

(iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management about components of the Consolidated Entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to the senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising seven reportable segments as disclosed in note 3. Information about products and services and geographical segments are based on the financial information used to produce the Consolidated Entity's financial statements.

(v) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Bank's and Consolidated Entity's financial statements are presented in Australian dollars (the presentation currency), which is also the Bank's functional currency.

Transactions and balances

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in OCI as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 1(xi)).

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see note 1(xi)).

Subsidiaries and other entities

The results and financial position of all foreign operations that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

– assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
– income and expenses for each income statement are translated at actual exchange rates at the dates of the transactions; and
– all resulting exchange differences are recognised in OCI within a separate component of equity – the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken directly to the foreign currency translation reserve through OCI. When a foreign operation is disposed of or any borrowings forming part of the net investment are repaid, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(vi) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

Net interest income

Interest income is brought to account using the effective interest method. The effective interest method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument.

Other fee and commission income, including fees from fund management, brokerage, account servicing, corporate advisory, underwriting and securitisation arrangements is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income at the point when those conditions can no longer affect the outcome.

Fees charged for performing a significant act in relation to funds managed by the Consolidated Entity are recognised as revenue when that act has been completed.

Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities and include all realised and unrealised fair value changes, dividends and foreign exchange differences.

Dividends and distributions

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends from subsidiaries, associates and joint ventures are recognised in the income statement when the Bank's right to receive the dividend is established.

When accounting for a dividend or distribution, judgement is required about whether it is recognised as income or a return of capital. The range of factors that are considered include:

- whether the payment follows a legal process to reduce either the number of outstanding shares or the amount of share capital;
- whether evidence exists clearly demonstrating that the distribution is a return of capital originally invested by the investor (e.g. the timing of a distribution relative to the acquisition of the investment);
- the substance of the payment, including the existence of non-discretionary evidence, that may identify its nature. A director declaration of the nature is given a low weighting in the analysis;
- whether other transactions occur with the same counterparty at the same time as, or in contemplation of, the payment;
- whether the payment is from profits in proportion to the investors' particular class of capital;
- when a dividend is paid in the form of additional equity of the investee, whether all investors retain the same relative ownership interest in the investee;
- whether the criteria for derecognising part, or all, of an investment in a financial asset under AASB139 *Financial Instruments: Recognition and Measurement* are met, and in particular if substantially all the risks and rewards of ownership have been transferred; and
- the basis for the amendment in May 2008 to the 'cost method' description in AASB 127 *Consolidated and Separate Financial Statements* so as to remove an approach solely relying upon determining post-acquisition retained earnings.

(vii) Income tax

The income tax expense for the financial year is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax bases of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or where a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled under currently enacted tax law.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The Bank and Consolidated Entity exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1
Summary of significant accounting policies continued

The Consolidated Entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Consolidated Entity estimates its tax liability based on its understanding of the tax law.

Tax consolidation

The Consolidated Entity's Australian tax liabilities are determined according to tax consolidation legislation. All eligible Australian resident wholly-owned subsidiaries of Macquarie Group comprise a tax consolidated group with Macquarie Group Limited (MGL) as the head entity. As a consequence, the Bank and the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses. Under the terms and conditions of a tax funding agreement, the MGL charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

Should MGL be in default of its tax payment obligations, or a default is probable, the current tax balances of the subsidiaries will be determined in accordance with the terms and conditions of a tax sharing agreement between MGL and entities in the tax consolidated group.

(viii) Cash collateral on securities borrowed/lent and reverse repurchase/repurchase agreements

As part of its trading activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing.

Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell, and repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase and repurchase agreements are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on the reverse repurchase agreement is recorded as a receivable, while cash received from third parties on the repurchase agreement is recorded as a borrowing.

Cash provided as collateral on securities borrowed or on the reverse repurchase agreement is included in receivables from financial institution or other assets based on the counterparty, while cash received from third parties on securities lent or repurchase agreement is included in payables to financial institutions or other liabilities based on the counterparty.

The Consolidated Entity continually reviews the fair values of the securities on which the above transactions are based and, where appropriate, requests or provides additional collateral to support the transactions, in accordance with the underlying agreements.

(ix) Trading portfolio assets and liabilities

Trading portfolio assets (long positions) comprise debt and equity securities, bank bills, treasury notes, bullion and commodities purchased with the intent of being actively traded. Trading portfolio liabilities (short positions) comprise obligations to deliver assets across the same trading categories, which the Consolidated Entity has short-sold and are actively traded.

Assets and liabilities included in the trading portfolio are carried at fair value (see note 39). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profits or losses arising from revaluing that contract to fair value in the income statement. When the Consolidated Entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable from trade date until settlement date.

(x) Derivative instruments

Derivative instruments entered into by the Consolidated Entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. These derivative instruments are principally used for the risk management of existing financial assets and financial liabilities.

All derivatives, including those used for statement of financial position hedging purposes, are recognised on the statement of financial position and are disclosed as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured to their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the fair values of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

The best evidence of a derivative's fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Consolidated Entity recognises profit or loss immediately when the derivative is recognised.

(xi) Hedge accounting

The Consolidated Entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Consolidated Entity documents the hedge relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether hedging relationships have been and will continue to be highly effective. Derivatives or financial instruments can be designated in one of three types of hedge relationships:

Cash flow hedges

For a derivative or financial instrument designated as hedging the variability in cash flows attributable to a particular risk associated with a recognised asset or liability (or a highly probable forecast transaction), the gain or loss on the derivative or financial instrument associated with the effective portion of the hedge is initially recognised in OCI in the cash flow hedging reserve and subsequently released to the income statement when the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

Fair value hedges

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability (or an unrecognised firm commitment), the gain or loss on the derivative or financial instrument is recognised in the income statement immediately, together with the loss or gain on the hedged asset or liability that is attributable to the hedged risk.

Net investment hedges

For a derivative or borrowing designated as hedging a net investment in a foreign operation, the gain or loss on revaluing the derivative or borrowing associated with the effective portion of the hedge is recognised in the foreign currency translation reserve and subsequently released to the income statement when the foreign operation is disposed of. The ineffective portion is recognised in the income statement immediately.

The fair values of various financial instruments used for hedging purposes are disclosed in note 37. Movements in the cash flow hedging reserve in equity are shown in note 29.

(xii) Investments and other financial assets

With the exception of trading portfolio assets and derivatives, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables, other financial assets at fair value through profit or loss and investment securities available for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

Loans and receivables

This category includes loan assets held at amortised cost and amounts due from subsidiaries, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

The policy of management is to designate a financial asset as such if: the asset contains embedded derivatives which must otherwise be separated and carried at fair value; it is part of a group of financial assets managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Investment securities available for sale

Investment securities available for sale comprise securities that are not actively traded and are intended to be held for an indefinite period. Such securities are available for sale and may be sold should the need arise, including purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

(xiii) Impairment

Loan assets held at amortised cost

Loan assets are subject to regular review and assessment for possible impairment. Provisions for impairment on loan assets are recognised based on an incurred loss model and re-assessed at each balance date. A provision for impairment is recognised when there is objective evidence of impairment, and is calculated based on the present value of expected future cash flows, discounted using the original effective interest rate.

Individually assessed provisions for impairment are recognised where impairment of individual loans are identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but are not yet specifically identifiable.

The Consolidated Entity makes judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in assumptions used for estimating future cash flows could result in a change in the estimated provisions for impairment on loan assets at the end of a reporting period.

If, in a subsequent period, the amount of impairment losses decrease and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment losses are reversed through the income statement to the extent of what the amortised cost would have been had the impairment not been recognised.

Investment securities available for sale

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that available for sale financial assets have been impaired. Impairment exists if there is objective evidence of impairment as a result of one or more events (loss event) which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost.

In making this judgement, the Consolidated Entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Interests in associates and joint ventures

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The entire carrying amount of each investment in associate and joint venture is considered in the assessment. The main indicators of impairment are as for equity securities classified as available for sale, disclosed above.

If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine recoverable amount since the impairment loss was recognised.

(xiv) Life insurance business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 *Insurance Contracts*. The following are key accounting policies in relation to the life insurance business:

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Bank in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

Investment assets are carried at fair value through profit or loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the income statement in the period in which the changes occur.

Restriction on assets

Investments held in the Life Funds can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the *Life Insurance Act 1995* have been met.

Policy liabilities

Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities, respectively.

(xv) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.

Depreciation on assets is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following rates:

Buildings	2.5 to 3.3 per cent
Furniture, fittings and leasehold improvements(1)	10 to 20 per cent
Equipment	33 to 50 per cent
Infrastructure assets	5 to 20 per cent
Aviation	2 to 4 per cent
Meters	5 to 10 per cent
Rail cars	2 to 3 per cent
Other operating lease assets	2 to 50 per cent

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.

Useful lives and residual values are reviewed annually and reassessed in light of commercial and technological developments. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised in the income statement.

(xvi) Goodwill and other identifiable intangible assets

Goodwill

Goodwill represents the excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the statement of financial position. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

Management rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

Customer and servicing contracts with an indefinite useful life are carried at cost less accumulated impairment losses.

Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalised and amortised over the estimated useful life, usually a period of three years. Costs incurred on software maintenance are expensed as incurred.

Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date for indications of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 1

Summary of significant accounting policies continued

(xvii) Financial liabilities

The Consolidated Entity has on issue debt securities and instruments which are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: the liability contains embedded derivatives which must otherwise be separated and carried at fair value; the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. Interest expense on such items is recognised in the income statement in interest expense using the effective interest method.

(xviii) Provisions

Employee benefits

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the Bank and Consolidated Entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

Provisions for dividends to be paid by the Bank are recognised on the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

(xix) Performance based remuneration

Share-based payments

The ultimate parent entity, MGL, operates share-based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 33. The Consolidated Entity recognises an expense for its shares and options granted to its employees by MGL. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

Performance hurdles attached to options, and Performance Share Units (PSUs) under the MEREP, that are issued to the Executive Committee Members are not taken into account when determining the fair value of the options and PSUs at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

The fair value of each option granted in prior years was estimated on the date of grant using standard option pricing techniques based on the Black-Scholes theory. No grants have been made in the last four financial years.

Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2013. The fair value of each of these grants is estimated using MGL's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

– interest rate to maturity: 3.33 per cent;
– expected vest date of 1 July 2016 and 1 July 2017; and
– dividend yield: 5.18 per cent per annum.

While RSUs/DSUs, and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, the Consolidated Entity and the Bank begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using MGL's share price as at 31 March 2014 (and for PSUs, also incorporates an interest rate to maturity of 3.62 per cent; expected vest dates of 1 July 2017 and 3 July 2018; and a dividend yield of 5.02 per cent per annum) and the number of equity instruments expected to vest. In the following financial year, the Consolidated Entity and the Bank will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU when granted, and will use this valuation for recognising the expense over the remaining vesting period.

Where options and shares are issued by MGL to employees of the Consolidated Entity and the Bank, and MGL is not subsequently reimbursed by those subsidiaries, the Consolidated Entity and the Bank recognises the equity provided as a capital contribution from MGL. Where MGL is reimbursed, the Consolidated Entity and the Bank recognises any amount paid in advance (of the share-based payment to be recognised as an expense over the future vesting period) as a prepaid asset.

The Consolidated Entity and the Bank annually revises the estimates of the number of shares (including those delivered through MEREP) and options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity in MGL.

Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash.

(xx) Cash and cash equivalents

Cash and cash equivalents comprise:

– cash and short-term amounts included in receivables from financial institutions; and
– certain trading portfolio assets and debt securities with contractual maturity of three months or less.

(xxi) Leases

Where finance leases are granted to third parties, the present value of the lease receipts is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

Leases entered into by the Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment.

(xxii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the amounts and either there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

(xxiii) Loan capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortised cost using the effective interest method (for debt host component of convertible preference securities and subordinated debt at amortised cost).

(xxiv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxv) Changes in ownership interests

When acquiring additional interests of a financial asset (such that it becomes an associate, joint venture or subsidiary) or an investment in an associate or joint venture (such that it becomes a subsidiary), previously held interests are revalued to their current fair value and any gain or loss is immediately recognised in profit or loss.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in associate or joint venture (such that it becomes a financial asset), retained ownership interests are revalued to their current fair value and any gain or loss is immediately recognised in the income statement.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity.

(xxvi) Comparatives

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

(xxvii) Rounding of amounts

The Bank is of a kind referred to in *ASIC Class Order 98/100* (as amended), relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 2
Profit for the financial year

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Net interest income				
Interest and similar income received/receivable	4,316	4,394	3,352	3,203
Interest expense and similar charges paid/payable	(2,601)	(2,966)	(2,273)	(2,491)
Net interest income	1,715	1,428	1,079	712
Fee and commission income				
Base fees	797	639	12	9
Performance fees	56	25	–	–
Mergers and acquisitions, advisory and underwriting fees	39	41	22	17
Brokerage and commissions	467	364	262	129
Other fee and commission income/(expense)	326	444	(59)	(28)
Total fee and commission income	1,685	1,513	237	127
Net trading income[1]				
Equities	351	225	256	187
Commodities	1,072	687	380	385
Credit, interest rates and foreign exchange products	179	366	772	485
Net trading income	1,602	1,278	1,408	1,057
Share of net profits of associates and joint ventures accounted for using the equity method	14	40	–	–

(1) Included in net trading income are fair value gains of $157 million (2013: $255 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the Consolidated Entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xi) – Summary of significant accounting policies.

Note 2

Profit for the financial year continued

	Consolidated 2014 $m	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Other operating income and charges				
Net gains on sale of investment securities available for sale	**166**	98	**113**	88
Impairment charge on investment securities available for sale	**(90)**	(170)	**(86)**	(167)
Net gains/(losses) on sale of associates and joint ventures (note 31)	**9**	51	**59**	(7)
Impairment charge on interest in associates and joint ventures	**(24)**	(27)	**(6)**	(12)
Impairment charge on subsidiaries	**–**	–	**(93)**	(109)
Gain on acquiring, disposing and change in ownership interest in subsidiaries, associates and businesses held for sale	**15**	19	**21**	–
Gain on change of ownership interests	**2**	–	**–**	–
Impairment charge on non-financial assets	**(27)**	(27)	**(2)**	(6)
Net operating lease income				
Rental income	**932**	724	**14**	–
Depreciation on operating lease assets (note 13)	**(401)**	(307)	**(11)**	–
Dividends/distributions received/receivable:				
Investment securities available for sale	**32**	19	**18**	6
Subsidiaries and associates	**–**	–	**671**	1,127
Management fees, group service charges and cost recoveries	**–**	–	**454**	341
Collective allowance for credit losses (provided for)/ written back during the financial year (note 10)	**(53)**	7	**(45)**	10
Individually assessed provisions:				
Loan assets provided for during the financial year (note 10)	**(106)**	(82)	**(134)**	(80)
Other receivables provided for during the financial year	**(16)**	(8)	**(3)**	(6)
Recovery of loans previously provided for	**11**	12	**53**	50
Loan losses written off	**(62)**	(94)	**(20)**	(48)
Recovery of loans previously written off	**17**	15	**6**	4
Other income/(charges)	**65**	112	**(48)**	(18)
Total other operating income and charges	**470**	342	**961**	1,173
Net operating income	**5,486**	4,601	**3,685**	3,069

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 2
Profit for the financial year continued

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(1,566)**	(1,396)	**(932)**	(809)
Share-based payments	**(116)**	(113)	**(66)**	(66)
(Provision for)/reversal of annual leave	**(2)**	(1)	**(1)**	1
Reversal of long service leave	**–**	(1)	**–**	(1)
Total employment expenses	**(1,684)**	(1,511)	**(999)**	(875)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	**(559)**	(397)	**(362)**	(226)
Other fee and commission expenses	**(138)**	(126)	**(86)**	(61)
Total brokerage, commission and trading-related expenses	**(697)**	(523)	**(448)**	(287)
Occupancy expenses				
Operating lease rentals	**(43)**	(51)	**(21)**	(29)
Depreciation: buildings, furniture, fittings and leasehold improvements (note 13)	**(9)**	(12)	**(1)**	(2)
Other occupancy expenses	**(88)**	(82)	**(71)**	(62)
Total occupancy expenses	**(140)**	(145)	**(93)**	(93)
Non-salary technology expenses				
Information services	**(69)**	(59)	**(49)**	(40)
Depreciation: equipment (note 13)	**(2)**	(2)	**–**	(1)
Service provider and other non-salary technology expenses	**(29)**	(27)	**(15)**	(11)
Total non-salary technology expenses	**(100)**	(88)	**(64)**	(52)
Other operating expenses				
Professional fees	**(170)**	(152)	**(81)**	(79)
Auditor's remuneration (note 42)	**(16)**	(15)	**(6)**	(6)
Travel and entertainment expenses	**(64)**	(60)	**(38)**	(36)
Advertising and promotional expenses	**(60)**	(51)	**(17)**	(16)
Communication expenses	**(14)**	(16)	**(8)**	(7)
Amortisation of intangibles (note 15)	**(54)**	(52)	**(15)**	(10)
Other expenses[1]	**(1,092)**	(959)	**(799)**	(701)
Total other operating expenses	**(1,470)**	(1,305)	**(964)**	(855)
Total operating expenses	**(4,091)**	(3,572)	**(2,568)**	(2,162)

(1) Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and central support functions.

Note 3

Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the Consolidated Entity is divided into five operating groups and a corporate group. These segments have been set up based on the different core products and services offered. Segment information has been prepared in conformity with the Consolidated Entity's segment accounting policy.

Macquarie Funds Group is the Consolidated Entity's funds management business. It is a full-service asset manager, offering a diverse range of capabilities and products including investment management, infrastructure and real asset management and fund and equity based structured products.

Corporate and Asset Finance is the lending and leasing business of the Consolidated Entity.

Banking and Financial Services Group is the primary relationship manager for the Consolidated Entity's retail client base. The group brings together the retail banking and financial services businesses providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

Macquarie Securities Group activities include institutional and retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full-service institutional cash equities broker in the Asia Pacific region and South Africa, and offers specialised services in other regions. It also provides an equity capital markets service through a joint venture with Macquarie Capital.

Fixed Income, Currencies and Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialisation in interest rate, commodity and foreign exchange related institutional trading, marketing, lending, and clearing or platform provision.

Corporate is not considered an operating group and includes head office and central support functions including Group Treasury. The Corporate segment also holds certain investments not aligned with any of the Operating Groups. Items of income and expense within the Corporate segment include the net impact of managing liquidity for Macquarie, earnings on capital, non-trading derivative volatility, earnings from investments, unallocated head office costs and employment related costs of central support functions (service areas), income tax expense and certain distributions attributable to non controlling interests (NCI) and holders of loan capital.

Internal transactions

All transactions and transfers between segments are determined on an arm's length basis and are included within the relevant categories of income. These transactions eliminate on aggregation/consolidation. Below is a selection of the key policies.

Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Group and Operating Groups obtain their funding from Group Treasury. The interest rates charged by Group Treasury are determined by the currency and term of the funding and are fully costed.

Generally, Operating Groups may only source funding directly from external sources when there is recourse only to the assets being funded and not to the Group.

Deposits are a funding source for Macquarie. Banking and Financial Services receives a deposit premium from Group Treasury on deposits they generate. This deposit premium is included within net interest and trading income for segment reporting purposes.

During the year ended 31 March 2014, Group Treasury revised internal funding transfer pricing arrangements relating to Banking and Financial Services' deposit and lending activities. Comparative information presented in this document has been restated to reflect the current methodology.

Transactions between Operating Groups

Operating Groups that enter into arrangements with other Operating Groups must do so on commercial terms. There is a requirement for accounting symmetry in such transactions.

Internal transactions are recognised in each of the relevant categories of income and expense as appropriate.

Internal management revenue/charges

Internal management revenue/charges are primarily used to recognise an Operating Group's contribution to income tax expense and benefits. Non-assessable income generated by an Operating Group results in management revenue added to that group's operating result. Conversely a non-deductible expense results in a management charge to the operating result. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that on aggregation the total nets to nil.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 3

Segment reporting continued

(i) Operating segments continued

The following is an analysis of the Consolidated Entity's results by reportable segment for the financial year:

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income	**74**	**648**	**739**
Fee and commission income/(expense)	**983**	**36**	**576**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**(5)**	**2**	**1**
Other operating income and charges			
Impairment charges and provisions, net of recoveries	**–**	**(85)**	**(49)**
Other other operating income and charges	**64**	**577**	**49**
Internal management revenue/(charge)	**4**	**13**	**5**
Net operating income/(charge)	**1,120**	**1,191**	**1,321**
Total operating expenses	**(649)**	**(375)**	**(1,060)**
Profit/(loss) before tax	**471**	**816**	**261**
Tax expense	**–**	**–**	**–**
Loss/(profit) attributable to non-controlling interests	**1**	**–**	**–**
Profit/(loss) attributable to equity holders	**472**	**816**	**261**
Distributions paid or provided for on MIS	**–**	**–**	**–**
Net profit/(loss) attributable to ordinary equity holders	**472**	**816**	**261**
Reportable segment assets	**6,365**	**26,370**	**29,611**

	Macquarie Funds Group $m	Corporate and Asset Finance $m	Banking and Financial Services Group $m
Net interest and trading income	59	569	642
Fee and commission income/(expense)	798	37	645
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	10	(3)	3
Other operating income and charges			
Impairment charges and provisions, net of recoveries	(8)	(55)	(44)
Other other operating income and charges	36	485	36
Internal management revenue/(charge)	8	3	9
Net operating income/(charge)	903	1,036	1,291
Total operating expenses	(572)	(352)	(1,048)
Profit/(loss) before tax	331	684	243
Tax expense	–	–	–
Loss/(profit) attributable to non-controlling interests	1	–	–
Profit/(loss) attributable to equity holders	332	684	243
Distributions paid or provided for on MIS	–	–	–
Net profit/(loss) attributable to ordinary equity holders	332	684	243
Reportable segment assets	6,849	23,181	26,051

Macquarie Securities Group $m	Fixed Income, Currencies and Commodities $m	Corporate $m	Total $m
			Consolidated 2014
231	**1,499**	**126**	**3,317**
97	**115**	**(122)**	**1,685**
–	**24**	**(8)**	**14**
(5)	**(206)**	**(5)**	**(350)**
(1)	**129**	**2**	**820**
1	**(7)**	**(16)**	**–**
323	**1,554**	**(23)**	**5,486**
(305)	**(911)**	**(791)**	**(4,091)**
18	**643**	**(814)**	**1,395**
–	**–**	**(621)**	**(621)**
–	**–**	**(5)**	**(4)**
18	**643**	**(1,440)**	**770**
–	**–**	**(18)**	**(18)**
18	**643**	**(1,458)**	**752**
20,830	**43,646**	**13,089**	**139,911**
			Consolidated 2013
186	1,087	163	2,706
(28)	75	(14)	1,513
–	26	4	40
(1)	(243)	(23)	(374)
1	165	(7)	716
1	17	(38)	–
159	1,127	85	4,601
(218)	(694)	(688)	(3,572)
(59)	433	(603)	1,029
–	–	(355)	(355)
–	–	(4)	(3)
(59)	433	(962)	671
–	–	(21)	(21)
(59)	433	(983)	650
15,564	42,560	15,795	130,000

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 3

Segment reporting continued

(ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into four areas:

Asset and Wealth Management: distribution and manufacture of funds management products;

Financial Markets: trading in fixed income, equities, currency, commodities and derivative products;

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and property development; and

Lending: banking activities, mortgages, and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2014
Revenues from external customers	**1,733**	**2,943**	**131**	**4,253**	**9,060**
					Consolidated 2013
Revenues from external customers	1,638	3,035	1	3,725	8,399

(iii) Geographical areas

Geographical segments have been determined based on where the transactions have been booked. The operations of the Consolidated Entity are headquartered in Australia.

	Revenues from external customers $m	Non-current assets[1] $m
		Consolidated 2014
Australia	**4,885**	**815**
Americas	**2,410**	**1,753**
Europe, Middle East and Africa	**1,447**	**4,736**
Asia Pacific	**318**	**279**
Total	**9,060**	**7,583**
		Consolidated 2013
Australia	4,589	688
Americas	2,133	1,762
Europe, Middle East and Africa	1,525	4,223
Asia Pacific	152	275
Total	8,399	6,948

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures accounted for using the equity method, property, plant and equipment, property held for sale and development and certain amounts due from related body corporate entities.

(iv) Major customers

The Consolidated Entity does not rely on any major customer.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Note 4				
Income tax expense				
(i) Income tax expense				
Current tax (expense)/benefit	**(366)**	(259)	**(114)**	19
Deferred tax expense	**(255)**	(96)	**(252)**	(105)
Total	**(621)**	(355)	**(366)**	(86)
(ii) Numerical reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax expense on operating profit[1]	**(419)**	(309)	**(335)**	(272)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**(198)**	(17)	**(218)**	(49)
Intra-group dividends	**–**	–	**191**	329
Impairment charge on controlled entities	**–**	–	**(26)**	(33)
Other items	**(4)**	(29)	**22**	(61)
Total income tax expense	**(621)**	(355)	**(366)**	(86)
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserve	**(2)**	(21)	**7**	(38)
Cash flow hedges	**(10)**	8	**2**	(1)
Foreign currency translation reserve	**–**	13	**–**	–
Share of other comprehensive income of associates and joint ventures	**–**	1	**–**	–
Total tax benefit/(expense) relating to items of other comprehensive income	**(12)**	1	**9**	(39)
(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/ liabilities:				
Investments in subsidiaries, associates, securities available for sale and joint ventures	**(77)**	45	**(18)**	22
Fixed assets	**15**	(6)	**27**	8
Leasing and financial instruments	**(132)**	(75)	**(123)**	(28)
Intangible assets	**(15)**	6	**2**	–
Other assets and liabilities	**(17)**	(82)	**(101)**	(132)
Tax Losses	**(29)**	16	**(39)**	25
Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities	**(255)**	(96)	**(252)**	(105)

(1) Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2013: 30 per cent).

Revenue authorities undertake risk reviews and audits as part of their normal activities.

During the current and prior years, the Bank has received amended assessments from the Australian Tax Office (ATO), which cover a range of matters. A number of these matters have been resolved.

In accordance with ATO practice, the Bank has paid a portion of the primary tax and interest covered by these amended assessments and this amount has been included in these financial statements as part of tax receivables, pending resolution.

The Bank has considered its position with respect to these and other tax claims, including seeking advice, and considers that it holds appropriate provisions.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 5
Dividends and distributions paid or provided for

(i) Dividends paid

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Ordinary share capital				
2012 special dividend paid	–	500	–	500
2013 final dividend paid	130	455	130	455
2014 interim dividend paid	280	307	280	307
Total dividends paid (note 29)	**410**	1,262	**410**	1,262

(ii) Dividends not recognised at the end of the financial year

Since the end of the financial year, the Directors have recommended the payment of a dividend. The aggregate amount of the proposed dividend expected to be paid on 06 May 2014 from retained profits at 31 March 2014, but not recognised as a liability at the end of the financial year, is $159 million (2013: $130 million).

(iii) Distributions paid or provided for

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	14	17	–	–
Distributions provided for	4	4	–	–
Total distributions paid or provided for (note 29)	**18**	21	–	–

The Macquarie Income Securities (MIS) are stapled arrangements, which include a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the stapled security. Upon exercise, dividends are payable at the same rate and subject to similar conditions as the MIS. Dividends are also subject to Directors' discretion. The distributions paid or provided for in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation.* Refer to note 28—Contributed equity for further details on these instruments.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	2	2	–	–
Distributions provided for	2	2	–	–
Total distributions paid or provided for	**4**	4	–	–

The Macquarie Income Preferred Securities (MIPS) represent the NCI of a subsidiary. Refer to note 29—Reserves, retained earnings and non-controlling interests for further details on these instruments. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture, 500 Bank preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements) or on maturity.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Convertible Debentures				
Distributions paid (net of distributions previously provided)	–	–	2	2
Distributions provided for	–	–	2	2
Total distributions paid or provided for (note 29)	–	–	**4**	4

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 6

Receivables from financial institutions

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Cash and other receivables[(1)]	**6,922**	6,884	**5,583**	5,303
Cash collateral on securities borrowed and reverse repurchase agreements[(2)]	**9,229**	5,723	**9,195**	5,554
Total receivables from financial institutions[(3)]	**16,151**	12,607	**14,778**	10,857

(1) Included within this balance is $60 million (2013: $58 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral held as at 31 March 2014 is $10,228 million (2013: $6,088 million), which is generally sold or re-pledged.

(3) Margin monies placed of $1,292 million have been reclassed to note 10 - Loan assets held at amortised cost for the Consolidated Entity and the Bank for the period ended 31 March 2013.

The majority of the above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 7

Trading portfolio assets

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Equities				
Listed	**7,950**	6,476	**7,410**	6,474
Unlisted	**33**	31	**28**	27
Commonwealth government securities	**5,707**	5,601	**5,707**	5,601
Commodities	**4,506**	2,261	**3,750**	1,431
Foreign government securities	**1,756**	1,742	**1,356**	761
Corporate securities	**1,448**	1,704	**1,058**	1,116
Treasury notes	**173**	252	**155**	252
Promissory notes	**59**	132	**–**	21
Other government securities[(1)]	**8**	640	**8**	640
Bank bills	**–**	14	**–**	–
Total trading portfolio assets[(2),(3)]	**21,640**	18,853	**19,472**	16,323

(1) Other government securities include state and local governments and related enterprises, predominantly in Australia.

(2) Included within these balances are assets pledged as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $538 million (2013: $907 million).

(3) Included within this balance are trading assets of $7,155 million (2013: $6,784 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

The above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Bank.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 8
Investment securities available for sale

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Equity securities				
Listed	**123**	246	**120**	229
Unlisted	**275**	236	**62**	72
Debt securities[(1),(2),(3)]	**11,784**	13,708	**11,014**	15,340
Total investment securities available for sale[(4)]	**12,182**	14,190	**11,196**	15,641

(1) Included within this balance is $3,909 million (2013: $3,357 million) of Negotiable Certificates of Deposit (NCD) receivable from financial institutions and $100 million (2013: $20 million) of bank bills.
(2) Included within this balance is $1,161 million (2013: $1,002 million) provided as security over payables to other financial institutions.
(3) Included within the Bank's balance is $nil (2013: $2,037 million) of mortgage based securities issued by a subsidiary.
(4) Included within this balance is $582 million (2013: $297 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Of the above amounts, $5,636 million (2013: $6,120 million) is expected to be recovered by the Consolidated Entity and $5,532 million (2013: $8,041 million) is expected to be recovered by the Bank within 12 months of the balance date.

Note 9
Other assets

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Debtors and prepayments	**3,987**	3,485	**2,418**	2,447
Security settlements[(1)]	**2,436**	2,256	**2,291**	2,005
Life investment contracts and other unitholder assets[(2)]	**1,115**	1,210	**–**	–
Income tax receivable	**437**	534	**315**	360
Property held for sale and development	**175**	245	**–**	5
Other	**152**	165	**11**	19
Total other assets[(3)]	**8,302**	7,895	**5,035**	4,836

(1) Security settlements are generally receivable within three working days of the relevant trade date.
(2) In the year ended 31st March 2013, Life Investment contracts and other unitholder assets were disclosed as a separate line item in the statements of financial position of the Consolidated Entity and of the Bank respectively.
(3) Included within this balance is $50 million (2013: $23 million) of assets which are provided as security over amounts payable to other financial institutions.

Of the above amounts, $7,975 million (2013: $7,485 million) and $5,024 million (2013: $4,812 million) are expected to be recovered within 12 months of the balance date by the Consolidated Entity and by the Bank.

Note 10

Loan assets held at amortised cost

	Consolidated 2014			Consolidated 2013		
	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Residential mortgage loans	**23,107**	**(13)**	**23,094**	19,536	(23)	19,513
Corporate and commercial lending	**15,865**	**(206)**	**15,659**	13,155	(162)	12,993
Lease and retail financing	**10,922**	**(72)**	**10,850**	9,574	(85)	9,489
Margin money placed	**4,800**	**–**	**4,800**	4,753	–	4,753
Relationship banking mortgages	**1,613**	**–**	**1,613**	1,244	–	1,244
Investment and insurance premium lending	**1,427**	**(9)**	**1,418**	1,438	(7)	1,431
Total loan assets before collective allowance for credit losses	**57,734**	**(300)**	**57,434**	49,700	(277)	49,423
Less collective allowance for credit losses			**(264)**			(205)
Total loan assets held at amortised cost[(1),(2),(3)]			**57,170**			49,218

(1) Included within this balance are loans of $14,025 million (2013: $10,774 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Included within this balance are other loans of $3,145 million (2013: $2,096 million) pledged as security over issued notes and payables to other external investors and financial institutions.

(3) Included within this balance are loans of $3,853 million (2013: $5,863 million) that are held by either a government-backed securitisation vehicle or financial institutions, and which are pledged as security to note holders. Further, loans of $720 million (2013: $455 million) are pledged under repurchase agreements.

Of the above amounts, $14,484 million (2013: $14,833 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity.

	Bank 2014			Bank 2013		
	Gross $m	Individually assessed provision for impairment $m	Net $m	Gross $m	Individually assessed provision for impairment $m	Net $m
Residential mortgage loans	**13,845**	**(3)**	**13,842**	6,591	(8)	6,583
Corporate and commercial lending	**14,582**	**(192)**	**14,390**	12,181	(153)	12,028
Lease and retail financing	**926**	**(52)**	**874**	862	(74)	788
Margin money placed	**2,827**	**–**	**2,827**	3,721	–	3,721
Relationship banking mortgages	**1,613**	**–**	**1,613**	1,244	–	1,244
Investment and insurance premium lending	**1,675**	**(42)**	**1,633**	1,447	(7)	1,440
Total loan assets before collective allowance for credit losses	**35,468**	**(289)**	**35,179**	26,046	(242)	25,804
Less collective allowance for credit losses			**(201)**			(151)
Total loan assets held at amortised cost			**34,978**			25,653

Of the above amounts, $8,845 million (2013: $9,858 million) is expected to be recovered within 12 months of the balance date by the Bank.

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	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 10
Loan assets held at amortised cost continued

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Individually assessed provisions for impairment				
Balance at the beginning of the financial year	**277**	352	**242**	281
Provided for during the financial year (note 2)	**106**	82	**134**	80
Loan assets written off, previously provided for	**(100)**	(141)	**(50)**	(67)
Recovery of loans previously provided for (note 2)	**(11)**	(12)	**(53)**	(50)
Net transfer from other provisions	**10**	–	**3**	–
Impact of foreign currency translation	**18**	(4)	**13**	(2)
Balance at the end of the financial year	**300**	277	**289**	242
Individually assessed provisions as a percentage of total gross loan assets	**0.52%**	0.56%	**0.81%**	0.93%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**205**	213	**151**	161
Written back during the financial year (note 2)	**53**	(7)	**45**	(10)
Transfer from other provisions	**1**	–	**–**	–
Impact of foreign currency translation	**5**	(1)	**5**	–
Balance at the end of the financial year	**264**	205	**201**	151

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identifiable.

Finance lease receivables

Finance lease receivables are included within loan assets held at amortised cost. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment.

			Consolidated 2014			Consolidated 2013
	Gross investment in finance lease receivables $m	**Unearned income $m**	**Present value of minimum lease payments receivable $m**	Gross investment in finance lease receivables $m	Unearned income $m	Present value of minimum lease payments receivable $m
No later than one year	**1,733**	**(212)**	**1,521**	1,926	(208)	1,718
Later than one year and no later than five years	**4,435**	**(525)**	**3,910**	4,007	(503)	3,504
Later than five years	**269**	**(79)**	**190**	97	(34)	63
Total finance lease receivables	**6,437**	**(816)**	**5,621**	6,030	(745)	5,285

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 11

Impaired financial assets

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Impaired debt investment securities available for sale before individually assessed provisions for impairment	**7**	9	**3**	3
Less individually assessed provisions for impairment	**(6)**	(7)	**(3)**	(2)
Debt investment securities available for sale after individually assessed provisions for impairment	**1**	2	**–**	1
Impaired loan assets and other financial assets before individually assessed provisions for impairment	**720**	660	**851**	570
Less individually assessed provisions for impairment	**(334)**	(310)	**(307)**	(267)
Loan assets and other financial assets after individually assessed provisions for impairment	**386**	350	**544**	303
Total net impaired financial assets	**387**	352	**544**	304

Note 12

Other financial assets at fair value through profit or loss

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Investment securities				
Equity securities	**1,222**	2,243	**1,136**	1,017
Debt securities	**325**	1,177	**325**	1,114
Loan assets	**648**	1,225	**633**	1,227
Total other financial assets at fair value through profit or loss[(1)]	**2,195**	4,645	**2,094**	3,358

(1) Included within this balance is $655 million (2013: $595 million) provided as security over payables to other financial institutions.

Of the above amounts, $760 million (2013: $2,339 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and $774 million (2013: $1,061 million) by the Bank.

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for the financial year ended 31 March 2014
continued

Note 13
Property, plant and equipment

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Assets for own use				
Land and buildings				
Cost	285	180	259	140
Less accumulated depreciation	(7)	(6)	–	–
Total land and building	278	174	259	140
Furniture, fittings and leasehold improvements				
Cost	81	80	20	34
Less accumulated depreciation	(41)	(43)	(13)	(13)
Total furniture, fittings and leasehold improvements	40	37	7	21
Equipment				
Cost	18	16	4	3
Less accumulated depreciation	(16)	(14)	(3)	(3)
Total equipment	2	2	1	–
Infrastructure assets				
Cost	2	5	–	–
Less accumulated depreciation	(1)	–	–	–
Total infrastructure assets	1	5	–	–
Total assets for own use	**321**	218	**267**	161
Assets under operating lease				
Aviation				
Cost	4,062	3,533	–	–
Less accumulated depreciation	(618)	(387)	–	–
Total aviation	3,444	3,146	–	–
Meters				
Cost	1,036	798	–	–
Less accumulated depreciation	(252)	(138)	–	–
Total meters	784	660	–	–
Rail cars				
Cost	1,282	1,105	–	–
Less accumulated depreciation	(95)	(47)	–	–
Total rail cars	1,187	1,058	–	–
Other				
Cost	429	339	79	71
Less accumulated depreciation	(120)	(69)	(18)	(11)
Total other	309	270	61	60
Total assets under operating lease	**5,724**	5,134	**61**	60
Total property, plant and equipment	**6,045**	5,352	**328**	221

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

Note 13

Property, plant and equipment continued

Reconciliation of the movement in the Consolidated Entity's property, plant and equipment at their written-down value

	Land and buildings $m	Furniture, fittings and leasehold improvements $m	Equipment $m	Infrastructure assets $m	Total $m
Assets for own use					
Balance at 1 April 2012	36	47	5	6	94
Acquisitions	152	10	–	1	163
Disposals	–	(2)	–	–	(2)
Reclassification	–	(7)	(1)	–	(8)
Impairments	(13)	–	–	(2)	(15)
Depreciation expense (note 2)	(1)	(11)	(2)	–	(14)
Balance at 31 March 2013	**174**	**37**	**2**	**5**	**218**
Acquisitions	**101**	**17**	**2**	**–**	**120**
Disposals	**–**	**(7)**	**–**	**–**	**(7)**
Reclassification	**6**	**(2)**	**–**	**(4)**	**–**
Impairments	**(2)**	**–**	**–**	**–**	**(2)**
Foreign exchange movements	**1**	**2**	**–**	**–**	**3**
Depreciation expense (note 2)	**(2)**	**(7)**	**(2)**	**–**	**(11)**
Balance at 31 March 2014	**278**	**40**	**2**	**1**	**321**

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $nil (2013: $5 million).

Notes to the financial statements
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continued

Note 13
Property, plant and equipment continued

Assets under operating lease	Aviation $m	Meters $m	Rail cars $m	Other $m	Total $m
Balance at 1 April 2012	3,419	655	460	207	4,741
Acquisitions	72	84	677	124	957
Disposals	(135)	–	(25)	(7)	(167)
Reclassification	(33)	32	–	(4)	(5)
Foreign exchange movements	(15)	(34)	(33)	(3)	(85)
Depreciation expense (note 2)	(162)	(77)	(21)	(47)	(307)
Balance at 31 March 2013	**3,146**	**660**	**1,058**	**270**	**5,134**
Acquisitions	**110**	**176**	**1**	**91**	**378**
Disposals	**(5)**	**(1)**	**(20)**	**(14)**	**(40)**
Reclassification	**(3)**	**(104)**	**–**	**5**	**(102)**
Foreign exchange movements	**389**	**148**	**192**	**26**	**755**
Depreciation expense (note 2)	**(193)**	**(95)**	**(44)**	**(69)**	**(401)**
Balance at 31 March 2014	**3,444**	**784**	**1,187**	**309**	**5,724**

Included in the balance of operating leases are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $442 million (2013: $2,289 million).

The future minimum lease payments expected to be received under non-cancellable operating leases are as follows:

Assets under operating lease

	Consolidated 2014 $m	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Not later than one year	**597**	578	**7**	8
Later than one year and no later than five years	**1,145**	1,203	**18**	14
Later than five years	**138**	183	**–**	2
Total future minimum lease payments receivable	**1,880**	1,964	**25**	24

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 14

Interests in associates and joint ventures accounted for using the equity method

Loans and investments without provisions for impairment	**470**	436	**75**	124
Loans and investments with provisions for impairment	**186**	248	**98**	119
Less provision for impairment	**(105)**	(156)	**(63)**	(68)
Loans and investments at recoverable amount	**81**	92	**35**	51
Total interests in associates and joint ventures accounted for using the equity method[(1),(2)]	**551**	528	**110**	175

(1) Included within this balance is $nil (2013: $25 million) provided as security over payables to other financial institutions.

(2) Included within this balance is $506 million (2013: $403 million) relating to interests in associates and $45 million (2013: $125 million) relating to interests in joint ventures in Consolidated Entity. Included within this balance is $109 million (2013: $128 million) relating to interests in associates and $1 million (2013: $47 million) relating to interests in joint ventures. All of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

(i) Financial information of interests in associates and joint ventures that are not individually material is as follows:

Consolidated Entity's share of:				
Profit or loss from continuing operations	**6**	42	**–**	13
Post-tax profit or loss from discontinued operations	**8**	–	**–**	–
Other comprehensive income	**1**	1	**–**	–
Total comprehensive income	**15**	43	**–**	13

(ii) Contingent liabilities of associates and joint ventures[(1)] are as follows:

Share incurred jointly with other investors	**17**	24	**–**	–
For which the Consolidated Entity is severally liable	**9**	12	**–**	–

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continued

Note 15
Intangible assets

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Goodwill	**318**	308	**–**	–
Intangible assets with indefinite lives	**242**	222	**–**	–
Customer and servicing contracts	**90**	94	**–**	–
Other identifiable intangible assets	**135**	171	**57**	55
Total intangible assets	**785**	795	**57**	55

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

Reconciliation of the Consolidated Entity's movement in intangible assets:

	Goodwill $m	Intangible assets with indefinite lives $m	Customer and servicing contracts $m	Other identifiable intangible assets $m	Total $m
Balance at 1 April 2012	336	224	111	203	874
Acquisitions	–	–	2	51	53
Adjustments to purchase consideration[(1)]	1	–	–	6	7
Disposals	(25)	–	(2)	(14)	(41)
Impairment	–	–	–	(27)	(27)
Amortisation expense (note 2)	–	–	(15)	(37)	(52)
Currency translation difference	(4)	(2)	(2)	(11)	(19)
Balance at 31 March 2013	**308**	**222**	**94**	**171**	**795**
Acquisitions	**20**	**–**	**–**	**39**	**59**
Reclassifications during the financial year	**2**	**–**	**2**	**(4)**	**–**
Adjustments to purchase consideration[(1)]	**–**	**–**	**–**	**4**	**4**
Disposals	**(49)**	**(4)**	**–**	**(31)**	**(84)**
Impairment	**–**	**–**	**–**	**(20)**	**(20)**
Amortisation expense (note 2)	**–**	**–**	**(20)**	**(34)**	**(54)**
Currency translation difference	**37**	**24**	**14**	**10**	**85**
Balance at 31 March 2014	**318**	**242**	**90**	**135**	**785**

(1) These balances relate to adjustments to purchase considerations and allocations.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to note 3 – Segment reporting) and assessed for impairment on a regional legal entity operating group basis.

The recoverable amount of goodwill is determined using the higher of value-in-use and fair value less costs to sell.

Value-in-use calculations are based upon discounting estimated post-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit to which the goodwill applies. The determination of both cash flows and discount rates require the exercise of judgement. The calculations use cash flow estimations based on financial budgets and forecasts reviewed by management. These cash flows are discounted at rates that have been determined by reference to historical company and industry experience and publicly available data.

Fair value less cost to sell calculations are determined using an earnings multiple approach applicable to that type of business. These have been determined by reference to historical company and industry experience and publicly available data.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 16

Investments in subsidiaries

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Investments at cost without provisions for impairment	–	–	3,990	3,562
Investments at cost with provisions for impairment	–	–	1,174	1,226
Less provisions for impairment	–	–	(576)	(545)
Investments at recoverable amount	–	–	598	681
Total investments in subsidiaries	–	–	4,588	4,243

The above amounts are expected to be recovered after 12 months of the balance date by the Bank.

The material subsidiaries of the Bank, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Bank or the nature of activities conducted by the subsidiary, are:

- Delaware Investment Advisers (United States)
- Delaware Management Company (United States)
- Delaware Management Company, Inc. (United States)
- Delaware Management Holdings, Inc. (United States)
- Macquarie (Asia) PTE Ltd. Taiwan Branch (Taiwan)
- Macquarie Aerospace Limited (Bermuda)
- Macquarie Affiliated Managers (USA) Inc. (United States)
- Macquarie Aircraft Leasing Limited (Ireland)
- Macquarie Airfinance Acquisitions Holdings Ltd. (Bermuda)
- Macquarie AirFinance Acquisitions Limited (Bermuda)
- Macquarie Airfinance International Group Limited (Bermuda)
- Macquarie Airfinance International Limited (Bermuda)
- Macquarie Airfinance Ltd. (Bermuda)
- Macquarie Airfinance Warehouse (No. 1) Limited (Bermuda)
- Macquarie Alternative Assets Management Limited (Australia)
- Macquarie America Holdings Inc. (United States)
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Commodities Factoring Holdings (UK) Limited (United Kingdom)
- Macquarie Commodities Holdings (USA) LLC (United States)
- Macquarie Corporate And Asset Finance Limited (Australia)
- Macquarie Energy LLC (United States)
- Macquarie European Investment Holdings Limited (United Kingdom)
- Macquarie Finance Holdings Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)
- Macquarie Financial Ltd. (Canada)
- Macquarie Financial Markets LLC (United States)
- Macquarie Financial Products Management Limited (Australia)
- Macquarie Funding Holdings Inc (United States)
- Macquarie Funds Management Holdings Pty Limited (Australia)
- Macquarie Hong Kong Finance Limited (Cayman Islands)
- Macquarie Investment Management Ltd (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Prism Pty Limited (Australia)
- Macquarie Real Estate Inc (United States)
- Macquarie Services (USA) Partners (United States)
- Macquarie TCG (USA) LLC (United States)

Note: All material entities are incorporated in Australia unless otherwise stated.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all entities is 100 per cent.

All material entities have a 31 March reporting date.

In accordance with ASIC instruments 12-0250 and 12-1311, Macquarie Bank has been granted relief under section 340 of the *Corporations Act 2001 (Cth)* from synchronising the year-end of the following entities that are in its consolidated group:

- Pareto Global Risk Adjusted Alpha Trust (ARSN 134 011 313)
- Taurus Enhanced Gold and Precious Metals Fund (ARSN 150 309 934)
- Macquarie Mexico Real Estate Management, S.A. de C.V.

The asynchronous year-end has no impact on the group as, while the year ends of the above entities are different to that of Macquarie Bank, the results and balances included in the consolidation are at the reporting date of 31 March.

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Note 17
Deed of cross guarantee

On 26 March 2009 MBL, Macquarie Americas Holdings Pty Limited, Macquarie Corporate and Asset Finance Limited, Macquarie Property Investment Management Holdings Limited and Pacific Rim Operations Limited entered into a deed of cross guarantee under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered the deed and on 22 March 2010 Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. On 31 March 2014, Macquarie NZ Holdings Pty Ltd, Macquarie Mortgages Canada Holdings Pty Limited and Macquarie Leasing NSW Pty Limited entered the deed of cross guarantee. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

Consolidated income statement and a summary of movements in consolidated retained earnings

The above entities represent a 'Closed Group' (the Closed Group) for the purpose of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by MBL they also represent the 'Extended Closed Group'.

Consolidated income statement of the Closed Group for the financial year ended 31 March 2014

	2014 $m	2013 $m
Interest and similar income	**3,504**	2,539
Interest expense and similar charges	**(2,311)**	(1,861)
Net interest income	**1,193**	678
Fee and commission income	**263**	376
Net trading income	**1,411**	835
Share of net profits of associates and joint ventures accounted for using the equity method	**5**	17
Other operating income and charges	**920**	781
Net operating income	**3,792**	2,687
Employment expenses	**(1,000)**	(874)
Brokerage, commission and trading-related expenses	**(447)**	(330)
Occupancy expenses	**(93)**	(94)
Non-salary technology expenses	**(78)**	(60)
Other operating expenses	**(862)**	(811)
Total operating expenses	**(2,480)**	(2,169)
Operating profit before income tax	**1,312**	518
Income tax expense	**(405)**	(95)
Profit attributable to equity holders of the Closed Group	**907**	423
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year[1]	**375**	1,224
Profit attributable to equity holder of the Closed Group	**907**	423
Dividends paid or provided	**(414)**	(1,266)
Retained earnings at the end of the financial year	**868**	381

(1) The opening retained earnings of the Closed Group for 2014 includes the opening retained earnings of Macquarie Mortgages Canada Holdings Pty Limited ($(14) million), Macquarie NZ Holdings Pty Ltd ($(1) million) and Macquarie Leasing NSW Pty. Limited ($9 million), entities which entered into the deed of cross guarantee in the year ended 31 March 2014.

Note 17

Deed of cross guarantee continued

Consolidated statement of financial position of the Closed Group as at 31 March 2014

	2014 $m	2013 $m
Assets		
Receivables from financial institutions[1]	**15,515**	10,894
Trading portfolio assets	**19,473**	16,323
Derivative assets	**11,591**	13,513
Investment securities available for sale	**11,196**	15,641
Other assets	**5,045**	4,823
Loan assets held at amortised cost[1]	**33,749**	25,306
Other financial assets at fair value through profit or loss	**2,094**	3,358
Due from related body corporate entities	**2,030**	1,001
Due from subsidiaries	**26,510**	19,264
Property, plant and equipment	**328**	221
Interests in associates and joint ventures accounted for using the equity method	**146**	250
Intangible assets	**57**	55
Investments in subsidiaries	**4,873**	4,573
Deferred tax assets	**–**	159
Total assets	**132,607**	115,381
Liabilities		
Trading portfolio liabilities	**2,344**	1,371
Derivative liabilities	**11,498**	14,588
Deposits	**38,979**	37,775
Other liabilities	**5,274**	4,514
Payables to financial institutions	**19,001**	16,861
Other financial liabilities at fair value through profit or loss	**1,959**	739
Due to related body corporate entities	**6,833**	5,256
Due to subsidiaries	**14,652**	7,047
Debt issued at amortised cost	**20,508**	16,385
Provisions	**60**	68
Deferred tax liabilities	**7**	–
Total liabilities excluding loan capital	**121,115**	104,604
Loan capital		
Subordinated debt at amortised cost	**2,464**	2,203
Total loan capital	**2,464**	2,203
Total liabilities	**123,579**	106,807
Net assets	**9,028**	8,574
Equity		
Contributed equity	**8,157**	8,152
Reserves	**3**	41
Retained earnings	**868**	381
Total equity	**9,028**	8,574

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost for the Closed group.

Notes to the financial statements
for the financial year ended 31 March 2014
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	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Note 18				
Deferred tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Tax losses	**298**	343	**28**	67
Fixed assets	**72**	57	**81**	54
Other assets and liabilities	**297**	265	**110**	178
Set-off of deferred tax liabilities	**(489)**	(403)	**(129)**	64
Total deferred tax assets	**178**	262	**90**	363
Intangible assets	**(120)**	(105)	**2**	–
Leasing and financial instruments	**(838)**	(640)	**(184)**	(63)
Other assets and liabilities	**(154)**	(170)	**(129)**	(170)
Investments in subsidiaries, associates, securities available for sale and joint ventures	**(2)**	77	**50**	61
Set-off of deferred tax assets	**489**	403	**129**	(64)
Total deferred tax liabilities	**(625)**	(435)	**(132)**	(236)
Net deferred tax (liabilities)/assets	**(447)**	(173)	**(42)**	127

The majority of the above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Bank.

Potential tax assets of approximately $21 million (2013: $18 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the Consolidated Entity as the Directors do not believe the realisation of the tax assets is probable.

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current year's taxable income, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses. Deductible temporary differences and tax losses give rise to deferred tax assets. Deferred tax assets are not recognised unless the benefit is probable of realisation.

The deferred tax assets have been applied against deferred tax liabilities to the extent that they are expected to be realised in the same period and within the same tax paying entity.

Note 19
Trading portfolio liabilities

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Listed equity securities	**1,849**	1,029	**1,849**	1,029
Foreign government securities	**363**	179	**363**	179
Corporate securities	**132**	176	**132**	163
Commodities	**115**	–	**–**	–
Total trading portfolio liabilities	**2,459**	1,384	**2,344**	1,371

Note 20
Deposits

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Interest bearing deposits				
Call	**26,210**	24,393	**26,208**	24,386
Term	**9,410**	10,339	**9,410**	10,339
Client monies, segregated fund and margin money held	**5,524**	5,318	**4,848**	4,394
Non-interest bearing deposits	**1,158**	916	**1,158**	873
Total deposits	**42,302**	40,966	**41,624**	39,992

Note 21
Other liabilities

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Creditors	**3,985**	3,511	**2,471**	1,953
Due to brokers and customers	**2,504**	2,505	**2,355**	2,079
Life investment contracts and other unitholder liabilities[1]	**1,084**	1,181	**–**	–
Accrued charges and sundry provisions	**855**	805	**422**	446
Income tax payable	**37**	26	**4**	5
Other	**56**	119	**25**	37
Total other liabilities	**8,521**	8,147	**5,277**	4,520

(1) In the year ended 31st March 2013, Life investment contracts and other unitholder liabilities were disclosed as a separate line item in the statements of financial position.

The majority of the above amounts are expected to be settled within 12 months of the balance date by the Consolidated Entity and the Bank.

Note 22
Payables to financial institutions

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Cash collateral on securities lent and repurchase agreements	**12,247**	10,252	**13,304**	11,732
OECD banks	**2,434**	2,309	**1,725**	1,084
Other	**1,892**	2,619	**1,333**	1,828
Total payables to financial institutions	**16,573**	15,180	**16,362**	14,644

Note 23
Other financial liabilities at fair value through profit or loss

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Equity linked notes	**640**	878	**1,662**	698
Credit linked notes	**297**	–	**297**	–
Debt issued at fair value	**–**	41	**–**	41
Total other financial liabilities at fair value through profit or loss	**937**	919	**1,959**	739

Notes to the financial statements
for the financial year ended 31 March 2014
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	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 24
Debt issued at amortised cost

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Debt issued at amortised cost[1]	**37,255**	31,826	**20,508**	16,306
Total debt issued at amortised cost	**37,255**	31,826	**20,508**	16,306

(1) Included within this balance are amounts payable to SPE note holders of $12,732 million (2013: $9,393 million).

The Consolidated Entity has not had any defaults of principal, interest or other breaches with respect to its debt during the years reported.

Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:

(In Australian dollar equivalent):

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
United States dollars	**16,326**	13,505	**13,053**	10,225
Australian dollars	**11,991**	8,944	**3,763**	2,818
Canadian dollars	**3,932**	5,868	**20**	7
Euro	**1,691**	594	**1,523**	371
Japanese yen	**1,503**	1,805	**1,503**	1,805
Swiss franc	**1,138**	1,004	**1,137**	1,004
Great British pounds	**1,090**	442	**1,012**	329
Korean won	**207**	134	**177**	79
Hong Kong dollars	**174**	250	**174**	250
Singapore dollars	**104**	76	**104**	76
Others	**36**	123	**1**	81
Total by currency	**38,192**	32,745	**22,467**	17,045

The Bank's and Consolidated Entity's primary sources for domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from one day to 30 years.

Note 25
Provisions

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Provision for annual leave	**46**	48	**26**	28
Provision for long service leave	**31**	38	**32**	38
Provision for other employee entitlements	**3**	12	**–**	–
Provision for dividends	**6**	6	**2**	2
Total provisions	**86**	104	**60**	68

The majority of the above amounts are expected to be settled after 12 months of the balance date by the Consolidated Entity and the Bank.

Note 26

Capital management strategy

The Bank 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 internal and external measures of capital. Internally, Macquarie has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify MGL's aggregate level of risk. The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of MGL's risk profile. The economic capital model is used to support business decision-making and has three main applications:

- capital adequacy assessment;
- risk appetite setting; and
- risk-adjusted performance measurement.

The Consolidated Entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. From 1 January 2013, the Bank reports to APRA under Basel III capital requirements and 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 for market risk and the internal model approach for interest rate risk in the banking book. The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

Regulatory capital requirements are measured for the Bank and certain subsidiaries which meet the definition of Extended Licensed Entities (Level 1 reporting), and for the Banking Group (Level 2 reporting). Level 2 consists of the Bank, its subsidiaries and its immediate parent less certain subsidiaries of the Bank which are deconsolidated for APRA reporting purposes. These include mortgage and leasing special purpose vehicles (SPVs) and entities conducting insurance, funds management and non-financial operations. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least 6 per cent of this capital in the form of Tier 1 capital and at least 4.5 per cent of this capital in the form of Common Equity Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels.

The Banking Group's Tier 1 capital consists of share capital, retained earnings, certain reserves, hybrid instruments and deductions. The hybrid instruments include Macquarie Income Securities, Macquarie Income Preferred Securities and Exchangeable Capital Securities. Deductions from Tier 1 capital include intangibles, certain capitalised expenses and deferred tax assets. In addition, APRA's Basel III rules require that equity investments and investments in subsidiaries that are insurance entities, fund management entities, special purpose securitisation entities and non-financial entities are fully deducted from Tier 1 capital. The Banking Group's Tier 2 capital includes term subordinated debt, certain reserves and deductions.

The Bank and Consolidated Entity have complied with all internal and external capital management requirements throughout the year.

Notes to the financial statements
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Note 27
Loan capital

Subordinated debt

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, 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 the Consolidated Entity. Details of selected capital instruments are discussed below:

Exchangeable Capital Securities

On 26 March 2012, the Bank, acting through its London Branch (MBL London) issued US$250 million of Exchangeable Capital Securities (ECS).

The ECS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 10.25 per cent per annum, payable semi annually in arrears, with the rate to be reset on 20 June 2017 (and each fifth anniversary thereafter) if the ECS remain outstanding after this time. If interest is not paid on the ECS, the Bank and MGL will be restricted from paying dividends or returning capital on their ordinary shares until the next interest payment date.

Subject to certain conditions being met, the ECS will be exchanged for a variable number of fully paid ordinary shares of MGL on 20 June 2017, or on any interest payment date thereafter, with exchange to occur no later than 20 June 2057. The ECS may also be exchanged earlier on an acquisition event (where a person acquires control of the Bank or MGL), where the Bank's common equity Tier 1 capital ratio falls below 5.125 per cent or where APRA determines the Bank would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL's ordinary shares will be issued at a 5 per cent discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange. No ECS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if ECS were exchanged at 31 March 2014 would be 5,067,970 (31 March 2013: 6,800,228). The maximum total number of MGL ordinary shares that can be issued on an exchange is 17,689,525.

The ECS will only be redeemable, subject to APRA's written approval, at the discretion of the Bank in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the ECS.

As at 31 March 2014, the remaining principal liability related to the ECS was US$250 million (31 March 2013: US$250 million).

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 27

Loan capital continued

Maturity and currency profiles of loan capital instruments

The dates upon which the Consolidated Entity has committed to repay the principal sum to the lenders are as follows:				
Less than 12 months	**69**	60	**69**	60
21 September 2020	**968**	808	**968**	808
7 April 2021	**1,160**	1,098	**1,160**	1,098
	2,197	1,966	**2,197**	1,966
Instrument with a conditional repayment obligation:				
ECS	**270**	240	**270**	240
Loan capital	**2,467**	2,206	**2,467**	2,206
Less directly attributable issue cost	**(3)**	(3)	**(3)**	(3)
Total loan capital[1]	**2,464**	2,203	**2,464**	2,203

Reconciliation of loan capital by major currency: *(In Australian dollar equivalent)*

United States dollars	**1,471**	1,375	**1,471**	1,375
Euro	**996**	831	**996**	831
Australian dollars	**–**	–	**–**	–
Loan capital	**2,467**	2,206	**2,467**	2,206
Less directly attributable issue cost	**(3)**	(3)	**(3)**	(3)
Total loan capital by currency[1]	**2,464**	2,203	**2,464**	2,203

[1] The balance is net of fair value hedge accounting adjustments.

The Consolidated Entity and the Bank have not had any defaults of principal, interest or other breaches with respect to their loan capital during the years reported.

In accordance with APRA guidelines, the Consolidated Entity includes the applicable portion of its loan capital principal as Tier 2 capital.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 28
Contributed equity

	Consolidated and Bank		Consolidated and Bank	
	2014 Number of shares	2013 Number of shares	**2014 $m**	2013 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**501,561,948**	501,561,948	**7,578**	7,578
Closing balance of fully paid ordinary shares	**501,561,948**	501,561,948	**7,578**	7,578

	Consolidated 2014 $m	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**108**	108	**76**	79
Additional paid up capital/(return of capital)	**24**	–	**5**	(3)
Balance at the end of the financial year	**132**	108	**81**	76

During the year ended 31 March 2010, the ultimate parent entity, MGL, introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff of the Consolidated Entity. Under MEREP the staff retained profit share is held in the shares of MGL by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP Awards are issued by MGL to employees of the Consolidated Entity and MGL is not subsequently reimbursed by the Consolidated Entity, the Consolidated Entity recognises the equity provided as a capital contribution from MGL. For the year ended 31 March 2014, MEREP related compensation expense and its related tax effects, treated as additional paid up capital totalled $24,206,958 (2013: $3,998,212) in the Consolidated Entity and $4,966,205 in the Bank. For the year ended 31 March 2013, reversal of MEREP related compensation expense for not meeting the performance hurdles and its related tax effects treated as return of capital in the Bank totalled $889,918. For further information regarding the terms and conditions of MEREP refer to note 33—Employee equity participation.

In November 1995, the Bank introduced an Employee Option Plan, as a replacement for the Bank's then closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). Staff eligible to participate were those of Associate Director level and above and consultants to the Consolidated Entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods. Since 13 November 2007 the equity provided has been treated as an equity contribution from MGL. For the year ended 31 March 2014, MGESOP related compensation expense treated as additional paid up capital totalled $315,316 in the Consolidated Entity and $2,557 in the Bank. For the year ended 31 March 2013, reversal of MGESOP related compensation expense for not meeting the performance hurdles, treated as return of capital, totalled $4,305,705 in the Consolidated Entity and $2,569,539 in the Bank. In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, related compensation expense treated as additional paid up capital in the Consolidated Entity totalled $528,865 (2013: $419,881) and in the Bank $527,900 (2013: $418,895). Details of the MGESOP, MGSSAP and ESP are disclosed in note 33—Employee equity participation.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 28

Contributed equity continued

Macquarie Income Securities

4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

The Macquarie Income Securities are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation.* Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7 per cent p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Bank. They are a perpetual instrument with no conversion rights. They were listed for trading on the ASX on 19 October 1999 and became redeemable (in whole or in part) at the Bank's discretion on 19 November 2004.

Convertible Debentures

850 convertible debentures of £50,000 each	**–**	–	**107**	107
Total convertible debentures	**–**	–	**107**	107

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 29 – Reserves, retained earnings and non-controlling interests) the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2013: 6.177 per cent) semi–annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then prevailing five year benchmark sterling gilt rate. Following the redemption of 6,150 convertible debentures on 29 Spetember 2009, 850 convertible debentures remain on issue.

The distribution policies for these instruments are included in note 5 - Dividends paid and distributions paid or provided for.

Contributed equity	**8,101**	8,077	**8,157**	8,152

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 29
Reserves, retained earnings and non-controlling interests

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Reserves				
Foreign currency translation reserve[1]				
Balance at the beginning of the financial year	**(599)**	(573)	**(42)**	(38)
Currency translation differences arising during the financial year, net of hedge and tax	**492**	(26)	**13**	(4)
Balance at the end of the financial year	**(107)**	(599)	**(29)**	(42)
Available for sale reserve				
Balance at the beginning of the financial year	**85**	75	**68**	2
Revaluation movement for the financial year, net of tax	**11**	(37)	**(27)**	14
Transfer to income statement upon impairment, net of tax	**64**	118	**61**	117
Transfer to income statement on realisation, net of tax	**(93)**	(71)	**(54)**	(65)
Balance at the end of the financial year	**67**	85	**48**	68
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(46)**	(36)	**8**	1
Revaluation movement for the financial year, net of tax	**18**	(10)	**(5)**	7
Balance at the end of the financial year	**(28)**	(46)	**3**	8
Share of reserves of interests in associates and joint ventures accounted for using the equity method				
Balance at the beginning of the financial year	**–**	2	**–**	–
Share of other comprehensive income/(expense) during the financial year	**–**	(2)	**–**	–
Balance at the end of the financial year	**–**	–	**–**	–
Total reserves at the end of the financial year	**(68)**	(560)	**22**	34
Retained earnings[1]				
Balance at the beginning of the financial year	**1,046**	1,658	**162**	607
Profit attributable to equity holders of MBL	**770**	671	**751**	821
Distributions paid or provided for on Macquarie Income Securities (note 5)	**(18)**	(21)	**–**	–
Distributions paid or provided on convertible debentures (note 5)	**–**	–	**(4)**	(4)
Dividends paid on ordinary share capital (note 5)	**(410)**	(1,262)	**(410)**	(1,262)
Balance at the end of the financial year	**1,388**	1,046	**499**	162

(1) The prior year balances of foreign currency translation reserve and retained earnings have been restated following a review of reserves and consideration of prior internal group restructures and entity transfers. Retained earnings is reduced by $85 million with a corresponding increase in foreign currency translation reserve as at 1 April 2012 and at 31 March 2013. There is no impact on total capital and reserves attributable to equity holders of Macquarie Bank Limited or total equity.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 29

Reserves, retained earnings and non-controlling interests continued

Non-controlling interests

Macquarie Income Preferred Securities

On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2013: 6.177 per cent) per annum semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent (2013: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The instruments are reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with the NCI share of profit after tax. Following the cancellation of £307.5 million MIPS in September 2009, £42.5 million MIPS remain on issue.

These instruments are classified as equity in accordance with AASB 132 Financial Instruments: Presentation and reflected in the Consolidated Entity's financial statements as a NCI, with distribution entitlements being included with NCI share of profit after tax. Distribution policies for these instruments are included in note 5 – Dividends and distributions paid or provided for.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Macquarie Income Preferred Securities				
Proceeds on issue of Macquarie Income Preferred Securities	**109**	107	**–**	–
Less issue costs	**(1)**	(1)	**–**	–
	108	106	**–**	–
Foreign currency translation reserve	**(32)**	(46)	**–**	–
Total Macquarie Income Preferred Securities	**76**	60	**–**	–
Other non-controlling interests				
Ordinary share capital	**1**	29	**–**	–
Retained earnings	**–**	3	**–**	–
Total other non-controlling interests	**1**	32	**–**	–
Total non-controlling interests	**77**	92	**–**	–

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 30
Notes to the statements of cash flows

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statements of financial position as follows:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Receivables from financial institutions[(1)]	**6,786**	6,903	**5,522**	5,271
Trading portfolio assets[(2)]	**498**	223	**156**	253
Debt securities[(3)]	**4,208**	2,750	**4,208**	2,684
Loan asset at amortised cost[(4)]	**1,893**	1,292	**771**	1,292
Cash and cash equivalents at the end of the financial year[(5)]	**13,385**	11,168	**10,657**	9,500

(1) Includes cash and other receivables.
(2) Includes certificates of deposit, bank bills and treasury notes as per note 1(xx) – Summary of significant accounting policies.
(3) Includes short-term debt securities as per note 1(xx) – Summary of significant accounting policies.
(4) Includes amounts due from clearing houses as per note 1(xx) – Summary of significant accounting policies.
(5) Cash and cash equivalents include $4,093 million (31 March 2013: $3,119 million) in the Consolidated entity and $2,248 million (31 March 2013: $2,560 million) in the Bank held by consolidated securitisation vehicles or in segregated deposit fund and escrow accounts which are restricted for use.

Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Profit after income tax	**774**	674	**751**	821
Adjustments to profit after income tax:				
Depreciation and amortisation	**466**	373	**27**	13
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**(337)**	(273)	**(117)**	(378)
Provision and impairment charge on financial and non-financial assets	**367**	388	**336**	367
Interest on available for sale financial assets	**(149)**	(126)	**17**	(103)
Net gains on sale of investment securities available for sale and associates and joint ventures	**(177)**	(150)	**(172)**	(81)
Share-based payment (reversal)/expense	**–**	(5)	**–**	–
Share of net profits of associates and joint ventures accounted for using the equity method	**(14)**	(40)	**–**	–
Changes in assets and liabilities:				
Change in dividends receivable	**(59)**	3	**(128)**	3
Change in values of associates due to dividends received	**51**	42	**–**	–
Change in fees and non-interest income receivable	**(102)**	(25)	**38**	(108)
Change in fees and commissions payable	**9**	(104)	**8**	(99)
Change in tax balances	**539**	282	**265**	(461)
Change in provisions for employee entitlements	**(17)**	7	**–**	–
Change in loan assets	**(7,108)**	(1,185)	**(6,716)**	(5,328)
Change in debtors, prepayments, accrued charges and creditors	**417**	274	**818**	41
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**(2,228)**	(1,148)	**(3,160)**	750
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**6,720**	728	**5,602**	4,839
Net cash flows (used in)/from operating activities	**(848)**	(285)	**(2,431)**	276

Note 31

Related party information

Ultimate and immediate parent entities

The Bank's ultimate parent entity is MGL. The Bank's immediate parent entity is Macquarie B.H. Pty Ltd. Both MGL and Macquarie B.H. Pty Ltd are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in note 1(vii) – Summary of significant accounting policies. During the year ended 31 March 2014, current tax of the Consolidated Entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to $266 million liabilities (2013: $146 million liabilities) and $146 million liabilities (2013: $29 million liabilities) respectively.

Balances outstanding with MGL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at financial year end:

	Consolidated 2014 $m	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Amounts receivable[1]	**111**	142	**83**	107

[1] As described in note 1(xix) – Summary of significant accounting policies, the amounts receivable by the Bank includes $98 million (2013: $92 million) for amounts paid in advance for MEREP awards offered to their employees and yet to be recognised as a share-based payment expense.

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Bank except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Bank and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Bank has entered into derivative transactions with its subsidiaries to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its subsidiaries at 31 March 2014 are $573 million (2013: $2,565 million) positive value and $108 million (2013: $438 million) negative value.

A list of material subsidiaries is set out in note 16—Investments in subsidiaries.

Notes to the financial statements
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continued

Note 31
Related party information continued

The following income/(expense) resulted from transactions with subsidiaries during the financial year:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Interest income received/receivable	**–**	–	**269**	340
Interest expense paid/payable	**–**	–	**(422)**	(266)
Fee and commission income	**–**	–	**72**	288
Other operating income	**–**	–	**61**	27
Dividends and distributions received/receivable	**–**	–	**638**	1,097
Management fees, group service charges and cost recoveries	**–**	–	**454**	341
Brokerage, commission and trading-related expenses	**–**	–	**1**	–

The following balances with subsidiaries were outstanding as at the financial year end:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Amounts receivable	**–**	–	**26,228**	21,828
Amounts payable	**–**	–	**(14,835)**	(7,758)

Other related body corporate entities

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees.

Balances arising from lending and borrowing activities between the Consolidated Entity and other related body corporate entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The following income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Interest income received/receivable	**11**	22	**91**	68
Interest expense paid/payable	**(200)**	(116)	**(24)**	(96)
Fee and commission expense	**(169)**	(159)	**(161)**	(203)
Other operating expenses	**(739)**	(624)	**(642)**	(450)
Other income	**1**	1	**3**	1

The following balances with other related body corporate entities were outstanding as at financial year end:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Amounts receivable	**2,133**	918	**1,946**	887
Amounts payable	**(7,443)**	(5,456)	**(6,833)**	(5,250)

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 31

Related party information continued

Associates and joint ventures

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the Consolidated Entity, in the consolidated income statement.

During the financial year, the following amounts of income or expense resulted from transactions with associates and joint ventures:

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Interest income received/receivable	**2**	–	**–**	–
Fee and commission income/(expense)[1]	**(9)**	3	**(52)**	(32)
Other income	**2**	1	**–**	–
Gains/(losses) on sale of securities[2] (note 2)	**9**	51	**59**	(7)
Brokerage and commission expense	**(5)**	(3)	**–**	–
Dividends and distributions[3]	**40**	42	**33**	30

(1) Fee and commission income includes all fees charged to associates.

(2) Gains/(losses) on sale of securities are shown after elimination of unrealised profits/losses calculated by reference to the Consolidated Entity's ownership interest in the associate/ joint venture.

(3) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the Consolidated Entity's net investment in associates, disclosed in note 14 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Amounts receivable	**412**	304	**389**	302
Amounts payable	**(217)**	(110)	**(147)**	(110)

Balances arising from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 32
Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of the Bank during the financial years ended 31 March 2014 and 31 March 2013, unless indicated:

Executive Directors[1]

N.W. Moore	
G.C. Ward	Managing Director and Chief Executive Officer

Non-Executive Directors

H.K. McCann AM	Non-Executive Chairman
G.R. Banks AO	(appointed 1 August 2013)
M.J. Coleman	(appointed 9 November 2012)
P.A. Cross	(appointed 7 August 2013)
D.J. Grady AM	
M.J. Hawker AM	
P.M. Kirby	
H.M. Nugent AO	
N.M. Wakefield Evans	(appointed 7 February 2014)
P.H. Warne	

Former Non-Executive Directors

C.B. Livingstone AO	(retired 25 July 2013)
J.R. Niland AC	(retired 31 December 2013)

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2014 and 31 March 2013, unless otherwise indicated.

Current Executives[1]

S.D. Allen	Chief Risk Officer
A.J. Downe	Group Head, Fixed Income, Currencies and Commodities Group
G.A. Farrell	Co-Group Head, Corporate and Asset Finance Group
M. McLaughlin	Country Head, Unites States of America
N. Sorbara	Chief Operating Officer (appointed 1 January 2013) Group Head, Corporate Operations Group (appointed 1 January 2013)
S. Vrcelj	Group Head, Macquarie Securities Group
S. Wikramanayake	Group Head, Macquarie Funds Group

Former Executives

P.J. Maher	Group Head, Banking and Financial Services Group (ceased to be a member of the Executive Committee on 3 May 2013)

[1] The Executive Directors and all current Executives are members of the Bank's Executive Committee as at 2 May 2014.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report on pages 23 to 28.

Note 32

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel (KMP):

	Short-term Employee Benefits				Long-term Employee Benefits	Share-based Payments		
	Salary and fees (including superannuation) $	Performance related remuneration[1] $	Other benefits $	Total short-term Employee Benefits $	Restricted profit share[2] $	Equity awards including shares[3] $	PSUs/ Options[4] $	Total remuneration $
Executive Remuneration								
2014	**4,689,940**	**14,514,673**	**–**	**19,204,613**	**8,689,663**	**12,065,840**	**6,866,172**	**46,826,288**
2013	4,818,780	12,008,917	–	16,827,697	5,796,523	10,307,090	1,414,843	34,346,153
Non-Executive Remuneration								
2014	**791,626**	**–**	**–**	**791,626**	**–**	**–**	**–**	**791,626**
2013	720,639	–	2,826	723,465	–	–	–	723,465

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of retained profit share which is deferred to future periods and held as a notional investment in Macquarie managed-fund equity (Post-2009 DPS plan) including earnings on notional investments from retained profit share in prior years.

(3) The current year amortisation for retained profit share calculated as described in note 1(xix) – Summary of significant accounting policies.

(4) The current year amortisation for PSUs and options calculated as described in note 1 (xix) – Summary of significant accounting policies. Adjustments were made during the current and prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

Loans to Key Management Personnel and their related parties

Details of loans provided by the Consolidated Entity to Key Management Personnel and their related parties are disclosed in aggregate in the following tables:

		Opening balance at 1 April $'000	Interest charged $'000	Write-downs $'000	Closing balance at 31 March $'000
Total for Key Management Personnel and their related parties	**2014**	**5,706**	**6**	**–**	**600**
	2013	5,714	375	–	5,706
Total for Key Management Personnel[1]	**2014**	**5,706**	**6**	**–**	**600**
	2013	5,714	375	–	5,706

(1) Number of persons included in the aggregate at 31 March 2014: 3 (2013: 3).

Loans and other financial instrument transactions are made by the Consolidated Entity in the ordinary course of business with related parties.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 32

Key Management Personnel disclosure continued

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year are as follows

For the financial year ended 31 March 2014

Name and position	Balance at 1 April 2013 $'000	Interest charged[1] $'000	Write-downs $'000	Balance at 31 March 2014[2] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	–	–	–	5,274
Executives					
N. Sorbara	82	4	–	250	250
Former Executives					
P.J. Maher[3]	350	2	–	350	350

(1) All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(2) Or date of resignation if earlier.

(3) Mr Maher ceased to be a member of the Executive Committee on 3 May 2013. The balance at 31 March 2014 represents loans held at the date of retirement from the Executive Committee.

For the financial year ended 31 March 2013

Name and position	Balance at 1 April 2012 $'000	Interest charged[1] $'000	Write-downs $'000	Balance at 31 March 2013 $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,274	348	–	5,274	5,274
Executives					
P.J. Maher	350	26	–	350	350

(1) All loans provided by the Consolidated Entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

Note 32

Key Management Personnel disclosure continued

Other transactions and balances of Key Management Personnel and their related parties:

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and iUnits from subsidiaries within the Consolidated Entity, which have been financed with limited recourse loans and some of which are subject to forward sale agreements. All the arrangements between the investor and Macquarie are subject to a legal right of set-off. The only amounts recognised by the Consolidated Entity in respect of these transactions are either: for iBonds, the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue; or for iUnits, the value of the option purchased. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2014 $m	Consolidated 2013 $m
Total annual contributions in respect of Infrastructure Bonds and similar products	**476**	554
Total value of iUnits options	**161**	520

The annual contributions in respect of Infrastructure Bonds and similar products relate to the following Key Management Personnel:

Executive Directors

N.W. Moore, G.C. Ward

Executives

S.D. Allen, A.J. Downe, G.A. Farrell, N. Sorbara (2014), S. Vrcelj, G.C. Ward, S. Wikramanayake

Former Executives

P.J. Maher (balance at the date ceased to be a member of the Executive Committee)

All other transactions with Key Management Personnel (including their personally related parties) were conducted on an arm's length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services. Related parties of Key Management Personnel who are employees received normal employee benefits on standard terms and conditions.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 33
Employee equity participation

Macquarie Group Employee Retained Equity Plan

In December 2009, MGL's shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP) in conjunction with remuneration arrangements. These arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as MGL equity, an increase in the proportion of deferred remuneration and cessation of new option grants under the Macquarie Group Employee Share Option Plan (MGESOP).

Award Types under the MEREP

Restricted Share Units (RSUs)

A RSU is a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the plan trustee (Trustee). The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on MGL shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of MGL in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders of MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights on any underlying MGL shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on Restricted Shares and to vote Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU awards impractical.

Note 33

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The following is a summary of Awards which have been granted pursuant to the MEREP:

	Number of RSU Awards 2014	Number of RSU Awards 2013
RSUs on issue at the beginning of the financial year	**10,092,603**	7,806,417
Consolidation of one ordinary share into 0.9438 ordinary shares[1]	**(563,232)**	–
Granted during the financial year	**2,356,880**	3,783,350
Forfeited during the financial year	**(376,884)**	(421,239)
Vested RSUs withdrawn from the MEREP during the financial year	**(2,159,620)**	(1,351,936)
Transfers from related body corporate entities	**59,074**	276,011
RSUs on issue at the end of the financial year	**9,408,821**	10,092,603
RSUs vested and not withdrawn from the MEREP at the end of the financial year	**8,327**	7,878

The weighted average fair value of the RSU Awards granted during the financial year was $41.07 (2013: $26.81).

	Number of DSU Awards 2014	Number of DSU Awards 2013
DSUs on issue at the beginning of the financial year	**1,252,739**	592,524
Adjustment of DSUs due to 0.9438 ordinary share consolidation[1]	**(78,275)**	–
Granted during the financial year	**373,887**	843,589
Forfeited during the financial year	**(26,374)**	(39,867)
Exercised during the financial year	**(228,824)**	(207,220)
Transfers from related body corporate entities	**32,228**	63,713
DSUs on issue at the end of the financial year	**1,325,381**	1,252,739
DSUs exercisable at the end of the financial year	**129,608**	96,783

The weighted average fair value of the DSU Awards granted during the financial year was $40.99 (2013: $26.77).

	Number of PSU Awards 2014	Number of PSU Awards 2013
PSUs on issue at the beginning of the financial year	**500,830**	314,350
Adjustment of PSUs due to 0.9438 ordinary shares consolidation[1]	**(29,043)**	–
Granted during the financial year	**117,796**	333,907
Exercised during the financial year	**(11,950)**	–
Expired during the financial year	**(89,868)**	(40,168)
Transfers to related parties	**–**	(107,259)
PSUs on issue at the end of the financial year	**487,765**	500,830
PSUs exercisable at the end of the financial year	**6,961**	–

The weighted average fair value of the PSU Awards granted during the financial year was $41.32 (2013: $21.91).

	Number of Restricted Share Awards 2014	Number of Restricted Share Awards 2013
Restricted shares on issue at the beginning of the financial year	**12,471**	–
Consolidation of one ordinary share into 0.9438 ordinary shares[1]	**(1,774)**	–
Granted during the financial year	**31,577**	12,471
Released during the financial year	**(13,346)**	–
Restricted shares on issue at the end of the financial year	**28,928**	12,471

The weighted average fair value of the restricted shares granted during the financial year was $42.40 (2013: $26.70).

[1] Consolidation applied to MGL shares held in the MEREP as at the record date for the consolidation

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 33

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The awards are measured at their grant dates based on their fair value and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance. For the year ended 31 March 2014, compensation expense relating to the MEREP totalled $112 million (2013: $114 million).

Participation in the MEREP is currently provided to the following Eligible Employees:

- Executive Directors with retained Directors' Profit Share (DPS) from 2009 onwards, a proportion of which is allocated in the form of MEREP awards (Retained DPS Awards);
- Executive Directors with pre-2009 retained DPS (which they elected to transition into the MEREP);
- staff other than Executive Directors with retained profit share (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed allocation of MEREP awards (Promotion Awards);
- Macquarie Group staff with retained commission (Commission Awards);
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded either a fixed number of MEREP awards or a fixed Australian dollar value, depending on level (New Hire Awards);
- members of the MBL and MGL Executive Committees who are eligible for PSUs; and
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3rd on or after each 1 July, in the 2nd, 3rd and 4th year following the year of grant(1)
Retained DPS Awards representing 2009 retention	Executive Director	1/5th on or after each 1 July, in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5th on or after each 1 July in the 3rd, 4th, 5th, 6th and 7th year following the year of grant(2)
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3rd on or after each 1 July in the 3rd, 4th and 5th year following the year of grant(1)
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% on or after each 1 July, three and four years after the year of grant(3)
PSU Awards granted in relation to 2009, 2010 and 2011	Executive Committee members	1/3rd on or after each 1 July, two, three and four years after the year of grant(3)
Pre-2009 DPS Transitioned into the MEREP	Executive Committee members	1/7th each year from 1 July 2010 to 1 July 2016(2)
Pre-2009 DPS Transitioned into the MEREP	Executive Directors (other than those on the Executive Committee)	1/5th each year from 1 July 2010 to 1 July 2014(2)
Commission Awards	Below Executive Director	1/3rd on or after each 1 July, in the 2nd, 3rd and 4th year following the year of grant(1)
Incentive Awards	All Macquarie Group staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3rd on each first day of a staff trading window on or after the 2nd, 3rd and 4th anniversaries of the date of allocation

(1) Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

(2) Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

(3) Subject to achieving certain performance hurdles – refer below.

Note 33

Employee equity participation continued

In limited cases, the Application Form for awards may set out a different vesting period, in which case that period will be the vesting period for the Award. For example, staff in jurisdictions outside Australia may have a different vesting period due to local regulatory requirements.

For Retained Profit Share Awards representing 2013 retention, the allocation price was the weighted average price of the Shares acquired for the 2013 Purchase Period, which was 14 May 2013 to 25 June 2013 inclusive (excluding the period from 23 May to 6 June 2013). That price was calculated to be $43.56 (2012 retention: $26.97).

Performance Share Units

— PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded. These hurdles are set out below. Hurdles are periodically examined by the BRC as part of their ongoing review of the remuneration approach, to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as peer market practice. No change has been made to the hurdles for FY2014.

The hurdles are outlined below.

Performance hurdle 1

	Reference group	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50 per cent of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three and four years) compared to a reference group of global peers. A sliding scale applies with 50 per cent becoming exercisable above the 50th percentile and 100 per cent vesting at the 75th percentile.	The current reference group[1] comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase, Lazard Ltd, Morgan Stanley and UBS AG.	The reference group comprises ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation, Suncorp Metway Limited, Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group AG, JP Morgan Chase, Morgan Stanley and UBS AG.

(1) Jefferies Group Inc. has been excluded from the reference group for awards made from 2013 following its acquisition by Leucadia National Corp.

Performance hurdle 2

	Required result	
Hurdle	**Granted after 31 March 2013**	**Granted on or before 31 March 2013**
50 per cent of the PSUs based solely on the compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (three to four years).	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 7.5 per cent and 100 per cent at EPS CAGR of 12.0 per cent. For example, if EPS CAGR were 9.75 per cent, 75 per cent of the Award would become exercisable.	A sliding scale applies with 50 per cent becoming exercisable at EPS CAGR of 9.0 per cent and 100 per cent at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11.0 per cent, 75 per cent of the Award would become exercisable.

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting.

Other arrangements

There are certain arrangements with employees which take the form of a share-based payment but which are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the year ending 31 March 2014 was $0.16 million (2013: $0.24 million).

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 33

Employee equity participation continued

Option Plan

MGL suspended new offers under the Macquarie Group Employee Option Plan (MGESOP) under the remuneration arrangements which were the subject of shareholder approvals obtained at the General Meeting of MGL in December 2009. The last grant of Options under the MGESOP was on 8 December 2009. MGL does not currently expect to issue any further Options under the MGESOP.

Options now on issue are all five year options over fully paid unissued ordinary shares in MGL and were granted to individuals or the individual's controlled company or an entity approved under the MGESOP to hold options. The options were issued for no consideration and were granted at prevailing market prices.

At 31 March 2014 there were 6 (2013: 547) MBL participants in the MGESOP.

The following is a summary of the movement in options granted pursuant to the MGESOP:

	Number of options 2014	Weighted average exercise price 2014 $	Number of options 2013	Weighted average exercise price 2013 $
Outstanding at the beginning of the financial year	**2,772,256**	**52.68**	5,660,449	60.32
Adjustment of Options due to 0.9438 ordinary share consolidation[1]	**(1,627)**	**41.68**	–	–
Forfeited during the financial year	**(1,200)**	**50.35**	(513,493)	49.07
Exercised during the financial year	**(137,719)**	**30.69**	(13,954)	21.94
Transfers (to)/from related body corporate entities	**(10,050)**	**53.91**	223,447	51.76
Lapsed during the financial year	**(2,605,579)**	**53.92**	(2,584,193)	70.21
Outstanding at the end of the financial year	**16,081**	**41.94**	2,772,256	52.68
Exercisable at the end of the financial year	**16,081**	**41.94**	2,733,574	52.92

For options exercised during the financial year the weighted average share price at the date of exercise was $47.51[2] (2013: $30.83).

The range of exercise prices for options outstanding at the end of the financial year was $36.35 to $53.66 (2013: $17.10 to $63.09).

(1) Consolidation applied to Options held in the MGESOP as at the record date for the consolidation.

(2) Some of the exercise prices reflect the impact of the SYD Distribution, a distribution of the majority of the Group's investment in Sydney Airport stapled securities (SYD Securities) to its ordinary shareholders implemented through a special dividend and a capital reduction along with a consolidation of one MGL share into 0.9438 of an ordinary share.

The weighted average remaining contractual life for the share options outstanding as at 31 March 2014 was 0.38 years (2013: 0.4 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2014	Remaining life (years) 2014	Number of options 2013	Remaining life (years) 2013
10–20	**–**	**–**	12,668	0.94
20–30	**–**	**–**	57,336	0.93
30–40	**10,417**	**0.26**	70,567	1.09
40–50	**2,832**	**0.69**	31,000	0.71
50–60	**2,832**	**0.48**	2,597,685	0.37
60–70	**–**	**–**	3,000	0.1
	16,081	**0.38**	2,772,256	0.41

The above tables exclude options that are not exercisable due to the failure to meet performance hurdles.

There were no options issued in the financial year.

Note 33

Employee equity participation continued

Option Plan continued

Options granted vest in three equal tranches after the second, third and fourth anniversaries of the date of allocation of the options. Subject to the MGESOP rules and MGL's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with MGL's agreement towards the end of a vesting period, MGL's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

For options granted to the members of MBL and MGL's Executive Committee, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if MGL's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting. During the year ended 31 March 2013 the final tranches of these options failed to meet the performance hurdles and consequently did not vest.

Fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid MGL ordinary shares then on issue.

The options do not confer any right to directly participate in any share issue or interest issue by MGL or any other body corporate or scheme and carry no dividend or voting rights. The options include terms that provide for the adjustment of the number of options, the exercise price and/or the number of shares to be issued on the exercise of options, in the following circumstances:

- an issue of new shares by way of capitalisation of profits or reserves;
- an issue to holders of shares of rights (pro-rata with existing shareholdings) to subscribe for further shares;
- a pro-rata bonus issue;
- a subdivision, consolidation, cancellation or return of capital; and
- other reorganisations.

These terms are consistent with the ASX Listing Rules for the adjustment of options in these circumstances which are intended to ensure that these types of transactions do not result in either a dilution of option holders' interest or an advantage to option holders which holders of ordinary shares do not receive.

For the year ended 31 March 2014, compensation expense relating to exchangeable shares, retention securities and option plans totalled $0.02 million (2013: credit of $4 million)

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees were offered up to $1,000 worth of fully paid ordinary Company shares for no cash payment. MGL has since introduced the Macquarie Group Employee Share Plan (ESP) on the same terms.

Shares allocated under the ESP cannot be sold until the earlier of three years after allocation or the time when the participant is no longer employed by the Company or a subsidiary of the Company. In all other respects, shares allocated rank equally with all other fully paid ordinary shares then on issue.

The latest offer under the ESP was made during November 2013. A total of 547 (2013: 426) staff participated in this offer. On 6 December 2013, the participants were each allocated 18 (2013: 30) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $53.70 (2012: $32.85), a total of 9,846 (2013: 12,780) shares were allocated. The shares were allocated to staff for no cash consideration. The aggregate value of the shares allocated was deducted from staff profit share and commissions.

Historical Share Plans

Shares are no longer being issued or purchased under the Staff Share Acquisition Plan nor the Non-Executive Director Share Acquisition Plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Other plans

The Consolidated Entity operates other local share-based compensation plans, none of which, individually or in aggregate are material.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m

Note 34
Contingent liabilities and commitments

The following contingent liabilities and commitments exclude derivatives.

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Contingent liabilities exist in respect of:				
Guarantees	**466**	545	**885**	750
Letters of credit	**453**	272	**950**	610
Performance related contingents	**342**	228	**342**	228
Indemnities	**44**	1	**93**	58
Total contingent liabilities[1]	**1,305**	1,046	**2,270**	1,646
Commitments exist in respect of:				
Undrawn credit facilities	**3,166**	2,374	**2,536**	2,151
Forward asset purchases	**87**	17	**11**	12
Total commitments[2]	**3,253**	2,391	**2,547**	2,163
Total contingent liabilities and commitments	**4,558**	3,437	**4,817**	3,809

(1) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's business. A provision is recognised where some loss is probable and can be reliably estimated. The Consolidated Entity is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's business, financial condition or performance.

(2) Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Note 35
Lease commitments

	Consolidated 2014 $m	Consolidated 2013 $m	Bank 2014 $m	Bank 2013 $m
Non-cancellable operating leases expiring:				
Not later than one year	**3**	4	**–**	–
Later than one year and not later than five years	**3**	6	**–**	–
Later than five years	**1**	1	**–**	–
Total operating lease commitments	**7**	11	**–**	–

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

Note 36

Structured entities

The Consolidated Entity engages in various transactions with Structured Entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (e.g. decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision-making is required continuously. The Consolidated Entity has interests in SEs that are involved in securitisations, asset backed financing structures and investment funds.

Securitisations

Securitisations involve transferring assets into a vehicle that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor. These vehicles are created for securitising assets of the Consolidated Entity or of its clients.

The Consolidated Entity engages in securitisation of mortgages, finance leases, credit card receivables and other types of instruments. The Consolidated Entity may serve as a sponsor, servicer, underwriter, liquidity provider, derivative counterparty, purchaser of notes and/or purchaser of residual interest units. The Consolidated Entity may also provide redraw facilities or loan commitments to securitisation vehicles.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to interest, management fees, servicing fees and gains and losses from revaluing financial instruments.

Asset-backed financing

Asset-backed vehicles are used to provide tailored lending for the purchase or lease of assets transferred by the Consolidated Entity or its clients. The assets are normally pledged as collateral to the lenders.

The Consolidated Entity engages in raising finance for assets such as aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to interest and servicing fees.

Investment funds

SEs formed for the purpose of offering alternative investment opportunities relate primarily to fund-linked or funds of funds products. Investment structures are designed to provide investors with specified returns based on the returns of an underlying security, referenced asset or index by issuing credit-linked or equity-linked notes to investors. SEs typically obtain exposure to the underlying asset or index through a derivative instrument (e.g. swaps or call options) and place the remaining proceeds on deposit to serve as collateral for the derivative.

The Consolidated Entity may act as sponsor, manager, broker, funder, liquidity provider or derivative counterparty.

Income received by the Consolidated Entity during the year from interests held at the reporting date relates to management fees and revaluation of derivatives.

At 31 March 2014, the Consolidated Entity's interests in unconsolidated investment funds is immaterial.

Interests held

Interests in unconsolidated SEs include, but are not limited to, debt and equity investments, guarantees, liquidity agreements, commitments, fees from investment structures, and fees from derivative instruments that expose the Consolidated Entity to the risks of the unconsolidated SE. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and currency swaps) and positions where the Consolidated Entity: (i) creates rather than absorbs variability of the unconsolidated SE (e.g. purchase of credit protection under a credit default swap); (ii) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs; and (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

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continued

Note 36

Structured entities continued

The following table presents the carrying value and maximum exposure to loss (before the benefit of collateral and credit enhancements) of the Consolidated Entity's interests in unconsolidated SEs as at 31 March 2014:

	Nature of activity	
	Securitisations $m	**Asset-backed financing $m**
	Consolidated 2014	
Carrying value of assets		
Trading portfolio assets	555	–
Derivative assets	3	–
Investment securities available for sale[1]	2,430	137
Loan assets held at amortised cost	254	235
Total carrying value of assets	3,242	372
Maximum exposure to loss		
Debt and equity held	3,239	372
Derivatives and undrawn commitments	882	–
Total maximum exposure to loss	4,121	372

(1) Securitisations includes $1,749 million of investments that are managed by the Consolidated Entity under the liquid assets policy described in note 38.2 - Liquidity risk.

Maximum exposure to loss is the carrying value of debt and equity held, the undrawn amount for commitments, the maximum amount if guarantees were to be called upon and the notional amounts of derivative instruments. The amounts for commitments, guarantees and derivatives are reduced for any liabilities already recognised.

Of the above interests, the Consolidated Entity holds $313 million in subordinated interests, included in asset-backed financing activities. This carrying value also represents the maximum exposure to loss.

The subordinated asset-backed interests are included within investments available for sale and loans, involve unconsolidated SEs with total size of $1,025 million, and the potential losses borne by others whose interests rank lower is $8 million.

Size represents either the assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); the principal amount of liabilities if there is nominal equity; or the notional amounts of derivatives if the SE was designed to primarily obtain exposure synthetically through derivative instruments. Size is based on the most current publicly available information to the Consolidated Entity.

Note 37

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The Consolidated Entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xi) – Summary of significant accounting policies:

Cash flow hedges: The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non–trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross–currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2014, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $20 million negative value (2013: $7 million negative value).

During the year the Consolidated Entity recognised $0.6 million of gains (2013: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was $58 million negative value (2013: $161 million negative value).

Fair value hedges: The consolidated entity's fair value hedges consist of:

– interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates; and
– foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was $153 million positive value (2013: $97 million negative value).

During the year fair value gains on the hedging instruments of $250 million have been recognised (2013: $236 million losses), offset by $246 million (2013: $221 million gains) of losses on the hedged item.

Net investment in foreign operations hedges: The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its non-core foreign operations.

At 31 March 2014, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was $67 million negative value (2013: $35 million positive value). During the year the Consolidated Entity recognised $nil (2013: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to $3,076 million (2013: $1,798 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of $278 million (2013: $14 million gains) on translation of the foreign currency borrowing to Australian Dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Notes to the financial statements
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Note 38
Financial risk management

Risk Management Group

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal risk and compliance risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG), and in the case of legal risk, Legal and Governance, to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of the Consolidated Entity. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 38.1

Credit risk

Credit risk is defined as the risk of a counterparty failing to complete its contractual obligations when they fall due. The consequent loss is either the amount of the loan not paid back, or the loss incurred in replicating a trading contract with a new counterparty.

The responsibility for approval of credit exposures is delegated to specific individuals by the Board. Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood and acceptable. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All wholesale limits and ratings are reviewed at least once a year, or more frequently if necessary. Retail credit exposures are monitored on a portfolio basis.

All credit exposures are monitored regularly against limits. Credit exposures for loans are evaluated as either the full current face value or, for distressed debt, the acquisition cost when acquired in the secondary market. Exposures for derivatives depend on potential future asset prices. To mitigate credit risk, the Consolidated Entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate reflecting the estimated economic loss in the event of default occurring.

Macquarie determines the credit quality of a financial asset by the credit rating assigned to the specific counterparty by the RMG Credit Team. The RMG Credit Team assigns ratings of MQ1 to MQ99 to individual counterparties that equate to ratings assigned by external rating agencies as follows:

Credit Grading	Internal Rating	External Equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure provisioning is adequate.

A review of the credit portfolio that involves monitoring credit concentrations by counterparty, country, risk type, industry and credit quality is carried out quarterly and reported to the Board semi-annually. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The Consolidated Entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

Notes to the financial statements
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continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets before the benefit of collateral and credit enhancements held.

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	5,715	324	2,494	1
Financial institutions	5,398	88	872	6,072	10
Other	–	56	407	81	1,066
Total Australia	5,398	5,859	1,603	8,647	1,077
Asia Pacific					
Governments	–	694	6	43	–
Financial institutions	1,269	466	312	522	–
Other	–	336	128	10	1,918
Total Asia Pacific	1,269	1,496	446	575	1,918
Europe, Middle East and Africa					
Governments	–	52	53	53	–
Financial institutions	5,772	229	4,518	1,225	–
Other	–	47	2,295	349	1,664
Total Europe, Middle East and Africa	5,772	328	6,866	1,627	1,664
Americas					
Governments	–	1,008	22	–	–
Financial institutions	3,712	60	2,001	663	–
Other	–	400	1,530	272	1,496
Total Americas	3,712	1,468	3,553	935	1,496
Total gross credit risk	16,151	9,151	12,468	11,784	6,155

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate $m	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2014
60	–	–	–	8,594
436	–	–	202	13,078
32,777	574	408	1,900	37,269
33,273	574	408	2,102	58,941
5	61	–	–	809
287	–	–	38	2,894
537	10	471	275	3,685
829	71	471	313	7,388
6	21	–	–	185
3,816	188	–	540	16,285
4,501	62	108	472	9,498
8,323	271	108	1,012	25,971
25	–	–	–	1,055
3,275	–	–	82	9,793
11,445	57	1,257	1,050	17,507
14,745	57	1,257	1,132	28,355
57,170	973	2,244	4,558	120,654

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1

Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	6,077	343	3,370	3
Financial institutions	4,575	120	3,086	5,360	7
Other	–	126	767	141	1,515
Total Australia	4,575	6,323	4,196	8,871	1,525
Asia Pacific					
Governments	–	915	–	95	–
Financial institutions	544	426	239	717	–
Other	–	306	131	–	1,444
Total Asia Pacific	544	1,647	370	812	1,444
Europe, Middle East and Africa					
Governments	–	19	–	63	–
Financial institutions	3,480	194	5,333	2,720	–
Other	–	7	1,778	282	1,661
Total Europe, Middle East and Africa	3,480	220	7,111	3,065	1,661
Americas					
Governments	–	1,121	25	–	–
Financial institutions	4,008	344	1,407	943	–
Other	–	430	1,486	17	813
Total Americas	4,008	1,895	2,918	960	813
Total gross credit risk	12,607	10,085	14,595	13,708	5,443

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

Loan assets held at amortised cost[(1)] $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities	Credit commitments and contingent liabilities $m	Total $m
				Consolidated 2013
142	395	–	–	10,330
319	139	–	33	13,639
26,668	1,123	165	1,349	31,854
27,129	1,657	165	1,382	55,823
2	–	–	–	1,012
207	–	–	–	2,133
432	–	305	310	2,928
641	–	305	310	6,073
5	61	–	–	148
3,003	518	–	143	15,391
3,799	95	109	571	8,302
6,807	674	109	714	23,841
20	–	–	–	1,166
2,423	–	–	85	9,210
12,198	71	481	946	16,442
14,641	71	481	1,031	26,818
49,218	2,402	1,060	3,437	112,555

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1
Credit risk continued

Maximum exposure to credit risk continued

The tables below detail the concentration of credit exposures of the Bank's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Bank's assets.

	Receivables from financial institutions $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	5,715	324	2,494	–
Financial institutions	4,920	88	787	5,761	8
Other	–	56	393	40	1,237
Total Australia	4,920	5,859	1,504	8,295	1,245
Asia Pacific					
Governments	–	599	6	43	–
Financial institutions	1,128	218	312	484	–
Other	–	140	121	10	1,827
Total Asia Pacific	1,128	957	439	537	1,827
Europe, Middle East and Africa					
Governments	–	52	53	53	–
Financial institutions	5,445	229	4,482	1,208	–
Other	–	47	2,479	327	1,257
Total Europe, Middle East and Africa	5,445	328	7,014	1,588	1,257
Americas					
Governments	–	685	2	–	–
Financial institutions	3,285	56	1,881	562	–
Other	–	399	751	32	178
Total Americas	3,285	1,140	2,634	594	178
Total gross credit risk	**14,778**	**8,284**	**11,591**	**11,014**	**4,507**

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
					Bank 2014
60	–	–	–	–	8,593
436	–	–	–	202	12,202
20,845	624	358	13,755	1,504	38,812
21,341	624	358	13,755	1,706	59,607
1	61	–	–	–	710
222	–	–	–	37	2,401
334	10	431	1,583	316	4,772
557	71	431	1,583	353	7,883
–	21	–	–	–	179
3,975	185	–	–	540	16,064
3,519	–	91	6,242	433	14,395
7,494	206	91	6,242	973	30,638
–	–	–	–	–	687
1,749	–	–	–	77	7,610
3,837	57	1,149	4,648	1,708	12,759
5,586	57	1,149	4,648	1,785	21,056
34,978	958	2,029	26,228	4,817	119,184

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1
Credit risk continued

Maximum exposure to credit risk continued

	Receivables from financial institutions[1] $m	Trading portfolio assets $m	Derivative assets $m	Debt investment securities available for sale $m	Other financial assets $m
Australia					
Governments	–	6,077	343	3,370	3
Financial institutions	4,232	120	3,145	5,160	4
Other	–	127	852	32	1,657
Total Australia	4,232	6,324	4,340	8,562	1,664
Asia Pacific					
Governments	–	688	–	95	–
Financial institutions	426	47	239	705	–
Other	–	34	130	–	1,389
Total Asia Pacific	426	769	369	800	1,389
Europe, Middle East and Africa					
Governments	–	19	–	63	–
Financial institutions	3,288	194	5,149	2,703	–
Other	–	7	1,780	293	1,309
Total Europe, Middle East and Africa	3,288	220	6,929	3,059	1,309
Americas					
Governments	–	343	2	–	–
Financial institutions	2,911	330	1,347	882	–
Other	–	405	526	2,037	20
Total Americas	2,911	1,078	1,875	2,919	20
Total gross credit risk	10,857	8,391	13,513	15,340	4,382

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

Loan assets held at amortised cost[1] $m	Other financial assets at fair value through profit or loss $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
					Bank 2013
153	395	–	–	–	10,341
308	81	–	–	33	13,083
13,740	1,215	123	13,210	1,329	32,285
14,201	1,691	123	13,210	1,362	55,709
–	–	–	–	–	783
116	–	–	–	–	1,533
251	–	291	1,046	360	3,501
367	–	291	1,046	360	5,817
–	61	–	–	–	143
2,984	518	–	–	124	14,960
3,118	1	114	1,981	631	9,234
6,102	580	114	1,981	755	24,337
–	–	–	–	–	345
1,697	–	–	–	85	7,252
3,286	70	466	3,554	1,247	11,611
4,983	70	466	3,554	1,332	19,208
25,653	2,341	994	19,791	3,809	105,071

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1
Credit risk continued

Collateral and credit enhancements held

Receivables from financial institutions

Cash collateral on securities borrowed and reverse repurchase agreements balance is included in receivables from financial institutions.

Securities borrowed and reverse repurchase agreements are fully collateralised with highly liquid securities as they require collateral to be in excess of the loaned amount.

Loan assets held at amortised cost

Residential mortgage loans

The Consolidated Entity's residential mortgages are secured by fixed charges over a borrower's property. Further Macquarie obtains lender's mortgage insurance (LMI) to cover the majority of the mortgage portfolio to protect against a potential shortfall between the value of a repossessed property sold and the loan outstanding, including accrued interest. Substantially all the Americas portfolio consists of Canadian mortgages. Included in the mortgage loan balance is $10,027 million (2013: $10,774 million) which have been securitised by consolidated SPEs. Further, $3,853 million (2013: $5,863 million) are held by either a government-backed securitisation vehicle or financial institutions, not consolidated by the Consolidated Entity.

The Bank's residential mortgages, all originated in Australia, are secured by fixed charges over a borrower's property and LMI as disclosed above.

The tables below provide information on loan to value ratios (LVRs) determined using current loan balances and the valuation at the time the mortgage was financed.

	2014			2013		
Consolidated	**Australia $m**	**Americas $m**	**EMEA $m**	Australia $m	Americas $m	EMEA $m
Fully collateralised						
Loan to value ratio						
Less than 25%	**212**	**13**	**–**	452	22	–
25% to 50%	**1,222**	**161**	**244**	1,769	253	266
51% to 75%	**4,429**	**902**	**207**	4,069	1,234	116
76% to 90%	**8,716**	**2,630**	**32**	4,159	3,404	90
91% to 100%	**2,324**	**1,813**	**–**	1,098	2,420	–
Partly collateralised	**6**	**2**	**–**	33	1	–
Total mortgages	**16,909**	**5,521**	**483**	11,580	7,334	472
Bank						
Fully collateralised						
Loan to value ratio						
Less than 25%	**182**	**–**	**–**	175	–	–
25% to 50%	**915**	**–**	**244**	794	–	266
51% to 75%	**3,343**	**–**	**131**	1,952	–	33
76% to 90%	**7,021**	**–**	**–**	2,480	–	–
91% to 100%	**1,864**	**–**	**–**	809	–	–
Partly collateralised	**4**	**–**	**–**	22	–	–
Total mortgages	**13,329**	**–**	**375**	6,232	–	299

Relationship banking mortgages

In addition, and separately to, the residential mortgages portfolios above, Macquarie Relationship Banking provides residential and commercial mortgages to clients in Australia, usually high net worth individuals. These loans are secured by fixed charges over the borrowers' property. Of the mortgage balance of $1,199 million (2013: $840 million), $109 million (2013: $103 million) has a LVR of 50 per cent or less, $615 million (2013: $532 million) has an LVR of between 50 and 75 per cent and $462 million, (2013: $193 million) an LVR of between 75 and 100 per cent. $13 million (2013: $12 million) is only partly secured by real estate with an LVR greater than 100 per cent.

Investment and insurance premium lending

Macquarie lends to clients for investment and insurance premium financing. Where Macquarie lends for investment, Macquarie holds the investment as collateral. For insurance premium loans, the loan is collateralised by the right to receive the pro-rata return premium for the underlying insurance policies, where the policy is cancellable. Where the policy is non-cancellable, recourse is to the obligor in the first instance. For the Consolidated Entity, of the investment and insurance premium lending portfolio of $1,109 million (2013: $1,541 million), $728 million (2013: $1,473 million) is fully collateralised. For the Bank, of the investment and insurance premium lending portfolio of $1,323 million (2013: $1,428 million), $942 million (2013: $1,360 million) is fully collateralised.

Lease and retail financing

Macquarie leases assets and provides retail financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying fixed assets are held by Macquarie as collateral. For the Consolidated Entity, of the lease and retail finance portfolio of $10,836 million (2013: $9,364 million), the credit exposure after considering the depreciated value of collateral is $3,087 million (2013: $2,584 million). For the Bank, of the lease and retail finance portfolio of $874 million (2013: $973 million), the credit exposure after considering the depreciated value of collateral is $222 million (2013: $242 million).

Corporate and commercial term lending

Collateral held against corporate and commercial lending consists of secured rights over specified assets of the counterparty, often in the form of commercial property and land rights. Of the term lending of $15,659 million (2013: $13,068 million), the credit exposure after collateral and credit enhancements is $2,997 million (2013: $2,474 million).

Additional collateral

Macquarie excludes other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes.

Other financial assets at fair value through profit or loss

Included in Other financial assets at fair value through profit or loss is financing provided to clients for investing, which had a carrying value in the Consolidated Entity at the balance date of $644 million (2013: $1,281 million) and in the Bank of $625 million (2013: $1,215 million). This amount is secured by the underlying securities investments or cash deposits of the investors.

Derivative financial instruments

Exchange traded derivatives contracts have limited credit risk as counterparties have to be members of the exchange and demonstrate they have adequate resources to fulfill obligations when they become due. Members are required to provide initial margins in accordance with the exchange rules in the form of cash or securities, and provide daily variation margins in cash to cover changes in market values. Further, all members are generally required to contribute to (and guarantee) the compensation/reserve fund which may be used in the event of default and shortfall of a member. The Consolidated Entity held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2014 of $,2,533 million (2013: $2,587 million). The Consolidated Entity has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being $2,702 million (2013: $3,287 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

The Bank held exchange traded derivatives with positive replacement values (and for which counterparties would have had to place margin) as at 31 March 2014 of $2,326 million (2013: $2,336 million). The Bank has also placed margins on House and Client positions with exchanges, the balance at 31 March 2014 being $2,221 million (2013: $2,446 million), which are recorded in Receivables from financial institutions and Loan assets held at amortised cost.

Notes to the financial statements
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Note 38.1

Credit risk continued

For Over The Counter (OTC) derivative contracts, the Consolidated Entity and Bank often have master netting agreements (usually ISDA Master Agreements) with certain counterparties to manage the credit risk. The credit risk associated with positive replacement value contracts is reduced by master netting arrangements that in an event of default requires balances with a particular counterparty covered by the agreement (e.g. derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Bank also often execute a Credit Support Annex in conjunction with a master netting agreement, which facilitates the transfer of margin between parties during the term of arrangements, to mitigate counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2014, the Consolidated Entity held OTC contracts with a positive replacement value of $10,001 million (2013: $9,753 million). The credit risk of these contacts is reduced due to master netting agreements covering negative OTC contracts of $6,158 million (2013: $6,116 million) and margins held (excluding the impact of over-collateralisation) of $1,153 million (2013: $681 million). In addition, the Consolidated Entity has placed collateral of $1,582 million (2013: $2,036 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts. As at 31 March 2014, the Bank held OTC contracts with a positive replacement value of $7,379 million (2013: $8,894 million). The credit risk of these contacts is reduced due to master netting agreements covering negative OTC contracts of $5,655 million (2013: $5,523 million) and margins held (excluding the impact of over-collateralisation) of $1,058 million (2013: $615 million). In addition, the Bank has placed collateral of $1,461 million (2013: $2,010 million) which has negligible credit risk as this is fully offset by the related negative OTC contracts..

Other assets

In the Consolidated Entity, brokerage receivables of $2,436 million (2013: $2,256 million), and in the Bank of $2,291 million (2013: $2,005 million), are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). The Consolidated Entity and the Bank hold the underlying equity security or cash until settled, which is usually less than three days after trade.

Debt investments securities available for sale

Included in this balance are holdings of $nil (2013: $683 million) issued by Australian banks which are subject to an Australian Government Guarantee. A further $255 million (2013: $243 million) is secured by specified assets under covered bonds.

Credit commitments and contingent liabilities

In the Consolidated Entity, of the Undrawn facilities and lending commitments of $3,166 million (2013: $2,374 million), $1,640 million (2013: $1,147 million) are fully secured by underlying specific assets. In the Bank, of $2,536 million (2013: $2,151 million), $1,399 million (2013: $1,103 million) are fully secured.

Note 38.1

Credit risk continued

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Consolidated Entity's credit rating system.

Credit Quality – Consolidated 2014

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	14,224	1,911	16	–	–	16,151
Trading portfolio assets						9,151
Governments	7,417	52	–	–	–	7,469
Financial institutions	767	40	36	–	–	843
Other	382	320	137	–	–	839
Derivative assets						12,468
Governments	404	1	–	–	–	405
Financial institutions	7,451	252	–	–	–	7,703
Other	2,983	1,377	–	–	–	4,360
Debt investment securities available for sale						11,784
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,453	29	–	–	–	8,482
Other	134	577	–	–	1	712
Other assets						6,155
Governments	–	–	–	–	1	1
Financial institutions	–	–	–	–	10	10
Other	3,992	1,810	9	229	104	6,144
Loan assets held at amortised cost						57,170
Governments	91	5	–	–	–	96
Financial institutions	4,524	3,037	253	–	–	7,814
Other	24,791	22,699	109	–	1,661	49,260
Other financial assets at fair value through profit or loss						973
Governments	82	–	–	–	–	82
Financial institutions	188	–	–	–	–	188
Other	29	655	–	–	19	703
Due from related body corporate entities						2,244
Other	154	–	–	2,090	–	2,244
Total	78,656	32,765	560	2,319	1,796	116,096

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1
Credit risk continued

Credit Quality – Consolidated 2013

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions(1)	11,290	1,309	8	–	–	12,607
Trading portfolio assets						10,085
Governments	7,973	159	–	–	–	8,132
Financial institutions	885	144	55	–	–	1,084
Other	335	486	48	–	–	869
Derivative assets						14,595
Governments	365	3	–	–	–	368
Financial institutions	9,590	475	–	–	–	10,065
Other	2,689	1,473	–	–	–	4,162
Debt investment securities available for sale						13,708
Governments	3,528	–	–	–	–	3,528
Financial institutions	9,720	20	–	–	–	9,740
Other	107	331	–	–	2	440
Other assets						5,443
Governments	–	–	–	–	3	3
Financial institutions	–	–	–	–	7	7
Other	3,829	1,137	13	368	86	5,433
Loan assets held at amortised cost(1)						49,218
Governments	164	5	–	–	–	169
Financial institutions	3,868	2,057	27	–	–	5,952
Other	20,830	20,262	173	–	1,832	43,097
Other financial assets at fair value through profit or loss						2,402
Governments	456	–	–	–	–	456
Financial institutions	657	–	–	–	–	657
Other	82	1,171	–	–	36	1,289
Due from related body corporate entities						1,060
Other	143	–	–	917	–	1,060
Total	76,511	29,032	324	1,285	1,966	109,118

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 38.1

Credit risk continued

The table below shows the credit quality by class of financial asset for credit exposures, based on the Bank's credit rating system.

Credit Quality – Bank 2014

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions	13,064	1,707	7	–	–	14,778
Trading portfolio assets						8,284
Governments	6,999	52	–	–	–	7,051
Financial institutions	525	30	36	–	–	591
Other	186	319	137	–	–	642
Derivative assets						11,591
Governments	385	–	–	–	–	385
Financial institutions	7,211	251	–	–	–	7,462
Other	2,602	1,142	–	–	–	3,744
Debt investment securities available for sale						11,014
Governments	2,590	–	–	–	–	2,590
Financial institutions	8,008	7	–	–	–	8,015
Other	–	409	–	–	–	409
Other assets						4,507
Governments	–	–	–	–	–	–
Financial institutions	–	–	–	–	7	7
Other	2,869	1,087	9	517	18	4,500
Loan assets held at amortised cost						34,978
Governments	59	2	–	–	–	61
Financial institutions	3,004	3,125	253	–	–	6,382
Other	15,153	12,280	–	–	1,102	28,535
Other financial assets at fair value through profit or loss						958
Governments	82	–	–	–	–	82
Financial institutions	185	–	–	–	–	185
Other	32	642	–	–	17	691
Due from related body corporate entities						2,029
Other	246	–	–	1,783	–	2,029
Due from subsidiaries						26,228
Other	103	4	–	26,121	–	26,228
Total	63,303	21,057	442	28,421	1,144	114,367

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.1

Credit risk continued

Credit Quality – Bank 2013

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Receivables from financial institutions[(1)]	9,582	1,267	8	–	–	10,857
Trading portfolio assets						8,391
Governments	6,968	159	–	–	–	7,127
Financial institutions	524	112	55	–	–	691
Other	95	430	48	–	–	573
Derivative assets						13,513
Governments	345	–	–	–	–	345
Financial institutions	9,256	624	–	–	–	9,880
Other	2,204	1,084	–	–	–	3,288
Debt investment securities available for sale						15,340
Governments	3,528	–	–	–	–	3,528
Financial institutions	9,445	5	–	–	–	9,450
Other	–	2,361	–	–	1	2,362
Other assets						4,382
Governments	–	–	–	–	3	3
Financial institutions	–	–	–	–	4	4
Other	3,221	495	13	624	22	4,375
Loan assets held at amortised cost[(1)]						25,653
Governments	150	3	–	–	–	153
Financial institutions	3,157	1,921	27	–	–	5,105
Other	8,405	11,094	160	–	736	20,395
Other financial assets at fair value through profit or loss						2,341
Governments	456	–	–	–	–	456
Financial institutions	599	–	–	–	–	599
Other	82	1,168	–	–	36	1,286
Due from related body corporate entities						994
Other	107	–	–	887	–	994
Due from subsidiaries						19,791
Other	–	–	–	19,791	–	19,791
Total	58,124	20,723	311	21,302	802	101,262

(1) In the year ended 31 March 2013, margin monies placed of $1,292 million were included in Receivables from financial institutions. These balances are now included in Loan assets held at amortised cost.

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 38.1

Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets

	Past due but not impaired					
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
Debt investment securities available for sale						**Consolidated 2014**
Other	**–**	**–**	**–**	**–**	**1**	**1**
Other assets						
Government	**1**	**–**	**–**	**–**	**–**	**1**
Financial institutions	**8**	**1**	**1**	**–**	**–**	**10**
Other	**58**	**9**	**4**	**2**	**31**	**104**
Loan assets held at amortised cost						
Other	**752**	**160**	**62**	**340**	**347**	**1,661**
Other financial assets at fair value through profit or loss						
Other	**3**	**3**	**1**	**4**	**8**	**19**
Total	**822**	**173**	**68**	**346**	**387**	**1,796**
Debt investment securities available for sale						Consolidated 2013
Other	–	–	–	–	2	2
Other assets						
Government	2	1	–	–	–	3
Financial institutions	5	1	1	–	–	7
Other	54	8	7	–	17	86
Loan assets held at amortised cost						
Other	1,003	171	86	259	313	1,832
Other financial assets at fair value through profit or loss						
Other	9	3	4	–	20	36
Total	1,073	184	98	259	352	1,966

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance less provision is disclosed in the past due analysis.

The factors taken into consideration by the Consolidated Entity when determining whether an asset is impaired are set out in note 1(xiii) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $966 million (2013: $1,229 million) relates to collateral held against past due and impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets represents equity securities held as security against failed trade settlements.

Notes to the financial statements
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Note 38.1
Credit risk continued

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m
Debt investment securities available for sale						**Bank 2014**
Other	–	–	–	–	–	–
Other assets						
Government	–	–	–	–	–	–
Financial institutions	7	–	–	–	–	7
Other	1	–	–	–	17	18
Loan assets held at amortised cost						
Other	209	77	29	268	519	1,102
Other financial assets at fair value through profit or loss						
Other	2	2	1	4	8	17
Total	**219**	**79**	**30**	**272**	**544**	**1,144**
Debt investment securities available for sale						Bank 2013
Other	–	–	–	–	1	1
Other assets						
Government	2	1	–	–	–	3
Financial institutions	3	–	1	–	–	4
Other	4	2	–	–	16	22
Loan assets held at amortised cost						
Other	236	70	39	124	267	736
Other financial assets at fair value through profit or loss						
Other	9	3	4	–	20	36
Total	254	76	44	124	304	802

Repossessed collateral

In the event of customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. As at 31 March 2014, the Consolidated Entity had taken possession of fixed assets and property assets with a carrying value of $178 million (2013: $210 million).

Liquidity management

The Consolidated Entity's liquidity risk management framework ensures that it is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee and RMG. The Consolidated Entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee and liquidity reporting is provided to the MGL and MBL Boards on a monthly basis. The Asset and Liability Committee includes the Chief Executive Officer, MBL Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Business Group Heads.
RMG provides independent prudential oversight of liquidity risk management, including the validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

Note 38.2

Liquidity risk

Liquidity policy

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. MBL's risk appetite is set so that MBL is able to meet all of its liquidity obligations during a period of liquidity stress: a 12 month period of constrained access to funding markets and with only a limited reduction in franchise businesses.

MBL is funded mainly by capital, long term liabilities and deposits.

Scenario analysis

Scenario analysis is central to the Consolidated Entity's liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide and firm-specific crises. The objective of this modeling is to ensure the Consolidated Entity's ability to meet all repayment obligations under each scenario and determine the capacity for asset growth.

The scenarios separately consider the requirements of the Banking Group, Non-Banking Group and the Consolidated Entity. They are run over a number of timeframes and a range of conservative assumptions are used including access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in the Consolidated Entity to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum liquid asset requirement is calculated from scenario projections and complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions. The size of the liquid asset portfolio must exceed the minimum requirement as calculated in this model at all times.

Liquidity contingency plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan applies to the entire Consolidated Entity and defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of possible actions to conserve or raise additional liquidity and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Macquarie is a global financial institution, with branches and subsidiaries in a variety of countries. Regulations in certain countries may require some branches or subsidiaries to have specific local contingency plans. Where that is the case, the liquidity contingency plan contains a supplement providing the specific information required for those branches or subsidiaries.

Funds transfer pricing

An internal funds transfer pricing framework is in place that has been designed to produce appropriate incentives for business decision-making by reflecting the true funding costs arising from business actions. Under this framework, each business is allocated the full cost of the funding required to support its products and business lines, recognising the actual and contingent funding-related exposures their activities create for the group as a whole. Businesses that raise funding are compensated at a level that is appropriate for the liquidity benefit provided by the funding.

Notes to the financial statements
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continued

Note 38.2
Liquidity risk continued

Contractual undiscounted cash flows

The following tables below summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Consolidated Entity expects that many customers will not request repayment on the earliest date the Consolidated Entity could be required to pay. Deposits are reported at their contractual maturity - the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2014
Trading portfolio liabilities	–	2,459	–	–	–	2,459
Derivative financial instruments (trading)	–	11,478	–	–	–	11,478
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,758	1,870	3,436	910	7,974
Contractual amounts receivable	–	(1,677)	(1,890)	(3,469)	(916)	(7,952)
Deposits	32,614	5,042	4,290	460	14	42,420
Other financial liabilities[1]	–	7,030	–	–	–	7,030
Payables to financial institutions	4,397	8,871	513	2,132	919	16,832
Other financial liabilities at fair value through profit or loss	–	222	237	187	303	949
Due to related body corporate entities	4,705	223	1,364	435	909	7,636
Debt issued at amortised cost[2]	–	8,581	8,345	15,685	12,065	44,676
Loan Capital	–	80	136	842	2,189	3,247
Total undiscounted cash flows	41,716	44,067	14,865	19,708	16,393	136,749
Contingent liabilities	–	1,305	–	–	–	1,305
Commitments	–	2,665	199	384	–	3,253
Total undiscounted contingent liabilities and commitments[3]	–	3,970	199	384	–	4,558

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Included in this balance is $19,139 million (2013: $15,033 million) payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(3) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Consolidated 2013
Trading portfolio liabilities	–	1,384	–	–	–	1,384
Derivative financial instruments (trading)	–	12,145	–	–	–	12,145
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	3,155	1,909	2,696	597	8,357
Contractual amounts receivable	–	(3,170)	(1,938)	(2,223)	(477)	(7,808)
Deposits	29,578	5,947	5,122	440	14	41,101
Other financial liabilities[(1),(2)]	–	6,702	–	–	–	6,702
Payables to financial institutions	4,055	7,717	1,191	1,799	557	15,319
Other financial liabilities at fair value through profit or loss	1	187	321	389	26	924
Due to related body corporate entities	3,912	1,102	23	458	139	5,634
Debt issued at amortised cost[(3)]	–	6,270	7,190	14,911	10,354	38,725
Loan Capital	–	70	117	755	1,996	2,938
Total undiscounted cash flows	37,546	41,509	13,935	19,225	13,206	125,421
Contingent liabilities	–	1,046	–	–	–	1,046
Commitments	–	1,939	216	236	–	2,391
Total undiscounted contingent liabilities and commitments[(4)]	–	2,985	216	236	–	3,437

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(2) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i) - Summary of significant accounting policies.

(3) Included in this balance is $15,033 million payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans included in loan assets held at amortised cost. The contractual maturity of the underlying loans is reflected in this maturity analysis.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless the contractual terms specify a longer dated cash flow.

Note 38.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2014
Trading portfolio liabilities	**–**	**2,344**	**–**	**–**	**–**	**2,344**
Derivative financial instruments (trading)	**–**	**11,240**	**–**	**–**	**–**	**11,240**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**–**	**642**	**458**	**1,692**	**522**	**3,314**
Contractual amounts receivable	**–**	**(601)**	**(538)**	**(1,854)**	**(564)**	**(3,557)**
Deposits	**31,937**	**5,041**	**4,289**	**460**	**14**	**41,741**
Other financial liabilities[(1)]	**–**	**4,385**	**–**	**–**	**–**	**4,385**
Payables to financial institutions	**4,381**	**9,645**	**197**	**1,500**	**839**	**16,562**
Other financial liabilities at fair value through profit or loss	**–**	**786**	**741**	**131**	**303**	**1,961**
Due to subsidiaries	**10,803**	**44**	**3,964**	**27**	**17**	**14,855**
Due to related body corporate entities	**3,046**	**200**	**1,358**	**134**	**2,233**	**6,971**
Debt issued at amortised cost	**–**	**7,736**	**3,423**	**8,324**	**1,966**	**21,449**
Loan Capital	**–**	**80**	**136**	**842**	**2,189**	**3,247**
Total undiscounted cash flows	**50,167**	**41,542**	**14,028**	**11,256**	**7,519**	**124,512**
Contingent liabilities	**–**	**2,270**	**–**	**–**	**–**	**2,270**
Commitments	**–**	**2,061**	**163**	**323**	**–**	**2,547**
Total undiscounted contingent liabilities and commitments[(2)]	**–**	**4,331**	**163**	**323**	**–**	**4,817**

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2013
Trading portfolio liabilities	–	1,371	–	–	–	1,371
Derivative financial instruments (trading)	–	14,175	–	–	–	14,175
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	1,479	524	872	553	3,428
Contractual amounts receivable	–	(1,556)	(740)	(921)	(477)	(3,694)
Deposits	28,648	5,944	5,121	409	5	40,127
Other financial liabilities[(1)]	–	3,872	–	–	–	3,872
Payables to financial institutions	4,019	9,079	25	1,132	515	14,770
Other financial liabilities at fair value through profit or loss	–	176	290	273	–	739
Due to related body corporate entities	5,835	101	1,339	662	20	7,957
Due to subsidiaries	3,900	1,142	7	131	139	5,319
Debt issued at amortised cost	–	4,758	4,444	6,695	1,452	17,349
Loan Capital	–	70	117	755	1,996	2,938
Total undiscounted cash flows	42,402	40,611	11,127	10,008	4,203	108,351
Contingent liabilities	–	1,646	–	–	–	1,646
Commitments	–	1,754	173	236	–	2,163
Total undiscounted contingent liabilities and commitments[(2)]	–	3,400	173	236	–	3,809

(1) Excludes items that are not financial instruments and non-contractual accruals and provisions.
(2) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a longer dated cash flow.

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Note 38.3
Market risk

Market risk is the exposure to adverse changes in the value of the Consolidated Entity's trading portfolios as a result of changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices;
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins;
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity; and
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products; and to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity 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.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

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; and
- **Value-at-Risk (VaR) limits:** statistical measure based on a 10-day holding period and a 99 per cent 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.

Value-at-Risk (VaR) figures (1 day, 99 percent confidence level)

The tables below show the average, maximum and minimum VaR over the year for the major markets in which the Consolidated Entity and Bank operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2014 Average $m	**2014 Maximum $m**	**2014 Minimum $m**	2013 Average $m	2013 Maximum $m	2013 Minimum $m
						Consolidated
Equities	**5.38**	**8.11**	**2.83**	4.11	6.13	2.67
Interest rates	**7.29**	**9.85**	**5.15**	7.98	10.66	6.38
Foreign exchange and bullion	**3.95**	**8.10**	**1.03**	2.60	7.06	0.62
Commodities	**13.11**	**21.02**	**7.37**	10.04	17.11	6.35
Aggregate	**16.49**	**23.71**	**8.66**	13.21	19.98	9.95

Note 38.3

Market risk continued

	2014 Average $m	2014 Maximum $m	2014 Minimum $m	2013 Average $m	2013 Maximum $m	2013 Minimum $m
						Bank
Equities	**5.04**	**7.58**	**2.82**	3.88	6.03	2.31
Interest rates	**7.16**	**9.82**	**5.06**	7.63	10.82	5.98
Foreign exchange and bullion	**4.93**	**8.13**	**1.15**	3.76	10.05	0.55
Commodities	**6.39**	**9.20**	**3.67**	4.98	7.88	1.16
Aggregate	**12.60**	**16.87**	**8.45**	10.97	16.41	8.14

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three years of historical data. VaR focuses on unexceptional price moves so that it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The Consolidated Entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred into the trading books of FICC and Group Treasury which are managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book. These residual risks have independent limits that are monitored by RMG.

Foreign currency risk

The Consolidated Entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of its investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to manage this risk, the Consolidated Entity has a policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian Accounting Standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading divisions is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

The hedging policy of the group is designed to reduce the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the foreign currency translation reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the Consolidated Entity's foreign exchange policy, the Consolidated Entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

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Note 38.3

Market risk continued

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, CAD and EUR.

	2014		2013	
	Movement in exchange rates %	**Sensitivity of equity after tax $m**	Movement in exchange rates %	Sensitivity of equity after tax $m
				Consolidated
USD	**+10**	**279**	+10	297
GBP	**+10**	**(12)**	+10	(13)
CAD	**+10**	**26**	+10	29
EUR	**+10**	**27**	+10	11
Total		**320**		324
USD	**–10**	**(341)**	–10	(364)
GBP	**–10**	**15**	–10	16
CAD	**–10**	**(32)**	–10	(35)
EUR	**–10**	**(33)**	–10	(13)
Total		**(391)**		(396)

Note 38.3

Market risk continued

Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Bank had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2014			2013		
Geographic region	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Australia	**+10**	**–**	**6.5**	+10	0.8	8.0
Asia Pacific	**+10**	**–**	**–**	+10	–	–
Europe, Middle East and Africa	**+10**	**1.8**	**0.6**	+10	2.9	1.2
Americas	**+10**	**–**	**1.7**	+10	–	7.9
Unlisted	**+10**	**0.6**	**17.5**	+10	0.8	15.8
Listed						
Australia	**-10**	**–**	**(6.5)**	-10	(0.7)	(8.0)
Asia Pacific	**-10**	**–**	**–**	-10	–	–
Europe, Middle East and Africa	**-10**	**(1.8)**	**(0.6)**	-10	(2.9)	(1.2)
Americas	**-10**	**–**	**(1.7)**	-10	–	(7.9)
Unlisted	**-10**	**(0.6)**	**(17.5)**	-10	(0.1)	(15.8)
						Bank
Listed						
Australia	**+10**	**–**	**6.5**	+10	0.8	7.9
Asia Pacific	**+10**	**–**	**–**	+10	–	–
Europe, Middle East and Africa	**+10**	**1.8**	**0.6**	+10	2.9	1.2
Americas	**+10**	**–**	**1.3**	+10	–	6.9
Unlisted	**+10**	**0.6**	**4.6**	+10	0.8	5.2
Listed						
Australia	**-10**	**–**	**(6.5)**	-10	(0.7)	(7.9)
Asia Pacific	**-10**	**–**	**–**	-10	–	–
Europe, Middle East and Africa	**-10**	**(1.8)**	**(0.6)**	-10	(2.9)	(1.2)
Americas	**-10**	**–**	**(1.3)**	-10	–	(6.9)
Unlisted	**-10**	**(0.6)**	**(4.6)**	-10	(0.1)	(5.2)

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Note 39
Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

The Bank uses the portfolio exemption in AASB 13 *Fair Value Measurement* to measure the fair value of certain groups of financial assets and financial liabilities. These are measured using the price that would be received to sell a net long position, or transfer a net short position, for a particular risk exposure.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

– trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
– investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
– fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt;
– for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty;
– for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations;
– for uncollateralised derivative positions, the Consolidated Entity has incorporated the market implied funding costs for these uncollateralised derivative positions as a Funding Valuation Adjustment (FVA).

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for over-the-counter derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

Note 39

Fair values of financial assets and liabilities continued

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- the fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates;
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower;
- the fair value of debt issued and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the Consolidated Entity's own credit spread; and
- substantially all of the Consolidated Entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments

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Note 39

Fair values of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Bank at 31 March 2014 and 31 March 2013:

	2014 Carrying value $m	**2014 Fair value $m**	2013 Carrying value $m	2013 Fair value $m
Assets				**Consolidated**
Receivables from financial institutions	**16,151**	**16,151**	12,607	12,607
Other financial assets	**6,155**	**6,155**	5,443	5,443
Loan assets held at amortised cost	**57,170**	**57,323**	49,218	49,765
Due from related body corporate entities	**2,244**	**2,244**	1,060	1,060
Total assets	**81,720**	**81,873**	68,328	68,875
Liabilities				
Deposits	**42,302**	**42,314**	40,966	40,980
Other financial liabilities	**5,946**	**5,946**	5,521	5,521
Payables to financial institutions	**16,573**	**16,617**	15,180	15,222
Due to related body corporate entities	**7,443**	**7,443**	5,456	5,456
Debt issued at amortised cost	**37,255**	**37,768**	31,826	32,380
Loan capital	**2,464**	**2,645**	2,203	2,288
Total liabilities	**111,983**	**112,733**	101,152	101,847

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for cash and at-call amounts of $6,895 million in 'Receivables from financial institutions', $4,800 million in 'Loan assets held at amortised cost', $31,546 million in 'Deposits', $1,587 million in 'Payables to financial institutions' and $306 million in 'Loan capital' classified as level 1.

Assets				**Bank**
Receivables from financial institutions	**14,778**	**14,778**	11,378	11,378
Other financial assets	**4,507**	**4,507**	4,382	4,382
Loan assets held at amortised cost	**34,978**	**35,035**	25,132	25,432
Due from related body corporate entities	**2,029**	**2,029**	994	994
Due from subsidiaries	**26,228**	**26,228**	19,791	19,791
Total assets	**82,520**	**82,577**	61,677	61,977
Liabilities				
Deposits	**41,624**	**41,636**	39,992	40,006
Other financial liabilities	**4,385**	**4,385**	3,872	3,872
Payables to financial institutions	**16,362**	**16,400**	14,644	14,686
Due to related body corporate entities	**6,833**	**6,833**	5,250	5,250
Due to subsidiaries	**14,835**	**14,835**	7,758	7,758
Debt issued at amortised cost	**20,508**	**20,834**	16,306	16,544
Loan capital	**2,464**	**2,645**	2,203	2,288
Total liabilities	**107,011**	**107,568**	90,025	90,404

As at 31 March 2014, the above fair values are predominantly classified as level 2 in the fair value hierarchy, except for cash and at-call amounts of $5,564 million in 'Receivables from financial institutions', $2,827 million in 'Loan assets held at amortised cost', $30,870 million in 'Deposits', $1,323 million in 'Payables to financial institutions' and $306 million in 'Loan capital' classified as level 1.

Note 39

Fair values of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Consolidated 2014**
Trading portfolio assets	**13,909**	**7,029**	**702**	**21,640**
Derivative assets	**589**	**11,799**	**80**	**12,468**
Investment securities available for sale	**8,225**	**3,550**	**407**	**12,182**
Other financial assets at fair value through profit or loss	**229**	**1,813**	**153**	**2,195**
Other financial assets[1]	**353**	**762**	**–**	**1,115**
Total assets	**23,305**	**24,953**	**1,342**	**49,600**
Liabilities				
Trading portfolio liabilities	**1,086**	**1,373**	**–**	**2,459**
Derivative liabilities	**738**	**10,924**	**86**	**11,748**
Other financial liabilities at fair value through profit or loss	**–**	**905**	**32**	**937**
Other financial liabilities[1]	**351**	**733**	**–**	**1,084**
Total liabilities	**2,175**	**13,935**	**118**	**16,228**
Assets				Consolidated 2013
Trading portfolio assets	13,694	4,906	253	18,853
Derivative assets	2,268	12,269	58	14,595
Investment securities available for sale	11,121	2,801	268	14,190
Other financial assets at fair value through profit or loss	1,115	3,461	69	4,645
Other financial assets[1],[2]	407	803	–	1,210
Total assets	28,605	24,240	648	53,493
Liabilities				
Trading portfolio liabilities	522	862	–	1,384
Derivative liabilities	2,397	12,284	44	14,725
Other financial liabilities at fair value through profit or loss	–	849	70	919
Other financial liabilities[1],[2]	404	777	–	1,181
Total liabilities	3,323	14,772	114	18,209

(1) Included within this balance are life investment contracts and unitholder assets and liabilities.

(2) Prior period comparatives have been restated for the effect of applying AASB 10. Refer to note 1(i)—Summary of significant accounting policies.

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Note 39

Fair values of financial assets and liabilities continued

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Assets				**Bank 2014**
Trading portfolio assets	**13,167**	**5,632**	**673**	**19,472**
Derivative assets	**634**	**10,658**	**299**	**11,591**
Investment securities available for sale	**8,169**	**2,808**	**219**	**11,196**
Other financial assets at fair value through profit or loss	**201**	**1,757**	**136**	**2,094**
Total assets	**22,171**	**20,855**	**1,327**	**44,353**
Liabilities				
Trading portfolio liabilities	**1,070**	**1,274**	**–**	**2,344**
Derivative liabilities	**841**	**10,583**	**74**	**11,498**
Other financial liabilities at fair value through profit or loss	**–**	**1,927**	**32**	**1,959**
Total liabilities	**1,911**	**13,784**	**106**	**15,801**
Assets				Bank 2013
Trading portfolio assets	12,891	3,206	226	16,323
Derivative assets	2,245	10,972	296	13,513
Investment securities available for sale	11,055	4,461	125	15,641
Other financial assets at fair value through profit or loss	1,043	2,273	42	3,358
Total assets	27,234	20,912	689	48,835
Liabilities				
Trading portfolio liabilities	508	863	–	1,371
Derivative liabilities	2,393	12,165	30	14,588
Other financial liabilities at fair value through profit or loss	–	669	70	739
Total liabilities	2,901	13,697	100	16,698

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Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 39

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Bank for the financial years ended 31 March 2014 and 31 March 2013:

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at 1st April 2013	**253**	**268**
Purchases	**346**	**190**
Sales	**(128)**	**(66)**
Issues	**–**	**4**
Settlements	**–**	**(3)**
Transfers into Level 3	**312**	**16**
Transfers out of Level 3	**(90)**	**–**
Fair value gains/(losses) recognised in the income statement(1)	**9**	**2**
Fair value losses recognised in other comprehensive income(1)	**–**	**(4)**
Balance at 31 March 2014	**702**	**407**
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	**9**	**1**
Balance at 1st April 2012	452	184
Purchases	225	29
Sales	(360)	(37)
Issues	–	–
Settlements	–	–
Transfers into Level 3	–	108
Transfers out of Level 3	(80)	(40)
Fair value gains/(losses) recognised in the income statement(1)	16	(7)
Fair value gains recognised in other comprehensive income(1)	–	31
Balance at 31 March 2013	253	268
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	24	–

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $80 million (2013: $58 million) and derivative liabilities are $86 million (2013: $44 million).

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	Other financial assets at fair value through profit or loss $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)(2) $m	Total $m
				Consolidated 2014
	69	**(70)**	**14**	**534**
	62	**–**	**(35)**	**563**
	(41)	**40**	**(2)**	**(197)**
	–	**–**	**(5)**	**(1)**
	–	**2**	**(19)**	**(20)**
	57	**–**	**11**	**396**
	–	**–**	**(1)**	**(91)**
	6	**(4)**	**31**	**44**
	–	**–**	**–**	**(4)**
	153	**(32)**	**(6)**	**1,224**
	1	**(4)**	**25**	**32**
				Consolidated 2013
	160	(110)	33	719
	–	–	11	265
	(79)	–	(11)	(487)
	–	–	(9)	(9)
	(10)	40	4	34
	–	–	(2)	106
	–	1	(28)	(147)
	(2)	(1)	16	22
	–	–	–	31
	69	(70)	14	534
	2	(1)	6	31

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 39

Fair values of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading portfolio assets $m	Investment securities available for sale $m
Balance at the beginning of the financial year	**226**	**125**
Purchases	**340**	**118**
Sales	**(100)**	**(21)**
Issues	**–**	**4**
Settlements	**–**	**–**
Transfers into Level 3	**288**	**16**
Transfers out of Level 3	**(90)**	**–**
Fair value gains/(losses) recognised in the income statement(1)	**9**	**(7)**
Fair value losses recognised in other comprehensive income(1)	**–**	**(16)**
Balance at the end of the financial year	**673**	**219**
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	**9**	**(7)**
Balance at the beginning of the financial year	273	93
Purchases	172	13
Sales	(126)	(22)
Issues	–	–
Settlements	–	–
Transfers into Level 3	57	99
Transfers out of Level 3	(166)	(31)
Fair value gains/(losses) recognised in the income statement(1)	16	(14)
Fair value losses recognised in other comprehensive income(1)	–	(13)
Balance at the end of the financial year	226	125
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year(1)	26	–

(1) The Consolidated Entity employs various economic hedging techniques in order to manage risks, including risks in Level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in Levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in Levels 1 and/or 2.

(2) The derivative financial instruments in the table above are represented on a net basis. On a gross basis, derivative assets are $297 million (2013: $296 million) and derivative liabilities are $74 million (2013: $30 million).

	Other financial assets at fair value through profit or loss $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Bank 2014
	42	**(70)**	**266**	**589**
	61	**–**	**(39)**	**480**
	(27)	**42**	**(10)**	**(116)**
	–	**–**	**(5)**	**(1)**
	–	**–**	**(19)**	**(19)**
	57	**–**	**–**	**361**
	–	**–**	**–**	**(90)**
	3	**(4)**	**32**	**33**
	–	**–**	**–**	**(16)**
	136	**(32)**	**225**	**1,221**
	–	**(4)**	**26**	**24**
				Bank 2013
	131	(110)	258	645
	–	–	14	199
	(74)	–	(8)	(230)
	–	–	(9)	(9)
	(10)	40	4	34
	–	1	(7)	150
	–	–	(2)	(199)
	(5)	(1)	16	12
	–	–	–	(13)
	42	(70)	266	589
	(2)	–	5	29

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 39

Fair values of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Bank did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the year.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Bank recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Consolidated 2014 $m	Consolidated 2013 $m	**Bank 2014 $m**	Bank 2013 $m
Balance at the beginning of the financial year	**24**	7	**1**	5
Deferral on new transactions	**2**	23	**2**	2
Amounts recognised in the income statement during the year	**(18)**	(6)	**(3)**	(6)
Balance at the end of the financial year	**8**	24	**-**	1

Note 39

Fair values of financial assets and liabilities continued

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cashflows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	Favourable changes		Unfavourable changes	
	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
Product type				**Consolidated 2014**
Equity and equity linked products	**–**	**10**	**–**	**(10)**
Other products	**17**	**–**	**(11)**	**–**
Total	**17**	**10**	**(11)**	**(10)**
Product type				Consolidated 2013
Equity and equity linked products	15	11	(14)	(11)
Other products	27	–	(24)	–
Total	42	11	(38)	(11)
Product type				**Bank 2014**
Equity and equity linked products	**(2)**	**2**	**2**	**(2)**
Other products	**11**	**–**	**(11)**	**–**
Total	**9**	**2**	**(9)**	**(2)**
Product type				Bank 2013
Equity and equity linked products	11	1	(10)	(1)
Other products	20	–	(18)	–
Total	31	1	(28)	(1)

Significant unobservable inputs

The following table contains information about the significant unobservable inputs used in Level 3 valuations and the valuation techniques used to measure fair value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

	Assets $m	Liabilities $m	Valuation technique(s)	Significant unobservable inputs	Range of inputs Minimum value	Maximum value
					As at 31 Mar 2014	
Equity and equity linked products	**179**	**34**	Discounted cash flows	Discount rate	13.0%	13.0%
			Pricing model	Volatility	9.2%	95.0%
				Correlation	0.07	0.07
			Market comparability	Price in %	(5.9)%	25.0%
Other products	**1,163**	**84**	Pricing model	Volatility	7.0%	93.5%
				Correlation	0.00	1.00
			Market comparability	Price in %	7.0%	214.0%
Total	**1,342**	**118**				

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 39

Fair values of financial assets and liabilities continued

Significant unobservable inputs continued

Correlation

Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). Correlation is a key input of derivatives with more than one underlying and is generally used to value hybrid and exotic instruments.

Volatility

Volatility is a measure of the variability or uncertainty in returns for a given derivative underlying. It represents an estimate of how much a particular underlying instrument, parameter or index will change in value over time. Volatility is an input in the valuation of derivatives containing optionality. Volatility and skew are impacted by the underlying risk, term and strike price of a derivative.

Forward prices

Forward prices are a price or rate that is applicable to a financial transaction that will take place in the future. It is generally based on the spot price or rate, adjusted for the cost of carry, and defines the price or rate that will be used to deliver a currency, bond, commodity or some other underlying instrument in the future. A forward may also refer to the rate fixed for a future financial obligation, such as the interest rate on a loan payment.

Inputs for unlisted equity securities

Unlisted equity instruments are generally valued based on earning multiples of comparable companies. Significant unobservable inputs may include earnings before interest, taxes, depreciation and amortisation (EBITDA) multiple, discount rate, and forecast earnings of the investee companies.

Note 40

Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis on the balance sheet when they meet the criteria described in Note 1(xxiv). The following tables provide information on the impact of offsetting that has occurred in the balance sheet, as well as amounts subject to enforceable netting arrangements that do not qualify for offsetting in the balance sheet. The tables exclude amounts not subject to offsetting or enforceable netting arrangements. The amounts presented in this note do not represent the credit risk exposure of the entity, refer to note 38.1 for information on credit risk management.

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Consolidated 2014
Receivables from financial institutions(1)	**8,535**	**(1)**	**8,534**	**(696)**	**(7,626)**	**212**
Derivative assets	**13,396**	**(1,881)**	**11,515**	**(8,285)**	**(1,153)**	**2,077**
Other assets	**3,554**	**(2,075)**	**1,479**	**(55)**	**(1)**	**1,423**
Loan assets held at amortised cost	**139**	**(139)**	**–**	**–**	**–**	**–**
Other financial assets at fair value through profit or loss	**1,377**	**(1,264)**	**113**	**–**	**–**	**113**
Due from related body corporate entities	**10,791**	**(9,249)**	**1,542**	**–**	**–**	**1,542**
Total assets	**37,792**	**(14,609)**	**23,183**	**(9,036)**	**(8,780)**	**5,367**
Derivative liabilities	**(13,124)**	**1,879**	**(11,245)**	**8,285**	**1,285**	**(1,676)**
Deposits	**(205)**	**169**	**(36)**	**–**	**1**	**(35)**
Other liabilities	**(3,588)**	**2,129**	**(1,459)**	**55**	**–**	**(1,404)**
Payables to financial institutions(2)	**(7,300)**	**1**	**(7,299)**	**696**	**6,587**	**(16)**
Other financial liabilities at fair value through profit or loss	**(1,150)**	**1,150**	**–**	**–**	**–**	**–**
Due to related body corporate entities	**(14,159)**	**9,249**	**(4,910)**	**–**	**–**	**(4,910)**
Debt issued at amortised cost	**(32)**	**32**	**–**	**–**	**–**	**–**
Total liabilities	**(39,558)**	**14,609**	**(24,949)**	**9,036**	**7,872**	**(8,041)**
						Consolidated 2013
Receivables from financial institutions(1)	5,528	–	5,528	(507)	(4,817)	204
Derivative assets	12,810	(1,492)	11,318	(8,704)	(681)	1,933
Other assets	2,291	(1,372)	919	(76)	(4)	839
Loan assets held at amortised cost	496	(421)	75	–	(69)	6
Other financial assets at fair value through profit or loss	1,262	(1,188)	74	–	–	74
Due from related body corporate entities	8,020	(7,375)	645	–	–	645
Total assets	**30,407**	**(11,848)**	**18,559**	**(9,287)**	**(5,571)**	**3,701**
Derivative liabilities	(13,269)	1,492	(11,777)	8,704	1,843	(1,230)
Deposits	(245)	171	(74)	1	73	–
Other liabilities	(3,948)	2,612	(1,336)	75	–	(1,261)
Payables to financial institutions(2)	(5,237)	172	(5,065)	507	4,456	(102)
Due to related body corporate entities	(11,087)	7,375	(3,712)	–	–	(3,712)
Debt issued at amortised cost	(26)	26	–	–	–	–
Total liabilities	**(33,812)**	**11,848**	**(21,964)**	**9,287**	**6,372**	**(6,305)**

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 40
Offsetting financial assets and financial liabilities continued

	Amounts subject to enforceable netting arrangements					
	Subject to offsetting on balance sheet			Related amounts not offset		
	Gross amounts $m	Amounts offset $m	Net amount presented $m	Other recognised financial instruments $m	Cash and other financial collateral $m	Net amount $m
						Bank 2014
Receivables from financial institutions(1)	**8,535**	**(1)**	**8,534**	**(696)**	**(7,626)**	**212**
Derivative assets	**12,300**	**(1,727)**	**10,573**	**(7,607)**	**(1,058)**	**1,908**
Other assets	**1,043**	**(693)**	**350**	**(3)**	**–**	**347**
Loan assets held at amortised cost	**54**	**(54)**	**–**	**–**	**–**	**–**
Other financial assets at fair value through profit or loss	**228**	**(115)**	**113**	**–**	**–**	**113**
Due from related body corporate entities	**10,569**	**(9,132)**	**1,437**	**–**	**–**	**1,437**
Due from subsidiaries	**37,488**	**(17,655)**	**19,833**	**–**	**–**	**19,833**
Total assets	**70,217**	**(29,377)**	**40,480**	**(8,306)**	**(8,684)**	**23,850**
Derivative liabilities	**(12,053)**	**1,727**	**(10,326)**	**7,607**	**1,179**	**(1,540)**
Deposits	**(125)**	**115**	**(10)**	**–**	**–**	**(10)**
Other liabilities	**(1,196)**	**747**	**(449)**	**3**	**–**	**(446)**
Payables to financial institutions(2)	**(7,300)**	**1**	**(7,299)**	**696**	**6,587**	**(16)**
Due to related body corporate entities	**(13,809)**	**9,132**	**(4,677)**	**–**	**–**	**(4,677)**
Due to subsidiaries	**(25,703)**	**17,655**	**(8,048)**	**–**	**–**	**(8,048)**
Total liabilities	**(60,186)**	**29,377**	**(30,809)**	**8,306**	**7,766**	**(14,737)**
						Bank 2013
Receivables from financial institutions(1)	5,527	–	5,527	(507)	(4,817)	203
Derivative assets	12,810	(1,492)	11,318	(8,704)	(681)	1,933
Other assets	976	(687)	289	(11)	–	278
Loan assets held at amortised cost	345	(342)	3	–	–	3
Other financial assets at fair value through profit or loss	2	(2)	–	–	–	–
Due from related body corporate entities	7,639	(7,149)	490	–	–	490
Due from subsidiaries	29,062	(14,358)	14,704	–	–	14,704
Total assets	**56,361**	**(24,030)**	**32,331**	**(9,222)**	**(5,498)**	**17,611**
Derivative liabilities	(13,269)	1,492	(11,777)	8,704	1,843	(1,230)
Deposits	(118)	118	–	–	–	–
Other liabilities	(1,118)	741	(377)	11	–	(366)
Payables to financial institutions(2)	(5,182)	172	(5,010)	507	4,456	(47)
Due to related body corporate entities	(10,839)	7,149	(3,690)	–	–	(3,690)
Due to subsidiaries	(20,790)	14,358	(6,432)	–	–	(6,432)
Total liabilities	**(51,316)**	**24,030**	**(27,286)**	**9,222**	**6,299**	**(11,765)**

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.
(2) Included within this balance are repurchase arrangements and other similar secured borrowing.

Note 40

Offsetting financial assets and financial liabilities continued

Offsetting on balance sheet

Amounts are offset in accordance with the criteria described in Note 1(xxii) "Offsetting financial instruments" and are limited to the gross carrying value of the financial statements. Therefore, when an asset is offset by a liability and the asset carrying value exceeds the liability carrying value, then the net amount presented for the asset will be the difference and for the liability will be nil.

Amounts subject to enforceable netting arrangements

Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty in the event of default or other pre determined events, such that their potential effect on the Consolidated Entity's and the Bank's financial position in that circumstance is to settle as one arrangement.

'Other recognised financial instruments' discloses other financial instruments recognised on balance sheet and 'Cash and other financial collateral' discloses amounts received or pledged in relation to the gross amounts of assets and liabilities. Both are subject to enforceable netting arrangements but are not offset due to the rights of set off applying only upon default or other predetermined events. This excludes non-financial collateral

The amounts subject to enforceable netting arrangements but not set off on the balance sheet have been limited to the net amount presented on the balance sheet so as not to include effects of over-collateralisation.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 41
Transfers of financial assets

Transferred financial assets that are derecognised

The Consolidated Entity and Bank may enter into transactions in the normal course of business that transfer financial assets to other entities. When the financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. There were no transfers of financial assets where the Consolidated Entity retained material continuing involvement at reporting date..

The Bank holds some securitisation interests at 31 March 2014 in vehicles wholly containing mortgages transferred by the Bank after it acquired the securitisation interests. The interests have a carrying amount, and maximum exposure to loss, of $372 million (2013: $479 million) as at 31 March 2014 and a fair value that approximates the carrying amount. Income of $19 million (2013: $21 million) was generated from securitisation interests during the year and $61 million (2013: $59 million) cumulative

Transferred financial assets that are not derecognised

When financial assets are transferred but not derecognised, this is due to retaining exposure to substantially all the risks and rewards of ownership of the transferred assets through repurchase and securities lending agreements, asset swaps or interests in securitisations.

Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised on the statement of financial position and an associated liability is recognised for the consideration received. In certain arrangements, the securities transferred cannot otherwise be pledged or sold, however the assets may be substituted if the collateral is maintained.

Asset swaps

Financial assets sold, while concurrently entering into an asset swap with the counterparty, continue to be recognised along with an associated liability for the consideration received. The Consolidated Entity and Bank do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold.

Interests in securitisations

Financial assets (principally mortgage loans and finance lease receivables) are packaged and securities issued to investors. Securitisation vehicles used to achieve this purpose are consolidated when the rights to the residual income of the vehicles, after all payments to investors and costs of the program have been met, is retained. When the Bank is entitled to any residual income of a securitisation vehicle, the Bank continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

Written put options

When financial assets are transferred but continue to be recognised to the extent of continuing involvement, this is due to some but not substantially all of the risks and rewards of ownership being transferred, and control of the asset being retained. Examples of such transactions include transfers involving written put options or other instruments linked to the performance of the asset and are not priced at fair value.

Note 41

Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Consolidated Entity as at 31 March 2014 and 31 March 2013:

	Repurchase and securities lending agreements $m	Transfers with total return/asset swaps $m	Transfer with written put option $m
			Consolidated 2014
Carrying amount of transferred assets[1],[2]	**8,456**	**5,851**	**668**
Carrying amount of associated liabilities[2]	**(8,317)**	**(5,394)**	**(684)**
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3]	**–**	**–**	**683**
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	**727**	**3,953**	**674**
Fair value of associated liabilities	**(724)**	**(4,014)**	**(689)**
Net fair value	**3**	**(61)**	**(15)**
			Consolidated 2013
Carrying amount of transferred assets[1],[2]	7,535	7,623	829
Carrying amount of associated liabilities[2]	(7,469)	(7,100)	(836)
Carrying amount of assets before transfer, where assets recognised to the extent of continuing involvement[3]	–	–	828
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	461	5,888	837
Fair value of associated liabilities	(436)	(5,988)	(847)
Net fair value	25	(100)	(10)

(1) The transferred financial assets are presented in note 7 Trading portfolio assets $7,155 million (2013: $6,784 million), note 8 Investment securities available for sale $1,743 million (2013: $1,299 million) and note 10 Loan assets held at amortised cost $6,077 million (2013: $7,904 million) in the statements of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $919 million (2013: $749 million) that will be settled partly by the transferred assets with a carrying amount of $919 million (2013: $749 million). The Bank has provided a guarantee to the extent of $493 million, and has given $493 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

(3) This disclosure is required only in respect of transfers that fail derecognition under the continuing involvement model.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 41

Transfers of financial assets continued

The following table presents information about transfers of financial assets not derecognised by the Bank as at 31 March 2014 and 31 March 2013:

	Repurchase and securities lending agreements $m	Transfers with total return/ asset swaps $m	Interests in securitisations $m
			Bank 2014
Carrying amount of transferred assets[1],[2]	**9,598**	**1,918**	**11,870**
Carrying amount of associated liabilities[2]	**(9,374)**	**(1,410)**	**(11,870)**
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	**1,862**	**–**	**11,885**
Fair value of associated liabilities	**(1,781)**	**–**	**(11,879)**
Net fair value	**81**	**–**	**6**
			Bank 2013
Carrying amount of transferred assets[1]	9,572	1,835	6,536
Carrying amount of associated liabilities	(9,386)	(1,304)	(6,536)
For those liabilities that have recourse only to the transferred assets:			
Fair value of transferred assets	2,498	–	6,547
Fair value of associated liabilities	(2,353)	–	(6,536)
Net fair value	145	–	11

(1) The transferred financial assets are presented in Trading portfolio assets $7,155 million (2013: $6,784 million), Investment securities available for sale $3,604 million (2013: $3,336 million) and Loan assets held at amortised cost $12,626 million (2013: $7,823 million) in the statement of financial position.

(2) As a result of an asset swap, included in the carrying amount of associated liabilities is $919 million (2013: $749 million) that will be settled partly by the transferred assets with a carrying amount of $919 million (2013: $749 million). The Bank has provided a guarantee to the extent of $493 million, and has given $493 million cash collateral to the counterparty that has been set off against the associated liability. The fair values of the transferred assets and the associated liability approximate their carrying amounts.

Note 42

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Bank, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	Consolidated 2014 $'000	Consolidated 2013 $'000	**Bank 2014 $'000**	Bank 2013 $'000
PwC – Australia				
Audit and review of financial reports of the Bank or any controlled entity	**6,334**	6,012	**5,282**	4,973
Other audit-related work	**832**	683	**413**	317
Other assurance services	**1,676**	1,737	**180**	740
Total audit and other assurance services	**8,842**	8,432	**5,875**	6,030
Advisory services	**833**	–	**–**	–
Taxation	**37**	123	**–**	–
Total remuneration paid to PwC – Australian Firm	**9,712**	8,555	**5,875**	6,030
Network firms of PwC Australia				
Audit and review of financial reports of the Bank or controlled entity	**5,532**	5,441	**–**	–
Other audit-related work	**140**	43	**–**	–
Other assurance services	**154**	185	**–**	–
Total audit and other assurance services	**5,826**	5,669	**–**	–
Advisory services	**6**	–	**–**	–
Taxation	**767**	598	**–**	63
Total remuneration paid to network firms of PwC Australia	**6,599**	6,267	**–**	63
Total remuneration paid to PwC (note 2)	**16,311**	14,822	**5,875**	6,093

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's and the Bank's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to initial public offerings and due diligence services for new funds. These fees may be recovered by the Consolidated Entity upon the successful establishment of the funds.

It is the Consolidated Entity's and the Bank's policy to seek competitive tenders for all major advisory projects.

Notes to the financial statements
for the financial year ended 31 March 2014
continued

Note 43
Acquisitions and disposals of subsidiaries and businesses

Significant entities or businesses acquired or consolidated due to acquisition of control

There were no significant entities or businesses acquired or consolidated due to acquisition of control during the period.

Other entities or businesses acquired or consolidated due to acquisition of control during the financial year are as follows:

Macquarie Investment Management Korea Co. Ltd and Corona Energy Retail 5 Limited.

Aggregate details of the above entities or businesses acquired or consolidated due to acquisition of control are as follows:

	2014 $m	2013 $m
Fair value of net assets acquired		
Cash and other assets	46	19
Other financial assets	–	370
Property, plant and equipment	1	666
Goodwill and other intangible assets	36	3
Payables, provisions, borrowings and other liabilities	(9)	(310)
Total fair value of net assets acquired	74	748
Consideration		
Cash consideration	74	748
Total consideration	74	748
Net cash outflow		
Cash consideration	(74)	(748)
Less:		
Cash and cash equivalents acquired	42	4
Net cash outflow	(32)	(744)

The operating results of the acquisitions have not had a material impact on the results of the Consolidated Entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year has arisen due to the value of the businesses acquired over their individual asset values and synergies the Consolidated Entity expects to realise from the acquisitions.

The 31 March 2013 comparatives principally relate Macquarie European Rail, being the significant entity consolidated due to acquisition of control.

Note 43

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities or businesses disposed of or deconsolidated due to loss of control

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

Other entities or businesses disposed of or deconsolidated during the financial year are as follows:

Bavarian Geothermal Energy Group Limited, Macquarie Visor, Macquarie European Alpha Fund, Macquarie Private Wealth Inc, Macquarie Precision Marketing (Japan) Limited and Macquarie Precision Marketing (Australia) Limited.

Aggregate details of the above entities or businesses disposed of or deconsolidated are as follows:

	2014 $m	2013 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other assets	**407**	42
Other financial assets	**445**	257
Property, plant and equipment	**10**	9
Goodwill and other intangible assets	**51**	34
Payables, provisions, borrowings and other liabilities	**(665)**	(109)
Non-controlling interests	**(131)**	(1)
Total carrying value of assets and liabilities disposed of or deconsolidated	**117**	232
Consideration		
Cash consideration	**132**	245
Deferred consideration	**–**	3
Total consideration	**132**	248
Net cash flow		
Cash consideration	**132**	245
Less:		
Investment retained	**–**	(4)
Cash and cash equivalents disposed of or deconsolidated	**(284)**	(16)
Net cash inflow	**(152)**	225

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year ended 31 March 2013.

Note 44

Events after the reporting period

There were no material events subsequent to 31 March 2014 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 39 to 157 are in accordance with the *Corporations Act 2001 (Cth)*, including:

   (i) complying with the accounting standards; and

   (ii) giving a true and fair view of the Bank and Consolidated Entity's financial position as at 31 March 2014 and performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable; and

c) the financial statements also comply with International Financial Reporting Standards (see note 1(i) set out on page 46; and

d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 17 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 17.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

This declaration is made in accordance with a resolution of the Directors.

H Kevin McCann AM
Independent Director and
Chairman

Greg Ward
Managing Director and
Chief Executive Officer

Sydney
2 May 2014

Independent auditor's report

to the members of Macquarie Bank Limited

Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the Bank), which comprises of the statements of financial position as at 31 March 2014, and the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Macquarie Bank Group (the Consolidated Entity). The Consolidated Entity comprises the Bank and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Liability limited by a scheme approved under Professional Standards Legislation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the Bank's and Consolidated Entity's financial position as at 31 March 2014 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards – including the Australian Accounting Interpretations and the Corporations Regulations 2001, and

b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 28 of the directors' report for the year ended 31 March 2014. The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001 (Cth)*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Bank Limited for the year ended 31 March 2014, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
2 May 2014

PARTIES

OUR REGISTERED OFFICE

Macquarie Bank Limited
Level 3, 25 National Circuit
Forrest ACT 2603
Australia

OUR SYDNEY OFFICE

Macquarie Bank Limited
No. 1 Martin Place
Sydney NSW 2000
Australia

OUR LONDON OFFICE

Macquarie Bank Limited
Level 7, Ropemaker Place
28 Ropemaker Street
London
EC2Y 9HD
United Kingdom

OUR HONG KONG OFFICE

Macquarie Bank Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

SPONSOR AND LIQUIDITY PROVIDER

Macquarie Capital Securities Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

King & Wood Mallesons
13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney, NSW 1171
Australia