

## BASE LISTING DOCUMENT DATED 27 MAY 2019

*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)*

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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.**

The Structured Products are complex products. You should exercise caution in relation to 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 protected accounts or deposits 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 Limited**

## CONTENTS

	<b>Page</b>
<b>IMPORTANT INFORMATION</b> .....	3
<b>PLACING AND SALE</b> .....	6
<b>OVERVIEW OF WARRANTS</b> .....	8
<b>OVERVIEW OF CBBCS</b> .....	10
<b>INFORMATION IN RELATION TO US</b> .....	13
<b>RISK FACTORS</b> .....	16
<b>APPENDIX 1 — GENERAL CONDITIONS OF STRUCTURED PRODUCTS</b> .....	33
<b>APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS</b> .....	37
<b>PART A — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE EQUITIES</b> .....	38
<b>PART B — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED INDEX WARRANTS</b> .....	44
<b>PART C — PRODUCT CONDITIONS OF EUROPEAN STYLE CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS</b> .....	48
<b>APPENDIX 3 — PRODUCT CONDITIONS OF CBBCS</b> .....	54
<b>PART A — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES</b> .....	55
<b>PART B — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX</b> .....	64
<b>PART C — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS</b> .....	72
<b>APPENDIX 4 — A BRIEF GUIDE TO CREDIT RATINGS</b> .....	82
<b>APPENDIX 5 — OUR ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 AND INDEPENDENT AUDIT REPORT EXTRACTED FROM THE 2019 ANNUAL REPORT</b> .....	84
<b>PARTIES</b> .....	Back Page

## IMPORTANT INFORMATION

### 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 launch announcement and supplemental listing document will be issued in respect 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 launch announcement and supplemental listing document (including any addendum to such launch announcement and 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 24 May 2019 were:

<i>Rating agency</i>	<i>Credit ratings*</i>
S&P Global Ratings (“ <b>S&amp;P</b> ”)	A (developing outlook)
Moody’s Investors Service, Inc. (“ <b>Moody’s</b> ”)	A2 (stable outlook)

\* 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 or by other events that are not related to the MBL Group.

### 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?

There are currently claims against us and some of our subsidiaries and affiliates (the “**Group**”). Details of these claims or the Group’s position in respect of them 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 2019. You may access our latest publicly available financial information by visiting our website at [www.macquarie.com](http://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 0.0027 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 which are capital in nature.

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 Limited at Level 18, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong:

- (a) our published 2019 annual report for the year ended 31 March 2019 (“**2019 Annual Report**”);
- (b) the consent letter issued by PricewaterhouseCoopers (“**Auditor**”);
- (c) this document (and any addendum to this document) and the relevant launch announcement and 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.

Please refer to the base listing document dated 25 May 2018 for our annual financial statements and independent audit report in 2018.

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](http://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](http://www.hkexnews.hk/index_c.htm); 及
- (b) 我們的網站 [www.warrants.com.hk](http://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 3 May 2019 relating to our financial statements for the year ended 31 March 2019 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 Ashley Miles and Kathleen Kan (c/o Macquarie Capital 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](http://www.macquarie.com) and/or [www.warrants.com.hk](http://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.

This document has not been reviewed by the Securities and Futures Commission. You are advised to exercise caution in relation to the offer of the Structured Products.

**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**”).

## PLACING AND SALE

### 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

Each dealer represents and agrees, and each further dealer appointed in respect of the Structured Products will be required to represent and agree that, it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any Structured Products which are the subject of the offering as contemplated by this Base Listing Document to any retail investor in the European Economic Area. Consequently no key

information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Structured Products or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Structured Products or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
  - (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); and
- (b) the expression “**offer**” includes 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.

### UNITED KINGDOM

Each dealer represents and agrees, and each further dealer appointed in respect of the Structured Products will be required to represent and agree, that:

- (a) in respect of Structured Products having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a



contravention of Section 19 of the Financial Services and Markets Act, as amended (the “**FSMA**”), by us;

- (b) 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 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
- (c) 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 launch announcement and 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.

## OVERVIEW OF WARRANTS

### 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 launch announcement and 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 launch announcement and 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/products/securities/derivative-warrants?sc\\_lang=en](http://www.hkex.com.hk/products/securities/derivative-warrants?sc_lang=en) to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our warrants.

## OVERVIEW OF CBBCS

### 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/products/securities/callable-bull-bear-contracts/cbbc-eligible-underlying-assets/eligible-single-hong-kong-stocks-for-cbbc-issuance-in-current-quarter?sc\\_lang=en](http://www.hkex.com.hk/products/securities/callable-bull-bear-contracts/cbbc-eligible-underlying-assets/eligible-single-hong-kong-stocks-for-cbbc-issuance-in-current-quarter?sc_lang=en).

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 launch announcement and 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 launch announcement and 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 launch announcement and 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 launch announcement and 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 launch announcement and 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/products/securities/callable-bull-bear-contracts?sc\\_lang=en](http://www.hkex.com.hk/products/securities/callable-bull-bear-contracts?sc_lang=en) to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

## INFORMATION IN RELATION TO US

### MACQUARIE BANK LIMITED

Macquarie Bank Limited is an Australian Prudential Regulation Authority (APRA) regulated Authorised Deposit-taking Institution (ADI) headquartered in Sydney, Australia and is a wholly owned subsidiary of Macquarie Group Limited. Macquarie Bank's expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Macquarie Bank acts primarily as an investment intermediary for institutional, corporate, government and retail clients and counterparties around the world, generating income by providing a diversified range of products and services to clients.

The Banking Group comprises three operating groups: Banking & Financial Services; Corporate & Asset Finance – Asset Finance (excluding certain activities performed in the Non-Banking Group); and Commodities & Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business; and some other less financially significant activities).

The Non-Banking Group consists of Macquarie Capital; Macquarie Asset Management; Corporate & Asset Finance – Principal Finance and certain activities of Corporate & Asset Finance – Asset Finance; certain assets of the Credit Markets business, certain activities of the Cash Equities business and some other less financially significant activities of Commodities & Global Markets.

The registered office of Macquarie Bank is at Level 6, 50 Martin Place, Sydney, NSW 2000, Australia. Macquarie Bank's principal administrative office is 50 Martin Place, Sydney, NSW 2000, Australia.

### Commodities & Global Markets

Commodities and Global Markets (“CGM”) comprises the following businesses in the Banking Group:

- Cash Equities: Operates a global cash equities distribution platform which provides clients with access to research, sales, sales trading, corporate access and Equity Capital Markets, combined with a leading execution platform. The Cash division's activities, which include cash equities broking and equity capital markets services, in respect of the Cash division's activities in Hong Kong and clearing and settlement services in Australia, operate in the Banking Group, however, certain activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Commodities Markets and Finance: provides risk management, lending and financing, and physical execution and logistics services across the energy, metals and agricultural sectors globally. The division also offers commodity-based index products to institutional investors.
- Credit Markets: Operates in the United States and provides asset backed financing solutions for credit originators and credit investors across commercial and residential mortgages, consumer loans, syndicated corporate loans and middle market corporate loans. Certain activities in Credit Markets form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Equity Derivatives and Trading: Issues retail derivatives in key locations, and provides delta 1 products, derivative and equity finance solutions to its institutional client base, and conducts risk and market making activities. Generally, the Derivatives and Trading division's activities, which include sales of retail derivatives, trading, equity finance and capital management are in the Banking Group, however, certain of these activities form part of the Non-Banking Group in certain jurisdictions due to local regulation.
- Fixed Income & Currencies: provides currencies and fixed income trading and hedging services to a range of corporate and institutional clients globally.
- Futures: Provides a full range of execution, clearing and financing solutions to corporate and institutional clients, providing continuous 24-hour coverage of all major markets globally.
- Central: Fosters and develops various non-division specific, early stage or cross-divisional initiatives, as well as housing various CGM-wide services including cross-product sales and structured global markets.

## **DIRECTORS AND COMPANY SECRETARIES**

### **Directors' Experience and Special Responsibilities**

#### **Peter H Warne**

**BA (Macquarie), FAICD**

*Independent Chairman since 1 April 2016*

*Independent Voting Director since July 2007*

*Member of the Board Risk Committee*

#### **Mary J Reemst**

**BA (Macquarie), Dip Fin Mgt (Accountancy) (UNE), MAICD**

*Managing Director and Chief Executive Officer of Macquarie Bank Limited since July 2014*

*Executive Voting Director since July 2014*

#### **Shemara R Wikramanayake**

**BCom, LLB (UNSW)**

*Executive Voting Director since August 2018*

*Managing Director and Chief Executive Officer since December 2018*

#### **Gary R Banks AO**

**BEd (Hons) (Monash), MEc (ANU)**

*Independent Voting Director since August 2013*

*Member of the Board Risk Committee*

#### **Jillian R Broadbent AC**

**BA (Maths & Economics) (Sydney)**

*Independent Voting Director since November 2018*

*Member of the Board Risk Committee*

#### **Gordon M Cairns**

**MA (Hons) (Edin)**

*Independent Voting Director since November 2014*

*Member of the Board Risk Committee*

#### **Philip M Coffey**

**Bec (Hons) (Adelaide), GAICD, SF Finsia**

*Independent Voting Director since August 2018*

*Member of the Board Risk Committee*

#### **Michael J Coleman**

**MCom (UNSW), FCA, FCPA, FAICD**

*Independent Voting Director since November 2012*

*Chairman of the Board Audit Committee*

*Member of the Board Risk Committee*

#### **Diane J Grady AM**

**BA (Mills), MA (Hawaii), MBA (Harv), FAICD**

*Independent Voting Director since May 2011*

*Member of the Board Risk Committee*



**Michael J Hawker AM**

**BSc (Sydney), FAICD, SF Fin, FAIM, FIoD**

*Independent Voting Director since March 2010*

*Member of the Board Audit Committee*

*Chairman of the Board Risk Committee*

**Glenn R Stevens AC**

**BEc (Hons) (Sydney), MA (Econ) (UWO)**

*Independent Voting Director since November 2017*

*Member of the Board Audit Committee*

*Member of the Board Risk Committee*

**Nicola M Wakefield Evans**

**BJuris/BLaw (UNSW), FAICD**

*Independent Voting Director since February 2014*

*Member of the Board Audit Committee*

*Member of the Board Risk Committee*

The Company Secretary of Macquarie Bank is Dennis Leong. Ida Lawrance is an assistant company secretary of Macquarie Bank.

The business address of each Voting Director and the Company Secretary is Level 6, 50 Martin Place, Sydney, NSW 2000, Australia.

As at 31 March 2019, Macquarie Bank Limited employed over 4,480 staff globally.

## RISK FACTORS

*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 launch announcement and 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.

*Our business and financial condition has been and may be negatively affected by adverse global credit and other market conditions as well as geopolitical events. Global economic conditions may have a negative effect on our financial condition and liquidity.*

The Macquarie Group's businesses operate in or depend on the operation of global markets, including through exposures in securities, loans, derivatives and other activities. In particular, past uncertainty and volatility in global credit markets, liquidity constraints, increased funding costs, constrained access to funding and the decline in equity and capital market activity have adversely affected and may again affect transaction flow in a range of industry sectors. If repeated, such factors could adversely impact our financial performance.

In conducting our businesses and maintaining and supporting our global operations, we are subject to risks of possible nationalization and/or confiscation of assets, expropriation, price controls, capital controls, redenomination risk, exchange controls, protectionist

trade policies, economic sanctions and other restrictive governmental actions, unfavourable political and diplomatic developments and changes in legislation. These risks are particularly elevated in emerging markets.

Macquarie Bank may face new costs and challenges as a result of general economic and geopolitical events and conditions. For instance, a European sovereign default, slowdown in the U.S. or Chinese economies, slowing growth in emerging economies, the departure of the United Kingdom or another member country from the Euro zone or the market's anticipation of such events could disrupt global funding markets and the global financial system more generally. Geopolitical instability, such as threats of, potential for, or actual conflict, occurring around the world, may also adversely affect global financial markets, general economic and business conditions and Macquarie Bank's ability to continue operating or trading in a country. Potential risks of default on sovereign debt in some jurisdictions could expose us to substantial losses, and market and economic disruptions of all types could have an adverse impact on our business.

Poor economic conditions and other adverse geopolitical conditions and developments such as growing tensions between the United States and China relating to tariff levels and reciprocal trade and the ongoing negotiations between the United Kingdom and the European Union to determine the terms of the United Kingdom's departure from the European Union, can adversely affect and have adversely affected investor and client confidence, resulting in declines in the size and number of underwritings and financial advisory transactions and increased market risk as a result of increased volatility, which could have an adverse effect on our revenues and our profit margins.

In the aftermath of the global financial crisis that began in 2007, governments, regulators and central banks took a number of steps to increase liquidity and to restore investor and public confidence. As the global economic environment improved, a number of the extraordinary measures have been curtailed or withdrawn. The withdrawal of such measures may create or contribute to uncertainty and volatility in global credit markets and reduce economic growth.

*Our liquidity, profitability and businesses may be adversely affected by an inability to access international capital markets or by an increase in our cost of funding*

Liquidity is essential to our business, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired if we are unable to access debt markets or sell assets or if we experience unforeseen outflows of cash or collateral. Our liquidity may also be impaired due to circumstances that we may be unable to control, such as general market disruptions, which may

occur suddenly and dramatically, an operational problem that affects our trading clients, or changes in our credit spreads, which are market-driven, and subject at times to unpredictable and highly volatile movements.

General business and economic conditions significantly affect our access to credit and equity capital markets, cost of funding and ability to meet our liquidity needs. Renewed turbulence or a worsening general economic climate could adversely impact factors such as short-term and long-term interest rates, inflation, monetary supply, commodity prices, debt and equity capital markets, foreign exchange rates, consumer confidence and the strength of the economies in which we operate. If conditions deteriorate or remain uncertain for a prolonged period, our funding costs may increase and may limit our ability to replace maturing liabilities, which could adversely affect our ability to fund and grow our business.

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing, which could include selling liquid securities or other assets. The cost of these financing alternatives and/or the unavailability of sufficient funding could slow the growth rate of our businesses, cause us to reduce our term assets and increase our cost of funding.

*Many of our businesses are highly regulated and we could be adversely affected by changes in regulations and regulatory policy or unintended consequences from such changes and increased compliance requirements, particularly for financial institutions*

We operate various kinds of businesses across multiple jurisdictions, and some of our businesses operate across more than one jurisdiction or sector and are regulated by more than one regulator. Additionally, some members of the Macquarie Group own or manage assets and businesses that are regulated. Our businesses include an Authorised Deposit-taking Institution (ADI) in Australia (regulated by the Australian Prudential Regulation Authority (APRA)), bank branches in the United Kingdom, the Dubai International Finance Centre, Singapore, Hong Kong and South Korea<sup>1</sup> and representative offices in the United States, New Zealand and Switzerland. The regulations vary from country to country but generally are designed to protect depositors and the banking system as a whole, not holders of Macquarie Bank's securities or creditors. In addition, as a diversified financial institution, many of our businesses are subject to financial services regulation other than prudential banking regulation.

Regulatory agencies and governments frequently review and revise banking and financial services laws,

security and competition laws, fiscal laws and other laws, regulations and policies, including fiscal policies. Changes to laws, regulations or policies, including changes in interpretation or implementation of laws, regulations or policies, could substantially affect us or our businesses, the products and services we offer or the value of our assets, or have unintended consequences across our business. These may include changing required levels of liquidity and capital adequacy, increasing tax burdens generally or on financial institutions or transactions, limiting the type of financial services and products that can be offered and/or increasing the ability of other providers to offer competing financial services and products, as well as changes to prudential regulatory requirements. Global economic conditions and increased scrutiny of the culture in the banking sector have led to increased supervision and regulation, as well as changes in regulation in markets in which we operate, particularly for financial institutions, and may lead to further significant changes of this kind. In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "**Royal Commission**") was established in December 2017 and concluded on 1 February 2019. The Royal Commission inquired into the causes of and responses to misconduct by financial services entities and conduct following below community standards and expectations and held rounds of public hearings on a wide range of matters, including consumer and SME lending, financial advice, superannuation, insurance, culture, governance, remuneration, and the remits of regulators. The Royal Commission's final report was published on 4 February 2019 and contains 76 recommendations. No findings were made by the Royal Commission in relation to the Macquarie Group or Macquarie Bank. The Australian federal government has agreed to take action on all recommendations contained in the final report. The Royal Commission's recommendations are likely to result in a range of significant legislative, regulatory and industry practice changes. Such changes may adversely impact Macquarie Bank's business, operations, compliance costs, financial performance and prospects. We are closely monitoring the governmental, regulatory and industry responses to these recommendations and will participate in public and industry consultations as appropriate.

In some countries in which we do business or may in the future do business, in particular in emerging markets, the laws and regulations applicable to the financial services industry are uncertain and evolving, and it may be difficult for us to determine the requirements of local laws in every market. Our inability to remain in compliance with local laws in a

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<sup>1</sup> Note that Macquarie Group is in the process of closing its South Korean banking branch and the relevant regulators have been notified of this intention.

particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. In addition, regulation is becoming increasingly extensive and complex and some areas of regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach or certain jurisdictions seeking to expand the territorial reach of their regulation.

APRA may introduce new prudential regulations or modify existing regulations, including those that apply to Macquarie Bank as an ADI. Any such event could result in changes to the organisational structure of Macquarie Group and adversely affect Macquarie Bank and/or its controlled entities (the “MBL Group”).

We are also subject in our operations worldwide to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws, sanctions and economic trade restrictions relating to doing business with certain individuals, groups and countries. The geographical diversity of our business increases the risk that we may be found in violation of such rules or regulations. Emerging technologies, such as cryptocurrencies, could limit our ability to track the movement of funds. Our ability to comply with these laws is dependent on our ability to improve detection and reporting capabilities and reduce variation in control processes and oversight accountability.

*We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity*

The financial crisis and the subsequent political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials, and in some cases, to increased regulatory scrutiny, investigations and litigation. Investigations, inquiries, penalties and fines sought by regulatory authorities have increased substantially over the last several years, and regulators have become aggressive in commencing enforcement actions or with advancing or supporting legislation targeted at the financial services industry. If we are subject to adverse regulatory findings, the financial penalties could have a material adverse effect on our results of operations. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation with clients and on the morale and performance of our employees.

*Changes and increased volatility in currency exchange rates may adversely impact our financial results and our financial and regulatory capital positions*

While our consolidated financial statements are

presented in Australian dollars, a significant portion of our operating income is derived, and operating expenses are incurred, from our offshore business activities, which are conducted in a broad range of currencies. Changes in the rate at which the Australian dollar is translated from other currencies can impact our financial statements and the economics of our business. Insofar as we are unable to hedge or have not completely hedged our exposure to currencies other than Australian dollar, our reported profit or foreign currency translation reserve would be affected.

In addition, because MBL Group’s regulatory capital position is assessed in Australian dollars, our capital ratios may be adversely impacted by a depreciating Australian dollar, which increases the capital requirement for assets denominated in currencies other than Australian dollars.

*Our business may be adversely affected by our failure to adequately manage the risks associated with strategic opportunities and new businesses, including acquisitions, and the exiting or restructuring of existing businesses*

We are continually evaluating strategic opportunities and undertaking acquisitions of businesses, some of which may be material to our operations. Our completed and prospective acquisitions and growth initiatives may cause us to become subject to unknown liabilities of the acquired or new business and additional or different regulations.

We may be exposed to a number of risks in acquiring new businesses and in outsourcing, exiting or restructuring existing businesses. Where our acquisitions are in foreign jurisdictions, or are in emerging or growth economies in particular, we may be exposed to heightened levels of regulatory scrutiny and political, social or economic disruption and sovereign risk in emerging and growth markets.

Future growth, including through acquisitions, mergers and other corporate transactions, may also place significant demands on our managerial, legal, accounting, IT, risk management, operational and financial resources and may expose us to additional risks.

*Our business depends on our brand and reputation*

We believe our reputation in the financial services markets and the recognition of the Macquarie brand by our customers are important contributors to our business. Many companies in Macquarie Group and many of the funds managed by entities owned, in whole or in part, by MBL and MGL use the Macquarie name. We do not control those entities that are not in MBL Group, but their actions may reflect directly on



our reputation.

Our business may be adversely affected by negative publicity or poor financial performance in relation to any of the entities using the Macquarie name, including any Macquarie-managed fund or funds that Macquarie has promoted or is associated with.

*Competitive pressure, both in the financial services industry as well as in the other industries in which we operate, could adversely impact our business*

We face significant competition from local and international competitors, which compete vigorously in the markets and sectors across which we operate. In addition, the use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilizing new technologies and seeking to disrupt existing business models, including in relation to digital payment services and open data banking, that challenge, and could potentially disrupt, traditional financial services. We face competition from established providers of financial services as well as from businesses developed by non-financial services companies. We believe that we will continue to experience pricing pressures in the future as some of our competitors seek to obtain or increase market share.

Any consolidation in the global financial services industry may create stronger competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition in the financial services industry has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. Many of our competitors are larger than we are and may have significantly greater financial resources than we do and/or may be able to offer a wider range of products which may enhance their competitive position.

The effect of competitive market conditions, especially in our main markets, products and services, may lead to an erosion in our market share or margins and could adversely impact our businesses, prospects, results of operations or financial condition.

*Our ability to retain and attract qualified employees is critical to the success of our business and the failure to do so may materially adversely affect our performance*

Our employees are our most important resource, and our performance largely depends on the talents and

efforts of highly skilled individuals. Our continued ability to compete effectively in our businesses and to expand into new business areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new employees. Competition from within the financial services industry and from businesses outside the financial services industry for qualified employees has historically been intense and we expected it to increase during periods of economic growth.

In order to attract and retain qualified employees, we must compensate such employees at or above market levels. As a regulated entity, we may be subject to limitations on remuneration practices. These limitations may require us to further alter our remuneration practices in ways that could adversely affect our ability to attract and retain qualified and talented employees.

*Our business is subject to the risk of loss associated with falling prices in the equity and other markets in which we operate*

We are exposed to changes in the value of financial instruments and other financial assets that are carried at fair market value, as well as changes to the level of our advisory and other fees, due to changes in interest rates, exchange rates, equity and commodity prices and credit spreads and other market risks. These changes may result from changes in economic conditions, monetary and fiscal policies, market liquidity, availability and cost of capital, international and regional political events, acts of war or terrorism, corporate, political or other scandals that reduce investor confidence in capital markets, natural disasters or pandemics or a combination of these or other factors. Certain financial instruments that we hold and contracts to which we are a party are complex and these complex structured products often do not have readily available markets to access in times of liquidity stress.

*Defaults by one or more other large financial institutions or counterparties could adversely affect financial markets generally*

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships among financial institutions. Concerns about, or a default by, one or more institutions or by a sovereign could lead to market-wide liquidity problems, losses or defaults by other institutions globally that may further affect us. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, hedge funds and exchanges that we interact with on a daily basis. If any of our counterpart financial



institutions fail, our financial exposures to that institution may lose some or all of their value. The failure of one financial institution may also affect the soundness of other financial institutions with which we transact, resulting in additional failures, financial instruments losing their value and liquidity, and interruptions to capital markets. Any of these events would have a serious adverse effect on our liquidity, profitability and value.

*An increase in the failure of third parties to honor their commitments in connection with our trading, lending and other activities may adversely impact our business*

We are exposed to the potential for credit-related losses as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations. We are also exposed to potential concentration risk arising from large individual exposures or groups of exposures. Like any financial services organization, we assume counterparty risk in connection with our lending, trading, derivatives and other businesses where we rely on the ability of third parties to satisfy their financial obligations to us on a timely basis. Credit losses can and have resulted in financial services organizations realizing significant losses and in some cases failing altogether. To the extent our credit exposure increases, it could have an adverse effect on our business and profitability if material unexpected credit losses occur.

*Failure to maintain our credit ratings and those of our subsidiaries could adversely affect our cost of funds, liquidity, competitive position and access to capital markets*

The credit ratings assigned to us and certain of our subsidiaries by rating agencies are based on an evaluation of a number of factors, including our ability to maintain a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, funding stability and security, disciplined liquidity management and our key operating environments, including the availability of systemic support in Australia. In addition, a credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events that are not related to the MBL Group.

If we fail to maintain our current credit ratings, this could (i) adversely affect our cost of funds and related margins, liquidity, competitive position, the willingness of counterparties to transact with us and our ability to access capital markets or (ii) trigger our obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post

additional collateral, which could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

*We may incur losses as a result of ineffective risk management processes and strategies*

While we employ a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, we may, in the course of our activities, incur losses. There can be no assurance that the risk management processes and strategies that we have developed will adequately anticipate or be effective in addressing market stress or unforeseen circumstances.

*MBL Group relies on services provided by Macquarie Group*

Macquarie Group provides shared services to MBL Group. These shared services include, but are not limited to, risk management, financial and treasury services, information technology, human resources, other group-wide services and business shared services. Other than shared service arrangements and compliance with legal obligations, entities of Macquarie Group that are not part of the MBL Group are not obligated to support the businesses of MBL Group. Any failure by Macquarie Group to continue to provide shared services or an increase in the cost of such services will have an adverse impact on our results or operations.

*Our business operations expose us to potential tax liabilities that could have an adverse impact on our results of operations and our reputation*

We are exposed to risks arising from the manner in which the Australian and international tax regimes may be applied and enforced, both in terms of our own tax compliance and the tax aspects of transactions on which we work with clients and other third parties. Our international, multi-jurisdictional platform increases our tax risks. While we believe that we have in place controls and procedures that are designed to ensure that transactions involving third parties comply with applicable tax laws and regulations, any actual or alleged failure to comply with or any change in the interpretation, application or enforcement of applicable tax laws and regulations could adversely affect our reputation and affected business areas, significantly increase our own tax liability and expose us to legal, regulatory and other actions.

*We may incur financial loss, adverse regulatory consequences or reputational damage due to inadequate or failed internal or external operational*

*systems, processes, people or systems or external events*

Our businesses depend on our ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. We are exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems, such as from the disruption or failure of our IT systems, or from external suppliers and service providers including cloud-based outsourced technology platforms, or external events.

In addition, there have been a number of highly publicized cases around the world involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee, contractor and external service provider misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases, which could result in financial losses, regulatory intervention and reputational damage.

In addition, we face the risk of operational failure, termination or capacity constraints of any of the counterparties, clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities or derivatives transactions, and as our interconnectivity with our clients and counterparties grows, the risk to us of failures in our clients' and counterparties' systems also grows.

*A cyber attack, information or security breach, or a technology failure could adversely affect our ability to conduct our business, manage our exposure to risk or expand our businesses, result in the disclosure or misuse of confidential or proprietary information, and increase our costs*

Our businesses depend on the security and efficacy of our information technology systems, as well as those of third parties with whom we interact or on whom we rely. We implement measures designed to protect the security, confidentiality, integrity and availability of our computer systems, software and networks, including maintaining the confidentiality of information that may reside on those systems. However, there can be no assurances that our security measures will provide absolute security.

Information security risks for financial institutions have increased in recent years, in part because of the

proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of attackers. We, our customers, regulators and other third parties have been subject to, and are likely to continue to be the target of, cyber attacks. Despite efforts to protect the integrity of our systems and implement protective measures, we may not be able to anticipate all security breaches or implement preventive measures against such security breaches.

Information security threats may also occur as a result of our plans to continue to implement internet banking and mobile banking channel strategies, develop additional remote connectivity solutions and outsource some of our business operations. We face indirect technology, cybersecurity and operational risks relating to the customers, clients, external service providers and other third parties with whom we do business or upon whom we rely to facilitate or enable our business activities.

As a result of increasing consolidation, interdependence and complexity of financial entities and technology systems, a technology failure, cyber attack or other information or security breach that significantly degrades, deletes or compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including us. Any third-party technology failure, cyber attack or other information or security breach, termination or constraint could adversely affect our businesses.

Cyber attacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have adverse consequences for MBL Group.

*Our businesses are subject to the risk of unforeseen, hostile or potential catastrophic events, and environmental, social, reputational and other risks*

Our businesses and assets are subject to the risk of unforeseen, hostile or catastrophic events, many of which are outside of our control, including natural disasters, extreme weather events, occurrence of diseases, leaks, spills, explosions, release of toxic substances, fires, accidents on land or at sea, terrorist attacks or other hostile or catastrophic events. Additionally, rising climate change concerns may lead to additional regulation that could increase the operating costs and/or reduce the profitability of our investments.

The occurrence of any such events may prevent us from performing under our agreements with clients, may disrupt our business activities, impair our operations or financial results, affect the value of

assets held in the affected locations, and may result in litigation, regulatory action, negative publicity or other reputational harm. In addition, such an event or environmental change (as the case may be) could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

*Conflicts of interest could limit our current and future business opportunities*

As we expand our businesses and our client base, we increasingly have to address potential or perceived conflicts of interest, including situations where our services to a particular client conflict with, or are perceived to conflict with, our own proprietary investments or other interests or with the interests of another client, as well as situations where one or more of our businesses have access to material non public information that may not be shared with other businesses within Macquarie Group. While we believe we have adequate procedures and controls in place to address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged and the willingness of clients or counterparties to enter into transactions may be adversely affected if we fail, or appear to fail, to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to claims by and liabilities to clients, litigation or enforcement actions.

*Litigation and regulatory actions may adversely impact our results of operations*

We may, from time to time, be subject to material litigation and regulatory actions, for example, as a result of inappropriate documentation of contractual relationships, class actions or regulatory violations, which, if they crystallize, may adversely impact upon our results of operations and financial condition in future periods or our reputation. We regularly obtain legal advice and make provisions, as deemed necessary. There is a risk that any losses may be larger than anticipated or provided for or that additional litigation, regulatory actions or other contingent liabilities may arise. Furthermore, even where monetary damages may be relatively small, an adverse finding in a regulatory or litigation matter could harm our reputation or brand, thereby adversely affecting our business.

## **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 rate, 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 launch announcement and 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 launch announcement and 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 macroeconomic, 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.

#### *Hong Kong resolution regime*

The Financial Institutions (Resolution) Ordinance (“**FIRO**”) came into operation on 7 July 2017. The FIRO provides a regime for the orderly resolution of financial institutions, including authorised institutions, with a view to avoiding or mitigating the risks otherwise posed by their non-viability to the stability and effective working of the financial system of Hong Kong. As an authorised institution in Hong Kong, we are subject to the FIRO.

The FIRO seeks to provide the relevant resolution authorities, including the Hong Kong Monetary Authority, with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. The relevant resolution authority is empowered to suspend, write-off, cancel, convert,

modify or change the form of the Structured Products. The exercise of any resolution power by the relevant resolution authority under the FIRO in respect of us may have a material adverse effect on the value of the Structured Products and as a result, you may not be able to recover all or any amount due under the Structured Products.

### **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, macroeconomic 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 which 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.

#### *ETF investing through RQFII and/or China Connect (“China ETF”)*

An ETF may be issued and traded outside Mainland China with direct investment in the Mainland China securities markets through the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) regime and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, “**China Connect**”). Where the Underlying Asset comprises the units of such an ETF, you should note that, amongst others:

- (a) the relatively recent introduction and untested nature of China Connect make China ETFs riskier than traditional ETFs investing directly in more developed markets. The policy and rules for RQFII and China Connect prescribed by the Mainland China government are new and subject to change, and there may be uncertainty to their implementation. The

uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of China ETFs and the trading price of the relevant units;

- (b) a China ETF primarily invests in securities traded in the Mainland China securities markets and is subject to concentration risk. Investment in the Mainland China securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets; and
- (c) investment by a China ETF in the mainland Chinese securities market under the RQFII regime will be subject to its manager’s RQFII quota allocated to such China ETF. In addition, trading of securities invested by the China ETF under China Connect will be subject to a daily quota which does not belong to such China ETF and is utilised on a first-come-first-serve basis. In the event that the RQFII quota allocated to such China ETF and/or the daily quota under China Connect are reached, the manager may need to suspend creation of further units of such China ETF, and therefore the liquidity in unit trading such China ETF may be affected. In such event, the trading price of a unit of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile.

The above risks may have a significant impact on the performance of the China ETFs and the price of the Structured Products.

Please read the offering documents of the China ETF to understand its key features and risks.

#### *ETF traded through dual counters model*

Where the Underlying Asset comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi (“**RMB**”) and Hong Kong dollars (“**HKD**”) separately, the relatively recent introduction and untested nature of the Stock Exchange’s dual counters model may bring the following additional risks:

- (a) the Structured Products may be linked to the HKD-traded units or the RMB-traded units. If the Underlying Asset is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the Structured Products. Similarly, if the Underlying Asset is the RMB-traded units, movements in the trading prices of the HKD-traded units should not

directly affect the price of the Structured Products;

- (b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the Structured Products; and
- (c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of the Underlying Asset in HKD or RMB (as the case may be) may adversely affect the price of the Structured Products.

#### *Real estate investment trust (“REIT”)*

Where the Underlying Asset comprises the units of a REIT, you should note that the investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

#### **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, potentially 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 27 May 2019 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 Launch Announcement and 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 Launch Announcement and 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;

“**Launch Announcement and Supplemental Listing Document**” means the launch announcement and supplemental listing document relating to a particular series of Structured Products.

“**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 Limited;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited; and

“**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.

## **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. Contracts (Rights of Third Parties) Ordinance**

No person other than the Holder has any right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Structured Products.

## **13. 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.

## **14. 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.

## **15. 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 Limited**  
Level 18  
One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

## APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS

	<i>Page</i>
PART A Product Conditions of European Style Cash Settled Warrants over Single Equities .....	38
PART B Product Conditions of European Style Cash Settled Index Warrants .....	44
PART C Product Conditions of European Style Cash Settled Warrants over Single Unit Trusts .....	48

## 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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 event as contemplated in Product Condition 3 such as 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:

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

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

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

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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Price**” means the price specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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;

“**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 Launch Announcement and 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. 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:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

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. 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.

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:**

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## 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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:

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

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

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

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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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;

“**Index**” means the index specified as such in the relevant Launch Announcement and 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 Launch Announcement and Supplemental Listing Document;

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

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

“**Interim Currency**” means the currency specified in the relevant Launch Announcement and Supplemental Listing Document;

“**Listing Date**” means the date specified as such in the relevant Launch Announcement and 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;

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

“**Settlement Currency**” means the currency specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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:**

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## 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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 event as contemplated in Product Condition 3 such as 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:

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

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

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

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 Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Price**” means the price specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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;

“**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 Launch Announcement and Supplemental Listing Document;

“**Unit**” means the unit specified as such in the relevant Launch Announcement and 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. 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. 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.

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:**

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Hong Kong



### APPENDIX 3 — PRODUCT CONDITIONS OF CBBCS

	<i>Page</i>
PART A Product Conditions of Cash Settled Callable Bull/Bear Contracts over Single Equities .....	55
PART B Product Conditions of Cash Settled Callable Bull/Bear Contracts over an Index .....	64
PART C Product Conditions of Cash Settled Callable Bull/Bear Contracts over Single Unit Trusts .....	72

## 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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:

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

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

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

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 event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) on the Valuation Date;

“**Company**” means the Company specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) 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 (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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:

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

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

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

“**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 Launch Announcement and 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 Launch Announcement and 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 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.

#### 2.7 *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. 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. 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.

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 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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:

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

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

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

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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document;

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

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

“**Listing Date**” means the date specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Settlement Currency**” means the currency specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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 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.

## 2.7 *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 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 Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and 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 Launch Announcement and 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 Launch Announcement and 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:

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

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

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

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 event as contemplated in Product Condition 3 such as 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 Launch Announcement and 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 Launch Announcement and 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 (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) 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 (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and 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 Launch Announcement and 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:

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

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

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

“**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 Launch Announcement and 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 Launch Announcement and Supplemental Listing Document;

“**Unit**” means the unit specified as such in the relevant Launch Announcement and 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 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.

#### 2.7 *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. 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. 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.

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 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://www.spratings.com/en\\_US/home](https://www.spratings.com/en_US/home) and the website of Moody's at <https://www.moody's.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 weaken the obligor's capacity 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 [http://www.spratings.com/en\\_US/understanding-ratings](http://www.spratings.com/en_US/understanding-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/ratings-process/Ratings-Definitions/002002> 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 to twenty-four months 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.



**APPENDIX 5 — OUR ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 AND INDEPENDENT AUDIT REPORT EXTRACTED FROM THE 2019 ANNUAL REPORT**

Our annual financial statements for the year ended 31 March 2019 and independent audit report set out in this Appendix 5 are extracted from the 2019 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 2019 and independent audit report extracted from the 2019 Annual Report.

The financial statements of Macquarie Bank for the year ended 31 March 2019 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.

# Financial Report – Contents

For the financial year ended 31 March 2019

<b>Income Statements</b>	<b>45</b>
<b>Statements of comprehensive income</b>	<b>46</b>
<b>Statements of financial position</b>	<b>47</b>
<b>Statements of changes in equity</b>	<b>48</b>
<b>Statements of cash flows</b>	<b>50</b>
<b>Notes to the financial statements</b>	<b>52</b>
1. Summary of significant accounting policies	52
2. Operating profit from continuing operations before income tax	82
3. Segment reporting	86
4. Income tax expense	92
5. Dividends and distributions paid or provided for	93
6. Trading assets	93
7. Margin money and settlement assets	94
8. Financial investments	94
9. Other assets	94
10. Loan assets	95
11. Expected credit losses	97
12. Property, plant and equipment	103
13. Interests in associates and joint ventures	106
14. Intangible assets	106
15. Investments in subsidiaries	107
16. Deferred tax assets/(liabilities)	109
17. Trading liabilities	109
18. Margin money and settlement liabilities	109
19. Deposits	110
20. Other Liabilities	110
21. Debt issued	110
22. Capital management strategy	112
23. Loan capital	113
24. Contributed equity	115
25. Reserves, retained earnings and non-controlling interests	116
26. Notes to the statements of cash flows	117
27. Related party information	119
28. Key Management Personnel disclosure	122
29. Employee equity participation	124
30. Contingent liabilities and commitments	128
31. Lease commitments	128
32. Structured entities	129
33. Hedge accounting	130
34. Financial risk management	137
35. Measurement categories of financial instruments	162
36. Fair value of financial assets and financial liabilities	166
37. Offsetting financial assets and financial liabilities	176
38. Pledged assets and transfers of financial assets	180
39. Audit and other services provided by PricewaterhouseCoopers (PwC)	183
40. Discontinued operations	184
41. Acquisitions and disposals of subsidiaries and businesses	187
42. Events after the reporting date	187
<b>Directors' declaration</b>	<b>188</b>
<b>Independent auditor's report</b>	<b>189</b>

The Financial Report was authorised for issue by the Board of Directors on 3 May 2019.  
The Board of Directors has the power to amend and reissue the Financial Report.

# Income Statements

For the financial year ended 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 <sup>(1),(2)</sup> \$m	2018 <sup>(2)</sup> \$m	2019 <sup>(1),(2)</sup> \$m	2018 <sup>(2)</sup> \$m
Interest and similar income					
Effective interest method	2	4,135	3,942	3,696	3,465
Others	2	678	415	587	370
Interest and similar expense	2	(2,835)	(2,513)	(3,016)	(2,659)
<b>Net interest income</b>		<b>1,978</b>	1,844	<b>1,267</b>	1,176
Fee and commission income	2	1,231	889	544	432
Net trading income	2	2,526	1,929	1,053	1,242
Net operating lease income	2	289	243	50	36
Share of net profits of associates and joint ventures	2	28	25	–	–
Credit impairment (charges)/reversal	2	(131)	(74)	(38)	4
Other impairment (charges)/reversal	2	(116)	(38)	–	3
Other operating income and charges	2	106	184	841	1,113
<b>Net operating income</b>		<b>5,911</b>	5,002	<b>3,717</b>	4,006
Employment expenses	2	(1,448)	(1,278)	(1,054)	(968)
Brokerage, commission and trading-related expenses	2	(777)	(616)	(601)	(402)
Occupancy expenses	2	(117)	(106)	(91)	(83)
Non-salary technology expenses	2	(167)	(128)	(136)	(101)
Other operating expenses	2	(1,923)	(1,483)	(1,315)	(1,206)
<b>Total operating expenses</b>		<b>(4,432)</b>	(3,611)	<b>(3,197)</b>	(2,760)
<b>Operating profit from continuing operations before income tax</b>		<b>1,479</b>	1,391	<b>520</b>	1,246
Income tax expense	4	(394)	(353)	(141)	(152)
<b>Profit from continuing operations after income tax</b>		<b>1,085</b>	1,038	<b>379</b>	1,094
<b>Profit from discontinued operations after income tax</b>	40	<b>956</b>	545	<b>1,252</b>	925
<b>Profit from continuing and discontinued operations after income tax</b>		<b>2,041</b>	1,583	<b>1,631</b>	2,019
Profit attributable to non-controlling interests		(4)	(1)	–	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>2,037</b>	1,582	<b>1,631</b>	2,019
Distribution paid or provided for on:					
Macquarie Income Securities	5	(15)	(14)	–	–
<b>Profit attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>2,022</b>	1,568	<b>1,631</b>	2,019
From continuing operations		1,066	1,023	379	1,094
From discontinued operations		956	545	1,252	925

The above income statements should be read in conjunction with the accompanying notes.

- (1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) and AASB 15 *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9 and AASB 15.
- (2) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax'. The prior year comparatives have, in accordance with AASB 5, been reclassified to conform to current financial year presentation.

# Statements of comprehensive income

For the financial year ended 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 <sup>(1),(2)</sup> \$m	2018 <sup>(2)</sup> \$m	2019 <sup>(1),(2)</sup> \$m	2018 <sup>(2)</sup> \$m
<b>Profit from continuing and discontinued operations after income tax</b>		<b>2,041</b>	1,583	<b>1,631</b>	2,019
Other comprehensive income/(loss) <sup>(3)</sup> :					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve <sup>(4)</sup> :	25				
Revaluation (loss)/gain recognised in other comprehensive income		<b>(8)</b>	(33)	<b>4</b>	(15)
Changes in allowance for expected credit losses		<b>(1)</b>	–	<b>(3)</b>	–
Transferred to income statement on:					
Impairment		–	12	–	11
Sale or reclassification		–	(80)	–	(68)
Cash flow hedges, net movement recognised in OCI		<b>(89)</b>	77	<b>(34)</b>	24
Share of other comprehensive loss of associates and joint ventures	25	<b>(3)</b>	(1)	–	–
Exchange differences on translation and hedge of foreign operations		<b>140</b>	132	<b>(13)</b>	–
Movements in items that will not be subsequently reclassified to the income statement:					
Fair value gain attributable to own credit risk on debt that is subsequently measured at fair value through profit or loss	25	<b>6</b>	37	<b>6</b>	37
<b>Total other comprehensive income/(loss)</b>		<b>45</b>	144	<b>(40)</b>	(11)
Other comprehensive income/(loss) from continuing operations		<b>165</b>	42	<b>(40)</b>	(11)
Other comprehensive (loss)/income from discontinued operations after tax	40	<b>(120)</b>	102	–	–
<b>Total comprehensive income</b>		<b>2,086</b>	1,727	<b>1,591</b>	2,008
Total comprehensive income attributable to non-controlling interests		<b>(5)</b>	(4)	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		<b>(15)</b>	(14)	–	–
<b>Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited</b>		<b>2,066</b>	1,709	<b>1,591</b>	2,008
From continuing operations		<b>1,231</b>	1,066	<b>339</b>	1,083
From discontinued operations		<b>835</b>	643	<b>1,252</b>	925

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

- (1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* (AASB 9) and AASB 15 *Revenue from contracts with customers* (AASB 15) on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9 and AASB 15.
- (2) The comprehensive income has been disaggregated into both continuing and discontinued operations. The prior year comparatives have, in accordance with AASB 5, been reclassified to conform to the current financial year presentation.
- (3) All items are net of tax, where applicable.
- (4) Represents the available for sale reserve for financial year prior to adoption of AASB 9 on 1 April 2018.

# Statements of financial position

As at 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 <sup>(1)</sup> \$m	2018 \$m	2019 <sup>(1)</sup> \$m	2018 \$m
<b>Assets</b>					
Cash and bank balances		7,693	7,852	6,377	6,648
Cash collateral on securities borrowed and reverse repurchase agreements		29,148	28,777	28,757	28,437
Trading assets	6	17,502	14,894	13,960	11,823
Margin money and settlement assets	7	14,496	13,723	9,802	9,108
Derivative assets		14,090	12,695	12,249	10,668
Financial investments	8	5,470	5,733	5,315	5,547
Other assets	9	2,105	3,714	1,269	1,337
Loan assets	10	73,821	72,289	53,940	49,833
Due from related body corporate entities	27	1,522	1,383	1,039	1,212
Due from subsidiaries	27	–	–	23,894	27,841
Property, plant and equipment	12	2,738	11,074	1,317	1,127
Interests in associates and joint ventures	13	219	727	48	432
Intangible assets	14	177	214	81	91
Investments in subsidiaries	15	–	–	5,166	7,390
Deferred tax assets	16	441	143	418	139
<b>Total assets</b>		<b>169,422</b>	<b>173,218</b>	<b>163,632</b>	<b>161,633</b>
<b>Liabilities</b>					
Cash collateral on securities lent and repurchase agreements		4,216	5,380	4,216	5,380
Trading liabilities	17	7,757	7,938	8,375	8,286
Margin money and settlement liabilities	18	17,901	16,575	15,221	14,343
Derivative liabilities		12,523	11,788	11,330	10,043
Deposits	19	56,120	48,371	56,033	48,220
Other liabilities	20	3,043	4,481	1,823	2,117
Bank borrowings		1,560	5,223	1,167	2,582
Due to related body corporate entities	27	16,791	13,993	15,106	11,830
Due to subsidiaries	27	–	–	10,116	10,549
Debt issued	21	33,587	41,524	26,514	32,513
Deferred tax liabilities	16	134	586	46	114
<b>Total liabilities excluding loan capital</b>		<b>153,632</b>	<b>155,859</b>	<b>149,947</b>	<b>145,977</b>
<b>Loan capital</b>	23	<b>4,550</b>	<b>4,256</b>	<b>4,550</b>	<b>4,256</b>
<b>Total liabilities</b>		<b>158,182</b>	<b>160,115</b>	<b>154,497</b>	<b>150,233</b>
<b>Net assets</b>		<b>11,240</b>	<b>13,103</b>	<b>9,135</b>	<b>11,400</b>
<b>Equity</b>					
Contributed equity	24	7,898	9,928	7,785	9,821
Reserves	25	516	477	(43)	(3)
Retained earnings	25	2,824	2,686	1,393	1,582
<b>Total capital and reserves attributable to ordinary equity holder of Macquarie Bank Limited</b>		<b>11,238</b>	<b>13,091</b>	<b>9,135</b>	<b>11,400</b>
<b>Non-controlling interests</b>	25	<b>2</b>	<b>12</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>11,240</b>	<b>13,103</b>	<b>9,135</b>	<b>11,400</b>

The above statements of financial position should be read in conjunction with the accompanying notes.

(1) The March 2019 financial results reflect the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity and the Company have not restated the comparative financial reporting period. Refer to Note 1 for the impact from the initial adoption of AASB 9.

# Statements of changes in equity

For the financial year ended 31 March 2019

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
<b>CONSOLIDATED</b>							
<b>Balance as at 1 Apr 17</b>		9,911	373	2,296	12,580	8	12,588
Profit from continuing and discontinued operations after income tax		–	–	1,582	1,582	1	1,583
Other comprehensive income, net of tax		–	104	37	141	3	144
Total comprehensive income		–	104	1,619	1,723	4	1,727
Transactions with equity holders:							
Dividends and distributions paid or provided for		–	–	(1,224)	(1,224)	–	(1,224)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(5)	(5)	–	(5)
Distributions paid or provided for		–	–	–	–	–	–
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	24	17	–	–	17	–	17
		17	–	(1,229)	(1,212)	–	(1,212)
<b>Balance as at 31 Mar 18</b>		<b>9,928</b>	<b>477</b>	<b>2,686</b>	<b>13,091</b>	<b>12</b>	<b>13,103</b>
Change on initial application of AASB 9		–	1	(141)	(140)	–	(140)
<b>Restated balance as at 1 Apr 18</b>		<b>9,928</b>	<b>478</b>	<b>2,545</b>	<b>12,951</b>	<b>12</b>	<b>12,963</b>
Profit from continuing and discontinued operations after income tax		–	–	2,037	2,037	4	2,041
Other comprehensive income, net of tax		–	38	6	44	1	45
Total comprehensive income		–	38	2,043	2,081	5	2,086
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,763)	(1,763)	–	(1,763)
Non-controlling interests:							
Changes in non-controlling ownership interests		–	–	(1)	(1)	(7)	(8)
Distributions paid or provided for		–	–	–	–	(8)	(8)
Other equity movements:							
Return of capital to Macquarie B. H. Pty. Ltd. <sup>(1)</sup>	24	(2,040)	–	–	(2,040)	–	(2,040)
Contribution from ultimate parent entity in relation to share-based payments	24	10	–	–	10	–	10
		(2,030)	–	(1,764)	(3,794)	(15)	(3,809)
<b>Balance as at 31 Mar 19</b>		<b>7,898</b>	<b>516</b>	<b>2,824</b>	<b>11,238</b>	<b>2</b>	<b>11,240</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

(1) The Consolidated Entity returned capital of \$2,040 million to Macquarie B. H. Pty. Ltd. after disposal of the CAF Principal Finance and CAF Transportation Finance businesses. Refer Note 40 *Discontinued operations* for further information.



	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
<b>COMPANY</b>					
<b>Balance as at 1 Apr 17</b>		9,812	45	736	10,593
Profit from continuing and discontinued operations after income tax		–	–	2,019	2,019
Other comprehensive (loss)/income, net of tax		–	(48)	37	(11)
Total comprehensive (loss)/income		–	(48)	2,056	2,008
Transactions with equity holders:					
Dividends paid	5	–	–	(1,210)	(1,210)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	24	9	–	–	9
		9	–	(1,210)	(1,201)
<b>Balance as at 31 Mar 18</b>		<b>9,821</b>	<b>(3)</b>	<b>1,582</b>	<b>11,400</b>
Change on initial application of AASB 9		–	6	(78)	(72)
<b>Restated balance as at 1 Apr 18</b>		<b>9,821</b>	<b>3</b>	<b>1,504</b>	<b>11,328</b>
Profit from continuing and discontinued operations after income tax		–	–	1,631	1,631
Other comprehensive (loss)/income, net of tax		–	(46)	6	(40)
Total comprehensive (loss)/income		–	(46)	1,637	1,591
Transactions with equity holders:					
Dividends paid or provided for	5	–	–	(1,748)	(1,748)
Other equity movements:					
Return of capital to Macquarie B. H. Pty. Ltd. <sup>(1)</sup>	24	(2,040)	–	–	(2,040)
Contributions from ultimate parent entity in relation to share-based payments	24	4	–	–	4
		(2,036)	–	(1,748)	(3,784)
<b>Balance as at 31 Mar 19</b>		<b>7,785</b>	<b>(43)</b>	<b>1,393</b>	<b>9,135</b>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

(1) The Consolidated Entity returned capital of \$2,040 million to Macquarie B. H. Pty. Ltd. after disposal of the CAF Principal Finance and CAF Transportation Finance businesses. Refer Note 40 *Discontinued operations* for further information.

# Statements of cash flows

For the financial year ended 31 March 2019

	Notes	CONSOLIDATED		COMPANY	
		2019 <sup>(1)</sup> \$m	2018 \$m	2019 <sup>(1)</sup> \$m	2018 \$m
<b>Cash flows (utilised in)/generated from operating activities</b>					
Interest and similar income received		4,906	4,628	4,387	4,157
Interest and similar expense paid		(2,909)	(2,612)	(2,980)	(2,646)
Fees and other non-interest income received		1,327	1,026	1,390	834
Fees and commissions paid		(750)	(696)	(563)	(567)
Operating lease income received		1,855	1,855	75	292
Dividends and distributions received		32	26	1,003	1,489
Employment expenses paid		(1,464)	(1,318)	(1,172)	(1,084)
Operating expenses paid		(1,920)	(1,800)	(1,369)	(1,327)
Income tax paid		(367)	(99)	(114)	(6)
Changes in operating assets and liabilities:					
Net movement in trading assets and liabilities		800	4,399	(1,189)	1,222
Net movement in loan assets and balance with related entities		(2,926)	2,703	1,904	966
Net movement in assets under operating lease		(961)	(1,206)	(711)	(878)
Net movement in deposits		7,910	664	7,771	640
Net movement in bank borrowings		1,158	(950)	(1,411)	(862)
Net movement in debt issued		(9,690)	(3,914)	(7,763)	(1,185)
Net movement in other assets and liabilities		85	(45)	(67)	(137)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,326	1,104	–	–
Life investment linked contract payments, acquisition of investment assets and other unitholder redemptions		(1,330)	(1,099)	–	–
Net cash flows (utilised in)/generated from operating activities	26	(2,918)	2,666	(809)	908
<b>Cash flows generated from investing activities</b>					
Net proceeds from financial investments		699	197	659	60
Proceeds from disposal of discontinued operations, net of cash deconsolidated		6,084	–	3,980	–
Proceeds from the disposal of or capital return from associates, subsidiaries and businesses, net of cash deconsolidated		1,217	224	730	3,029
Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired		(222)	(273)	(1,752)	(831)
Proceeds from the disposal of property, plant and equipment, and intangible assets		–	35	–	–
Payments for the acquisition of property, plant and equipment, and intangible assets		(115)	(109)	(64)	(18)
Net cash flows generated from investing activities		7,663	74	3,553	2,240
<b>Cash flows utilised in financing activities</b>					
Payments for non-controlling interests		(13)	–	–	–
Proceeds from the issue of loan capital		–	(330)	–	(330)
Payments on redemption of loan capital		(2,040)	–	(2,040)	–
Dividends and distributions paid		(1,203)	(1,224)	(1,188)	(1,210)
Net cash flows utilised in financing activities		(3,256)	(1,554)	(3,228)	(1,540)
<b>Net increase/(decrease) in cash and cash equivalents</b>					
Cash and cash equivalents at the beginning of the financial year		11,350	10,164	9,730	8,122
<b>Cash and cash equivalents at the end of the financial year</b>	26	<b>12,839</b>	<b>11,350</b>	<b>9,246</b>	<b>9,730</b>

The above statements of cash flows should be read in conjunction with the accompanying notes.

(1) The March 2019 financial results reflect the adoption of AASB 9 and AASB 15 on 1 April 2018. As permitted by AASB 9 and AASB 15, the Consolidated Entity and the Company have not restated previously reported financial years. Prior comparative financial year has been reclassified to conform to current year presentation. Refer to Note 1 for the impact from initial adoption of AASB 9 and AASB 15.

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# Notes to the financial statements

For the financial year ended 31 March 2019

## Note 1

### Summary of significant accounting policies

#### (i) Basis of preparation

The principal accounting policies adopted in the preparation of this Financial Report are set out below. These policies have been consistently applied to all the financial years presented and are applicable to both the Consolidated Entity (Macquarie Bank Limited and its subsidiaries) as well as to the Company (Macquarie Bank Limited), unless otherwise stated.

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* (Cth). Macquarie Bank is a for-profit Company for the purposes of preparing financial statements.

#### 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.

#### Basis of measurement

This Financial Report has been prepared under the historical cost convention except for the following items:

- financial instruments (including derivatives) required to be measured at fair value through profit or loss (FVTPL), financial assets classified as fair value through other comprehensive income (FVOCI) and financial instruments that are designated as FVTPL (DFVTPL)
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships
- non-current assets and disposal groups that have been classified as held for sale and where the disposal group has been written down to its fair value less costs to sell
- liabilities in terms of cash-settled share-based payment obligations
- commodities that are measured at fair value less costs to sell in accordance with the broker-trader exemption
- investment property that is subsequently measured at fair value.

#### Presentation changes

##### Statement of financial position

Following the adoption of AASB 9 *Financial Instruments* (AASB 9), and in order to present items on the basis of the nature of the underlying item as opposed to its measurement basis, the Consolidated Entity has made changes to the presentation of certain items in its statement of financial position.

The effect of these presentation changes has been disclosed in the 'Change on initial application of AASB 9' section of this note and as footnotes to the other relevant notes to the financial statements.

##### Income statement

The Consolidated Entity has made certain presentation changes in its income statements and Note 2 *Operating profit from continuing operations before income tax*, in order to align the presentation of items of income and expense with the categories of financial instruments presented in the statement of financial position.

This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. Comparative information has been represented, for all presentation changes in the statement of financial position and income statement.

##### 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 Consolidated Entity and the consolidated Financial Report such as:

- determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI) (Note 1(viii))
- measurement of Expected Credit Loss (ECL) including the choice of inputs, estimates and assumptions relating to information about past events, current conditions and forecasts of economic conditions (Notes 1(xxiii) and 11)
- timing and amount of impairment of interests in associates and joint ventures, investment in subsidiaries (Notes 1(ii), 1(xxiii), 13, and 15)
- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 36)
- distinguishing between whether assets or a business is acquired under a business combination (Note 1(iii))
- determination of control of subsidiaries and structured entities (Notes 1(ii) and 32)
- determination of significant influence over associates and joint control over joint ventures (Note 1(ii))
- recoverability of tax receivables, deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 16)
- reclassification of foreign currency translation reserve on disposal of a foreign operation (Notes 1(iv) and 25)
- recognition of fees by determining whether multiple services provided in a single contract are distinct and whether incurred expenses can be presented net of any associated revenue (Note 1(v))
- recognition and measurement of provisions related to actual and potential claims, including contingent liabilities, and supplemental income, maintenance liabilities and end of lease compensation (Note 1(v), 9, 20 and 30).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events.

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

Management believes the estimates used in preparing the Financial Report are reasonable. Actual results in the future may differ from those reported and it is therefore reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from management's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities.

#### (a) New Accounting Standards and amendments to Accounting Standards and Interpretations that are not yet effective for the financial year

##### (i) AASB 16 Leases

AASB 16 *Leases* (AASB 16) replaces the current AASB 117 *Leases* standard for the Consolidated Entity's financial year commencing on 1 April 2019.

AASB 16 sets out a comprehensive model for identifying and measuring lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Contracts that are leases within the scope of AASB 16 from the lessee's perspective require the recognition of a right-of-use (ROU) asset and a related lease liability, being the present value of future lease payments. This results in an increase in the recognised assets and liabilities in the Consolidated Entity's statement of financial position. The income statement will include interest expense on the lease liability together with depreciation of the ROU asset. As compared to AASB 117, the pattern of expense recognition changes with higher costs in the earlier stages of the lease as a result of the interest expense being determined on the lease liability that amortises over the lease term. The classification of leases when the Consolidated Entity is lessor remains unchanged under AASB 16.

#### Transition:

Alternative methods of calculating the ROU asset are permitted under AASB 16 which impacts the size of the transition adjustment. The Consolidated Entity will apply the modified retrospective approach as permitted by AASB 16. Under the modified retrospective transition approach prior period comparative financial statements are not restated and the Consolidated Entity can choose between two alternate methods of measuring the lease assets on a lease by lease basis. The Consolidated Entity will measure the ROU for existing operating leases of office space from which it conducts its business as if AASB 16 had always been applied. The resulting transition adjustment will be recognised as an adjustment to the Consolidated Entity's retained earnings as at 1 April 2019. For other leases the ROU will be measured based on the lease liability.

Based on the elected transition method, the Consolidated Entity will recognise lease liabilities of approximately \$50 million and ROU assets of \$50 million with no material impact to opening retained earnings. This transition adjustment has, as permitted by AASB 16, been determined by the Consolidated Entity by electing practical expedients to not recognise short term or low value leases on its statement of financial position at the transition date.

Judgement has been applied by the Consolidated Entity in determining the transition adjustment which includes the determination of which contractual arrangements represent a lease, the period over which the lease exists, the incremental borrowing rate of the Consolidated Entity, and the variability of future cash flows.

A schedule of current operating lease commitments is disclosed in Note 31.

#### (ii) AASB Interpretation 23 (Interpretation 23) *Uncertainty over Income Tax Treatments*

Interpretation 23, which clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* (AASB 112) where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. The Consolidated Entity's existing recognition and measurement accounting policies are aligned with that as required by Interpretation 23 and hence no transition adjustment to retained earnings is required. For the Consolidated Entity, the application of Interpretation 23 will however increase income tax payable to approximately \$230 million with an offsetting decrease in deferred tax liabilities to approximately \$9 million. For the Company, the application of Interpretation 23 will increase other liabilities to approximately \$78 million with an offsetting decrease in deferred tax liabilities.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (i) Basis of preparation continued

#### (iii) Revised IFRS Conceptual Framework

The IASB has issued the revised IFRS Conceptual Framework (Framework) for financial reporting. The Australian equivalent Conceptual Framework has not yet been issued. The main purpose of the Framework is to assist the IASB in developing accounting standards and assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses a particular issue.

Amendments include the definition and recognition criteria for assets, liabilities, income and expenses, and other relevant financial reporting concepts. The Framework is effective for Macquarie's annual reporting periods beginning on 1 April 2020. The Consolidated Entity is currently assessing the impact of the revised Framework.

#### (iv) AASB 123 *Borrowing costs*

An amendment to AASB 123 *Borrowing costs* (AASB 123) clarifies that, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The amendment to AASB 123 will apply to borrowing costs that the Consolidated Entity incurs on or after 1 April 2019. The amendment is not expected to have a material impact to the Consolidated Entity's financial statements.

#### (v) AASB 119 *Employee Benefits*

An amendment to AASB 119 *Employee Benefits* (AASB 119) specifies that an entity should account for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment requires the use of assumptions for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The amendment also clarifies that, when a plan event occurs, the past service cost or a gain or loss on settlement is to be recognised separately from its assessment of the asset ceiling.

The amendment to AASB 119 will apply to the Consolidated Entity from 1 April 2019 and is not expected to have a material impact on the Consolidated Entity's financial statements.

(b) New Australian Accounting Standards and amendments to Accounting Standards that are either effective in the current financial year or have been early adopted

#### (i) AASB 3 *Business combinations*

An amendment to AASB 3 revised the definition of a business to provide additional guidance to assist entities to determine whether the acquisition of activities and assets should be accounted as a business combination or as an asset acquisition. Existence of a process (or processes) has been identified as a key criteria for distinguishing business combination from an asset acquisition. To be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. The amendment also limited the definition of output to focus on goods or services provided to customers, investment income (such as dividend or interest) or other income from ordinary activities.

A concentration test has also been included which the Consolidated Entity may elect to apply on a transaction by transaction basis for assessment whether an acquired set of activities and assets is not a business.

Whilst the amendment is effective for annual reporting periods starting on or after 1 January 2020, the Consolidated Entity has early adopted the amendment from 1 April 2018.

#### (ii) AASB 9 *Financial Instruments*

AASB 9 replaced AASB 139 *Financial Instruments: Recognition and Measurement* from 1 April 2018. AASB 9 resulted in changes to accounting policies covering the classification, measurement and impairment of financial assets and the application of hedge accounting.

The Consolidated Entity early adopted from 1 October 2016 the provisions relating to the presentation in other comprehensive income (OCI) of changes in the credit risk of the Consolidated Entity of financial liabilities that have been designated at FVTPL. The Consolidated Entity has applied all other requirements of AASB 9 from 1 April 2018.

#### Transition:

As permitted by AASB 9, the Consolidated Entity and the Company have not restated its comparative financial statements and have recorded transition adjustment to its opening balance sheet, retained earnings and OCI at 1 April 2018.

The transition adjustment, which mainly relates to AASB 9's expected credit loss (ECL) impairment requirements reduced the Consolidated Entity's shareholders' equity by \$140 million after tax and the Company's shareholder's equity by \$73 million. The transition to AASB 9 did not have a material impact on the Consolidated Entity's minimum regulatory capital requirements.

Refer to the next section 'Change on initial application of AASB 9' for further details of the transition impact.



## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

The key changes in the Consolidated Entity's significant accounting policies following the transition to AASB 9 have been included within the relevant sections of this note and other notes in this Financial Report. Accounting policies applicable to the prior period have been provided in *italics* as appropriate for comparability purposes.

#### **AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment features with negative compensation**

AASB 2017-6 amended AASB 9 to permit entities to measure at amortised cost or fair value through OCI, particular financial assets that would otherwise have contractual cash flows that meet the SPPI test but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, including the business model relevant to the financial asset.

Whilst AASB 2017-6 is effective for annual periods beginning on or after 1 January 2019, the Consolidated Entity has early adopted the amendment from 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

#### **AASB 2017-7 Amendments to Australian Accounting Standards – Long-term interests in associates and joint ventures**

AASB 2017-7 clarifies the accounting for long-term interests (debt instruments) in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied. AASB 9's ECL requirements are applied to these long term interests before applying the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures* (AASB 128).

Whilst AASB 2017-7 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity has early adopted the amendment on 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

#### **Change on initial application of AASB 9:**

The table on the following page summarises the presentation and carrying amount changes in the Consolidated Entity's statement of financial position as a result of the adoption of AASB 9 as at 1 April 2018 and includes:

- a comparison of AASB 139 and AASB 9's measurement categories
- the impact of the classification and measurement changes and the new ECL requirements on the Consolidated Entity's and Company's statement of financial position.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	AASB 139 measurement category	Carrying amount as at 31 Mar 18 \$m	Presentation changes \$m	Revised presentation as at 31 Mar 18 \$m
<b>Assets</b>				
Receivables from financial institutions <sup>(1)</sup>	Amortised cost	36,629	(36,629)	–
Cash and bank balances <sup>(1)</sup>	Amortised cost	–	7,852	7,852
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1),(A)</sup>	Amortised cost	–	28,777	28,777
		–	–	–
Trading assets	FVTPL	14,894	–	14,894
Margin money and settlement assets <sup>(4)</sup>	Amortised cost	–	13,723	13,723
Derivative assets	FVTPL	12,695	–	12,695
Financial investments <sup>(2),(3),(B)</sup>	Available for sale	–	5,322	5,322
	FVTPL (designated)	–	411	411
		–	–	–
Investment securities available for sale <sup>(2)</sup>	Available for sale	5,322	(5,322)	–
Other assets <sup>(3),(4),(C)</sup>	Amortised cost	6,839	(5,716)	1,123
	FVTPL	648	–	648
	FVTPL (designated)	–	143	143
	Non financial asset	1,800	–	1,800
Loan assets <sup>(3),(4),(D),(E)</sup>	Amortised cost	80,143	(8,007)	72,136
	FVTPL (designated)	–	153	153
		–	–	–
		–	–	–
Other financial assets at fair value through profit or loss <sup>(3)</sup>	FVTPL (designated)	707	(707)	–
Due from related body corporate entities	Amortised cost	1,383	–	1,383
Property, plant and equipment	Non financial asset	11,074	–	11,074
Interests in associates and joint ventures – equity	Non financial asset	713	–	713
Interests in associates and joint ventures – loans <sup>(F)</sup>	Amortised cost	14	–	14
		–	–	–
Intangible assets	Non financial asset	214	–	214
Deferred tax assets	Non financial asset	143	–	143
<b>Total assets</b>		<b>173,218</b>	<b>–</b>	<b>173,218</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements <sup>(1),(A)</sup>	Amortised cost	–	5,380	5,380
Trading liabilities	FVTPL	7,938	–	7,938
Margin money and settlement liabilities <sup>(4)</sup>	Amortised cost	–	16,575	16,575
Derivative liabilities	FVTPL	11,788	–	11,788
Deposits <sup>(4)</sup>	Amortised cost	59,379	(11,008)	48,371
Other liabilities <sup>(4),(5)</sup>	Amortised cost	5,326	(4,517)	809
	FVTPL (designated)	640	153	793
	Non financial liability	2,879	–	2,879
Payables to financial institutions <sup>(1),(4)</sup>	Amortised cost	11,653	(11,653)	–
Bank borrowings <sup>(1)</sup>	Amortised cost	–	5,223	5,223
Due to related body corporate entities	Amortised cost	13,993	–	13,993
Debt issued <sup>(5)</sup>	Amortised cost	39,685	–	39,685
	FVTPL (designated)	–	1,839	1,839
Other debt issued at fair value through profit or loss <sup>(5)</sup>	FVTPL (designated)	1,992	(1,992)	–
Deferred tax liabilities	Non financial liability	586	–	586
<b>Total liabilities excluding loan capital</b>		<b>155,859</b>	<b>–</b>	<b>155,859</b>
Loan capital	Amortised cost	4,256	–	4,256
<b>Total liabilities</b>		<b>160,115</b>	<b>–</b>	<b>160,115</b>
<b>Net assets</b>		<b>13,103</b>	<b>–</b>	<b>13,103</b>
<b>Equity</b>				
Contributed equity		9,928	–	9,928
Reserves		477	–	477
Retained earnings		2,686	–	2,686
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>13,091</b>	<b>–</b>	<b>13,091</b>
Non-controlling interests		12	–	12
<b>Total equity</b>		<b>13,103</b>	<b>–</b>	<b>13,103</b>

AASB 9 classification & measurement changes \$m	AASB 9 REMEASUREMENT				Carrying amount at 1 Apr 18 \$m	AASB 9 MEASUREMENT CATEGORIES					
	Classification changes \$m	ECL \$m	Tax impact \$m	Net impact \$m		Amortised cost \$m	HFT \$m	FVTPL \$m	DFVTPL \$m	FVOCI \$m	
											<b>CONSOLIDATED</b>
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	7,852	7,852	-	-	-	-	-
(16,083)	-	-	-	-	12,694	12,694	-	-	-	-	-
16,083	-	-	-	-	16,083	-	-	16,083	-	-	-
-	-	-	-	-	14,894	-	14,894	-	-	-	-
-	-	-	-	-	13,723	13,950	-	-	-	-	-
-	-	-	-	-	12,695	-	12,695	-	-	-	-
(191)	-	-	-	-	5,131	-	-	-	-	-	5,131
(339)	-	-	-	-	72	-	-	-	72	-	-
530	-	-	-	-	530	-	-	530	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
(254)	-	(16)	-	(16)	853	853	-	-	-	-	-
254	-	-	-	-	902	-	-	902	-	-	-
-	-	-	-	-	143	-	-	-	143	-	-
-	-	-	-	-	1,800	-	-	-	-	-	-
(793)	-	(170)	-	(170)	71,173	71,173	-	-	-	-	-
-	-	-	-	-	153	-	-	-	153	-	-
672	-	-	-	-	672	-	-	672	-	-	-
121	-	-	-	-	121	-	-	-	-	-	121
-	-	-	-	-	-	-	-	-	-	-	-
-	-	(1)	-	(1)	1,382	1,382	-	-	-	-	-
-	-	-	-	-	11,074	-	-	-	-	-	-
-	-	-	-	-	713	-	-	-	-	-	-
(4)	-	-	-	-	10	10	-	-	-	-	-
4	-	-	-	-	4	-	-	4	-	-	-
-	-	-	-	-	214	-	-	-	-	-	-
-	-	-	59	59	202	-	-	-	-	-	-
-	-	(187)	59	(128)	173,090	107,914	27,589	18,191	368	5,252	-
(2,522)	-	-	-	-	2,858	2,858	-	-	-	-	-
2,522	-	-	-	-	2,522	-	-	-	2,522	-	-
-	-	-	-	-	7,938	-	7,938	-	-	-	-
-	-	-	-	-	16,575	16,575	-	-	-	-	-
-	-	-	-	-	11,788	-	11,788	-	-	-	-
-	-	-	-	-	48,371	48,371	-	-	-	-	-
-	-	12	-	12	821	821	-	-	-	-	-
-	-	-	-	-	793	-	-	-	793	-	-
-	-	-	-	-	2,879	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	5,223	5,223	-	-	-	-	-
-	-	-	-	-	13,993	13,993	-	-	-	-	-
-	-	-	-	-	39,685	39,685	-	-	-	-	-
-	-	-	-	-	1,839	-	-	-	1,839	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	586	-	-	-	-	-	-
-	-	12	-	12	155,871	127,526	19,726	-	5,154	-	-
-	-	-	-	-	4,256	4,256	-	-	-	-	-
-	-	12	-	12	160,127	131,782	19,726	-	5,154	-	-
-	-	(199)	59	(140)	12,963	-	-	-	-	-	-
-	-	-	-	-	9,928	-	-	-	-	-	-
-	(4)	4	1	1	478	-	-	-	-	-	-
-	4	(203)	58	(141)	2,545	-	-	-	-	-	-
-	-	(199)	59	(140)	12,951	-	-	-	-	-	-
-	-	-	-	-	12	-	-	-	-	-	-
-	-	(199)	59	(140)	12,963	-	-	-	-	-	-

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (i) Basis of preparation continued

Footnotes to the AASB 9 Transition Table

#### Presentational changes

On adoption of AASB 9 the Consolidated Entity elected to make the following presentation changes to certain of its financial assets and financial liabilities in order to better reflect the nature of the underlying assets and liabilities:

- (1) The following balances were previously presented as 'Receivables from financial institutions':
  - \$28,777 million of balances now presented as 'Cash collateral on securities borrowed and reverse repurchase agreements'
  - \$7,852 million now presented as 'Cash and bank balances'.Similarly, \$5,380 million of balances previously presented as a part of 'Payables to financial institutions' are now presented as part of 'Cash collateral on securities lent and repurchase agreements' and \$5,223 million presented as 'Bank Borrowings'.
- (2) Available for sale debt and equity securities of \$5,322 million were re-presented to be included within 'Financial investments'.
- (3) Debt and equity securities of \$707 million that were previously presented as part of 'Other financial assets at fair value through profit or loss' were re-presented to be included as part of 'Financial investments' (\$414 million), 'Loan assets' (\$153 million) and 'Other assets' (\$143 million).
- (4) Margin placed (\$8,007 million) that was previously presented as part of 'Loan assets' and security and commodity settlement balances (\$5,716 million) previously presented as a part of 'Other assets' were re-presented as 'Margin money and settlement assets'.

Margin received that was previously presented in 'Deposits' of \$11,008 million, in 'Payables to financial institutions' of \$1,050 million and security and commodity settlement balances of \$4,517 million previously presented in 'Other liabilities' were re-presented to be included as part of 'Margin money and settlement liabilities'.
- (5) Financial liabilities that were previously presented as part of 'Other debt issued at fair value through profit or loss' were re-presented to be included in 'Other liabilities' (\$153 million) and 'Debt issued' (\$1,839 million).

#### AASB 9 Classification and measurement changes

Following the adoption of AASB 9, the following classification and measurement changes arose:

- (A) Reverse repurchase agreements of \$16,083 million, that were classified as at amortised cost under AASB 139 were classified as FVTPL under AASB 9. This AASB 9 measurement basis reflects the Consolidated Entity's business model of managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows. Repurchase agreements of \$2,522 million, that were classified as at amortised cost under AASB 139, were reclassified to DFVTPL on adoption of AASB 9 as these repurchase agreements are managed together with the reverse repurchase agreements and evaluated on a fair value basis.
- (B) Debt financial investments of \$112 million, that were classified as available for sale under AASB 139, were classified as FVTPL as they either did not meet AASB 9's SPPI criteria or were held in a business model with the intention to sell. Other debt financial investments of \$5,131 million, that were previously classified as available for sale, were classified as at FVOCI on adoption of AASB 9 since these financial assets were held in a business model to both collect contractual cash flows and with the intention to sell. Equity financial investments of \$79 million, that were classified as available for sale under AASB 139 and equity financial investments of \$339 million that were classified as DFVTPL under AASB 139, were classified as FVTPL on adoption of AASB 9 since the Consolidated Entity did not elect to measure such financial assets as FVOCI.
- (C) Commodity-related debtors of \$254 million, which were classified as at amortised cost under AASB 139, were classified as FVTPL on adoption of AASB 9 since these financial assets were held in a business model with the intention to sell.
- (D) Loans of \$672 million, that were classified as at amortised cost under AASB 139, were classified as at FVTPL on adoption of AASB 9 as they either did not meet AASB 9's SPPI criteria or were originated with the intention to sell.
- (E) Loans of \$121 million, that were classified as at amortised cost under AASB 139, were determined to be held within a business model to both collect cash flows and to realise through sale. These loans were accordingly re-classified as at FVOCI on adoption of AASB 9.
- (F) Loans of \$4 million that were previously classified as at amortised cost under AASB 139 were reclassified to FVTPL on adoption of AASB 9 since such financial assets were held in a business model with the intention to sell.

## Note 1

## Summary of significant accounting policies continued

**(i) Basis of preparation continued**

The following table provides a reconciliation between the closing impairment allowance for financial assets under AASB 139 (incurred credit loss) to the opening impairment allowance determined in accordance with AASB 9 (ECL) as at 1 April 2018. Changes to the impairment allowance from AASB 139 to AASB 9 are due to the reclassification of financial assets between amortised cost and fair value and the remeasurement of impairment allowances under AASB 9's new ECL requirements.

Financial assets	Measurement category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 \$m	Re-classification \$m	Re-measurement <sup>(1)</sup> \$m	Adjusted to fair value at transition date <sup>(2)</sup> \$m	ECL allowance under AASB 9 \$m
<b>CONSOLIDATED</b>							
Other assets	Amortised cost	Amortised cost	<b>22</b>	–	<b>16</b>	–	<b>38</b>
Loan assets	Amortised cost	Amortised cost	367	(37)	170	–	500
		FVTPL	–	37	–	(37)	–
		FVOCI	–	–	4	–	4
			<b>367</b>	–	<b>174</b>	<b>(37)</b>	<b>504</b>
Due from related body corporate entities	Amortised cost	Amortised cost	–	–	<b>1</b>	–	<b>1</b>
Interests in associates and joint ventures – loans	Amortised cost	Amortised cost	2	(1)	–	–	1
		FVOCI	–	1	–	(1)	–
			<b>2</b>	–	–	<b>(1)</b>	<b>1</b>
Undrawn commitments and financial guarantees			–	–	<b>12</b>	–	<b>12</b>
<b>Total</b>			<b>391</b>	–	<b>203</b>	<b>(38)</b>	<b>556</b>

(1) The ECL movement on loan assets of \$174 million is primarily due to a lifetime ECL allowance recognised on exposures that have experienced a significant increase in credit risk (SICR) since origination.

(2) Represents an AASB 139 impairment allowance on amortised cost financial assets that were reclassified to FVTPL on transition to AASB 9.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	AASB 139 measurement category	Carrying amount as at 31 Mar 18 \$m	Presentation changes \$m	Revised presentation as at 31 Mar 18 \$m
<b>Assets</b>				
Receivables from financial institutions <sup>(1)</sup>	Amortised cost	35,085	(35,085)	–
Cash and bank balances <sup>(1)</sup>	Amortised cost	–	6,648	6,648
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1),(A)</sup>	Amortised cost	–	28,437	28,437
Trading assets	FVTPL	11,823	–	11,823
Margin money and settlement assets <sup>(4),(5)</sup>	Amortised cost	–	9,108	9,108
Derivative assets	FVTPL	10,668	–	10,668
Financial investments <sup>(2),(3),(B)</sup>	Available for sale	–	5,158	5,158
	FVTPL (designated)	–	389	389
Investment securities available for sale <sup>(2)</sup>	Available for sale	5,158	(5,158)	–
Other assets <sup>(4)</sup>	Amortised cost	4,924	(4,246)	678
	Non financial asset	659	–	659
Loan assets <sup>(3),(4),(C),(D)</sup>	Amortised cost	54,542	(4,862)	49,680
	FVTPL (designated)	–	153	153
Other financial assets at fair value through profit or loss <sup>(3)</sup>	FVTPL (designated)	542	(542)	–
Due from subsidiaries <sup>(E)</sup>	Amortised cost	27,841	–	27,841
Due from related body corporate entities	Amortised cost	1,212	–	1,212
Property, plant and equipment	Non financial asset	1,127	–	1,127
Interests in associates and joint ventures – Equity	Non financial asset	425	–	425
Interests in associates and joint ventures – Loans <sup>(F)</sup>	Amortised cost	7	–	7
Intangible assets	Non financial asset	91	–	91
Investments in subsidiaries	Non financial asset	7,390	–	7,390
Deferred tax assets	Non financial asset	139	–	139
<b>Total assets</b>		<b>161,633</b>	<b>–</b>	<b>161,633</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements <sup>(1),(A)</sup>	Amortised cost	–	5,380	5,380
		–	–	–
Trading liabilities	FVTPL	8,286	–	8,286
Margin money and settlement liabilities <sup>(4)</sup>	Amortised cost	–	14,343	14,343
Derivative liabilities	FVTPL	10,043	–	10,043
Deposits <sup>(4)</sup>	Amortised cost	57,919	(9,699)	48,220
Other liabilities <sup>(4)</sup>	Amortised cost	4,135	(3,595)	540
	Non financial liability	1,577	–	1,577
Payables to financial institutions <sup>(1),(4)</sup>	Amortised cost	9,011	(9,011)	–
Bank borrowings <sup>(1),(A)</sup>	Amortised cost	–	2,582	2,582
Due to related body corporate entities	Amortised cost	11,830	–	11,830
Due to subsidiaries	Amortised cost	10,549	–	10,549
Debt issued <sup>(5)</sup>	Amortised cost	30,674	–	30,674
	FVTPL	–	1,839	1,839
Other debt issued at fair value through profit or loss <sup>(5)</sup>	FVTPL	1,839	(1,839)	–
Deferred tax liabilities	Non financial liability	114	–	114
<b>Total liabilities excluding loan capital</b>		<b>145,977</b>	<b>–</b>	<b>145,977</b>
<b>Loan capital</b>	Amortised cost	<b>4,256</b>	<b>–</b>	<b>4,256</b>
<b>Total liabilities</b>		<b>150,233</b>	<b>–</b>	<b>150,233</b>
<b>Net assets</b>		<b>11,400</b>	<b>–</b>	<b>11,400</b>
<b>Equity</b>				
Contributed equity		9,821	–	9,821
Reserves		(3)	–	(3)
Retained earnings		1,582	–	1,582
<b>Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>11,400</b>	<b>–</b>	<b>11,400</b>
Non-controlling interests		–	–	–
<b>Total equity</b>		<b>11,400</b>	<b>–</b>	<b>11,400</b>



AASB 9 classification & measurement changes \$m	AASB 9 REMEASUREMENT				AASB 9 MEASUREMENT CATEGORIES						COMPANY
	Classification change \$m	ECL \$m	Tax impact \$m	Net impact \$m	Carrying amount at 1 Apr 18 \$m	Amortised cost \$m	HFT \$m	FVTPL \$m	DFVTPL \$m	FVOCI \$m	
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	6,648	6,648	-	-	-	-	-
(15,750)	-	-	-	-	12,687	12,687	-	-	-	-	-
15,750	-	-	-	-	15,750	-	-	15,750	-	-	-
-	-	-	-	-	11,823	-	11,823	-	-	-	-
-	-	-	-	-	9,108	9,108	-	-	-	-	-
-	-	-	-	-	10,668	-	10,668	-	-	-	-
(157)	-	-	-	-	5,001	-	-	-	-	-	5,001
474	-	-	-	-	474	-	-	474	-	-	-
(317)	-	-	-	-	72	-	-	-	72	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	(5)	-	(5)	673	673	-	-	-	-	-
-	-	-	-	-	659	-	-	-	-	-	-
(31,937)	-	(86)	-	(86)	17,657	17,657	-	-	-	-	-
295	-	-	-	-	295	-	-	295	-	-	-
-	-	-	-	-	153	-	-	-	153	-	-
31,642	(32)	8	-	(24)	31,618	-	-	-	-	-	31,618
-	-	-	-	-	-	-	-	-	-	-	-
(865)	-	(38)	-	(38)	26,938	26,938	-	-	-	-	-
865	47	-	-	47	912	-	-	912	-	-	-
-	-	-	-	-	1,212	1,212	-	-	-	-	-
-	-	-	-	-	1,127	-	-	-	-	-	-
-	-	-	-	-	425	-	-	-	-	-	-
(3)	-	-	-	-	4	4	-	-	-	-	-
3	-	-	-	-	3	-	-	3	-	-	-
-	-	-	-	-	91	-	-	-	-	-	-
-	-	-	-	-	7,390	-	-	-	-	-	-
-	-	-	44	44	183	-	-	-	-	-	-
-	15	(121)	44	(62)	161,571	74,927	22,491	17,434	225	36,619	-
(2,522)	-	-	-	-	2,858	2,858	-	-	-	-	-
2,522	-	-	-	-	2,522	-	-	-	2,522	-	-
-	-	-	-	-	8,286	-	8,286	-	-	-	-
-	-	-	-	-	14,343	14,343	-	-	-	-	-
-	-	-	-	-	10,043	-	10,043	-	-	-	-
-	-	-	-	-	48,220	48,220	-	-	-	-	-
-	-	10	-	10	550	550	-	-	-	-	-
-	-	-	-	-	1,577	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	2,582	2,582	-	-	-	-	-
-	-	-	-	-	11,830	11,830	-	-	-	-	-
-	-	-	-	-	10,549	10,549	-	-	-	-	-
-	-	-	-	-	30,674	30,674	-	-	-	-	-
-	-	-	-	-	1,839	-	-	-	1,839	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	114	-	-	-	-	-	-
-	-	10	-	10	145,987	121,606	18,329	-	4,361	-	-
-	-	-	-	-	4,256	4,256	-	-	-	-	-
-	-	10	-	10	150,243	125,862	18,329	-	4,361	-	-
-	15	(131)	44	(72)	11,328	-	-	-	-	-	-
-	-	-	-	-	9,821	-	-	-	-	-	-
-	(36)	42	-	6	3	-	-	-	-	-	-
-	51	(173)	44	(78)	1,504	-	-	-	-	-	-
-	15	(131)	44	(72)	11,328	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	15	(131)	44	(72)	11,328	-	-	-	-	-	-

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (i) Basis of preparation continued

#### Presentational changes

On adoption of AASB 9 the Company elected to make the following presentation changes to certain of its financial assets and liabilities in order to better reflect the nature of the underlying assets and liabilities:

- (1) The following balances were previously presented as 'Receivables from financial institutions':
  - \$28,437 million of balances now presented as 'Cash collateral on securities borrowed and reverse repurchase agreements'
  - \$6,648 million now presented as 'Cash and bank balances'Similarly, \$5,380 million of balances previously presented as a part of 'Payables to Financial Institution' are now presented as part of 'Cash collateral on securities lent and repurchase agreements' and \$2,582 million presented as 'Bank Borrowings'.
- (2) Available for sale debt and equity securities of \$5,158 million were re-presented to be included within 'Financial investments'.
- (3) Debt and equity securities of \$542 million that were previously presented as part of 'Other financial assets at fair value through profit or loss' were re-presented to be included as part of 'Financial investments' of \$389 million and 'Loan assets' of \$153 million.
- (4) Margin placed of \$4,862 million that was previously presented as part of 'Loan assets' and security and commodity settlement balances of \$4,246 million previously presented as a part of 'Other assets' were re-presented as 'Margin money and settlement assets'.

Margin received that was previously presented in 'Deposits' of \$9,699 million, in 'Payables to financial institutions' of \$1,049 million and security and commodity settlement balances of \$3,595 million previously presented in 'Other liabilities' were re-presented to be included as part of 'Margin money and settlement liabilities'.
- (5) Financial liabilities that were previously presented as part of 'Other debt issued at fair value through profit or loss' of \$1,839 million were re-presented to be included in 'Debt issued'.

#### Classification and measurement changes

Following the adoption of AASB 9, the following classification and measurement changes arose:

- (A) Reverse repurchase agreements of \$15,750 million, that were classified as at amortised cost under AASB 139 were classified as FVTPL under AASB 9. This AASB 9 measurement basis reflects the Company's business model of managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows. Repurchase agreements of \$2,522 million, that were classified as at amortised cost under AASB 139, were reclassified to DFVTPL on adoption of AASB 9 as these repurchase agreements are managed together with the reverse repurchase agreements and evaluated on a fair value basis.
- (B) Debt financial investments of \$112 million, that were classified as available for sale under AASB 139, were classified as FVTPL as they either did not meet AASB 9's SPPI criteria or were held in a business model with the intention to sell. Other debt financial investments of \$5,001 million, that were previously classified as available for sale, were classified as at FVOCI on adoption of AASB 9 since these financial assets were held in a business model to both collect contractual cash flows and with the intention to sell. Equity financial investments of \$45 million, that were classified as available for sale under AASB 139 and equity financial investments of \$317 million that were classified as DFVTPL under AASB 139, were classified as FVTPL on adoption of AASB 9 since the Company did not elect to measure such financial assets as FVOCI.
- (C) The mortgages loan portfolio of \$31,642 million that was measured at amortised cost under AASB 139 was determined to be held within a business model to both collect cash flows and to realise through sale since such assets may be securitised. Accordingly these loans were re-classified to be measured as FVOCI on AASB 9 adoption.
- (D) Loans of \$295 million, that were classified as at amortised cost under AASB 139, were classified as at FVTPL on adoption of AASB 9 as they either did not meet AASB 9's SPPI criteria or were originated with the intention to sell.
- (E) A loan to a subsidiary of \$865 million, which was classified as at amortised under AASB 139, was classified as at FVTPL in terms of AASB 9 since the loan did not meet AASB 9's SPPI criteria.
- (F) Loans of \$3 million that were previously classified as at amortised cost under AASB 139 were reclassified to FVTPL on adoption of AASB 9 since such financial assets were held in a business model with the intention to sell.

## Note 1

## Summary of significant accounting policies continued

## (i) Basis of preparation continued

The following table provides a reconciliation between the closing impairment allowance for financial assets under AASB 139 (incurred credit loss) to the opening impairment allowance determined in accordance with AASB 9 (ECL) as at 1 April 2018. Changes to the impairment allowance from AASB 139 to AASB 9 are due to the reclassification of financial assets between amortised cost and fair value and the remeasurement of impairment allowances under AASB 9's new ECL requirements.

Financial assets	Measurement Category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 \$m	Re-classification \$m	Re-measurement <sup>(1)</sup> \$m	Adjusted to value at transition date <sup>(2)</sup> \$m	ECL allowance under AASB 9 \$m
<b>COMPANY</b>							
Loan assets	Amortised cost	Amortised cost	313	(126)	86	–	273
		FVTPL	–	118	–	(118)	–
		FVOCI	–	8	34	–	42
			<b>313</b>	<b>–</b>	<b>120</b>	<b>(118)</b>	<b>315</b>
Other assets	Amortised cost	Amortised cost	8	–	5	–	13
Due from subsidiaries	Amortised cost	Amortised cost	–	–	38	–	38
Interests in associates and joint ventures – loans	Amortised cost	Amortised cost	1	(1)	–	–	–
		FVTPL	–	1	–	(1)	–
			<b>1</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>–</b>
Undrawn commitments and financial guarantees			–	–	10	–	10
<b>Total</b>			<b>322</b>	<b>–</b>	<b>173</b>	<b>(119)</b>	<b>376</b>

(1) The ECL movement on loan assets of \$120 million primarily represents an increase in provisions due to a lifetime ECL allowance recognised on exposures that have experienced a SICR since origination.

(2) Represents an AASB 139 impairment allowance on amortised cost financial assets that were reclassified to FVTPL on transition to AASB 9.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (i) Basis of preparation continued

#### (iii) AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price is allocated to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occurs when control of the goods or services are transferred to the customer.

The Consolidated Entity and the Company adopted AASB 15 on 1 April 2018. No material adjustment to opening retained earnings was recognised as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised as at 31 March 2018. However, the Consolidated Entity and the Company have prospectively presented certain amounts of expenses, which were previously presented on a net basis within fee and commission income, on a gross basis under AASB 15 within other fee and commission expense and operating expenses.

The key changes in significant accounting policies from the transition to AASB 15 are included within the relevant sections of this note and other notes in this Financial Report. Accounting policies applicable to the prior period have also been provided in **Italics** in relevant sections for comparability.

#### (iv) AASB 3 Business combinations

An amendment to AASB 3 revised the definition of a business to provide additional guidance to assist entities to determine whether the acquisition of activities and assets should be accounted as a business combination or as an asset acquisition. Existence of a process (or processes) has been identified as a key criteria for distinguishing business combination from an asset acquisition.

To be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output. The amendment also limited the definition of output to focus on goods or services provided to customers, investment income (such as dividend or interest) or other income from ordinary activities.

A concentration test has also been included which the Consolidated Entity may elect to apply on a transaction by transaction basis for assessment whether an acquired set of activities and assets is not a business.

The amendment is to be effective for annual reporting periods starting on or after 1 January 2020, however the Consolidated Entity has early adopted the amendment from 1 April 2018.

Other amendments made to existing standards that are mandatorily effective for this annual reporting period did not result in a material impact to the Consolidated Entity's Financial report.

### (c) Other developments

#### (i) IBOR reform: Transition to alternative reference rates

Interbank-offered rates (IBOR), are interest rate benchmarks used in a wide variety of financial instruments such as derivatives,

loans and bonds. Examples of IBOR include 'LIBOR', 'EURIBOR' and 'BBSW'. IBOR have become increasingly based on the expert judgement of panel banks due to the declining amount of unsecured, wholesale borrowings by banks since the financial crisis. For this reason, these IBOR are less robust, and do not constitute transactions-based market interest rates as envisioned by regulators for international standards for benchmarks. As a result, an IBOR reform process is underway whereby regulators and industry bodies plan to reform or replace existing IBORs with more suitable alternative reference rates (ARRs). In addition, many banks have grown uncomfortable in providing submissions based on expert judgement. For LIBOR, the most widely used interest rate benchmark in the world, the UK Financial Conduct Authority (the regulator of LIBOR) has convinced banks to remain on the LIBOR panels but will not compel them to make LIBOR submissions beyond the end of 2021. As such, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all.

IBOR reform will impact the accounting for financial instruments that reference IBORs. IBOR reform is expected to affect financial reporting including: hedge accounting; the accounting for contractual amendments necessary to facilitate a transition to ARR, and; updating fair value methodologies to reflect the new ARR.

Given the uncertainty around the timing and method of transition from IBOR to ARR, the current absence of term structures on new ARR and the continued reliance on IBORs in pricing long-term financial instruments, management has, consistent with other market participants in the preparation of their financial statements, applied judgement in the current reporting period to determine that certain hedge relationships continue to qualify for hedge accounting. Impacted hedge relationships are those that hedge the variability of cash flows (cash flow hedges) and fixed interest rate risk (fair value hedges) due to changes in IBORs.

The IASB has commenced a project to address accounting issues leading up to IBOR reform and upon transition to ARR. The IASB has tentatively decided to grant certain mandatory relief to support the continuation of hedge accounting despite the uncertainty arising from IBOR reform. The IASB intends to publish its proposals in May 2019. Management continues to monitor market developments and the activities of standard setters and regulators, has commenced a project to prepare for the introduction of ARR, and will continue to monitor its judgements regarding hedge accounting.

### (ii) Principles of consolidation

#### Subsidiaries

This consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) which the Consolidated Entity controls. The Consolidated Entity controls entities where it has:

- (i) power to direct the relevant activities
- (ii) exposure, or rights, to significant variable returns
- (iii) the ability to utilise power to affect the Consolidated Entity's returns.

## Note 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

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 provide it with 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 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, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

#### Structured entities

Structured Entities (SEs) are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities of the SE are directed by means of contractual arrangements. When assessing whether the Consolidated Entity controls (and therefore consolidates) a SE, judgement is required as to whether the Consolidated Entity has power over the relevant activities as well as exposure to significant variable returns of the SE. Where the Consolidated Entity has power over the SE's relevant activities, is exposed to significant variable returns through the residual risk associated with its involvement in SEs and is able to affect its returns, the underlying assets, liabilities, revenues and expenses of these SEs are reported in the consolidated financial statements.

#### Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Unrealised losses are eliminated in the same manner as unrealised gains but only to the extent that there is no evidence of impairment. Non-controlling interests (NCI) in the results and equity of subsidiaries, are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position and are determined on the basis of the Consolidated Entity's present ownership interest in the entity.

Where control of an entity was obtained during the financial year, its results are included in the consolidated income statements from the date on which control was obtained. 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 Consolidated Entity determines 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 and the capacity to influence returns 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 (including the nature of such approval). The acquisition or disposal date does

not necessarily occur when the transaction is closed or finalised under law.

Subsidiaries held by the Company are carried in its financial statements at cost less impairment.

#### Interests in associates and joint ventures

Associates and joint ventures are entities over which the Consolidated Entity has significant influence or joint control, but not control. Existing ownership interests (including in-substance existing ownership interests) in associates and joint ventures are accounted for under the equity method. Equity accounting is applied from the date that the Consolidated Entity has significant influence or joint control and ceases when the Consolidated Entity no longer has significant influence or joint control.

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 the financial and operating policies or jointly control 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 (including the nature of such approval) is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

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 loss in the consolidated income statement, and the share of the post-acquisition movements in reserves in the consolidated statement of comprehensive income. Equity accounting of losses is restricted to the Consolidated Entity's interests in its associate or joint venture, unless the Consolidated Entity has an obligation or has made payment on behalf of the entity.

Long-term interests in an associate or joint venture, which are in the nature of debt and in substance form part of the net investment in the associate or joint venture, but to which the equity method is not applied are accounted for in accordance with the Consolidated Entity's financial instruments accounting policies, before applying the loss allocation and impairment requirements in AASB 128 *Investments in Associates and Joint Ventures*. The Consolidated Entity calculates ECL on these loans in accordance with AASB 9 *Financial Instruments*.

Where there is an indicator of impairment, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Impairment losses are recognised as impairment charges as part of other operating income and charges. A reversal of a previously recognised impairment loss is recognised only to the extent that the investment's carrying value does not exceed the carrying amount that would have been determined (including consideration of any equity accounted losses), if no impairment loss had been recognised.

Interests in associates and joint ventures are classified as held for sale when the Consolidated Entity determines that the interest will be recovered principally through a sale transaction rather than through continuing use. Equity accounting is suspended when the interest is classified as held for sale.



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

On disposal of an investment in an associate or a joint venture, the difference between the sales consideration, any retained interest and the carrying value is recognised as a gain or loss in investment income as part of other operating income and charges together with any gains and losses in OCI that related to the associate or joint venture.

*Prior to the adoption of AASB 9, the impairment of long-term interests in the nature of debt and that in-substance formed part of the net investment in the associate or joint venture, were determined in accordance with AASB 12's impairment requirements, as compared to AASB 9's ECL approach.*

#### 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 investment income as part other operating income and charges as part of other operating income and charges.

Similarly, when selling ownership interests of a subsidiary (such that control is lost), or an investment in an 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 investment income as part of other operating income and charges. To the extent the sale represents a contribution to an associate or joint venture, retained ownership interests are not revalued.

Changes in the Consolidated Entity's interest in an entity that does not result in the loss of control are accounted for directly within equity. Increases in the Consolidated Entity's ownership of an associate or joint venture are accounted for as an increase in the carrying value of the interest in associate or joint venture. The difference between the reduction in the Consolidated Entity's interest in an associate or joint venture that remains an associate or joint venture and the proceeds received is accounted for as investment income as part of other operating income and charges. A proportionate amount of associated OCI is reclassified to profit or loss, or reclassified within equity, as would otherwise be required on disposal of the underlying position.

#### (iii) Business combinations

Business combinations are accounted for using the acquisition method. The consideration exchanged is measured as the aggregate of the acquisition date fair values of assets transferred, equity instruments issued, and liabilities incurred. Transaction costs of a business combination are recognised directly in the consolidated income statement.

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 elects, on a transaction-by-transaction basis, to measure NCI relating to ordinary shares either at fair value or at the NCI's proportionate

share of the fair values of the identifiable assets and liabilities. Goodwill is measured as the excess of the consideration exchanged, recognised NCI, and the fair value of previously-held equity interests over the fair value of the identifiable net assets of the business acquired and is recognised as part of intangible assets in the statement of financial position. Goodwill is subsequently measured at cost less accumulated impairments. 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 investment income as part of other operating income and charges, but only after a reassessment of the identification and measurement of the net assets acquired.

Contingent consideration that is dependent on any subsequent event is measured at fair value with changes in its fair value recognised in investment income as part of the other operating income and charges.

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 acquisition date. The discount rate used is the Consolidated 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. The Consolidated Entity identifies a business where an acquired integrated set of activities and assets includes an economic resource (input) and a substantive process that together significantly contribute to the ability to provide goods or services to customers, generate investment income or other income from ordinary activities (outputs).

On a transaction by transaction basis, the Consolidated Entity may perform a simplified assessment to determine that an acquired set of activities is not a business. Under this assessment, the transaction is accounted for as an asset acquisition if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

*Prior to the adoption of amendments to the definition of a business under AASB 3, some of the factors that the Consolidated Entity used in identifying a business combination included:*

- *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 and a majority of the critical processes*
- *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*
- *the presence of goodwill.*

#### Combinations between entities or businesses under common control

Common control transactions which are business combinations involving entities or businesses that are ultimately controlled by the same parent entity are accounted for at book value.

## Note 1

### Summary of significant accounting policies continued

#### (iii) Business combinations continued

Where the Company acquires, as part of a common control transaction, assets that meet the definition of a business, the assets and liabilities acquired are recorded using the book values included in the consolidated financial statements of the entity having the highest level within the common control group. The Company accounts for consideration paid with any difference recorded in equity within retained earnings.

In the Consolidated Entity's financial statements, to the extent the common control transaction occurred between entities ultimately controlled by Macquarie Bank Limited, gains and losses relating to a common control transaction are eliminated against the amount recorded in the acquirer's equity relating to the common control transaction.

#### (iv) Foreign currency translation

##### Functional and presentation currency

The functional currency of each entity in the Consolidated Entity is determined as the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Entity's and the Company's financial statements are presented in Australian dollars (the presentation currency), which is also the Company's functional currency.

##### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. 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 net trading income, 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 financial instrument measured 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 financial assets classified as FVOCI are included in OCI, 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)).

For the detailed policy on Financial instruments refer Note 1(viii).

##### Subsidiaries and other entities

The results and financial position of all entities 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. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing exchange rate

- income and expenses for each income statement are translated at actual or average exchange rates at the dates of the transactions
- all resulting exchange differences are recognised in OCI reserves within a separate component of equity, being the foreign currency translation reserve (FCTR).

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 recognised as part of the FCTR in OCI.

Foreign currency gains and losses on intragroup loans are recognised in the income statement except where the loan is in substance part of the Consolidated Entity's net investment in the foreign operation, in which case the foreign currency gains and losses are recognised in the Consolidated Entity's FCTR.

When a foreign operation is disposed of, exchange differences recognised in the FCTR are reclassified to the income statement and recognised in investment income as part of other operating income and charges.

#### (v) Revenue and expense recognition

##### Net interest income

Interest income and interest expense (with the exception of borrowing costs that are capitalised on a qualifying asset, which is not measured at fair value) is recognised using the effective interest rate (EIR) method for financial assets and liabilities carried at amortised cost or debt financial assets classified as at fair value through OCI. The EIR method calculates the amortised cost of a financial instrument at a 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 that are integral to the lending arrangement are recognised in the income statement over the expected life of the instrument in accordance with the EIR method.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the re-measurement recognised as part of interest income (financial assets) or interest expense (financial liabilities).

The calculation of EIR does not include ECL, except for financial assets which on initial recognition are classified as purchased or originated credit-impaired (POCI). Interest income on these assets is determined using credit adjusted EIR by discounting the estimated future cash receipts, including credit losses expected at initial recognition, through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. Interest income on financial assets that are not classified as POCI but are subsequently classified as credit-impaired, is recognised by applying the EIR to the amortised cost carrying value (being the gross carrying value after deducting the impairment loss).

Interest income on financial assets and liabilities that are classified as FVTPL is accounted for on a contractual rate basis.



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (v) Revenue and expense recognition continued

*Prior to the adoption of AASB 9, interest income on financial assets that were measured at amortised cost (being loans and receivables and held to maturity financial assets) or classified as available for sale, was recognised in accordance with the EIR method. There was no specified accounting treatment under AASB 139 for financial assets that are now classified as POCI. These assets were accounted for on a consistent basis as other financial assets that were measured at amortised cost.*

#### Fee and commission income

Revenue earned by the Consolidated Entity from its contracts with customers primarily consists of the following categories of fee and commission income:

*Brokerage and Commission* – The Consolidated Entity enters into contracts with customers to act as an agent to buy and sell securities and fees related to this service are recognised on trade date. The brokerage and commission income is presented net of any rebates.

*Other fee and commission income* – Other fee and commission income includes fees earned on a range of banking products and services platforms, wealth services, credit cards, structuring fees, lending services, stock borrowings and lending activities and income on structured products which are recognised when the performance obligation is satisfied.

The above revenue recognition policies are consistently applied to internal fee sharing arrangements.

Management fees and other cost recoveries are recognised as and when the Company performs a service to other entities in the Group as per the agreed cost sharing arrangements.

*Prior to the adoption of AASB 15, fee and commission income was recognised as the related services were performed. Where commissions and fees were subject to clawback or meeting certain performance hurdles, they were recognised as income when it became highly probable that those conditions would not affect the outcome.*

#### Net operating lease income

Operating lease income is recognised on a straight-line basis over the lease term. It comprises operating lease income and supplemental rent and is presented net of the related depreciation expense.

#### Supplemental rent, maintenance liability and end of lease compensation

Under certain leases, the Consolidated Entity requires lessees to make regular additional rent payments based on aircraft utilisation to contribute towards maintenance expenditure related to Major Maintenance Events (MMEs). These payments are typically calculated on the basis of hourly utilisation, calendar time or the number of cycles operated at an agreed rate specified in the lease. These payments are recorded as supplemental rent revenue in the period in which these are earned.

In certain circumstances, the Consolidated Entity agrees to an alternative mechanism to earn supplemental rent known as end of lease compensation. This compensation is typically calculated on the basis of the condition of each major component at the end of the lease relative to the commencement of the lease measured by hours, number of cycles or calendar time at an agreed rate specified in the lease. The Consolidated Entity accrues the expected lessee's compensation for the use of the aircraft over the term of the lease and agrees to defer the receipt of this compensation until the end of the lease.

At the beginning and throughout the term of each lease, the Consolidated Entity estimates the maintenance liability for MMEs which are expected to occur during the lease and accrues for this over the same term. Management determines this estimate based on quantitative and qualitative information including aircraft utilisation, area of operation, costs and timing of MMEs.

Maintenance expenses are recognised in the income statement net of supplemental rent revenue. Maintenance liabilities are recognised separately and disclosed in Note 20 *Other liabilities*.

#### Other operating income and charges

Investment income include gains and losses arising from subsequent changes in the fair values of equity investment securities, debt investment securities at fair value through profit or loss and dividends or distributions on these securities, which represent the return on such investments. Impairment losses/reversal of impairment losses on such financial assets are not reported separately from other changes in fair value.

Gain or loss on change of control, joint control and/or significant influence and reclassifications to/from held for sale also forms part of investment income. Refer Note 1(ii) *Principles of consolidation* for details on timing of recognition of gains and losses.

#### Dividend

Dividends or distributions on financial assets are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. Dividends or distributions from associates and joint ventures reduce the carrying amount of the investment in the Consolidated Entity's statement of financial position. Dividends or distributions from subsidiaries, associates and joint ventures are recognised in the income statement of the Company when the right to receive the dividend or distribution is established.

#### Expenses

Expenses are recognised in the income statement as and when the provision of services is received.

## Note 1

### Summary of significant accounting policies continued

#### (vi) 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 senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising five reportable segments as disclosed in Note 3.

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

Information about products and services is based on the financial information used to produce the Consolidated Entity's financial statements. Information about geographical segments is based on the jurisdiction of the respective entities.

#### (vii) Taxation

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.

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 when 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 against which to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences 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 enacted or substantively 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 in OCI are also recognised directly in OCI.

The Consolidated Entity exercises 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.

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 the amount expected to be paid to/(recovered from) tax authorities based on its understanding of the 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, the Company's ultimate parent entity) as the head entity. As a consequence, the Company 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, 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.

#### Goods and services tax (GST)

Where GST (or other value added tax) is not recoverable from global tax authorities, it is either capitalised to the statement of financial position as part of the cost of the related asset or is recognised in the income statement.

Where GST (or other value added tax) is recoverable from or payable to global tax authorities, the amount is recorded as a separate asset or liability in the statement of financial position.

#### (viii) Financial instruments

##### Recognition of financial instruments

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument.

A financial instrument is initially recognised at fair value and is adjusted for (in the case of instruments not carried at FVTPL) transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument. Transaction costs relating to financial instruments carried at FVTPL are expensed in the income statement.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (viii) Financial instruments continued

#### De-recognition of financial instruments

##### Financial assets

Financial assets are de-recognised from the statement of financial position when:

- the rights to cash flows have expired or
- the Consolidated Entity has transferred the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

In transactions where the Consolidated Entity neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. Any interest in the transferred and derecognised financial asset that is created or retained by the Consolidated Entity is recognised as a separate asset or liability. In transfers where control over the asset is retained, the Consolidated Entity continues to recognise the asset to the extent of its continuing involvement as determined by the extent to which it is exposed to changes in the value of the transferred asset.

##### Financial liabilities

Financial liabilities are de-recognised from the statement of financial position when the Consolidated Entity's obligation has been discharged, cancelled or has expired.

Gains and losses on the derecognition of non-trading related financial assets and liabilities are recognised as other income as part of other operating income and charges.

##### Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated financial instrument is a substantially different financial instrument. Where the modification results in derecognition of the original financial instrument, the new financial instrument is recorded initially at its fair value and the resulting difference is recorded in other income.

For financial instruments measured at amortised cost, and for financial assets measured at fair value through OCI, when the modification does not result in derecognition, a gain or loss is recognised in other income as the difference between the financial instrument's original contractual cash flows and the modified cash flows discounted at the original EIR.

#### Classification and subsequent measurement

##### Financial assets

Financial assets are classified based on the business model within which the asset is held and on the basis of the financial asset's contractual cash flow characteristics.

##### Business model assessment

The Consolidated Entity determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- how the performance of the financial assets held within that business model is evaluated and reported to the Consolidated Entity's senior management personnel and senior executives
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Consolidated Entity exercises judgement to determine the appropriate level at which to assess its business models and its intention with respect to its financial assets.

##### Solely payment of principal and interest (SPPI)

Key considerations for the SPPI assessment include the timing of the contractual cash flows and the interest component, where interest primarily reflects the time value of money and the credit risk of the principal outstanding.

##### Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method if the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements
- the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Interest income determined in accordance with the EIR is recognised in interest income. Gains and losses arising from the derecognition of financial assets that are measured on an amortised cost basis are recognised in other income as part of other operating income and charges.

## Note 1

### Summary of significant accounting policies continued

#### (viii) Financial instruments continued

##### Fair value through other comprehensive income (FVOCI)

A financial asset is subsequently measured at FVOCI if the following conditions are met:

- (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI requirements
- (iii) the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Subsequent changes in fair value are recognised in OCI, with the exception of interest, which is recognised as part of interest income, ECL which is recognised as a credit impairment charge in other operating income and charges, and foreign exchange gains and losses which are recognised in net trading income. When debt financial assets at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI and recognised in investment income as part of other operating income and charges.

##### Fair value through profit or loss

Financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL, with all changes in fair value recognised in investment income as part of other operating income and charges.

For the purposes of the Consolidated Entity's and the Company's financial statements, the FVTPL classification consists of the following:

- financial assets that are held for active trading (held for trading or HFT). This classification includes all derivative financial assets
- financial assets that have been designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch (DFVTPL)
- financial assets in a business model whose objective is achieved by managing the financial assets on a fair value basis in order to realise gains and losses as opposed to a business model in which the objective is to collect contractual cash flows or financial assets that fail the SPPI test (FVTPL).

Changes in the fair value of HFT instruments are recognised in net trading income. Changes in the fair value of financial assets that are DFVTPL and FVTPL are recognised as investment income as part of other operating income and charges. The interest component of financial assets that are classified as HFT, DFVTPL and FVTPL are all recognised in interest income.

Equity financial assets are measured at FVTPL.

##### Reclassification of financial instruments

The Consolidated Entity reclassifies debt financial assets when and only when its business model for managing those assets changes. Financial assets that are reclassified are subsequently measured based on the financial asset's new measurement category.

The Consolidated Entity does not reclassify financial liabilities after initial recognition.

*Prior to the adoption of AASB 9, the Consolidated Entity's financial assets were classified into the following categories:*

- *loans and receivables, being receivables and amounts due from subsidiaries that were non-derivative financial assets with fixed or determinable payments and that were not quoted in an active market. The measurement and recognition of gains and losses of such assets aligns with that for financial assets classified as at amortised cost under AASB 9*
- *held for trading financial assets, being those financial assets that were held for trading purposes. The measurement and recognition of gains and losses of such assets aligns with the HFT category in terms of AASB 9*
- *available for sale, being financial assets that were initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair values were recognised through OCI in the available for sale reserve in equity until the asset was derecognised or impaired, at which time the cumulative gain or loss was recognised in the income statement. Interest income on available for sale debt financial assets was aligned with the treatment for financial assets classified as FVOCI under AASB 9*
- *when the fair value of an available for sale equity financial asset was less than its initial carrying amount and there was objective evidence of impairment, the cumulative loss was transferred from OCI and to investment income in the income statement. Such impairment losses were not permitted to be reversed through the income statement*
- *other financial assets were designated at FVTPL if:*
  - *the asset contained embedded derivatives which should otherwise have been separated and carried at fair value*
  - *the asset was part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and reporting is provided on that basis to key management personnel or*
  - *doing so eliminated or significantly reduced a measurement or recognition inconsistency that would otherwise have arisen.*

*Embedded derivatives in financial assets classified as loans and receivables and available for sale were required to be separately accounted for at fair value through profit or loss.*



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (viii) Financial instruments continued

#### Financial liabilities

Financial liabilities are subsequently measured at amortised cost, unless they are either held for trading purposes, in which case they are classified as HFT, or have been designated to be measured at FVTPL (DFVTPL). A financial liability may be DFVTPL if:

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value or
- doing so eliminates or significantly reduces an accounting mismatch.

All derivative liabilities are classified as HFT.

Gains and losses arising from the derecognition of financial liabilities that are subsequently measured on an amortised cost basis are recognised in other income as part of other operating income and charges. The changes in fair value of financial liabilities that are classified as HFT are recognised as part of net trading income. Changes in the fair value of financial liabilities that are classified as DFVTPL are recognised in other income as part of other operating income and charges, with the exception of changes in fair value relating to changes in the Consolidated Entity's own credit risk that is presented separately in OCI and is not subsequently reclassified to profit or loss. The interest component of financial liabilities that are classified as HFT or DFVTPL is recognised in interest expense.

#### Offsetting of 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.

### (ix) Cash collateral on securities borrowed & lent and repurchase & reverse repurchase agreements

As part of its trading and financing activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the arrangement 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. These transactions include:

- reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell
- repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase.

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.

Reverse repurchase agreements except for commodity agreements are measured at FVTPL to reflect the Consolidated Entity's business model to realise fair value gains and losses as opposed to a business model in which the objective is to collect contractual cash flows. Repurchase agreements are measured at DFVTPL to eliminate accounting mismatch created by managing these agreements together with the reverse repurchase agreements. Commodity agreements are measured at amortised cost as they are held in a business model to collect contractual cash flows and AASB 9's SPPI criteria are met.

The Consolidated Entity uses trade date accounting when recording regular purchases and sales of these assets and liabilities. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profit or loss arising from revaluing that contract to fair value is recognised in the income statement. Refer Note 1(viii) for the detailed *Financial instruments* accounting policy.

*Prior to the adoption of AASB 9, reverse repurchase and repurchase agreements were respectively classified as loans and receivables and financial liabilities measured at amortised cost.*

### (x) Trading assets and liabilities

Trading assets (long positions) comprise financial instruments such as debt and equity securities, bank bills and treasury notes purchased with the intent of being actively traded. It also includes bullion and commodities for which the Consolidated Entity has a trading intention. Trading liabilities comprise obligations to deliver assets (short positions) across the same trading categories and which the Consolidated Entity intends to actively trade.

Trading assets and liabilities classified as HFT. Commodities are measured at fair value less costs to sell in accordance with the broker-trader exception.

The Consolidated Entity uses trade date accounting when recording regular purchases and sales of trading assets and liabilities. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset or liability and any subsequent unrealised profit or loss arising from revaluing that contract to fair value is recognised in the income statement. When the Consolidated Entity becomes party to a sale contract, and the de-recognition criteria are met, it derecognises the trading asset or liability and recognises a trade receivable or trade payable from trade date until settlement date.

**(xi) 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 by the Consolidated Entity for the purposes of risk management of existing financial and non-financial assets and liabilities and entered into for client trading purposes.

All derivatives, including those held for hedging purposes, are classified as HFT. Derivatives are recognised in the statement of financial position as an asset where they have a positive fair value at balance date or as a liability where the fair value at the balance date is negative.

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.

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 ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit or loss is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable. The Consolidated Entity applies this day 1 profit or loss policy to all financial instruments measured at fair value.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (xi) Derivative instruments continued

#### Hedge accounting

As part of its ongoing business, the Consolidated Entity is exposed to several financial risks, principally that of interest and foreign exchange rates and commodity price risk (collectively referred to as the hedged risk or exposure). The Consolidated Entity has limited appetite for such risks and has policies and practices in place to ensure that these risks are effectively managed. The Consolidated Entity mitigates these risks through the use of derivative financial instruments and, in the case of foreign currency risk, foreign-denominated debt issued (collectively referred to as hedging instruments). In order to account for the difference in measurement bases or location of the gains and losses between the exposure that is being hedged and the hedging instrument, the Consolidated Entity applies hedge accounting as detailed in the table below.

	Fair value hedge	Cash flow hedge	Net investment in a foreign operation hedge
<b>Nature of hedge</b>	The hedge of the fair value risk of a financial asset, liability or non-financial contract.	The hedge of the change in cash flows of a financial asset or liability (or a highly probable forecast transaction).	The hedge of changes in the Consolidated Entity's foreign denominated net assets for changes in foreign currency rates.
<b>Hedged risk</b>	<ul style="list-style-type: none"> <li>– Interest rate risk</li> <li>– Commodity price risk</li> </ul>	<ul style="list-style-type: none"> <li>– Interest rate risk</li> <li>– Foreign exchange risk</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign exchange risk (spot)</li> </ul>
<b>Hedged item</b>	<ul style="list-style-type: none"> <li>– Fixed interest rate financial assets and liabilities</li> <li>– Commodity transportation contracts</li> </ul>	<ul style="list-style-type: none"> <li>– Floating interest rate financial assets and liabilities</li> <li>– Foreign currency denominated interest bearing financial assets and liabilities</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign operations</li> </ul>
<b>Hedging instruments</b>	<ul style="list-style-type: none"> <li>– Interest rate swaps</li> <li>– Commodity forward contracts</li> </ul>	<ul style="list-style-type: none"> <li>– Interest rate swaps</li> <li>– Cross currency swaps</li> </ul>	<ul style="list-style-type: none"> <li>– Foreign exchange forward contracts</li> <li>– Foreign currency denominated issued debt</li> </ul>
<b>Designation and documentation</b>	At inception of the hedge relationship, documentation is required of the Consolidated Entity's risk management objective and strategy for the hedge, hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.		
<b>Hedge effectiveness method</b>	<p>All hedge relationships are required to be assessed for hedge ineffectiveness both at the inception and throughout the hedge relationship by demonstrating that:</p> <ul style="list-style-type: none"> <li>– an economic relationship exists between the hedged item and the hedging instrument</li> <li>– credit risk does not dominate the changes in value of either the hedged item or the hedging instrument</li> <li>– the hedge ratio is reflective of the Consolidated Entity's risk management approach.</li> </ul> <p>The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the hedged item or the hedging instrument.</p>		
<b>Accounting treatment for the hedging instrument</b>	Fair value through the income statement.	Fair value through the cash flow hedge reserve and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.	Fair value through the foreign currency translation reserve and recognised in the income statement at the time at which there is a disposal of the hedged foreign operation or to non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.



## Note 1

## Summary of significant accounting policies continued

## (xi) Derivative instruments continued

	Fair value hedge	Cash flow hedge	Net investment in a foreign operation hedge
<b>Accounting treatment for the hedged item</b>	Carrying value adjusted for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis or under other accounting standards.	Foreign exchange gains and losses are recognised in the Consolidated Entity's foreign currency translation reserve.
<b>Accounting treatment for hedge ineffectiveness</b>	Recognised in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.	Recognised in the income statement to the extent to which changes in fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.	
<b>Accounting treatment if the hedge relationship is discontinued</b>	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an effective interest rate basis.	The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.  Where the hedged cash flows are no longer expected to take place, the gain and loss in the cash flow hedge reserve is recognised immediately in the income statement.	The gain or loss remains recognised in the foreign currency translation reserve until such time as there is a disposal of the hedged foreign operation or is recognised in non-controlling interests where there is a partial disposal of a subsidiary that remains consolidated.
<b>Other accounting policies</b>	None	The foreign currency basis spread of hedging instruments, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the Consolidated Entity's reserves and released to the income statement at the time when the hedged exposure affects the income statement.	

***AASB 139's hedge accounting requirements, which were applied prior to the adoption of AASB 9, for the Consolidated Entity and Company are substantially the same as that of AASB 9 with the exception of the requirement for the hedge to be highly effective and the limit on the application of hedge accounting for financial risks in non-financial contracts.***

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (xii) Margin money and settlement assets and liabilities

Margin money and settlement assets and liabilities includes trade settlement balances, margin money and client monies, balances with clearing houses. Margin and client money primarily represents deposits placed with clearing house or received from clients in relation to future trading and other derivatives transactions. The balance includes both initial margin and variance margin which varies based on trading activities. Settlement balances represents outstanding trade timing balances as at the reporting date due to the timing difference between trade date and settlement date. Balances are carried at amortised cost except for certain margin money balances in the form of money market funds and certain settlement balances which are carried at FVTPL.

### (xiii) Financial investments

Investment securities in this category include investments in equity or debt securities which are not actively traded by the Consolidated Entity.

Debt investment securities in this category are in the nature of bonds, negotiable certificates of deposits (NCD), floating rate notes (FRN), commercial paper and other debt securities.

Financial investments are initially recognised at fair value adjusted for directly attributable transaction costs on settlement date and subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii).

### (xiv) Loan Assets

This category includes loans and receivables that are not held for trading purposes and typically includes the Consolidated Entity's lending activities to its customers. Loan assets are initially recognised at fair value adjusted for directly attributable transaction costs on settlement date. Loan assets are subsequently measured in accordance with the Consolidated Entity's accounting policy for financial instruments Note 1(viii). Certain finance lease receivables are also presented under loan assets. For the detailed policy on Financial instruments refer to Note 1(viii).

### (xv) Property, plant and equipment

Property, plant and equipment are stated at historical cost (which includes, where applicable, directly attributable borrowing costs) less, where applicable, accumulated depreciation and accumulated impairment losses. 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 aviation assets is calculated on a diminishing balance method and depreciation on all other 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 annual depreciation rates:

Property, Plant and Equipment	Depreciation rate
Buildings	2 to 3.3%
Furniture, fittings and leasehold improvements <sup>(1)</sup>	10 to 20%
Equipment	33 to 50%
Infrastructure assets	2 to 10%
Aviation <sup>(2)</sup>	2 to 8%
Meters	5 to 15%
Rail cars	3 to 5%
Telecommunications	33%
Other operating lease assets	2 to 50%

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.

(2) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

Useful lives, residual values and depreciation methods are reviewed annually and reassessed in light of commercial and technological developments.

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 the proceeds with the asset's carrying amount and are recognised in other income as part of other operating income and charges.

### (xvi) Goodwill and other identifiable intangible assets

#### Goodwill

Goodwill is measured as the excess of consideration, recognised NCI, and the fair value of previously held equity interests over the fair value of the identifiable net assets of the entity or business acquired. Goodwill arising from business combinations is included in intangible assets in the statement of financial position.

#### Other acquired identifiable intangible assets

At the time at which the Consolidated Entity determines that it controls an entity, the Consolidated Entity identifies intangible assets that are required to be initially recognised at fair value. 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.

## Note 1

### Summary of significant accounting policies continued

#### (xvi) Goodwill and other identifiable intangible assets continued

The following intangible assets are typically identified and recognised by the Consolidated Entity:

- Licences and trading rights: generally carried at cost less accumulated impairment loss. Where no contractual or legal limitation exists, these assets are not amortised because they are considered to have an indefinite useful life
- Customer and servicing contracts acquired with a finite useful life: carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated over the period for which the customer relationship is expected to exist
- Customer and servicing contracts with an indefinite useful life: carried at cost less accumulated impairment loss.

Amortisation of intangible assets is recognised in other operating expenses and impairments are recognised in other operating income and charges.

#### Software

Certain internal and external costs directly incurred in acquiring and developing certain computer software programmes are capitalised and amortised over the estimated useful life, usually a period of three to seven years. The capitalised software asset is subject to impairment testing on an annual basis. Amortisation of computer software programmes and impairments, where applicable, is recognised in other operating expenses.

Cost incurred on the maintenance of software is expensed as incurred and recognised in other operating expenses.

#### (xvii) Deposits

Deposits include business banking and mortgage deposits and other balances such as client monies which are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost.

#### (xviii) Other assets and liabilities

##### Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument (deposit component) and an investment management fee. The investment management fee is recognised in the income statement over the period for which the service is provided. The deposit component of the financial instrument is designated at fair value through profit or loss to eliminate the accounting mismatch created by the Life investment linked assets, which are managed on a fair value basis and measured at FVTPL. Life investment contract liabilities are directly linked to the performance and market value of the assets that back them and the fair value is measured as the minimum current surrender value. Withdrawals and surrenders of life investment contracts are treated as a reduction in the investment contract liability.

#### Non-current assets and liabilities of disposal groups classified as held for sale

This category includes interests in businesses, subsidiaries, associates and joint ventures and other assets and liabilities, and subsidiaries that are acquired exclusively with a view to sale or distribute, for which their carrying amount will be recovered principally through a sale or distribution transaction rather than through continuing use. These assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and it is highly probable that it will be sold or distributed within 12 months. Where there is a planned partial disposal of a subsidiary resulting in loss of control, but the Consolidated Entity retains an interest in the disposed subsidiary, the entire carrying value for the subsidiary's assets and liabilities are classified as held for sale.

Non-current assets and liabilities of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Equity accounting and depreciation are suspended when the held for sale criteria is satisfied.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell and is recognised in the income statement. A gain is recognised for any subsequent increase in fair value less costs to sell, limited to the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

Financial assets and liabilities that are classified as held for sale are measured in accordance with the Consolidated Entity's financial instruments policies.

#### Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

A contingent liability is disclosed when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Refer to Note 30 *Contingent liabilities and commitments*.

#### Employee benefits provision

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.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (xviii) Other assets and liabilities continued

Provisions for unpaid employee benefits are derecognised when the benefit is settled or is transferred to another entity and the Company 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 Company are recognised in the statement of financial position as a liability and a reduction in retained earnings when the dividend has been declared.

### (xix) Bank borrowings

Bank borrowings includes loans and other payables due to banks and financial institutions. These balances are subsequently measured at amortised cost using the EIR method.

### (xx) Due to/from related body corporate entities and subsidiaries

Transactions between the Consolidated Entity and other related body corporate entities under common control and between the Company and its subsidiaries, principally arise from the provision of banking and other financial services, lending arrangements and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees. These transactions are measured at amortised cost except for lending arrangements that do not satisfy the SPPI criterion. Refer Note 1(v) *Revenue and expense recognition* for revenue recognition and Note 1(viii) *Financial instruments* for more details on the recognition, classification and measurement of financial instruments.

### (xxi) Debt issued

Debt issued includes debt securities issued by the Consolidated Entity. These balances are subsequently measured at amortised cost using the EIR method and at fair value for DFVTPL items.

### (xxii) Loan Capital

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under Australian Prudential Regulatory Authority (APRA) Standards. For compound instruments that have both equity and liability features, the liability component is initially measured at fair value plus directly attributable transaction costs (and is thereafter measured at amortised cost using the EIR method), with the residual being accounted for within the Consolidated Entity's equity.

Capital instruments with conversion features, such as Common Equity Capital Trigger Events or Non-Viability Trigger Events are assessed as to whether they contain embedded derivatives and, where applicable, changes in the fair value of the embedded derivative are recognised as part of net trading income to the extent the derivative is not considered closely related to the capital instrument.

### (xxiii) Impairment

#### Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, amounts receivable from contracts with customers, loan commitments, certain letters of credit and financial guarantee contracts.

The Consolidated Entity applies a three-stage approach to measuring the ECL based on changes in the asset's underlying credit risk and includes forward-looking or macro-economic information (FLI). Where ECL is modelled collectively for portfolios of exposures, it is modelled as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD).

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer Note 11 *Expected credit losses* for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

#### (i) Stage I – 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR) since initial recognition (or for those financial assets for which the credit risk is considered to be low), ECL is determined based on the PD over the next 12 months and the lifetime losses associated with such PD, adjusted for FLI.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

#### (ii) Stage II – Lifetime ECL not credit-impaired

When there has been a SICR since initial recognition, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD, adjusted for FLI. The Consolidated Entity assesses whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable FLI that includes significant management judgment.

Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset. For revolving facilities, the Consolidated Entity exercises judgement based on the behavioural, rather than contractual characteristics of the facility type.

Interest income is determined by applying the financial asset's EIR to the financial asset's gross carrying amount.

#### (iii) Stage III – Lifetime ECL credit-impaired

Financial assets are classified as Stage III where they are determined to be credit impaired, which generally matches the APRA definition of default. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. For credit-impaired exposures that are modelled collectively, ECL is measured as the product of the lifetime PD, LGD and EAD, adjusted for FLI.

## Note 1

### Summary of significant accounting policies continued

#### (xxiii) Impairment continued

Interest income is determined by applying the financial asset's EIR to the financial asset's amortised cost carrying value, being the gross carrying value after the ECL provision.

#### (iv) Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired (POCI) financial assets are initially recognised at fair value with interest income subsequently determined using a credit-adjusted EIR.

The credit-adjusted EIR is the EIR adjusted for expected credit losses on initial recognition.

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for FLI or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted EIR, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in the income statement as either an impairment gain or loss.

##### *Presentation of loss allowances*

The loss allowances for ECL are presented in the statement of financial position as follows:

- (i) Loan assets, loans to related body corporate entities and subsidiaries, associates and joint ventures measured at amortised cost – as a deduction to the gross carrying amount
- (ii) Loan assets, loan to associates and joint ventures, and debt financial investments measured at fair value through OCI – as a reduction in the fair value reserve account under equity. The carrying amount of the asset is not adjusted as it is recognised at fair value
- (iii) Lease receivables, contract receivables and other assets measured at amortised cost – as a deduction to the gross carrying amount
- (iv) Undrawn credit commitments – as a provision included in other liabilities.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from financial asset and all possible collateral has been realised, the financial asset is written off, either partially or in full, against the related provision. Recoveries of loans previously written off are recorded based on the cash received.

*Prior to the adoption of AASB 9, credit impairment provisions were recognised on an incurred loss basis. Key differences included:*

- *an impairment loss was recorded where there was objective evidence of impairment as a result of one or more events (loss event) which had an impact on the estimated future cash flows of the financial asset that could be reliably estimated*
- *where the credit risk of an exposure had deteriorated but there was no objective evidence of impairment, no credit impairment was required to be recognised*
- *forward looking or macroeconomic information was not required to be incorporated into the determination of the credit impairment loss*
- *credit impairments were only required to be recognised for on-balance sheet exposures.*

*Credit impairments were calculated on the basis of the difference between the exposure's carrying value and the present value of expected future cash flows, discounted using the original EIR.*

*For available for sale debt securities, where there was objective evidence of impairment and the fair value of the financial asset was less than its initial carrying amount then the cumulative loss was transferred from OCI to the income statement. Impairment losses recognised for debt investment securities classified as available for sale were subsequently reversed through the income statement if the fair value increased and the increase was objectively related to an event after the impairment loss was recognised in the income statement.*

#### Impairment of 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 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.

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 the associate or joint venture is tested for impairment by comparing the recoverable amount, being the 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 the recoverable amount since the impairment loss was recognised.

Fair value less costs to sell is estimated using market based approaches using revenues, earnings and assets under management and multiples based on companies deemed comparable as well as other publicly available information relevant to the business.

Value in use is calculated using pre-tax cashflow projections of operating revenue and expenses. Forecasts are extrapolated using a growth rate and discounted using a discount rate incorporating market risk determinants, adjusted for specific risks related to the cash generating units, if any, and the environment in which it operates.

#### Impairment of investments in subsidiaries

Investments in subsidiaries in the Company's financial statements are reviewed annually for indicators of impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount, being the higher of fair value less costs to sell and value in use. At each reporting date, investments in subsidiaries that have been impaired are reviewed for possible reversal of impairment.



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 1

Summary of significant accounting policies continued

### (xxiii) Impairment continued

#### Impairment of goodwill and other intangible assets and property, plant and equipment

Intangible assets with indefinite lives (goodwill and certain intangible assets) 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 and property, plant and equipment, an assessment is made at each reporting date for indications of impairment.

Impairment losses are recognised in other impairment charges as part of other operating income and charges 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) for which an impairment loss was recognised, are reviewed for possible reversal of the impairment at each reporting date.

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 (see Note 3 *Segment reporting*) and assessed for impairment.

### (xxiv) Performance based remuneration

#### Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (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 29 *Employee equity participation*. The Consolidated Entity accounts for its share-based payments as follows:

- **Equity settled awards:** The awards are measured at their grant date fair value and based on the number of equity instruments expected to vest. Expenses are recognised as part of employment expenses with a corresponding increase in equity with reference to the vesting period of those awards. Performance hurdles attached to Performance Share Units (PSUs) under the MEREP are not taken into account when determining the fair value of the PSUs at the grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. On vesting, the amount recognised in the share-based payment reserve is transferred to contributed equity.

- **Cash settled awards:** The liability of the awards is measured with reference to the number of awards and the fair value of those awards at each reporting date. Expenses are recognised as part of employment expenses with reference to the vesting period of those awards. Changes in the value of the liability are recognised in employment expenses.

#### Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash with reference to the performance period to which the profit share relates.

### (xxv) Leases

#### Determine whether an arrangement contains a lease

At inception of an arrangement, the Consolidated Entity determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Consolidated Entity separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

#### Arrangement where the Consolidated Entity is the lessor

Leases where the lessee has substantially all the risks and rewards incidental to ownership of the leased assets are classified as finance leases. All other leases are classified as operating leases.

#### Finance lease

Where finance leases are granted to third parties, the present value of the minimum lease payments plus an estimate of the value of any unguaranteed residual value is recognised as a receivable and included in loan assets. 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 EIR method, which reflects a constant rate of return.

#### Operating lease

Where the Consolidated Entity is the lessor under an operating lease, the underlying asset is carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years (Note 1(xv) *Property, plant and equipment*). 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.

#### Arrangement where the Consolidated Entity is the lessee

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. The difference between the cumulative expense recognised and cash paid is recorded on the balance sheet.



## Note 1

### Summary of significant accounting policies continued

#### (xxvi) Contributed equity

Ordinary shares and other similar instruments are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### (xxvii) Fiduciary assets

The Consolidated Entity engages in trust, fund or other fiduciary activities that result in the holding or placing of assets on behalf of third parties. These assets and the income arising directly thereon are excluded from the Consolidated Entity's financial statements as they are not assets of the Consolidated Entity. However, fee income earned, and fee expenses incurred by the Consolidated Entity relating to its responsibilities from fiduciary activities are recognised in its income statement.

#### (xxviii) Cash and cash equivalents

Cash and cash equivalents comprise of:

- cash and bank balance
- certain trading assets and liquid financial investments with an original contractual maturity of three months or less.

#### (xxix) Investment property

Investment properties are initially recognised at cost and subsequently stated at fair value at each balance date. Any change in fair value is recognised in other income as part of other operating income and charges.

#### (xxx) Discontinued operations

Discontinued operations are a component of the entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. The classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations are presented separately on the face of the income statements. Transactions between continuing and discontinuing operations are presented on a gross basis.

Assets and liabilities of discontinued operations are derecognised on the date of disposal and a realised gain or loss is presented separately in the income statement.

Cash flows generated from discontinued operations are separately presented in the statement of cash flows.

#### (xxxii) Comparatives

Where necessary, comparative information has been restated to conform to changes in presentation in the current year.

#### (xxxii) Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, amounts in the Directors' Report and Financial Report have been rounded off to the nearest million Australian dollars unless otherwise indicated.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 <sup>(6)</sup> \$m	2018 <sup>(6)</sup> \$m	2019 <sup>(6)</sup> \$m	2018 <sup>(6)</sup> \$m
<b>Note 2</b>				
Operating profit from continuing operations before income tax				
<b>Net interest income</b>				
Interest and similar income				
Effective interest method <sup>(1)</sup>	4,135	3,942	3,696	3,465
Others	678	415	587	370
Interest and similar expense <sup>(2)</sup>	(2,835)	(2,513)	(3,016)	(2,659)
Net interest income	1,978	1,844	1,267	1,176
<b>Fee and commission income</b>				
Brokerage and commissions	404	369	282	250
Portfolio administration fee	283	274	16	21
Lending and securitisation fee	133	137	121	112
Other fee and commission income	411	109	125	49
Total fee and commission income <sup>(3)</sup>	1,231	889	544	432
<b>Net trading income<sup>(4)</sup></b>				
Equities	476	473	391	290
Commodities <sup>(5)</sup>	1,841	1,145	632	566
Credit, interest rate and foreign exchange products	209	311	30	386
Net trading income	2,526	1,929	1,053	1,242
<b>Net operating lease income</b>				
Rental income	1,119	722	645	329
Depreciation on operating lease assets	(830)	(479)	(595)	(293)
Net operating lease income	289	243	50	36
<b>Share of net profits of associates and joint ventures</b>				
	28	25	–	–

(1) Includes interest income calculated using effective interest method of \$4,003 million (2018: \$3,820 million) in the Consolidated Entity and \$2,117 million (2018: \$3,348 million) in the Company on financial assets that are measured at amortised cost and \$132 million (2018: \$122 million) in the Consolidated Entity and \$1,579 million (2018: \$117 million) in the Company on financial assets measured at FVOCI.

(2) Includes interest expense of \$2,696 million (2018: \$2,415 million) in the Consolidated Entity and \$2,858 million (2018: \$2,650 million) in the Company on financial liabilities that are measured at amortised cost.

(3) On adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$143 million and certain recoverable costs of \$107 million previously recognised net of associated revenue have been reclassified to fee and commission expenses. Prior period comparatives were not reclassified.

(4) Includes fair value movements on trading assets and liabilities, ineffective portion of designated hedges and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk. Refer Note 1(xi) *Derivative instruments*.

(5) Includes \$347 million (2018: \$364 million) of transportation, storage and certain other trading related costs in the Consolidated Entity.

(6) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 40 *Discontinued operations*. The prior year comparatives have been reclassified to conform to the current financial year presentation.

	CONSOLIDATED		COMPANY	
	2019 <sup>(5)</sup> \$m	2018 <sup>(5)</sup> \$m	2019 <sup>(5)</sup> \$m	2018 <sup>(5)</sup> \$m
<b>Note 2</b>				
Operating profit from continuing operations before income tax continued				
<b>Credit and other impairment (charges)/reversal</b>				
<b>Credit impairment (charges)/reversal<sup>(1)</sup></b>				
Loan assets and due from subsidiaries <sup>(2)</sup>	(137)	(137)	(63)	(38)
Other assets	(10)	(7)	15	(3)
Undrawn commitments and financial guarantees	2	–	3	–
Financial investments	–	–	(6)	–
Recovery of exposures previously written off	14	70	13	45
<b>Total credit impairment (charges)/reversal</b>	<b>(131)</b>	<b>(74)</b>	<b>(38)</b>	<b>4</b>
<b>Other impairment (charges)/reversal</b>				
Equity investment securities available for sale	–	(16)	–	(15)
Interests in associates and joint ventures	(102)	(8)	(15)	(1)
Intangible assets and other non-financial assets	(14)	(14)	(4)	–
Impairment /reversal on subsidiaries	–	–	19	19
<b>Total other impairment (charges)/reversal</b>	<b>(116)</b>	<b>(38)</b>	<b>–</b>	<b>3</b>
<b>Total credit and other impairment (charges)/reversal</b>	<b>(247)</b>	<b>(112)</b>	<b>(38)</b>	<b>7</b>
<b>Other operating income and charges</b>				
<b>Investment income</b>				
Net gain on equity investments <sup>(3)</sup>	48	35	40	17
Net gain on debt investments <sup>(4)</sup>	7	48	7	48
Net gain on interests in associates and joint ventures	62	3	6	2
Net gain on sale of asset of business and subsidiaries held for sale	–	38	130	12
Net gain on change of control, joint control or/and significant influence	10	3	3	–
Dividends/distributions from associates/others	–	–	3	–
Dividends received/receivable from Subsidiaries	–	–	285	687
<b>Total investment income</b>	<b>127</b>	<b>127</b>	<b>474</b>	<b>766</b>
Other (charges)/income	(21)	57	367	347
<b>Total other operating income and charges</b>	<b>106</b>	<b>184</b>	<b>841</b>	<b>1,113</b>
<b>Net operating income</b>	<b>5,911</b>	<b>5,002</b>	<b>3,717</b>	<b>4,006</b>

(1) The change in ECL relating to financial assets under AASB 9 is recorded under Credit impairment charges. Individual and collective provisions for prior financial year remain in accordance with AASB 139 and have not been restated as permitted by AASB 9.

(2) Includes ECL on Due from subsidiaries \$6 million for the company.

(3) The current year includes fair value gains and losses and dividend income from investments that have been classified as at FVTPL. Prior financial year includes gain from sale of and dividend income from available for sale investments.

(4) Prior financial year primarily includes gain on sale of DFVTPL debt investments of \$46 million.

(5) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 40 *Discontinued operations*. The prior year comparatives have been reclassified in accordance with AASB 5 to conform to the current financial year presentation.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 <sup>(3)</sup> \$m	2018 <sup>(3)</sup> \$m	2019 <sup>(3)</sup> \$m	2018 <sup>(3)</sup> \$m
<b>Note 2</b>				
Operating profit from continuing operations before income tax continued				
<b>Employment expenses</b>				
Salary and related costs including commissions, superannuation and performance-related profit share	(1,305)	(1,162)	(958)	(891)
Share-based payments	(144)	(112)	(98)	(74)
Provision for long service leave and annual leave	1	(4)	2	(3)
<b>Total employment expenses</b>	<b>(1,448)</b>	<b>(1,278)</b>	<b>(1,054)</b>	<b>(968)</b>
<b>Brokerage, commission and trading-related expenses</b>				
Brokerage and other trading-related expenses	(525)	(508)	(362)	(311)
Other fee and commission expenses <sup>(1)</sup>	(252)	(108)	(239)	(91)
<b>Total brokerage, commission and trading-related expenses</b>	<b>(777)</b>	<b>(616)</b>	<b>(601)</b>	<b>(402)</b>
<b>Occupancy expenses</b>				
Operating lease rentals	(13)	(9)	(5)	(1)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 12)	(4)	(1)	(3)	(1)
Other occupancy expenses	(100)	(96)	(83)	(81)
<b>Total occupancy expenses</b>	<b>(117)</b>	<b>(106)</b>	<b>(91)</b>	<b>(83)</b>
<b>Non-salary technology expenses</b>				
Information services	(84)	(71)	(62)	(53)
Depreciation: equipment (Note 12)	(5)	(3)	(4)	(3)
Service provider and other non-salary technology expenses	(78)	(54)	(70)	(45)
<b>Total non-salary technology expenses</b>	<b>(167)</b>	<b>(128)</b>	<b>(136)</b>	<b>(101)</b>
<b>Other operating expenses</b>				
Professional fees	(134)	(136)	(104)	(105)
Travel and entertainment expenses	(47)	(44)	(33)	(31)
Advertising and promotional expenses	(20)	(19)	(19)	(18)
Amortisation of intangible assets	(19)	(21)	(16)	(20)
Auditor's remuneration (Note 39)	(24)	(22)	(12)	(10)
Communication expenses	(11)	(14)	(8)	(9)
Other expenses <sup>(1),(2)</sup>	(1,668)	(1,227)	(1,123)	(1,013)
<b>Total other operating expenses</b>	<b>(1,923)</b>	<b>(1,483)</b>	<b>(1,315)</b>	<b>(1,206)</b>
<b>Total operating expenses</b>	<b>(4,432)</b>	<b>(3,611)</b>	<b>(3,197)</b>	<b>(2,760)</b>
<b>Operating profit from continuing operations before income tax</b>	<b>1,479</b>	<b>1,391</b>	<b>520</b>	<b>1,246</b>

(1) On adoption of AASB 15 from 1 April 2018, fee expense relating to stock lending activities of \$143 million and certain recoverable costs of \$107 million, previously recognised net of associated revenue, have been reclassified to fee and commission expenses and other expenses respectively. Prior financial year comparatives were not reclassified.

(2) Other expenses include service cost recoveries from Consolidated Entity's related corporate entity, Macquarie Group Services Australia Pty Limited (MGSA).

(3) Income and expense related to the discontinued operations have been presented as part of 'Profit from discontinued operations after income tax' under Note 40 *Discontinued operations*. The prior year comparatives have, in accordance with AASB 5, been reclassified to conform to the current financial year presentation.

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# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 3

### Segment reporting

#### (i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclose information about the Consolidated Entity's reportable segments. The financial information is reported on the same basis as used internally by senior management for evaluating operating segment performance and for deciding how to allocate resources to operating segments. Such information may be produced using different measures to that used in preparing the statutory income statement.

For internal reporting, performance measurement and risk management purposes, the Consolidated Entity is divided into three Operating Groups and a Corporate segment. As a result of the re-organisations, as noted below, MAM is no longer an Operating Group in the Consolidated Entity.

These segments have been set up based on the different core products and services offered. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

- **CAF's** Asset Finance business delivers a range of tailored finance solutions globally across a variety of industries and asset classes
- **BFS** provides a diverse range of personal banking, wealth management, business banking and vehicle finance products and services to retail clients, advisers, brokers and business clients
- **CGM** provides integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

In the second half of the current year, certain businesses were reorganised between Operating Group to better align businesses with a shared focus on particular customer segments and geographies:

- Macquarie's Australian vehicles finance business moved from CAF into BFS
- MAM's MSIS business moved into CAF.

Comparatives have been restated to reflect this reorganisation between Operating Groups.

Effective 10 December 2018, CAF's Principal Finance and Transportation Finance businesses have been transferred from the Bank Group to the Non-Bank Group to simplify the overall structure of MGL and better reflect the latest activities of the individual businesses. The financial information disclosed relates to the Consolidated Entity's continuing operations

The **Corporate** segment, which is not considered an Operating Group, comprises head office and central service groups, including Group Treasury, and certain investments that are neither core for strategic reasons nor aligned to an Operating Group.

Items of income and expense within the Corporate segment include the net result of managing Macquarie's liquidity and funding requirements, earnings on capital and the residual accounting volatility relating to economically hedged positions

for which hedge accounting has been achieved as well as accounting volatility for other economically hedge positions for which hedge accounting is not able to be achieved. Other items of income and expenses include earnings from investments, central overlay on credit and other impairments or valuation of assets, unallocated head office costs and costs of central service groups, the Consolidated Entity's performance-related profit share and share-based payments expense, income tax expense and certain distributions attributable to non-controlling interests and holders of Macquarie Income Securities (MIS).

Below is a selection of key policies applied in determining operating segment results.

#### Internal funding arrangements

Group Treasury has the responsibility for managing funding for the Consolidated Entity, 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. Break costs are charged to Operating Groups for the early repayment of term funding.

Generally, Operating Groups may only source funding directly from external sources where the funding is secured by the assets of the Operating Group. In such cases the Operating Group bears the funding costs directly and Group Treasury may levy additional charges where appropriate.

Deposits are a funding source for the Consolidated Entity. BFS 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.

#### Transactions between Operating Segments

Operating Segments that enter into arrangements with other Operating Segments must do so on commercial terms or as agreed by the Consolidated Entity's CEO or Chief Financial Officer. There is a requirement for accounting symmetry in such transactions.

Internal transactions are recognised in each of the relevant categories of income and expense and eliminated on aggregation/consolidation as appropriate.

#### Accounting for derivatives that economically hedge interest rate risk

For businesses that predominately earn income from lending activities (CAF and BFS), derivatives that economically hedge interest rate risk are required to be measured at fair value. This volatility is recognised in net trading income unless hedge accounting is applied by the Consolidated Entity, where either the hedged item is revalued for the hedged risk to remove the volatility, or the fair value volatility on the derivative is deferred until the hedged transaction is recognised in the income statement. For segment reporting, derivatives are accounted for on an accrual basis in the results of CAF and BFS with changes in fair value recognised within Corporate, managed via the application of hedge accounting.



### Central Service Groups

Central Service Groups recover their costs from Operating Groups generally on either a time and effort allocation basis or a fee for service basis. The Central Service Groups include Corporate Operations Group (COG), Financial Management Group (FMG), Risk Management Group (RMG), Legal and Governance and Central Executive.

### Performance-related profit share and share-based payments expense

Performance-related profit share and share-based payments expense relating to the Macquarie Group Employee Retained Equity Plan (MEREP) is recognised in the Corporate segment and not allocated to Operating Groups.

### Income tax

Income tax expense and benefits are recognised in the Corporate segment and not allocated to the Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, an internal management revenue/charge is used. These internal management revenue/charges are offset by an equal and opposite amount recognised in the Corporate segment such that they are eliminated on consolidation.

### Presentation of segment income statements

The income statements in the following pages for each of the reported segments are in some cases summarised by grouping non-material balances together. Where appropriate, all material or key balances have been reported separately to provide users with information relevant to the understanding of the Consolidated Entity's financial performance. The financial information disclosed relates to the Consolidated Entity's ordinary activities.

### Reportable segment assets

Segment assets are the external operating assets that are employed by a segment in its operating activities.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity-style businesses \$m
<b>Note 3</b>			
Segment reporting continued			
<b>(i) Operating segments continued</b>			
Net interest and trading income	141	1,679	1,820
Fee and commission income/(expense)	105	473	578
Net operating lease income	286	–	286
Share of net profits/(losses) of associates and joint ventures	–	8	8
Credit and other impairment charges	(13)	(82)	(95)
Other operating income and charges	64	19	83
Internal management revenue/(charge)	4	2	6
Net operating income	587	2,099	2,686
Total operating expenses	(335)	(1,346)	(1,681)
Operating profit/(loss) before income tax	252	753	1,005
Income tax expense	–	–	–
Profit/(loss) after Income Tax	252	753	1,005
Profit attributable to non-controlling interests	(3)	–	(3)
Profit/(loss) attributable to equity holders	249	753	1,002
Distributions paid or provided for on MIS	–	–	–
<b>Net profit/(loss) attributable to ordinary equity holders from continuing operations</b>	<b>249</b>	<b>753</b>	<b>1,002</b>
<b>Reportable segment assets</b>	<b>8,638</b>	<b>63,885</b>	<b>72,523</b>
Net interest and trading income	208	1,584	1,792
Fee and commission income/(expense)	79	489	568
Net operating lease income	238	–	238
Share of net (losses)/profits of associates and joint ventures	1	3	4
Other operating income and charges			
Credit and other impairment charges	(8)	(75)	(83)
Other operating income and charges	125	14	139
Internal management revenue/(charge)	5	3	8
Net operating income	648	2,018	2,666
Total operating expenses	(333)	(1,285)	(1,618)
Operating profit/(loss) before income tax	315	733	1,048
Income tax expense	–	–	–
Operating profit/(loss) after income tax	315	733	1,048
Profit/(loss) attributable to non-controlling interests	(4)	–	(4)
Profit/(loss) attributable to equity holders	311	733	1,044
Distributions paid or provided for on MIS	–	–	–
<b>Net profit/(loss) attributable to ordinary equity holders from continuing operations</b>	<b>311</b>	<b>733</b>	<b>1,044</b>
<b>Reportable segment assets</b>	<b>23,697</b>	<b>58,515</b>	<b>82,212</b>

Commodities and Global Market \$m	Markets-facing business \$m	Corporate \$m	Total \$m
<b>CONSOLIDATED 2019</b>			
2,537	2,537	147	4,504
641	641	12	1,231
–	–	3	289
21	21	(1)	28
(142)	(142)	(10)	(247)
64	64	(41)	106
10	10	(16)	–
3,131	3,131	94	5,911
(1,675)	(1,675)	(1,076)	(4,432)
1,456	1,456	(982)	1,479
–	–	(394)	(394)
1,456	1,456	(1,376)	1,085
–	–	(1)	(4)
1,456	1,456	(1,377)	1,081
–	–	(15)	(15)
1,456	1,456	(1,392)	1,066
87,889	87,889	9,010	169,422
<b>CONSOLIDATED 2018</b>			
1,874	1,874	107	3,773
390	390	(69)	889
–	–	5	243
22	22	(1)	25
(90)	(90)	61	(112)
45	45	–	184
4	4	(12)	–
2,245	2,245	91	5,002
(1,379)	(1,379)	(614)	(3,611)
866	866	(523)	1,391
–	–	(353)	(353)
866	866	(876)	1,038
–	–	3	(1)
866	866	(873)	1,037
–	–	(14)	(14)
866	866	(887)	1,023
84,054	84,054	6,952	173,218

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 3

Segment reporting continued

### (ii) Fee and commission income relating to contracts with customers

The below table represents the fee and commission income by operating segments:

	Corporate and Asset Finance \$m	Banking and Financial Services \$m	Annuity style businesses \$m	Commodities and Global Market \$m	Markets- facing businesses \$m	Corporate \$m	Total \$m
<b>Fee and commission income/(expense)</b>	<b>CONSOLIDATED 2019</b>						
Brokerage and commission	(1)	67	66	338	338	–	404
Portfolio administration fee	47	234	281	2	2	–	283
Lending and securitisation fees	(6)	133	127	6	6	–	133
Other fee and commission income	65	40	105	294	294	12	411
<b>Total fee and commission income/(expense)</b>	<b>105</b>	<b>474</b>	<b>579</b>	<b>640</b>	<b>640</b>	<b>12</b>	<b>1,231</b>
<b>Fee and commission income/(expense)</b>	<b>CONSOLIDATED 2018</b>						
Brokerage and commission	–	82	82	287	287	–	369
Portfolio administration fee	40	232	272	2	2	–	274
Lending and securitisation fees	–	129	129	8	8	–	137
Other fee and commission income/(expense)	40	47	87	93	93	(71)	109
<b>Total fee and commission income/(expense)</b>	<b>80</b>	<b>490</b>	<b>570</b>	<b>390</b>	<b>390</b>	<b>(71)</b>	<b>889</b>

## Note 3

### Segment reporting continued

#### (iii) Products and services

For the purpose of preparing a segment report based on products and services, the activities of the Consolidated Entity have been divided into the following four areas:

- **Lending:** corporate and structured finance, banking activities, mortgages and leasing
- **Financial Markets:** trading in fixed income, equities, currency, commodities and derivative products
- **Asset and Wealth Management:** manufacture and distribution of fund management products
- **Capital Markets:** underwriting, facilitation, broking and real estate/property development.

	CONSOLIDATED	
	2019 \$m	2018 \$m
<b>Revenue from external customers</b>		
Lending	4,655	4,349
Financial Markets	4,595	3,475
Asset and Wealth Management	790	510
Capital Markets	133	102
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>10,173</b>	<b>8,436</b>

(1) Revenue from external customers includes fee and commission income relating to contracts with customers, interest and similar income, net trading income, operating lease income, income associated with investing activities and other income.

#### (iv) Geographical areas

Geographical segments have been determined based on where the transactions have been recorded. The operations of the Consolidated Entity are headquartered in Australia.

	CONSOLIDATED 2019		CONSOLIDATED 2018	
	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m
Australia	5,621	1,503	4,905	1,350
Europe, Middle East and Africa <sup>(2)</sup>	1,920	1,298	1,392	9,528
Americas <sup>(3)</sup>	2,120	257	1,465	1,081
Asia Pacific	512	84	674	97
<b>Total</b>	<b>10,173</b>	<b>3,142</b>	<b>8,436</b>	<b>12,056</b>

(1) Non-current assets consist of intangible assets, interests in associates and joint ventures, property, plant and equipment and investment property.

(2) Includes revenue generated in the United Kingdom of \$1,861 million (2018: \$1,350 million).

(3) Includes revenue generated in the United States of America of \$1,888 million (2018: \$1,372 million).

#### (v) Major customers

The Consolidated Entity does not rely on any major customers.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 4</b>				
Income tax expense				
<b>(i) Income tax (expense)/benefit</b>				
Current tax expense	(745)	(426)	(298)	(73)
Deferred tax benefit/(expense)	169	(144)	110	(178)
<b>Total income tax expense</b>	<b>(576)</b>	<b>(570)</b>	<b>(188)</b>	<b>(251)</b>
Income tax (expense)/benefit is attributable to:				
Profit from continuing operations	(394)	(353)	(141)	(152)
Profit from discontinued operations	(182)	(217)	(47)	(99)
<b>Total income tax expense</b>	<b>(576)</b>	<b>(570)</b>	<b>(188)</b>	<b>(251)</b>
<b>(ii) Reconciliation of income tax (expense)/benefit to prima facie tax payable</b>				
Prima facie income tax expense on operating profit <sup>(1)</sup>	(785)	(646)	(545)	(681)
Tax effect of amounts which are non-assessable/(non-deductible) in calculating taxable income:				
Rate differential on offshore income	147	77	(8)	(16)
Impairment charge on subsidiaries	–	–	6	(4)
Intra-group dividends	–	–	219	455
Gain on sale of discontinued operations	67	–	139	–
Other items	(5)	(1)	1	(5)
<b>Total income tax expense</b>	<b>(576)</b>	<b>(570)</b>	<b>(188)</b>	<b>(251)</b>
<b>(iii) Tax benefit/(expense) relating to items of other comprehensive income</b>				
Available for sale reserve <sup>(2)</sup>	–	32	–	17
FVOCI reserve <sup>(2)</sup>	3	–	(3)	–
Own credit risk	(3)	(3)	(3)	–
Cash flow hedge reserve	29	(19)	8	(2)
Foreign currency translation reserve	–	(1)	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>29</b>	<b>9</b>	<b>2</b>	<b>15</b>
<b>(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/(liabilities)</b>				
Property, plant and equipment	21	(22)	12	(13)
Intangible assets	5	–	2	–
Financial investments and interest in associates and joint ventures	(39)	17	(50)	(1)
Tax losses	43	(49)	17	26
Operating and finance lease assets	45	41	75	(131)
Loan assets and derivatives	(21)	40	(9)	19
Other assets and liabilities	115	(171)	63	(78)
<b>Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)</b>	<b>169</b>	<b>(144)</b>	<b>110</b>	<b>(178)</b>

(1) Prima facie income tax on operating profit is calculated at the Australian statutory corporate tax rate of 30% (2018: 30%).

(2) Includes transition impact of adoption on AASB 9 as disclosed in Note 1.

Revenue authorities undertake risk reviews and audits as part of their normal activities. The Consolidated Entity has assessed these, and other taxation claims and litigation, including seeking external advice where appropriate, and considers that it holds appropriate positions.



	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 5</b>				
Dividends and distributions paid or provided for				
<b>(i) Ordinary share capital</b>				
Dividends paid <sup>(1)</sup>	<b>1,188</b>	1,210	<b>1,188</b>	1,210
Dividend provided for <sup>(2)</sup>	<b>560</b>	–	<b>560</b>	–
<b>Total dividends paid or provided for (Note 25)</b>	<b>1,748</b>	1,210	<b>1,748</b>	1,210

(1) Includes \$264 million dividend paid on disposal of business. Refer to Note 40 *Discontinued operations* for further information.

(2) On 31 March 2019, the directors declared a dividend of \$560 million which was paid on 5 April 2019.

#### (ii) Distributions paid or provided for

<b>Macquarie Income Securities<sup>(1)</sup></b>				
Distributions paid (net of distributions previously provided for)	<b>12</b>	11	–	–
Distributions provided for	<b>3</b>	3	–	–
<b>Total distributions paid or provided for</b>	<b>15</b>	14	–	–

(1) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 24 *Contributed equity* for further details on these instruments.

#### Note 6

##### Trading assets

<b>Equities</b>				
Listed	<b>7,658</b>	4,429	<b>7,227</b>	3,837
Unlisted	–	17	–	1
<b>Debt securities</b>				
Commonwealth and foreign government securities	<b>4,752</b>	5,846	<b>4,695</b>	5,722
Corporate loans and securities	<b>1,732</b>	798	<b>575</b>	588
Treasury notes	<b>783</b>	611	<b>80</b>	222
Other debt securities	<b>24</b>	697	<b>14</b>	2
Commodities	<b>2,553</b>	2,496	<b>1,369</b>	1,451
<b>Total trading assets</b>	<b>17,502</b>	14,894	<b>13,960</b>	11,823

The above amounts are expected to be recovered within 12 months of the balance date by the Consolidated Entity and the Company.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 7</b>				
Margin money and settlement assets				
Margin placed	6,887	8,007	3,965	4,862
Security settlements	3,203	3,108	2,811	2,729
Commodities settlements	4,406	2,608	3,026	1,517
<b>Total margin money and settlement assets</b>	<b>14,496</b>	<b>13,723</b>	<b>9,802</b>	<b>9,108</b>

The above amounts are expected to be materially recovered within 12 months of the balance date by the Consolidated Entity and the Company.

## Note 8 Financial investments

Equity securities				
Listed	65	49	50	28
Unlisted	195	368	141	334
Debt securities <sup>(1)</sup>				
Bonds and NCDs	5,005	5,031	5,005	5,031
Corporate loans and securities	38	37	38	37
Other debt securities	167	248	81	117
<b>Total financial investments</b>	<b>5,470</b>	<b>5,733</b>	<b>5,315</b>	<b>5,547</b>

(1) Balance as at 31 March 2019 includes \$80 million of debt securities measured at FVTPL which are not subject to impairment under AASB 9.

Of the above amounts, \$2,258 million (2018: \$3,160 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$2,160 million (2018: \$3,153 million) by the Company.

## Note 9 Other assets

Debtors and prepayments <sup>(1)</sup>				
	1,365	2,158	1,156	1,211
Life investment linked contracts and other unitholder assets	382	648	–	–
Income tax receivable	220	234	111	117
Assets of disposal groups classified as held for sale	9	345	–	–
Others	129	329	2	9
<b>Total other assets</b>	<b>2,105</b>	<b>3,714</b>	<b>1,269</b>	<b>1,337</b>

(1) Includes \$135 million (2018: \$142 million) of fee and commission receivables.

Of the above amounts, \$1,954 million (2018: \$3,336 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$869 million (2018: \$916 million) by the Company.

	2019			2018		
	Gross \$m	ECL allowance <sup>(1)</sup> \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment <sup>(1)</sup> \$m	Net \$m
<b>Note 10</b>						
Loan assets	<b>CONSOLIDATED</b>					
Mortgages <sup>(2)</sup>	41,965	(60)	41,905	36,937	(3)	36,934
Asset financing <sup>(2)</sup>	18,225	(240)	17,985	19,125	(41)	19,084
Corporate, commercial and other lending	12,360	(209)	12,151	14,460	(76)	14,384
Investment lending	1,781	(1)	1,780	2,134	–	2,134
<b>Total</b>	<b>74,331</b>	<b>(510)</b>	<b>73,821</b>	72,656	(120)	72,536
Less: collective allowance for credit losses <sup>(1)</sup>			–			(247)
<b>Total loan assets<sup>(3)</sup></b>			<b>73,821</b>			72,289
	<b>COMPANY</b>					
Mortgages	40,888	(15)	40,873	35,381	(3)	35,378
Corporate, commercial and other lending	9,625	(184)	9,441	10,941	(154)	10,787
Asset financing	3,432	(71)	3,361	3,552	(13)	3,539
Investment lending	265	–	265	272	–	272
<b>Total</b>	<b>54,210</b>	<b>(270)</b>	<b>53,940</b>	50,146	(170)	49,976
Less: collective allowance for credit losses <sup>(1)</sup>			–			(143)
<b>Total loan assets<sup>(3)</sup></b>			<b>53,940</b>			49,833

(1) The ECL relating to loan assets under AASB 9 are recorded under ECL allowance. As the prior year has not been restated for AASB 9, individually assessed provisions and collective allowance for credit losses provided for as at March 2018 remain in accordance with AASB 139, accordingly the amounts are not necessarily comparable.

(2) Includes \$10,753 million (2018: \$11,560 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to Note holders and debt providers.

(3) Gross balance as at 31 March 2019 includes \$366 million (Company: \$468 million) of loans measured at FVTPL and \$146 million (Company: \$146 million) of loans measured at DFVTPL which are not subject to ECL allowance under AASB 9. This also includes \$37,698 million of loans measured at FVOCI for the Company on which an ECL allowance of \$46 million has been recognised in OCI and is hence not included in carrying value above.

Of the above amounts, \$22,510 million (2018: \$23,582 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$17,741 million (2018: \$15,234 million) by the Company.

#### Repossessed collateral

In the event of a customer default on facilities, the Consolidated Entity may take possession of real estate or other assets held as security. During the financial year, the Consolidated Entity has taken possession of fixed assets and property assets with a carrying value of \$32 million (2018: \$66 million) for cases of corporate, commercial and other lending where its customers defaulted on facilities.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED	COMPANY
	2018 \$m	2018 \$m
<b>Note 10</b>		
Loan assets continued		
The table below represents the movements in individually assessed provisions and collective allowance for credit losses for the year ended 31 March 2018. Refer to Note 11 <i>Expected credit losses</i> , for the reconciliation of ECL on loan assets for the year ended 31 March 2019.		
<b>Individually assessed provisions for impairment</b>		
Balance at the beginning of the financial year	357	379
Provided for during the financial year	91	80
Loan assets written off or sold, previously provided for	(311)	(275)
Recovery of loans previously provided for	(23)	(20)
Net transfer from collective provisions	5	5
Foreign exchange movements	1	1
<b>Balance at the end of the financial year</b>	<b>120</b>	<b>170</b>
<b>Individually assessed provisions as a percentage of total gross loan assets</b>	<b>0.17%</b>	<b>0.34%</b>
<b>Collective allowance for credit losses</b>		
Balance at the beginning of the financial year	396	261
Reversed during the financial year	(140)	(114)
Disposal during the financial year	(7)	–
Net transfer to individually assessed provisions	(5)	(5)
Foreign exchange movements	3	1
<b>Balance at the end of the financial year</b>	<b>247</b>	<b>143</b>

## Finance lease receivables

Finance lease receivables are included within loan assets. 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. Finance lease receivables do not include retail products such as hire purchase, mortgages related to movable property and consumer loans.

	2019			2018		
	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
<b>CONSOLIDATED</b>						
Not later than one year	2,076	(203)	1,873	1,914	(197)	1,717
Later than one year and not later than five years	3,864	(397)	3,467	3,991	(410)	3,581
Later than five years	62	(2)	60	90	(16)	74
<b>Total</b>	<b>6,002</b>	<b>(602)</b>	<b>5,400</b>	<b>5,995</b>	<b>(623)</b>	<b>5,372</b>
<b>COMPANY</b>						
Not later than one year	133	(19)	114	73	(8)	65
Later than one year and not later than five years	323	(43)	280	69	(4)	65
Later than five years	1	–	1	1	–	1
<b>Total</b>	<b>457</b>	<b>(62)</b>	<b>395</b>	<b>143</b>	<b>(12)</b>	<b>131</b>

## Note 11

### Expected credit losses

At the reporting date the Consolidated Entity has presented the ECL allowances in its statement of financial position as follows:

- financial assets measured at amortised cost: Deduction against the gross carrying amount
- debt investments measured at FVOCI: Included in OCI since the asset's carrying value is measured at fair value
- undrawn credit commitments, financial guarantee contracts and letters of credit: Recognised as a provision and included in other liabilities
- purchased or originated credit-impaired financial assets: Recognised as part of the net carrying value of the asset.

### Transition impact

On transition to AASB 9 on 1 April 2018 the Consolidated Entity's total credit impairment allowances increased by \$165 million as a result of the following principle differences between AASB 139's incurred credit loss requirements and AASB 9's ECL impairment requirements:

- Forward-Looking Information (FLI): AASB 9 requires the calculation of the ECL to include FLI, which incorporates macro-economic information. Previously AASB 139 required the consideration of historical information that was updated to reflect current conditions at the balance sheet date
- a 12-month minimum ECL requirement (stage I): AASB 9 requires a 12-month ECL impairment allowance to be held on all exposures, unless the contractual period is shorter
- Significant Increase in Credit Risk (SICR) (stage II): AASB 9 requires the Consolidated Entity to determine whether there has been a SICR since initial recognition, and in such instances, to classify the exposure as stage II and recognise a lifetime expected credit loss
- off balance sheet exposures: AASB 9's scope includes certain off balance sheet exposures such as undrawn credit commitments, financial guarantee contracts and letters of credit for which an ECL is required to be recognised. No impairment allowance was specifically required to be recognised under AASB 139.

### Model inputs

The Consolidated Entity models the ECL for on-balance sheet financial assets measured at amortised cost or FVOCI such as loans, debt securities and lease receivables, as well as off-balance sheet items such as undrawn loan commitments, certain financial guarantees and letters of credit. The Consolidated Entity segments its credit portfolio between retail and wholesale exposures, and further splits these portfolios into representative groupings which are typically based on shared risk characteristics. These groupings are subject to review to ensure that the portfolios remain homogeneous.

For retail portfolios, behavioural variables are also considered in the determination of inputs for ECL modelling.

The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the exposure is expected to default
- Probability of default (PD): The calculation of PDs for retail and wholesale exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine a point in time PD. Wholesale portfolio PDs are a function of industry type, internal credit ratings and transition matrices used to determine a point in time PD estimate. PD estimates for both retail and wholesale portfolios are also adjusted for FLI
- Loss given default (LGD): The LGD associated with PD used is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. LGD estimates are also adjusted for FLI.

### Method of determining significant increase in credit risk (SICR)

The Consolidated Entity periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Consolidated Entity's material retail and wholesale portfolios. Qualitative factors include, but are not limited to, whether an exposure has been identified and placed on CreditWatch. 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 management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposure's credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 11

### Expected credit losses continued

#### Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour. The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features (for example cash advances for credit cards or changes in novation status for selected car leases).

SICR thresholds referencing the movement between origination and reporting date behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage II. Where the behavioural score subsequently improves such that the change since origination is back within the SICR threshold, the exposure is assessed for categorisation back to stage I. The pre-defined SICR thresholds are periodically reviewed and calibrated based on historical default experience.

#### Wholesale exposures

The Consolidated Entity assigns an internal credit rating to each exposure at origination based on information available at that date. These internal ratings are broadly aligned to external credit rating agencies such as Standard & Poor's and Moody's. The internal ratings for each exposure are reviewed at least once a year, or more frequently if necessary, to ensure any deterioration is identified and reflected in an adjustment to their rating. Furthermore, other indicators of deterioration in credit quality are regularly monitored, such as payment history, credit limit utilisation, requests to modify the debt for forbearance, changes in the exposure's business, external data from credit reference agencies, media reports, external credit ratings external quoted bond and credit default swap prices.

Where an exposure's assigned credit rating deteriorates beyond pre-defined thresholds, the exposure is categorised as stage II. If the exposure's rating subsequently improves so that it does not exceed the threshold, the exposure is assessed for reclassification to stage I. The methodology has been calibrated so that a larger change in rating is required for higher quality credit rated exposures than for lower quality credit rated exposures to be classified as stage II. The rating methodology is periodically reviewed and calibrated based on historical default experience.

#### For both retail and wholesale portfolios

- The AASB 9 'low credit risk' exemption is not applied by the Consolidated Entity to material portfolios
- For material retail portfolios the credit risk for an exposure or portfolio is generally deemed to have increased significantly if the exposure is more than 30 days past due, unless there are product specific characteristics that indicate that this threshold should be rebutted.

#### Definition of default

The Consolidated Entity's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Consolidated Entity to the realisation of collateral;

or the borrower is 90 days or more past due. The Consolidated Entity periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower including breaches of lending covenants; it is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Retail and wholesale exposures that are identified as in default can be reclassified from stage III following a pre-defined period over which the exposure demonstrates that it has returned to a performing status and, in the case of wholesale exposures, based on an individual assessment of the exposure.

#### Forward-looking information (FLI)

The inclusion of FLI in calculating ECL allowances adjusts the PD, the determination of SICR as well as the LGD (that is relevant to the determination of the recovery rates on collateral). The Consolidated Entity has identified a number of key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), unemployment rate and the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between these key indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the development of internal models, calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

The Consolidated Entity's Risk Management Group, which consults with a range of internal specialists, is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, four possible economic scenarios have been developed, being one upside case, two downside cases (of varying severity given that impairment losses will not react linearly to economic downturn scenarios) as well as a base case scenario. In calculating the ECL, each of the scenarios is probability weighted and then applied to the exposure's PDs and LGDs. The scenarios and the assigned probabilities are updated semi-annually or more frequently if a material disruption event were to occur.

The scenarios, including its underlying indicators, are developed using a combination of publicly available data, internal forecasts and third party information to form the initial baseline. Internal specialists within the Consolidated Entity are consulted to assist in refining and challenging the baseline. The upside and downside scenarios are created through a process that initially anchors them to a certain degree of deviation in GDP growth from the baseline. The scenarios are refined through consultation with internal specialists and benchmarking to external data from reputable sources, which includes forecasts published from a range of market economists and official data sources, including major central banks. Assigning probabilities to these scenarios requires professional judgement which draws on internal risk and economics specialist input and comparison to general market outlooks and publicly-available market commentary.

The scenarios and the associated probabilities are ultimately approved by senior risk and finance executives.



## Note 11

### Expected credit losses continued

The Consolidated Entity reviews and, where appropriate, updates its FLI, which includes the scenarios and related probabilities, on a semi-annual basis. There have been some changes in the scenarios and the probabilities assigned thereto from the date of transition to AASB 9 to 31 March 2019. The key elements for each of the key regions where the Consolidated Entity's ECL is derived have been set-out below:

Scenario	Weighting	Expectation
Baseline	Probable	<p><b>Global:</b> The baseline scenario assumes global economic performance is relatively stable throughout most of the forecast period.</p> <p><b>Australia:</b> GDP growth is forecast to slow down significantly during the first half of 2019 and recover to a moderate pace after 2020, house prices continue to decline in 2019 and recover thereafter, the unemployment rate initially rises and then remains stable, and the Reserve Bank of Australia (RBA) cuts its cash rate in 2019 and resumes hikes in 2021.</p> <p><b>United States:</b> Growth is forecast to decelerate through mid-2020 and remain stable through to the end of the forecast period, while 10-year government bond yields are expected to rise by 2020 and the unemployment rate is expected to remain stable at low levels.</p> <p><b>Europe:</b> Moderate to low growth forecasted for the forecast period, 10-year government bond yields increasing from late 2020 and levels of unemployment slowly falling.</p>
Upside	Possible	<p><b>Global:</b> Marginally higher growth in GDP against the baseline scenario during the forecast period.</p> <p><b>Australia:</b> Marginally higher GDP over the baseline scenario during the forecast period. Following the RBA increasing the cash rate in 2019, house prices decline but recover during 2020 and end higher than current peak price levels.</p> <p><b>United States:</b> Marginally higher GDP over the baseline during the forecast period with a peak early in 2019 and moderating thereafter. 10-year government bond yields peak higher than the baseline in 2021 and the unemployment rate falling further than the forecasts in the baseline scenario.</p> <p><b>Europe:</b> Marginally higher GDP over the baseline during the forecast period. 10-year government bond yields peak higher than the baseline in 2022 and the unemployment rate falling further than the forecasts in the baseline scenario.</p>
Downside	Possible	<p><b>Globally:</b> Marginally lower growth in GDP against the baseline through to 2022.</p> <p><b>Australia:</b> GDP growth falls in 2019 and marginally recovers after 2021. House prices decline further than the forecasts in the baseline scenario to 2019 but are expected to recover to current levels by 2021. During 2020 the level of unemployment rate peaks and the RBA cuts interest rates.</p> <p><b>United States:</b> GDP growth reduces and gradually recovers after 2021, 10-year government bond yields fall through to 2020 and remain at those levels and the unemployment rate rises from current levels through to 2022.</p> <p><b>Europe:</b> Low levels of GDP growth through to 2022, 10-year government bond yields remaining low and rising unemployment rates.</p>
More Severe Downside	Unlikely	<p><b>Globally:</b> A recession from 2019–2020 following a marked retraction in GDP growth before recovering in 2021.</p> <p><b>Australia:</b> GDP growth contracts through mid-2020 and recovers above existing levels by end 2021. House prices register a significant decline from current levels to mid-2020 and the RBA cuts interest rates in 2019 and they remain low through most of the forecast period.</p> <p><b>United States:</b> GDP contracts through mid-2020 and stages a strong recovery to current levels by mid-2021. 10-year government bond rates drop to reach a trough by 2020 and recover gradually over the forecast period. Unemployment peaks before declining again in mid-2021.</p> <p><b>Europe:</b> Growth contracts through Q12020 and recovers to current levels by end 2021. 10-year government bond yields fall and rise marginally through to 2021. Unemployment levels peak in 2021 before moderating towards the end of the forecast period but still above that of the baseline.</p>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 11

### Expected credit losses continued

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9<sup>(1),(2)</sup>.

	AS AT 31 MARCH 2019		AS AT 1 APRIL 2018	
	Gross exposure <sup>(2)</sup> \$m	ECL allowance \$m	Gross exposure <sup>(2)</sup> \$m	ECL allowance \$m
<b>CONSOLIDATED</b>				
Cash and bank balances <sup>(3)</sup>	7,693	–	7,852	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	9,993	–	12,694	–
Margin money and settlement assets <sup>(3)</sup>	10,749	–	13,950	–
Financial investments	5,117	–	5,131	–
Other assets	1,048	21	891	38
Loan assets <sup>(4)</sup>	73,818	511	71,795	504
Due from related body corporate entities	1,522	1	1,383	1
Interests in associates and joint ventures – loans	8	1	11	1
Undrawn credit commitments and financial guarantees <sup>(5)</sup>	7,474	6	6,159	12
<b>Total</b>	<b>117,422</b>	<b>540</b>	<b>119,866</b>	<b>556</b>
<b>COMPANY</b>				
Cash and bank balances <sup>(3)</sup>	6,377	–	6,648	–
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(3)</sup>	9,983	–	12,687	–
Margin money and settlement assets <sup>(3)</sup>	8,002	–	9,108	–
Financial investments	5,030	–	5,001	–
Other assets	855	4	690	13
Loan assets <sup>(4)</sup>	53,618	316	49,547	315
Due from subsidiaries	23,158	31	26,976	38
Due from related body corporate entities	1,039	–	1,212	–
Interests in associates and joint ventures – loans	5	–	4	–
Undrawn credit commitments and financial guarantees <sup>(5)</sup>	6,961	5	7,086	10
<b>Total</b>	<b>115,028</b>	<b>356</b>	<b>118,959</b>	<b>376</b>

(1) The Consolidated Entity has not restated its comparative information for 31 March 2018 on adoption of AASB 9. Amounts as at 1 April 2018 represent amounts as at the transition date.

(2) Gross exposure of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross exposure of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

(3) Consists of short term, fully collateralised or high quality assets with minimal historical losses.

(4) Includes ECL allowance of \$510 million (1 April 2018: \$500 million) for the Consolidated Entity and \$270 million (1 April 2018: \$273 million) for the Company on loan assets carried at amortised cost and \$1 million (1 April 2018: \$4 million) for the Consolidated entity and \$46 million (1 April 2018: \$42 million) for the Company on loan assets measured at FVOCI.

(5) Gross exposure for undrawn credit commitments and financial guarantees represents the notional values of these contracts.

## Note 11

## Expected credit losses continued

The table below represents the reconciliation from the opening balance to the closing balance of ECL allowances:

	Other assets \$m	Loan assets \$m	Due from related body corporate entities \$m	Interests in associates and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m	
<b>CONSOLIDATED</b>							
<b>Balance as at 31 March 2018</b>	22	367	–	2	–	391	
Change on initial application of AASB 9	16	137	1	(1)	12	165	
<b>Balance as at 1 April 2018</b>	38	504	1	1	12	556	
Impairment (reversal)/charge (Note 2)	10	137	–	–	(2)	145	
Amounts written off, previously provided for	(11)	(115)	–	–	–	(126)	
Disposal during the financial year	(16)	(17)	–	–	–	(33)	
Foreign exchange and other movements	–	2	–	–	(4)	(2)	
<b>Balance as at 31 March 2019</b>	21	511	1	1	6	540	
<b>COMPANY</b>							
	Financial investments \$m	Other assets \$m	Loan assets \$m	Due from subsidiaries \$m	Interests in associates and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>Balance as at 31 March 2018</b>	–	8	313	–	1	–	322
Change on initial application of AASB 9	–	5	2	38	(1)	10	54
<b>Balance as at 1 April 2018</b>	–	13	315	38	–	10	376
Impairment (reversal)/charge (Note 2)	6	(15)	69	(6)	–	(3)	51
Amounts written off, previously provided for	(6)	–	(60)	–	–	–	(66)
Disposal during the financial year	–	–	(8)	–	–	–	(8)
Foreign exchange and other movements	–	6	–	(1)	–	(2)	3
<b>Balance as at 31 March 2019</b>	–	4	316	31	–	5	356

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 11

### Expected credit losses continued

The table below represents the reconciliation from the opening balance to the closing balance of the ECL allowance on loan assets to which the impairment requirements under AASB 9 are applied.

#### ECL on loan assets

	STAGE I	STAGE II	STAGE III	Collective allowance for credit losses \$m	Individually assessed provisions \$m	Total \$m
	12 month ECL \$m	Not credit impaired \$m	Credit impaired \$m			
	<b>LIFETIME ECL</b>					
						<b>CONSOLIDATED</b>
<b>Balance as at 31 Mar 18</b>	–	–	–	247	120	367
Change on initial application of AASB 9	144	202	158	(247)	(120)	137
<b>Balance as at 1 Apr 18</b>	<b>144</b>	<b>202</b>	<b>158</b>	<b>–</b>	<b>–</b>	<b>504</b>
Transfers during the period:						
To 12 month ECL	61	(58)	(3)	–	–	–
To lifetime ECL not credit impaired	(13)	49	(36)	–	–	–
To lifetime ECL credit impaired	–	(36)	36	–	–	–
Impairment (reversal)/charge (Note 2)	(46)	19	164	–	–	137
Amounts written off, previously provided for	–	–	(115)	–	–	(115)
Disposal during the financial year	(11)	(5)	(1)	–	–	(17)
Foreign exchange and other movements	–	2	–	–	–	2
<b>Balance as at 31 Mar 19</b>	<b>135</b>	<b>173</b>	<b>203</b>	<b>–</b>	<b>–</b>	<b>511</b>
The net movement in ECL allowance for loan assets is primarily due to change in forward outlook information considering noticeable change in macro-economic variables and re-weighting of scenarios and deterioration in the credit quality. Amount written off primarily relates to Stage II Asset Financing exposure.						
						<b>COMPANY</b>
<b>Balance as at 31 Mar 18</b>	–	–	–	143	170	313
Change on initial application of AASB 9	82	129	104	(143)	(170)	2
<b>Balance as at 1 Apr 18</b>	<b>82</b>	<b>129</b>	<b>104</b>	<b>–</b>	<b>–</b>	<b>315</b>
Transfers during the period:						
To 12 month ECL	46	(44)	(2)	–	–	–
To lifetime ECL not credit impaired	(6)	25	(19)	–	–	–
To lifetime ECL credit impaired	–	(24)	24	–	–	–
Impairment (reversal)/charge (Note 2)	(35)	38	66	–	–	69
Amounts written off, previously provided for	–	–	(60)	–	–	(60)
Disposal during the financial year (Note 40)	(2)	(6)	–	–	–	(8)
Foreign exchange and other movements	–	–	–	–	–	–
<b>Balance as at 31 Mar 19</b>	<b>85</b>	<b>118</b>	<b>113</b>	<b>–</b>	<b>–</b>	<b>316</b>

	2019			2018		
	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
<b>Note 12</b>						
Property, plant and equipment						
<b>CONSOLIDATED</b>						
<b>Assets for own use</b>						
Land and buildings	85	–	85	2	–	2
Furniture, fittings and leasehold improvements	41	(26)	15	42	(26)	16
Equipment	25	(14)	11	21	(11)	10
Infrastructure assets	–	–	–	551	(30)	521
<b>Total assets for own use</b>	<b>151</b>	<b>(40)</b>	<b>111</b>	<b>616</b>	<b>(67)</b>	<b>549</b>
<b>Assets under operating lease</b>						
Aviation	–	–	–	9,938	(2,437)	7,501
Meters	1,912	(664)	1,248	1,629	(541)	1,088
Telecommunication	1,588	(622)	966	963	(255)	708
Rail cars	–	–	–	862	(176)	686
Others	612	(199)	413	784	(242)	542
<b>Total assets under operating lease</b>	<b>4,112</b>	<b>(1,485)</b>	<b>2,627</b>	<b>14,176</b>	<b>(3,651)</b>	<b>10,525</b>
<b>Total property, plant and equipment</b>	<b>4,263</b>	<b>(1,525)</b>	<b>2,738</b>	<b>14,792</b>	<b>(3,718)</b>	<b>11,074</b>
<b>COMPANY</b>						
<b>Assets for own use</b>						
Land and buildings	82	–	82	–	–	–
Furniture, fittings and leasehold improvements	18	(10)	8	17	(9)	8
Equipment	14	(9)	5	11	(5)	6
<b>Total assets for own use</b>	<b>114</b>	<b>(19)</b>	<b>95</b>	<b>28</b>	<b>(14)</b>	<b>14</b>
<b>Assets under operating lease</b>						
Telecommunication	1,568	(619)	949	963	(255)	708
Meters	–	–	–	33	(4)	29
Others	362	(89)	273	474	(98)	376
<b>Total assets under operating lease</b>	<b>1,930</b>	<b>(708)</b>	<b>1,222</b>	<b>1,470</b>	<b>(357)</b>	<b>1,113</b>
<b>Total property, plant and equipment</b>	<b>2,044</b>	<b>(727)</b>	<b>1,317</b>	<b>1,498</b>	<b>(371)</b>	<b>1,127</b>

The majority of the above amounts have expected useful life longer than 12 months after the balance date.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 12

Property, plant and equipment continued

The movement in the Consolidated Entity's property, plant and equipment at their net carrying value:

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
<b>Assets for own use</b>					
Balance as at 1 Apr 17	9	7	5	467	488
Acquisitions/additions	–	13	8	80	101
Disposals	(2)	(1)	–	–	(3)
Reclassification and other adjustments	(5)	(1)	–	(64)	(70)
Foreign exchange movements	–	1	–	52	53
Depreciation expense (Note 2)	–	(3)	(3)	(14)	(20)
<b>Balance as at 31 Mar 18</b>	<b>2</b>	<b>16</b>	<b>10</b>	<b>521</b>	<b>549</b>
Acquisitions/additions	<b>75</b>	<b>7</b>	<b>6</b>	<b>57</b>	<b>145</b>
Disposals	–	<b>(4)</b>	–	<b>(572)</b>	<b>(576)</b>
Reclassification and other adjustments	<b>8</b>	–	–	<b>(11)</b>	<b>(3)</b>
Foreign exchange movements	–	–	–	<b>11</b>	<b>11</b>
Depreciation expense (Note 2)	–	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(15)</b>
<b>Balance as at 31 Mar 19</b>	<b>85</b>	<b>15</b>	<b>11</b>	<b>–</b>	<b>111</b>

	Aviation \$m	Meters \$m	Telecommunication \$m	Rail cars \$m	Others \$m	Total \$m
<b>Assets under operating lease</b>						
Balance as at 1 Apr 17	8,171	735	188	633	528	10,255
Acquisitions	7	437	847	–	114	1,405
Disposals <sup>(1)</sup>	(104)	–	(65)	–	(14)	(183)
Reclassification and other adjustments	(42)	(48)	–	–	(1)	(91)
Impairments	(12)	–	–	–	–	(12)
Foreign exchange movements	(42)	95	–	82	1	136
Depreciation expense (Note 2)	(477)	(131)	(262)	(29)	(86)	(985)
<b>Balance as at 31 Mar 18</b>	<b>7,501</b>	<b>1,088</b>	<b>708</b>	<b>686</b>	<b>542</b>	<b>10,525</b>
Acquisitions	<b>33</b>	<b>415</b>	<b>1,105</b>	–	<b>64</b>	<b>1,617</b>
Disposals <sup>(1)</sup>	<b>(7,711)</b>	<b>(31)</b>	<b>(272)</b>	<b>(645)</b>	<b>(120)</b>	<b>(8,779)</b>
Reclassification and other adjustments	–	<b>(46)</b>	–	–	<b>(8)</b>	<b>(54)</b>
Impairments	–	–	<b>(4)</b>	–	–	<b>(4)</b>
Foreign exchange movements	<b>515</b>	<b>6</b>	–	<b>(20)</b>	<b>10</b>	<b>511</b>
Depreciation expense	<b>(338)</b>	<b>(184)</b>	<b>(571)</b>	<b>(21)</b>	<b>(75)</b>	<b>(1,189)</b>
<b>Balance as at 31 Mar 19</b>	<b>–</b>	<b>1,248</b>	<b>966</b>	<b>–</b>	<b>413</b>	<b>2,627</b>

(1) Includes \$8,162 million with respect to discontinued operations (refer Note 40 *Discontinued operations*).



## Note 12

### Property, plant and equipment continued

The movement in the Company's property, plant and equipment at their net carrying value:

	Land and Buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Total \$m
<b>Assets for own use</b>				
Balance as at 1 Apr 17	–	2	4	6
Acquisitions/additions	–	7	4	11
Disposals	–	–	–	–
Reclassification and other adjustments	–	–	–	–
Foreign exchange movements	–	–	–	–
Depreciation expense (Note 2)	–	(1)	(2)	(3)
<b>Balance as at 31 Mar 18</b>	–	8	6	14
Acquisitions/additions	74	2	2	79
Reclassification and other adjustments	8	–	–	8
Foreign exchange movements	–	–	–	–
Depreciation expense (Note 2)	–	(2)	(3)	(6)
<b>Balance as at 31 Mar 19</b>	<b>82</b>	<b>8</b>	<b>5</b>	<b>95</b>

	Meters \$m	Telecommunication \$m	Other \$m	Total \$m
<b>Assets under operating lease</b>				
Balance as at 1 Apr 17	21	188	354	563
Acquisitions	12	847	50	908
Disposals	(1)	(65)	(1)	(66)
Reclassification and other adjustments	–	–	–	–
Impairments	–	–	–	–
Foreign exchange movements	–	–	1	1
Depreciation expense (Note 2)	(3)	(262)	(28)	(293)
<b>Balance as at 31 Mar 18</b>	29	708	376	1,113
Acquisitions	5	1,084	2	1,091
Disposals	(31)	(272)	(73)	(376)
Reclassification and other adjustments	–	–	(8)	(8)
Impairments	–	(4)	–	(4)
Foreign exchange movements	–	–	1	1
Depreciation expense (Note 2)	(3)	(567)	(25)	(595)
<b>Balance as at 31 Mar 19</b>	<b>–</b>	<b>949</b>	<b>273</b>	<b>1,223</b>

The future minimum lease payments expected to be received under non-cancellable operating leases are as follows:

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Not later than one year	644	1,474	598	439
Later than one year and not later than five years	333	2,421	279	261
Later than five years	59	402	59	87
<b>Total future minimum lease payments receivable<sup>(1)</sup></b>	<b>1,036</b>	<b>4,297</b>	<b>936</b>	<b>787</b>

(1) Decrease relates to discontinued operations.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 13</b>				
Interests in associates and joint ventures				
Equity investments with no provisions for impairment	115	607	37	421
Equity investments with provisions for impairment				
Gross carrying value	240	176	28	33
Less: provisions for impairment	(146)	(70)	(25)	(29)
Equity investments with provisions for impairment	94	106	3	4
Total equity investments in associates and joint ventures	209	713	40	425
Loans to associates and joint venture	11	16	8	8
Less: credit impairment charges <sup>(1)</sup>	(1)	(2)	–	(1)
Total loans to associates and joint venture <sup>(2)</sup>	10	14	8	7
<b>Total interests in associates and joint ventures<sup>(3),(4)</sup></b>	<b>219</b>	<b>727</b>	<b>48</b>	<b>432</b>

(1) The current year allowance has been calculated under AASB 9 while prior year was calculated under AASB 139. The ECL relating to loans to associates under AASB 9 are recorded under credit impairment charges.

(2) Balance as at 31 March 2019 includes \$3 million of loans measured at FVTPL which are not subject to impairment under AASB 9.

(3) Includes \$142 million (2018: \$629 million) relating to interests in associates and \$77 million (2018: \$98 million) relating to interests in joint ventures held by the Consolidated Entity, and \$38 million (2018: \$408 million) relating to interests in associates and \$10 million (2018: \$24 million) relating to interests in joint ventures held by the Company.

(4) Financial statements of associates and joint ventures have various reporting dates. There are no associates or joint ventures that are individually material to the Consolidated Entity or the Company.

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.

	2019			2018		
	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m

## Note 14

Intangible assets

	2019			2018		
	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m	Cost \$m	Accumulated amortisation and impairment \$m	Written down value \$m
<b>CONSOLIDATED</b>						
Goodwill	101	(33)	68	97	(30)	67
Other identifiable intangible assets	375	(266)	109	383	(236)	147
<b>Total intangible assets</b>	<b>476</b>	<b>(299)</b>	<b>177</b>	<b>480</b>	<b>(266)</b>	<b>214</b>
<b>COMPANY</b>						
Other identifiable intangible assets	285	(204)	81	277	(186)	91
<b>Total intangible assets</b>	<b>285</b>	<b>(204)</b>	<b>81</b>	<b>277</b>	<b>(186)</b>	<b>91</b>

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.

## Note 14

### Intangible assets continued

The movement in Consolidated Entity's intangible assets at their net carrying value:

	CONSOLIDATED			COMPANY	
	Goodwill \$m	Other identifiable intangible assets \$m	Total \$m	Other identifiable intangible assets \$m	Total \$m
<b>Balance as at 1 Apr 17</b>	56	137	193	104	104
Acquisitions	18	70	88	7	7
Impairment	(10)	(5)	(15)	–	–
Amortisation <sup>(1)</sup>	–	(57)	(57)	(20)	(20)
Foreign exchange movements	3	2	5	–	–
<b>Balance as at 31 Mar 18</b>	67	147	214	91	91
Acquisitions	–	6	6	6	6
Disposals, reclassifications and other adjustments	(1)	(1)	(2)	–	–
Impairment	(1)	(8)	(9)	–	–
Amortisation <sup>(1)</sup>	–	(22)	(22)	(16)	(16)
Foreign exchange movements	3	(13)	(10)	–	–
<b>Balance as at 31 Mar 19</b>	<b>68</b>	<b>109</b>	<b>177</b>	<b>81</b>	<b>81</b>

(1) The balance contains amortisation of \$3 million (2018: \$36 million) which is included in Net trading income.

	COMPANY	
	2019 \$m	2018 \$m
Investments in subsidiaries		
Investments at cost with no provisions for impairment	4,199	6,727
Investments at cost with provisions for impairment	1,592	1,316
Less: provisions for impairment <sup>(1)</sup>	(625)	(653)
Investments with provisions for impairment	967	663
<b>Total investments in subsidiaries</b>	<b>5,166</b>	<b>7,390</b>

(1) The recoverable amount has been estimated using valuation techniques which incorporate the subsidiary's consolidated maintainable earnings, financial position and growth rates.

The above amounts are expected to be recovered after 12 months of the balance date by the Company.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 15

### Investments in subsidiaries continued

The material subsidiaries of the Company, based on contribution to the Consolidated Entity's profit after income tax, the size of the investment made by the Company or the nature of activities conducted by the subsidiary, are:

- Macquarie Bank International Limited (United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Commodities Brasil S.A. (Brazil)
- Macquarie Corporate and Asset Finance 1 Limited (United Kingdom)
- Macquarie Corporate and Asset Finance 2 Limited (United Kingdom)
- Macquarie Emerging Markets Asian Trading Pte. Limited (Singapore)
- Macquarie Energy Canada Limited (Canada)
- Macquarie Energy LLC (United States)
- Macquarie Equipment Finance Designated Activity Company (Ireland)
- Macquarie Equipment Funding Limited (Ireland)
- Macquarie Equities Limited (Australia)
- Macquarie Finance Limited (Australia)
- Macquarie Financial Holdings (USA) LLC (United States)  
Macquarie Financial Products Management Limited (Australia)
- Macquarie Futures (Singapore) Pte. Limited (Singapore)
- Macquarie Futures USA LLC (United States)
- Macquarie Inc. (United States)
- Macquarie International Finance Limited (Australia)
- Macquarie Investment Management Limited (Australia)
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited (Australia)
- Macquarie Physical Metals (USA) Inc. (United Kingdom)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securitisation Limited (Australia)
- Puma Subfund B-1 (Australia)

The country of incorporation has been stated in brackets.

Overseas subsidiaries conduct business predominantly in their place of incorporation.

Beneficial interest in all material subsidiaries is 100%.

All material subsidiaries have a 31 March reporting date.

In accordance with ASIC instruments 15-0518, 16-0119, 18-0476 and 08-00792 the Consolidated Entity has been granted relief under section 340 of the *Corporations Act 2001* (Cth) from synchronising the year-end of the following consolidated subsidiaries to 31 March:

- Macquarie Energy Mexico, S. de R.L. de C.V. (formerly Macquarie Gas de Sonora S. de R.L. de C.V.)
- Comercializadora Energia de la Reforma S. de R.L. de C.V.
- Macquarie Commodities Trading (Shanghai) Co. Ltd
- Taurus Aerospace Group Inc.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 16</b>				
Deferred tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Other assets and liabilities	440	356	294	231
Tax losses	101	239	47	30
Property, plant and equipment	26	10	22	10
Intangible assets	82	75	76	74
Financial investments and interests in associates and joint ventures	32	63	32	75
Loan assets and derivatives	34	36	45	15
Set-off of deferred tax liabilities	(274)	(636)	(98)	(296)
<b>Net deferred tax assets</b>	<b>441</b>	<b>143</b>	<b>418</b>	<b>139</b>
Operating and finance lease assets	(263)	(979)	(98)	(298)
Loan and derivative assets	(14)	(18)	–	–
Other assets and liabilities	(126)	(195)	(46)	(112)
Property, plant and equipment	–	(27)	–	–
Intangible assets	(5)	(3)	–	–
Set-off of deferred tax assets	274	636	98	296
<b>Net deferred tax liabilities</b>	<b>(134)</b>	<b>(586)</b>	<b>(46)</b>	<b>(114)</b>

The above amounts are expected to be recovered after 12 months of the balance date by the Consolidated Entity and the Company.

Potential tax assets of approximately \$82 million (2018: \$111 million) attributable to tax losses carried forward by subsidiaries and other timing differences have not been brought to account in the Consolidated Entity as the Directors do not believe that the realisation of the tax assets is probable. Included in this amount are gross losses of \$Nil (2018: \$3 million) that will expire within 2 years; \$Nil (2018: \$2 million) that will expire in 2–5 years; \$Nil (2018: \$1 million) that will expire in 5–10 years and \$245 million (2018: \$137 million) that will expire in 10–20 years. \$440 million (2018: \$310 million) of gross losses do not expire and can be carried forward indefinitely.

## Note 17

### Trading liabilities

Equity securities				
Listed	7,737	7,540	8,355	7,888
Debt Securities				
Foreign government securities	20	328	20	328
Corporate securities	–	70	–	70
<b>Total trading liabilities</b>	<b>7,757</b>	<b>7,938</b>	<b>8,375</b>	<b>8,286</b>

## Note 18

### Margin money and settlement liabilities

Margin money	12,727	12,060	11,089	10,750
Security settlements	2,789	2,937	2,819	2,869
Commodities settlements	2,385	1,578	1,313	724
<b>Total margin money and settlement liabilities</b>	<b>17,901</b>	<b>16,575</b>	<b>15,221</b>	<b>14,343</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 19</b>				
Deposits				
Interest bearing deposits				
Call	40,431	38,606	40,344	38,564
Term	11,794	7,109	11,794	7,063
Non-interest bearing call deposits	3,895	2,656	3,895	2,593
<b>Total deposits</b>	<b>56,120</b>	<b>48,371</b>	<b>56,033</b>	<b>48,220</b>

<b>Note 20</b>				
Other Liabilities				
Accrued charges, income received in advance and other liabilities <sup>(1)</sup>	1,206	1,273	921	639
Creditors	1,195	1,211	818	817
Life investment linked contracts and other unitholder liabilities	377	640	–	–
Income tax payable	105	139	32	41
Aircraft and rail maintenance liabilities	10	846	52	620
Liabilities of disposal groups classified as held for sale	–	219	–	–
Other	150	153	–	–
<b>Total other liabilities</b>	<b>3,043</b>	<b>4,481</b>	<b>1,823</b>	<b>2,117</b>

(1) Includes provisions recognised for actual and potential claims and proceedings that arise in the ordinary course of business. The range of likely outcomes and increase in provisions during the current year in each of these matters did not have and is not currently expected to have a material impact on the Consolidated Entity.

<b>Note 21</b>				
Debt issued				
Bonds, negotiable certificates of deposit and commercial paper <sup>(1)</sup>	31,353	39,460	24,280	30,449
Structured notes <sup>(2)</sup>	2,234	2,064	2,234	2,064
<b>Total debt issued<sup>(3),(4)</sup></b>	<b>33,587</b>	<b>41,524</b>	<b>26,514</b>	<b>32,513</b>

(1) Includes \$7,855 million (2018: \$8,979 million) payable to Note holders and debt holders for which loan assets are held by consolidated SPEs and are available as security.

(2) Includes debt instruments on which the return is linked to commodities, equities, currencies, interest rates or other assets.

(3) The amount that would be contractually required to be paid at maturity to the holders of debt issued which are measured at DFVTPL (refer Note 35 *Measurement categories of financial instruments*) for the Consolidated Entity is \$2,928 million (2018: \$2,669 million). This amount is based on the final notional amount rather than the fair value.

(4) Includes cumulative fair value gain of \$31 million (31 March 2018: \$25 million) due to changes in own credit risk on liabilities designated to be measured at FVTPL.

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to its debt during the financial years reported.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 21</b>				
Debt issued continued				
<b>Reconciliation of debt issued by major currency</b>				
<i>(In Australian dollar equivalent)</i>				
United States dollar	<b>16,918</b>	20,834	<b>16,675</b>	20,389
Australian dollar	<b>9,685</b>	12,153	<b>2,894</b>	3,757
Euro	<b>4,004</b>	4,945	<b>3,966</b>	4,774
Swiss franc	<b>1,058</b>	1,487	<b>1,058</b>	1,487
Great British pound	<b>783</b>	727	<b>783</b>	727
Japanese yen	<b>580</b>	579	<b>580</b>	579
Yuan renminbi	<b>169</b>	246	<b>168</b>	246
Norwegian krone	<b>164</b>	163	<b>164</b>	163
Korean won	<b>114</b>	112	<b>114</b>	112
Hong Kong dollar	<b>112</b>	152	<b>112</b>	152
Canadian dollar	<b>–</b>	126	<b>–</b>	127
<b>Total</b>	<b>33,587</b>	41,524	<b>26,514</b>	32,513



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 22

### Capital management strategy

The Consolidated Entity's and the Company'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 resources to support the Consolidated Entity's business and operational requirements
- maintain sufficient capital to exceed externally imposed capital requirements
- 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, the Consolidated Entity has developed an Economic Capital Adequacy Model (ECAM) that is used to quantify the Company'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 the Company'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. APRA requires the Consolidated Entity to have an Internal Capital Adequacy Assessment Process (ICAAP) that is Board approved and which meets a range of minimum requirements. The Consolidated Entity 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 (IRRBB).

Regulatory capital requirements are measured for the Company 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 Company, its subsidiaries and its immediate parent less certain subsidiaries of the Company 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.

Under Basel III rules, APRA requires Authorised Deposit-taking Institutions (ADIs) to have a minimum ratio of Tier 1 capital to risk weighted assets (RWA) of 8.5% including 2.5% of capital conservation buffer plus an ADI specific countercyclical capital buffer, with at least 7.0% in the form of Common Equity Tier 1 capital. In addition, APRA may impose ADI-specific minimum capital ratios which may be higher than these levels.

The Consolidated Entity's Common Equity Tier 1 capital consists of share capital, retained earnings, and certain reserves, net of deductions. Additional Tier 1 capital consists of hybrid instruments. The hybrid instruments include Macquarie Additional Capital Securities, Macquarie Income Securities and Macquarie Bank Capital Notes. Information on details of capital instruments is available in the Regulatory Disclosures section of the Macquarie public website. Deductions from Common Equity 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 Common Equity Tier 1 capital. The Consolidated Entity's Tier 2 capital includes term subordinated debt, certain reserves and applicable deductions.

The Consolidated Entity and the Company have complied with all internal and external capital management requirements throughout the financial year.

## Note 23

### 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.

Below table highlights key capital instruments with conditional payment obligations issued by the Consolidated Entity and the Company:

Contract feature	Macquarie Bank Capital Notes	Macquarie Additional Capital Securities
<b>Code</b>	BCN	MACS
<b>Issuer</b>	Macquarie Bank Limited	Macquarie Bank Limited
<b>Par value</b>	\$100	n/a
<b>Currency</b>	AUD	USD
<b>Carrying value at the reporting date</b>	\$429 million	\$750 million
<b>Accounting measurement basis</b>	Financial liability at amortised cost	Financial liability at amortised cost
<b>Issue date</b>	8 October 2014	8 March 2017
<b>Interest rate</b>	180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits	6.125% per annum
<b>Interest payment frequency</b>	Semi-annually in arrears	Semi-annually in arrears
<b>Mandatory interest payment</b>	Yes	Yes
<b>Dividend stopper</b>	Yes	Yes
<b>Outstanding notes at reporting date</b>	4.3 million	
<b>Maturity</b>	Perpetual unless redeemed, resold, converted, exchanged or written-off earlier in accordance with the terms of the instrument.	Perpetual, redeemable subject to APRA's written approval, and at the discretion of MBL in limited circumstances.
<b>Convertible into shares</b>	Yes	Yes
<b>Convertible in issuer shares</b>	MGL	MGL
<b>Mandatory conversion date</b>	24 March 2023	n/a
<b>Maximum number of shares on conversion</b>	37,056,481	56,947,286
<b>Optional exchange dates</b>	<ul style="list-style-type: none"> <li>– 24 March 2020</li> <li>– 24 September 2020</li> <li>– 24 March 2021</li> <li>– earlier in specified circumstances at the discretion of MBL subject to APRA approval</li> </ul>	n/a
<b>Other exchange events</b>	<ul style="list-style-type: none"> <li>– Acquisition date (where a party acquires control of MBL)</li> <li>– where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)</li> <li>– where MBL's common equity Tier 1 capital rate falls below 5.125%</li> </ul>	<ul style="list-style-type: none"> <li>– Acquisition date (where a party acquires control of MBL or MGL)</li> <li>– where MBL's common equity Tier 1 capital ratio falls below 5.125%</li> <li>– where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)</li> </ul>
<b>Capital treatment</b>	Additional tier 1 capital	Additional tier 1 capital

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 23

### Loan capital continued

The Consolidated Entity has also issued subordinated debt denominated in Euros and United States dollars which is eligible Tier 2 capital under APRA's capital standards (including Transitional Basel II rules).

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Original contractual maturity of Loan capital:				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	80	75	80	75
Subordinate debt instruments with fixed repayment obligations:				
30 May 2019	–	1	–	1
21 Sep 2020	746	773	746	773
7 Apr 2021	1,191	1,088	1,191	1,088
10 Jun 2025	1,056	930	1,056	930
Instruments with a conditional repayment obligation:				
BCN	430	430	430	430
MACS	1,062	976	1,062	976
	4,565	4,273	4,565	4,273
Less: directly attributable issue costs	(15)	(17)	(15)	(17)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,550</b>	<b>4,256</b>	<b>4,550</b>	<b>4,256</b>

### Reconciliation of loan capital by major currency:

(In Australian dollar equivalent):

United States dollar	3,366	3,047	3,366	3,047
Euro	769	796	769	796
Australian dollar	430	430	430	430
	4,565	4,273	4,565	4,273
Less: directly attributable issue costs	(15)	(17)	(15)	(17)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,550</b>	<b>4,256</b>	<b>4,550</b>	<b>4,256</b>

(1) Includes fair value hedge accounting adjustments.

The Consolidated Entity and the Company have not had any defaults of principal, interest or other breaches with respect to their loan capital during the financial years reported.

## CONSOLIDATED AND COMPANY

	2019 Number of shares	2018 Number of shares	2019 \$m	2018 \$m
<b>Note 24</b>				
<b>Contributed equity</b>				
<b>(i) Ordinary share capital<sup>(1)</sup></b>				
Opening balance of fully paid ordinary shares	589,276,303	589,276,303	9,328	9,328
Return of capital to Macquarie B.H. Pty Ltd <sup>(2)</sup>	–	–	(2,040)	–
<b>Closing balance of fully paid ordinary shares</b>	<b>589,276,303</b>	<b>589,276,303</b>	<b>7,288</b>	<b>9,328</b>

(1) Ordinary shares have no par value.

(2) The Consolidated Entity returned capital of \$2,040 million to Macquarie B.H. Pty Ltd. following disposal of the CAF Principal Finance and CAF Transportation Finance business (the businesses). Refer to Note 40 *Discontinued operations* for further information.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>(ii) Equity contribution from ultimate parent entity</b>				
Balance at the beginning of the financial year	209	192	102	93
Additional paid up capital	10	17	4	9
<b>Balance at the end of the financial year</b>	<b>219</b>	<b>209</b>	<b>106</b>	<b>102</b>

MEREP awards are primarily settled in MGL ordinary shares. 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 grant date fair value of the award net of tax as a capital contribution from MGL. If the issued awards expire, the reversal of the original contribution is recognised as a return of capital. For further information regarding the terms and conditions of MEREP refer to Note 29 *Employee equity participation*.

**(iii) 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)
<b>Total Macquarie Income Securities</b>	<b>391</b>	<b>391</b>	<b>391</b>	<b>391</b>

The Macquarie Income Securities (MIS) are redeemable (in whole or in part) at the Company's discretion. They 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% p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Company. The MIS is a perpetual instrument with no conversion rights. Distributions on the MIS have been presented in Note 5 *Dividends and distributions paid or provided for*.

**Contributed equity**

Ordinary share capital	7,288	9,328	7,288	9,328
Equity contribution from ultimate parent entity	219	209	106	102
Macquarie Income Securities	391	391	391	391
<b>Total contributed equity</b>	<b>7,898</b>	<b>9,928</b>	<b>7,785</b>	<b>9,821</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 25</b>				
Reserves, retained earnings and non-controlling interests				
<b>(i) Reserves</b>				
<b>Foreign currency translation reserve and net investment hedge reserve<sup>(1)</sup></b>				
Balance at the beginning of the financial year	492	363	(15)	(15)
Exchange differences on translation of foreign operations, net of hedge and tax	299	129	(13)	–
Transferred to income statement on disposal of foreign operations, net of tax <sup>(1)</sup>	(160)	–	–	–
<b>Balance at the end of the financial year</b>	<b>631</b>	<b>492</b>	<b>(28)</b>	<b>(15)</b>
<b>FVOCI reserve<sup>(2)</sup></b>				
Balance at the beginning of the financial year	15	116	16	88
Change on initial application of AASB 9, net of tax (Note 1)	1	–	6	–
<b>Restated balance as at 1 Apr 18</b>	<b>16</b>	<b>116</b>	<b>22</b>	<b>88</b>
Revaluation (losses)/gains recognised in OCI, net of tax	(8)	(33)	4	(15)
Changes in allowance for ECL, net of tax	(1)	–	(3)	–
Transferred to income statement on:				
Impairment, net of tax	–	12	–	11
Sale or reclassification, net of tax	–	(80)	–	(68)
<b>Balance at the end of the financial year</b>	<b>7</b>	<b>15</b>	<b>23</b>	<b>16</b>
<b>Cash flow hedging reserve<sup>(1)</sup></b>				
Balance at the beginning of the financial year	(29)	(106)	(4)	(28)
Revaluation movement for the financial year, net of tax	(72)	43	(47)	7
Transferred to income statement, net of tax	(17)	34	13	17
<b>Balance at the end of the financial year<sup>(3)</sup></b>	<b>(118)</b>	<b>(29)</b>	<b>(38)</b>	<b>(4)</b>
<b>Share of reserves of interest in associates and joint ventures</b>				
Balance at the beginning of the financial year	(1)	–	–	–
Share of other comprehensive losses of associates and joint ventures during the year, net of tax	(3)	(1)	–	–
<b>Balance at the end of the financial year</b>	<b>(4)</b>	<b>(1)</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>516</b>	<b>477</b>	<b>(43)</b>	<b>(3)</b>

(1) For movements related to discontinued operations, refer to Note 40 *Discontinued operations*.

(2) Represents the available for sale reserve for the comparative financial year prior to the adoption of AASB 9 on 1 April 2018.

(3) Includes \$5 million (2018: \$5 million) relating to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 25</b>				
Reserves, retained earnings and non-controlling interests continued				
<b>(ii) Retained earnings</b>				
Balance at the beginning of the financial year	2,686	2,296	1,582	736
Change on initial application of AASB 9, net of tax (Note 1)	(141)	–	(78)	–
<b>Restated balance as at 1 Apr 18</b>	<b>2,545</b>	<b>2,296</b>	<b>1,504</b>	<b>736</b>
Profit attributable to equity holders of MBL	2,037	1,582	1,631	2,019
Distributions paid or provided for on Macquarie Income Securities (Note 5)	(15)	(14)	–	–
Dividends paid or provided for ordinary share capital (Note 5)	(1,748)	(1,210)	(1,748)	(1,210)
Loss on change in non-controlling ownership interest	(1)	(5)	–	–
Fair value changes attributable to own credit risk on debt classified as DFVTPL, net of tax	6	37	6	37
<b>Balance at the end of the financial year</b>	<b>2,824</b>	<b>2,686</b>	<b>1,393</b>	<b>1,582</b>
<b>(iii) Non-controlling interests<sup>(1)</sup></b>				
Share capital and partnership interests	48	56	–	–
Reserve	4	3	–	–
Accumulated losses	(50)	(47)	–	–
<b>Total non-controlling interests</b>	<b>2</b>	<b>12</b>	<b>–</b>	<b>–</b>

(1) Non-controlling interest represents equity in a subsidiary that is not attributable, directly or indirectly, to the parent company. As such, it is ineligible to absorb losses arising elsewhere within the Consolidated Entity.

## Note 26

### Notes to the statements of cash flows

#### (i) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year are reflected in the related items in the statements of financial position as follows:

Cash and bank balances <sup>(1)</sup>	7,689	7,793	6,379	6,594
Trading assets <sup>(2)</sup>	783	611	80	222
Financial investments <sup>(3)</sup>	1,562	1,141	1,562	1,141
Margin money and settlement assets <sup>(4)</sup>	2,805	1,805	1,225	1,773
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>12,839</b>	<b>11,350</b>	<b>9,246</b>	<b>9,730</b>

(1) Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses.

(2) Includes certificates of deposit, bank bills, treasury notes and amounts due from clearing houses with original contractual maturity of three months or less.

(3) Includes short-term debt securities with original contractual maturity of three months or less.

(4) Includes amounts due from clearing houses.

(5) Cash and cash equivalents include \$5,400 million (2018: \$4,330 million) in the Consolidated Entity and \$2,516 million (31 March 2018: \$3,478 million) in the Company in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 26</b>				
Notes to the statements of cash flows continued				
<b>(ii) Reconciliation of profit after income tax to net cash flows (utilised in)/generated from operating activities</b>				
Profit after income tax <sup>(1)</sup>	2,041	1,583	1,631	2,019
Adjustments to profit after income tax:				
Depreciation and amortisation	1,226	1,063	618	317
Unrealised foreign exchange and fair value movement on financial assets and liabilities	204	276	1,015	(296)
Impairment charges	247	110	57	(1)
Impairment reversal on investment in subsidiary	–	–	(19)	–
Investment income and gain on sale of operating lease assets and other non-financial assets	(453)	(292)	(45)	(129)
Profit from discontinued operations	(507)	–	(236)	–
Share of net profit of associates and joint ventures	(28)	(22)	–	–
Changes in assets and liabilities:				
Change in carrying values of associates due to dividends received	21	19	(4)	–
Change in net interest receivable and payable	22	–	15	27
Change in fees and non-interest income receivable	(9)	41	(1)	(11)
Change in fees and commissions payable	27	(78)	38	(164)
Change in tax balances	209	471	74	245
Change in debtors, prepayments, accrued charges and creditors	430	163	(406)	93
Change in net trading assets and liabilities and net derivative financial instruments <sup>(2)</sup>	(1,924)	2,080	(3,244)	264
Change in other assets and liabilities	85	(45)	(67)	(137)
Change in loan assets	(2,926)	2,703	1,904	966
Change in operating lease assets	(961)	(1,206)	(736)	(878)
Change in deposits	7,910	664	7,771	640
Change in bank borrowings	1,158	(950)	(1,411)	(862)
Change in debt issued	(9,690)	(3,914)	(7,763)	(1,185)
<b>Net cash flows (utilised in)/generated from operating activities</b>	<b>(2,918)</b>	<b>2,666</b>	<b>(809)</b>	<b>908</b>

(1) The March 2019 financial results reflect the adoption of AASB 9 on 1 April 2018. As permitted by AASB 9, the Consolidated Entity and the Company have not restated previously reported financial periods. Prior comparative financial year has been reclassified to conform to current year presentation. Refer to Note 1 for the impact from initial adoption of AASB 9.

(2) Includes unrealised foreign exchange movements relating to derivatives which largely offsets the unrealised foreign exchange movements on financial assets and liabilities.



## Note 27

### Related party information

#### Ultimate and immediate parent entities

The Company's ultimate parent entity is MGL. The Company's immediate parent entity is Macquarie B.H. Pty Limited (MBHPL). Both MGL and MBHPL 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, repayment of capital and distribution of dividends.

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 this agreement are set out in Note 1(vii) *Taxation*. Amounts receivable from MGL includes amount receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL and MBHPL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. Transactions with Macquarie Financial Holdings Pty. Ltd. (MFHPL), a 100% holding subsidiary of MGL, relating to the discontinued operations have been provided in Note 40 *Discontinued operations*.

The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Amounts receivable <sup>(1)</sup>	166,996	159,979	130,112	110,250
Amounts payable	(87,652)	(4,153,013)	(79,187)	(3,430,424)

(1) As described in Note 1(xxiv) *Performance based remuneration*, the amounts receivable by the Company includes \$88,201 thousand (2018: \$119,250 thousand) for amounts paid in advance for MEREP awards offered to its employees' net of share-based payment expense.

The following balances with the immediate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Dividend payable (Note 5)	(560,000)	–	(560,000)	–

#### Subsidiaries

Transactions between the Company 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 with subsidiaries are eliminated in the consolidated financial statements except for transactions between the Consolidated Entity's continuing and discontinuing operations as disclosed in Note 40 *Discontinued operations*. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

Balances may arise from lending and borrowing activities between the Company and subsidiaries which are generally repayable on demand or may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Before disposing its CAF Principal Finance and CAF Transportation businesses (the businesses), the Company entered into legal arrangements with certain subsidiaries and

their customers whereby security deposits and maintenance claims were defeased to the Company. This removed the legal requirement for the subsidiary to reimburse the external counterpart and that liability was recognised by the Company. As at 31 March 2019, these defeased balances were \$Nil (2018: \$570,789 thousand) and \$Nil (2018: \$115,393 thousand) for maintenance and security deposits respectively.

The Company enters into a repurchase transaction and pledged collateral to its subsidiary Macquarie Bank International Ltd for managing regulatory exposures in relation to over-the-counter derivatives. As at 31 March 2019, the collateral placed was \$445,863 thousand (2018: \$ 381,410 thousand).

A list of material subsidiaries is set out in Note 15 *Investments in subsidiaries*.

During the year, as part of internal restructure by MGL (refer Note 40 *Discontinued operations*), the company transferred the businesses to MFHPL and its subsidiaries (entities under common control). Transactions with the subsidiaries preceding the date of their disposal are included in this section.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 27

Related party information continued

### Subsidiaries continued

During the financial year, the following amounts of income/(expense) resulted from transactions with subsidiaries during the financial year:

	COMPANY	
	2019 \$'000	2018 \$'000
Interest income <sup>(1)</sup>	914,821	901,720
Interest expense	(544,508)	(589,343)
Fee and commission (expense)/income	(14,369)	65,388
Other operating income	61,882	40,631
Dividends and distributions <sup>(2)</sup>	284,741	686,758
Management fees, group service charges and cost recoveries <sup>(3)</sup>	344,560	342,532
Other expenses	(7,785)	(6,038)

(1) Includes \$18,558 thousand (2018: \$37,069 thousand) of interest income from the subsidiaries forming part of its discontinued operations.

(2) During the year, the company received dividends of \$714,361 thousand (2018: \$798,514 thousand) from subsidiaries that formed part of its discontinued operations.

(3) Includes \$21,856 thousand (2018: \$56,603 thousand) of management fees, service charges and cost recoveries from the subsidiaries forming part of its discontinued operations.

The following balances with subsidiaries were outstanding as at the end of the financial year:

Amounts receivable	23,894,388	27,841,404
Amounts payable	(10,115,509)	(10,549,451)
Guarantees <sup>(1)</sup>	1,027,801	1,112,922
Letter of credit	304,151	16,997

(1) Includes transactions where the company has contractually guaranteed the performance and other obligations of its subsidiaries.

### Other related parties

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 and restructure of businesses.

Balances may arise from lending and borrowing activities between the Consolidated Entity and other related body corporate entities which are generally repayable on demand or may be extended on a term basis and where appropriate, may be either subordinated or collateralised.

During the year, as part of internal restructure by MGL (refer Note 40 *Discontinued operations*), the company transferred the businesses to MFHPL and its subsidiaries (entities under common control). Transactions and balances with the subsidiaries after the date of their disposal are included in this section.

During the financial year, the following amounts of income/(expense) resulted from transactions with other related body corporate entities during the financial year:

	CONSOLIDATED		COMPANY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Interest income	194,976	308,289	120,427	984,365
Interest expense	(378,267)	(269,389)	(298,457)	(212,178)
Rental income	18,608	21,168	18,608	21,168
Fee and commission expense	(163,332)	(157,562)	(107,261)	(142,179)
Other operating expenses	(1,379,213)	(1,228,199)	(1,131,579)	(1,011,496)
Gain on sale of the businesses to MFHPL	506,656	–	235,657	–
Other (expense)/income	(113,364)	(238,973)	(1,852)	1,684

## Note 27

Related party information continued

### Other related parties continued

The following balances with other related body corporate entities were outstanding at the reporting date:

	CONSOLIDATED		COMPANY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Amounts receivable	1,354,761	1,222,857	908,537	1,101,575
Amounts payable	(16,703,745)	(9,840,305)	(15,027,254)	(8,399,667)
Performance related contingents <sup>(1)</sup>	820,921	–	820,921	–
Undrawn credit facilities and securities underwriting <sup>(2)</sup>	2,395,068	–	2,395,068	–
Letter of credit	151,879	109,434	151,879	109,434

(1) Includes performance guarantee in favour of a related party. Refer Note 30 *Contingent liabilities and commitments*.

(2) Includes undrawn credit facilities granted to a related body corporate.

### 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 and the provision of management services. Balances may arise from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures which are generally extended on a term basis and where appropriate may be either subordinated or collateralised. During the financial year, the following amounts of income/(expense) arose from transactions with associates and joint ventures:

Interest income	1,962	46,934	215	46,715
Fee and commission expense	(40,769)	(47,806)	(48,437)	(47,481)
Brokerage and commission expense	(8,354)	(6,015)	(8,354)	(5,529)

Dividends and distributions of \$21,535 thousand (2018: 19,075 thousand) were received from the Consolidated Entity's associates and joint ventures. Under the equity method of accounting, these amounts are not included as income but are recorded as a reduction from 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 13 *Interests in associates and joint ventures*):

Amounts receivable	13,294	82,504	8,959	46,546
Amounts payable	(3,862)	(3,636)	(3,862)	(3,636)
Undrawn commitment <sup>(1)</sup>	(16,174)	–	(62,549)	(42,854)

(1) Undrawn commitments are included in Note 30 *Contingent liabilities and commitments*.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 28

### Key Management Personnel disclosure

#### Key Management Personnel (KMP)

The following persons were Directors of the Company during the financial years ended 31 March 2019 and 31 March 2018, unless indicated otherwise:

#### Executive Voting Directors

S.R. Wikramanayake <sup>(1)</sup>	Macquarie Group CEO (appointed as CEO effective 1 December 2018)
N.W. Moore	Former Macquarie Group CEO (retired as CEO on 30 November 2018)
M.J. Reemst	Macquarie Bank CEO

#### Non-Executive Directors

P.H. Warne	Chairman
G.R. Banks AO	
G.M. Cairns	
M.J. Coleman	
D.J. Grady AM	
M.J. Hawker AM	
G.R. Stevens AC	(appointed effective 1 November 2017)
N.M. Wakefield Evans	
J.R. Broadbent AC	(appointed effective 5 November 2018)
P.M. Coffey	(appointed effective 28 August 2018)

#### Former Non-Executive Director

P.A. Cross	(retired effective 26 July 2018)
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In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of MBL during the past two financial years ended 31 March 2019 and 31 March 2018, unless otherwise indicated.

#### Current Executives<sup>(2)</sup>

G.A. Farrell	Co-Head of CAF
A.H. Harvey	CFO, Head of FMG (appointed effective 1 January 2018)
N. O'Kane <sup>(3)</sup>	Head of CMF (appointed effective 15 June 2017)
N. Sorbara	COO, Head of COG
P.C. Upfold	CRO, Head of RMG
G.C. Ward	Macquarie Group Deputy Managing Director and Head of BFS

#### Former Executives

N.W. Moore	Former MGL CEO (ceased to be a member of the Executive Committee on 28 August 2018)
B.A. Brazil	Former Co-Head of CAF (ceased to be a member of the Executive Committee on 30 November 2018)
A.J. Downe	Former Head of CGM (ceased to be a member of the Executive Committee on 31 March 2019)

The remuneration arrangements for all of the persons listed above are described on pages 25 to 42 of the Remuneration Report, contained in the Directors' Report.

- (1) Ms Wikramanayake, formerly Head of MAM, was appointed to the Board on 28 August 2018 and as CEO on 1 December 2018.
- (2) Except where indicated otherwise, the Executive Voting Directors and all Current Executives listed above are members of the Company's Executive Committee as at 3 May 2019.
- (3) Mr N O'Kane was Head of Commodity Markets and Finance for the full year to 31 March 2019 and has succeeded Mr Downe as Head of CGM effective 1 April 2019.

## Note 28

Key Management Personnel disclosure continued

## Key Management Personnel remuneration

The following table details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS			Total short term Employee Benefits	LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		Total remuneration
	Salary and fees (including superannuation)	Performance related remuneration <sup>(1)</sup>	Other benefits		Restricted profit share including earnings on restricted profit share <sup>(2)</sup>	Equity awards including shares <sup>(3)</sup>	PSUs <sup>(4)</sup>	
	\$	\$	\$	\$	\$	\$	\$	\$
Executive remuneration								
<b>2019</b>	<b>5,635,488</b>	<b>33,345,490</b>	<b>–</b>	<b>38,980,978</b>	<b>9,444,048</b>	<b>43,366,193</b>	<b>16,077,868</b>	<b>107,869,087</b>
2018	5,649,060	29,168,202	–	34,817,262	9,130,839	33,220,964	14,995,110	92,164,175
Non-Executive remuneration								
<b>2019</b>	<b>901,722</b>	<b>–</b>	<b>–</b>	<b>901,722</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>901,722</b>
2018	787,708	–	–	787,708	–	–	–	787,708

(1) The cash portion of each KMP's profit share allocation for the reporting period when they were a KMP.

(2) The amount of the retained profit share held via the Post-2009 DPS plan including earnings on notional investments from retained profit share in prior financial years.

(3) The current year amortisation for retained profit share calculated as described in Note 1(xxiv) *Performance based remuneration*.(4) The current year amortisation for PSUs calculated as described in Note 1(xxiv) *Performance based remuneration*. Adjustments were made during the previous years to reduce previously recognised remuneration expense where performance hurdles had not been met, have been partially met or are not expected to be met.

## Loans to KMP and their related parties

Details of loans provided by the Consolidated Entity to KMP and their related parties are disclosed in aggregate in the following tables:

	Opening balance at 1 April	Additions during the year	Interest Charged	Repayments during the year	Write-downs	Closing balance at 31 March <sup>(1)</sup>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total for key management personnel and their related parties						
<b>2019</b>	<b>464</b>	<b>825</b>	<b>33</b>	<b>(47)</b>	<b>–</b>	<b>1,275</b>
2018	–	–	3	–	–	464

(1) Number of persons included in the aggregate as at 31 March 2019: 3 (31 March 2018: 1).

Loans and other financial instrument transactions were 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 2019 continued

## Note 29

### Employee equity participation

#### MEREP

MBL participates in its ultimate parent company's, Macquarie Group Limited (MGL), share based compensation plans, being the Macquarie Group Employee Retained Equity Plan (the MEREP). In terms of this plan, awards are granted by MGL to qualifying employees for delivery of MGL shares.

#### Award types under the MEREP

##### Restricted Share Units (RSUs)

An RSU is a beneficial interest in an MGL ordinary 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 of the share. The participant also has the right to request the release of the share from the MEREP Trust, subject to the vesting and forfeiture provisions of the MEREP.

	NUMBER OF RSU AWARDS	
	2019	2018
RSUs on issue at the beginning of the financial year	5,662,386	6,619,655
Granted during the financial year	1,199,782	1,571,969
Forfeited during the financial year	(118,612)	(180,167)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(1,786,852)	(1,815,730)
Net transfers to related body corporate entities	(1,167,262)	(533,341)
RSUs on issue at the end of the financial year	3,789,442	5,662,386
RSUs vested and not withdrawn from the MEREP at the end of the financial year	–	1,979

The weighted average fair value of the RSU awards granted during the financial year was \$121.95 (2018: \$90.20).

##### Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either an MGL share held in the Trust or a newly issued MGL 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 direct the Trustee to acquire shares on-market, or via a share acquisition arrangement for potential future allocations to holders of DSUs.

Generally, where permitted by law, DSUs will provide for cash payments in lieu of dividends paid on MGL ordinary 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 the Company's 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 with respect to any underlying MGL ordinary 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). DSUs have been granted with an expiry period of up to nine years.

	NUMBER OF DSU AWARDS	
	2019	2018
DSUs on issue at the beginning of the financial year	1,313,047	1,281,176
Granted during the financial year	342,138	453,383
Forfeited during the financial year	(12,133)	(55,598)
Exercised during the financial year	(295,630)	(358,627)
Transfers to related body corporate entities	(482,258)	(7,287)
DSUs on issue at the end of the financial year	865,164	1,313,047
DSUs exercisable at the end of the financial year	187,326	197,274

The weighted average fair value of the DSU awards granted during the financial year was \$110.42 (2018: \$90.21).

## Note 29

### Employee equity participation continued

#### Award Types under the MEREP continued

##### Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles related to MGL's performance 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.

	NUMBER OF PSU AWARDS	
	2019	2018
PSUs on issue at the beginning of the financial year	454,228	539,176
Granted during the financial year	85,749	132,018
Exercised during the financial year	(152,580)	(186,212)
Net transfers to related body corporate entities	(21,101)	(30,754)
PSUs on issue at the end of the financial year	366,296	454,228
PSUs exercisable at the end of the financial year	–	–

The weighted average fair value of the PSU awards granted during the financial year was \$102.06 (2018: \$73.00).

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)
- Staff other than Executive Directors with retained profit share above a threshold amount (Retained Profit Share Awards) and staff who were promoted to Associate Director, Division Director or Executive Director, who received a fixed Australian dollar value allocation of MEREP awards (Promotion Awards)
- Macquarie Bank staff with retained commission (Commission Awards)
- Macquarie Bank staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- New Macquarie Bank staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- Members of the MBL Executive Committees who are eligible for PSUs (PSU awards)
- In limited circumstances, Macquarie Bank staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Macquarie Bank upon the acquisition of their employer by an Macquarie Bank entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 29

Employee equity participation continued

### Award Types under the MEREP continued

Vesting periods are as follows:

Award type	Level	Vesting
Retained Profit Share Awards and Promotion Awards	Below Executive Director	1/3 <sup>rd</sup> in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
Retained DPS Awards representing 2009 retention	Executive Director	1/5 <sup>th</sup> in the 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5 <sup>th</sup> in the 3 <sup>rd</sup> , 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year following the year of grant <sup>(2)</sup>
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3 <sup>rd</sup> in the 3 <sup>rd</sup> , 4 <sup>th</sup> and 5 <sup>th</sup> year following the year of grant <sup>(1)</sup>
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant <sup>(3)</sup>
Commission Awards	Below Executive Director	1/3 <sup>rd</sup> in the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> year following the year of grant <sup>(1)</sup>
Incentive Awards	All Macquarie Group staff	1/3 <sup>rd</sup> on each first day of a staff trading window on or after the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3 <sup>rd</sup> on each first day of a staff trading window on or after the 2 <sup>nd</sup> , 3 <sup>rd</sup> and 4 <sup>th</sup> anniversaries of the date of allocation

(1) Vesting will occur during an eligible staff trading window.

(2) Vesting will occur during an eligible staff trading window. 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.

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 2018 retention, the allocation price was the weighted average price of the shares acquired for the 2018 purchase period, which was 14 May 2018 to 21 June 2018. That price was calculated to be \$113.76 (2017 retention: \$89.25).

### Performance Share Units (PSUs)

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles related to MGL's performance. Only members of the 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% of the total number of PSUs awarded. The hurdles are outlined below.

#### Performance hurdle 1

Hurdle	REFERENCE GROUP	
	Granted after 31 March 2013	Granted on or before 31 March 2013
50% of the PSUs based solely on the relative average annual return on ordinary equity (ROE) over the vesting period (three to four years) compared to a reference group of global financial institutions.	The current reference group comprises Barclays PLC, Bank of America Corporation, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Lazard Limited, Morgan Stanley and UBS AG.	The reference group comprised Bank of America Corporation, Citigroup Inc, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JPMorgan Chase & Co., Morgan Stanley and UBS AG as well as significant Australian commercial banks within the ASX 100 (ANZ Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation and Suncorp Metway Limited).

## Note 29

### Employee equity participation continued

#### PSUs continued

#### Performance hurdle 2

Hurdle	REQUIRED RESULT	
	Granted after 31 Mar 13	Granted on or before 31 Mar 13
50% 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% becoming exercisable at EPS CAGR of 7.5% and 100% at EPS CAGR of 12%. For example, if EPS CAGR were 9.75%, 75% of the relevant awards would become exercisable.	A sliding scale applies with 50% becoming exercisable at EPS CAGR of 9% and 100% at EPS CAGR of 13%. For example, if EPS CAGR were 11%, 75% of the relevant awards would become exercisable.

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recently available year-end financial results. To the extent that a condition is not met when examined, the PSUs due to vest will not be exercisable upon vesting, resulting in a nil benefit to Executive Committee members.

#### Assumptions used to determine fair value of MEREP awards

RSUs and DSUs are measured at their grant dates based on their fair value<sup>(1)</sup> and for each PSU, the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

RSUs, DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current financial year in respect of 2018. The fair value of each of these grants is estimated using the 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: 2.58% per annum
- expected vesting dates of PSUs: 1 July 2021 and 1 July 2022
- dividend yield: 4.96% per annum.

While RSUs, DSUs and PSUs (for Executive Committee members) for the FY2019 will be granted during FY2020, the Consolidated Entity begins recognising an expense for these awards (based on an initial estimate) from 1 April 2018. The expense is estimated using the price of MGL ordinary shares as at 31 March 2019 and the number of equity instruments expected to vest.

For PSUs, the estimate also incorporates an interest rate to maturity of 1.95% per annum, expected vesting dates of PSUs of 1 July 2022 and 1 July 2023, and a dividend yield of 5.08% per annum. In the following financial year, the Consolidated Entity 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 validation for recognising the expense over the remaining vesting period.

The Consolidated Entity annually revises its estimates of the number of awards (including those delivered through MEREP) that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the employment expenses in the income statement.

For the financial year ended 31 March 2019, compensation expense relating to the MEREP totalled \$143,283 thousand (2018: \$151,351 thousand).

#### Other arrangements

There are certain arrangements with employees which take the form of a share-based payment arrangement but which are held outside the MEREP. Whilst the employees do not have a legal or beneficial interest in the underlying shares; the arrangements have the same economic benefits as those held in MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2019 was \$3 thousand (2018: \$70 thousand).

#### Employee Share Plan

MBL also participates in MGL's Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid MGL ordinary shares for no cash consideration.

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 MGL or a subsidiary of MGL. 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 2018. A total of 870 (2018: 591) staff participated in this offer. On 30 November 2018, the participants were each allocated 8 (2018: 10) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$114.36 (2018: \$99.33), resulting in a total of 6,960 (2018: 5,910) 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.

For the financial year ended 31 March 2019, compensation expense relating to the ESP totalled \$797 thousand (2018: \$585 thousand).

#### Other plans

MBL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

(1) Remuneration requirements the fair value of the awards granted for performance periods after 1 April 2018 have been adjusted to take into account the prohibition of dividends on unvested awards. For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Note 30</b>				
Contingent liabilities and commitments				
<b>Contingent liabilities exist in respect of:</b>				
Letters of credit	1,221	874	1,241	891
Performance related contingents <sup>(1)</sup>	1,112	237	1,122	247
Indemnities	389	44	389	44
Guarantees	114	107	1,140	1,220
<b>Total contingent liabilities<sup>(2),(3)</sup></b>	<b>2,836</b>	<b>1,262</b>	<b>3,892</b>	<b>2,402</b>
<b>Commitments exist in respect of:</b>				
Undrawn credit facilities and securities' underwriting <sup>(4),(5),(6)</sup>	7,300	6,146	6,816	5,200
Property, plant and equipment and other asset developments	1,026	7	1,004	–
<b>Total commitments</b>	<b>8,326</b>	<b>6,153</b>	<b>7,820</b>	<b>5,200</b>
<b>Total contingent liabilities and commitments</b>	<b>11,162</b>	<b>7,415</b>	<b>11,712</b>	<b>7,602</b>

(1) Includes \$821 million (2018: \$Nil) in favour of a related party for which collateral of a similar amount has been received.

(2) Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the Consolidated Entity's and the Company's business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised, and the exposure is excluded from the contingent liabilities above. Other than those recognised liabilities, the Consolidated Entity and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Consolidated Entity's and the Company's business, financial condition or performance.

(3) It is not practicable to ascertain the timing of any outflow and the possibility of any reimbursement related to these contingent liabilities.

(4) Undrawn credit facilities are irrevocably extended to clients. These amounts include fully or partially undrawn commitments that are legally binding and cannot be unconditionally cancelled by the Consolidated Entity and the Company. Securities underwriting includes firm commitments to underwrite debt and equity securities issuances and private equity commitments.

(5) Includes a \$2,395 million (2018: \$2,352 million) credit facility granted to a related body corporate party.

(6) Includes \$1,038 million (2018: \$1,434 million) for certain contractual irrevocable mortgage related facilities which have been reassessed during the year.

## Note 31

Lease commitments

**Non-cancellable operating leases expiring:**

Not later than one year	21	10	–	–
Later than one year and not later than five years	18	16	–	–
Later than five years	11	1	–	–
<b>Total operating lease commitments</b>	<b>50</b>	<b>27</b>	<b>–</b>	<b>–</b>

Operating leases relate to commercial buildings, oil storage and leases of land. The future lease commitments disclosed are net of any rental incentives received.

## Note 32

### Structured entities

The Consolidated Entity engages with structured entities (SEs) for securitisation and asset backed financing in order to diversify its sources of funding for asset origination and capital efficiency purposes. SEs are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual agreements. Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

### 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, including mortgages, finance leases and credit card receivables, of the Consolidated Entity or of its clients.

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.

### 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 vessels, 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.

SEs are consolidated when they meet the criteria described in Note 1(ii) *Principles of consolidation*.

### Interests held in unconsolidated structured entities

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 (for example interest rate swaps and currency swaps) and positions where the Consolidated Entity:

- (i) creates rather than absorbs variability of the unconsolidated SE (for example 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
- (iii) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the table that follows.

Income received by the Consolidated Entity during the financial year from interests held at the reporting date relates to interest, management fees, servicing fees, dividends and gains or losses from revaluing financial instruments.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 32

### 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:

	CONSOLIDATED 2019		CONSOLIDATED 2018	
	Securitisations \$m	Asset-backed financing \$m	Securitisations \$m	Asset-backed financing \$m
<b>Carrying value of assets</b>				
Trading assets	368	72	128	189
Derivative assets	163	–	110	–
Financial investments <sup>(1)</sup>	1,734	2	1,366	–
Loan assets	536	603	237	794
Total carrying value of assets <sup>(2)</sup>	2,801	677	1,841	983
<b>Maximum exposure to loss<sup>(3)</sup></b>				
Debt & equity	2,801	677	1,841	983
Derivatives & Undrawn commitments	–	–	–	7
Total maximum exposure to loss	2,801	677	1,841	990

(1) Securitisations includes \$1,248 million (2018: \$1,158 million) of investments that are managed by the Consolidated Entity under the liquid assets' holding policy described in Note 34.2 *Liquidity risk*.

(2) Total carrying value of assets includes \$741 million (2018: \$798 million) in subordinated interests, of which \$182 million (2018: \$47 million) is included in securitisation activities and \$559 million (2018: \$751 million) included in asset backed financing activities of the subordinated interests maximum loss borne by others whose interest rank lower is \$537 million (2018: \$685 million)

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments.

The Consolidated entity's exposure in subordinated securitisation entities includes trading and non-traded positions that are typically managed under market risk described in Note 34.3 *Market risk*. For these reasons, information on size and structure for these SEs is not considered meaningful for understanding the related risks, and so have not been presented. The Consolidated entity's exposure in subordinated asset backed financing entities are included in loan assets and the total size of the unconsolidated SEs is \$3,575 million (2018: \$3,913 million). Size represents either the total assets of the SE (measured either at amortised cost excluding impairments or fair values if readily available); outstanding notional of issued notes or the principal amount of liabilities if there is nominal equity. Size is based on the most current publicly available information to the Consolidated Entity.

## Note 33

### Hedge accounting

#### Hedging strategy

The use of derivative and other hedging instruments to hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and other hedging instruments and the related exposure. The Consolidated Entity's objective is to reduce the risk of volatility in earnings. This volatility may be managed by allowing hedges to naturally offset one another or, where the earnings volatility exceeds pre-defined limits, is considered for designation in a hedge accounting relationship to reduce earnings volatility.

#### Hedging instruments

The following table details the hedging instruments, nature of hedged risks, as well as the notional and the carrying amount of derivative financial instruments and, in the case of net investment hedges, the notional of foreign denominated debt issued for each type of hedge relationship. The maturity profile for the hedging instruments' notional amounts are reported based on their contractual maturity. Dual designations of cross-currency swaps for interest rate risk and foreign exchange risk are included as a single notional amount per derivative. Increases in notional profiles of hedging instruments are presented as negative figures, with decreases and maturities presented as positive figures.

## Note 33

## Hedge accounting continued

Hedging instruments	Risk	NOTIONAL				CARRYING AMOUNT <sup>(1)</sup>		
		Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Total	
		\$m	\$m	\$m	\$m	\$m	\$m	
<b>CONSOLIDATED 2019</b>								
<b>Hedging instruments-assets</b>								
Cash flow hedges	Cross currency swaps	Foreign exchange	(44)	342	487	1,330	2,115	220
Fair value hedges	Interest rate swaps	Interest	1,409	892	2,815	3,755	8,871	175
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	45	476	1,152	74	1,747	131
Net investment hedges <sup>(2)</sup>	Foreign exchange contracts	Foreign exchange	1,330	597	627	–	2,554	75
<b>Hedging instruments-liabilities</b>								
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	126	–	–	126	8
	Interest rate swaps	Interest	(24)	231	285	1,173	1,665	118
Fair value hedges	Interest rate swaps	Interest	289	2,038	10,650	1,050	14,027	258
	Physical forward with basis swap	Commodity price	28	45	29	–	102	57
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	743	163	906	58
Net investment hedges <sup>(2)</sup>	Debt issued	Foreign exchange	2,152	237	2,114	946	5,449	5,398
	Foreign exchange contracts	Foreign exchange	459	387	293	–	1,139	11
<b>CONSOLIDATED 2018</b>								
<b>Hedging instruments-assets</b>								
Cash flow hedges	Cross currency swaps	Foreign exchange	(66)	90	566	1,807	2,397	181
	Cross currency swaps	Interest and foreign exchange	–	–	125	–	125	–
	Interest rate swaps	Interest	295	245	1,508	357	2,405	42
Fair value hedges	Interest rate swaps	Interest	300	1,086	8,180	1,753	11,319	176
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	1,487	324	1,811	94
Net investment hedges <sup>(2)</sup>	Foreign exchange contracts	Foreign exchange	257	178	173	–	608	22
<b>Hedging instruments-liabilities</b>								
Cash flow hedges	Cross currency swaps	Foreign exchange	8	3	–	–	11	1
	Interest rate swaps	Interest	(12)	(30)	1,073	905	1,936	86
Fair value hedges	Interest rate swaps	Interest	125	2,593	9,047	4,539	16,304	240
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	75	600	215	575	1,465	57
Net investment hedges <sup>(2)</sup>	Debt issued	Foreign exchange	10	485	4,837	588	5,920	5,954
	Foreign exchange contracts	Foreign exchange	768	710	659	34	2,171	113

(1) The carrying amounts in the table above represent balances in the statement of financial position as at March period end and include accrued interest where applicable.

(2) In order to hedge the currency exposure of certain of the Consolidated Entity's net investment in foreign operations, the Consolidated Entity jointly designates both forward exchange derivative contracts (the currency of the underlying foreign operation to USD) and foreign denominated debt issued (for USD to AUD). As a result, the notional value of hedging instruments presented in the table above of \$9,142 million (2018: 8,699 million) represents the notional of both the derivative hedging instruments and the debt issued and hence exceeds the \$4,986 million (2018: 5,521 million) notional of the underlying net investment in foreign operations designated in a hedge relationship.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 33

Hedge accounting continued

Hedging instruments	Risk	NOTIONAL				CARRYING AMOUNT <sup>(1)</sup>		
		Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m	Total \$m	
							<b>COMPANY 2019</b>	
<b>Hedging instruments-assets</b>								
Cash flow hedges	Cross currency swaps	Foreign exchange	(48)	327	470	1,330	2,079	219
	Interest rate swaps	Interest	(44)	(132)	(19)	747	552	79
Fair value hedges	Interest rate swaps	Interest	–	790	2,854	3,332	6,976	168
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	392	252	74	718	113
Net investment hedges	Foreign exchange contracts	Foreign exchange	359	60	213	–	632	25
<b>Hedging instruments-liabilities</b>								
Cash flow hedges	Interest rate swaps	Interest	(30)	177	(60)	1,174	1,261	95
Fair value hedges	Interest rate swaps	Interest	–	839	2,437	1,050	4,326	69
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	743	163	906	58
Net investment hedges	Debt issued	Foreign exchange	219	39	696	530	1,484	1,496
	Foreign exchange contracts	Foreign exchange	465	205	108	–	778	4
							<b>COMPANY 2018</b>	
<b>Hedging instruments-assets</b>								
Cash flow hedges	Cross currency swaps	Foreign exchange	(91)	(257)	511	1,807	1,970	142
	Interest rate swaps	Interest	91	(164)	420	965	1,312	71
Fair value hedges	Interest rate swaps	Interest	5	2,271	6,846	2,769	11,891	173
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	–	685	324	1,009	81
Net investment hedges	Foreign exchange contracts	Foreign exchange	93	102	113	–	308	16
<b>Hedging instruments-liabilities</b>								
Cash flow hedges	Interest rate swaps	Interest	(83)	(235)	725	850	1,257	59
Fair value hedges	Interest rate swaps	Interest	–	944	4,562	4,052	9,559	221
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	–	477	–	575	1,052	39
Net investment hedges	Debt issued	Foreign exchange	–	367	1,237	391	1,995	2,028
	Foreign exchange contracts	Foreign exchange	215	592	480	38	1,325	64

(1) The carrying amounts in the table above represent balances in the statement of financial position at balance date end and include accrued interest where applicable.



## Note 33

### Hedge accounting continued

#### Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges and net investment hedges<sup>(1)</sup> that were in place at the balance date. Executed rates for fair value hedges of interest rate risk have not been shown below as these would represent the market reference rates at the time of designation which are primarily 1 month, 3 month or 6 month USD LIBOR, GBP LIBOR, AUD BBSW, EUR EURIBOR and JPY LIBOR.

	Hedging instruments	Currency/ currency pair	CONSOLIDATED		COMPANY	
			2019	2018	2019	2018
Cash flow hedges	Interest rate swaps	AUD	<b>2.03–4.99%</b>	1.77–4.99%	<b>2.03–2.42%</b>	1.77–2.42%
		GBP	<b>1.30–2.13%</b>	0.40–2.13%	<b>1.30–2.13%</b>	0.40–2.17%
		USD	<b>N/A</b>	2.02%	<b>N/A</b>	NA
Cash flow hedges	Cross currency swaps	USD/CHF	<b>0.92–0.93</b>	0.92–0.93	<b>0.92–0.93</b>	0.92–0.93
		AUD/EUR	<b>0.64–0.69</b>	0.64–0.69	<b>0.68–0.69</b>	0.68–0.69
		AUD/USD	<b>0.76–0.78</b>	0.72–0.78	<b>0.78</b>	0.78
Net investment hedges	Foreign exchange contracts	USD/GBP	<b>0.65–0.78</b>	0.64–0.81	<b>0.69–0.77</b>	0.64–0.81
		USD/SGD	<b>1.35–1.39</b>	1.31–1.39	<b>1.35–1.39</b>	<b>1.31–1.39</b>
		AUD/GBP	<b>0.53</b>	N/A	<b>0.53</b>	N/A
		USD/CAD	<b>1.31–1.36</b>	1.25–1.30	<b>N/A</b>	N/A
		AUD/CAD	<b>0.94</b>	N/A	<b>N/A</b>	N/A

(1) United States dollar (USD) denominated debt issued has been paired with foreign exchange contracts to hedge some of the Consolidated Entity's net investment in foreign operations back to Australian dollars (AUD). The executed rate on the issued debt has not been included in the above table as they reflect the spot rate at reporting date, this being the AUD/USD exchange rate of \$0.71 (2018: \$0.77).

#### Hedging relationships

##### Cash flows hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 25 *Reserves*. Changes in this reserve are reported in the Consolidated Entity's statement of other comprehensive income. The cumulative amount of fair value adjustments remaining in the cash flow hedge reserve for hedging relationships that have ceased, but for which the hedged cash flows are still expected to occur is \$1 million (2018: \$7 million). This amount will be transferred to the income statement as a loss as and when the hedged item affects the income statement.

##### Net investment in foreign operation hedges

The Consolidated Entity's net investment in foreign operations (NIFO) changes as a result of earnings, dividends, other capital-related events and changes in the Consolidated Entity's group structure as a result of internal restructures. The risk of changes in the NIFO for movements in foreign exchange rates is hedged by the Consolidated Entity through the use of a combination of derivatives and foreign denominated borrowings. Refer to Note 34.3 *Financial risk management: Non-traded market risk* for further information on the Consolidated Entity's risk management strategy.

In order to reflect the Consolidated Entity's risk management strategy, hedge accounting is applied where changes in the derivatives and foreign denominated borrowings are recognised, together with the related foreign currency translation reserve, in the Consolidated Entity's other comprehensive income and is subsequently released to the income statement when the foreign operation is disposed. Hedge ineffectiveness is recognised in the income statement. Given that the Consolidated Entity's NIFO frequently changes, the hedge designations are reviewed on a monthly basis or more frequently where required, which includes updating the NIFO exposure and rebalancing the associated hedge designations.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 33

Hedge accounting continued

### Fair value hedges

The following table shows the carrying value of hedged items designated in fair value hedge accounting relationships and the cumulative fair value hedge accounting adjustment that has been recognised as part of that carrying value. These balances are being amortised to the income statement on an effective yield basis. The Consolidated Entity does not hedge its entire exposure to a class of financial instruments, nor does it apply hedge accounting in all instances, therefore the carrying amounts below will not equal the total carrying amounts disclosed in other notes to these financial statements. As noted in the Consolidated Entity's accounting policies, since the hedged item is adjusted only for the hedged risk, the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements. The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses is a balance of \$7 million (2018: \$61 million) for the Consolidated Entity. This amount will be amortised to the income statement as a gain on an effective interest rate basis.

	CONSOLIDATED 2019		CONSOLIDATED 2018	
	Carrying amount <sup>(1)</sup>	Fair value hedge adjustments	Carrying amount <sup>(1)</sup>	Fair value hedge adjustments
	\$m	Debit/(Credit) \$m	\$m	Debit/(Credit) \$m
<b>Assets</b>				
Financial investments	104	4	188	8
Loan assets	12,063	105	10,047	(23)
Non-financial contracts	55	55	–	–
<b>Liabilities</b>				
Debt issued	11,306	(38)	16,468	154
Loan capital	4,041	(48)	3,771	(18)
	COMPANY 2019		COMPANY 2018	
	Carrying amount <sup>(1)</sup>	Fair value hedge adjustments	Carrying amount <sup>(1)</sup>	Fair value hedge adjustments
	\$m	Debit/(Credit) \$m	\$m	Debit/(Credit) \$m
<b>Assets</b>				
Financial investments	104	4	188	8
Loan assets	499	11	1,570	(4)
<b>Liabilities</b>				
Debt issued	8,443	(31)	17,869	176
Loan capital	4,041	(48)	3,771	(18)

(1) The carrying amounts in the table above exclude accrued interest from the carrying amount of hedged items.

## Note 33

## Hedge accounting continued

## Hedge ineffectiveness

Hedge ineffectiveness, in the case of a fair value hedge, is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item, and in the case of cash flow and net investment hedge relationships, the extent to which the change in the hedging instrument exceeds that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments.

The following table contains the hedge ineffectiveness associated with cash flow hedge and fair value hedge relationships during the period, as reported in trading income in the income statement:

	Hedging instruments	Risk	Gains/(losses) on hedging instruments \$m	Gains/(losses) on hedged items attributable to the hedged risk \$m	Hedge ineffectiveness recognised in the income statement \$m
<b>CONSOLIDATED 2019</b>					
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	1	(1)	–
Cash flow hedges	Interest rate swaps	Interest	(41)	52	11
Fair value hedges	Interest rate swaps	Interest	83	(84)	(1)
Fair value hedges	Physical forward with basis swap	Commodity price	(57)	55	(2)
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	23	(22)	1
<b>Total</b>			<b>9</b>	<b>–</b>	<b>9</b>
<b>CONSOLIDATED 2018</b>					
Cash flow hedges	Cross currency swaps	Foreign exchange	20	(20)	–
Cash flow hedges	Cross currency swaps	Interest and foreign exchange	2	(2)	–
Cash flow hedges	Interest rate swaps	Interest	69	(55)	14
Fair value hedges	Interest rate swaps	Interest	(233)	214	(19)
Fair value and cash flow hedges	Cross currency swaps	Interest and foreign exchange	(15)	16	1
<b>Total</b>			<b>(157)</b>	<b>153</b>	<b>(4)</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 33

Hedge accounting continued

	Hedging instruments	Risk	Gains/(losses) on hedging instruments \$m	Gains/(losses) on hedged items attributable to the hedged risk \$m	Hedge ineffectiveness recognised in the income statement \$m
<b>COMPANY 2019</b>					
Cash flow hedges	Interest rate swaps	Interest	(20)	25	5
Fair value hedges	Interest rate swaps	Interest	164	(183)	(19)
Fair value hedges and cash flow hedges	Cross currency swaps	Interest and foreign exchange	15	(15)	–
<b>Total</b>			<b>159</b>	<b>(173)</b>	<b>(14)</b>
<b>COMPANY 2018</b>					
Cash flow hedges	Cross currency swaps	Foreign exchange	18	(18)	–
Cash flow hedges	Interest rate swaps	Interest	3	1	4
Fair value hedges	Interest rate swaps	Interest	(270)	257	(13)
Fair value hedges and cash flow hedges	Cross currency swaps	Interest and foreign exchange	(21)	21	–
<b>Total</b>			<b>(270)</b>	<b>261</b>	<b>(9)</b>

A gain of \$1 million for the Consolidated Entity and \$Nil for the Company was recognised in the income statement related to hedge ineffectiveness from net investment hedge relationships (2018: \$1 million gain for the Consolidated Entity, \$Nil for the Company).

## Note 34

### Financial risk management

#### Risk Management Group (RMG)

Risk is an integral part of the Consolidated Entity's businesses. The main risks faced by the Consolidated Entity are strategic, reputation, conduct, credit, equity, asset, liquidity, market, compliance, operational, legal and tax.

The primary responsibility for risk management lies at the business level. Part of the role of all staff throughout Macquarie is to ensure they manage risks appropriately.

RMG is independent of all other areas of the Consolidated Entity. RMG approval is required for all material risk acceptance decisions. RMG independently assesses and accepts all material risks and sets prudential limits, consistent with the Board approved Risk Appetite Statement. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee. Further details on the Risk Management Framework in the Consolidated Entity can be found in the Risk Management Report of this Annual Report.

#### Note 34.1 Credit risk

Credit risk is 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 or financial obligation not repaid, or the loss incurred in replicating a trading contract with a new counterparty.

#### Analysis and limit approval

Responsibility for approval of credit exposures is delegated to specific individuals by the Board or CRO. 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 required. 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. Derivative exposures are measured using high confidence potential future underlying asset prices. To mitigate credit risk, where appropriate, 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).

#### Ratings and reviews

Refer to Note 11 *Expected credit losses* for details regarding the manner in which the Consolidated Entity has adopted and applied AASB 9's expected credit loss impairment requirements.

#### Wholesale rating:

Macquarie wholesale ratings broadly correspond to Standard & Poor's credit ratings as follows:

Credit grading	Internal rating	External equivalent
Investment Grade	MQ1 to MQ8	AAA to BBB-
Non-Investment Grade	MQ9 to MQ16	BB+ to C
Default	MQ99	Default

#### Retail rating:

Retail pools are mapped to the credit quality grades based on their PDs.

Mapping retail portfolios to the credit grades has been done for comparability of the overall presentation and does not reflect the distribution of risk in the portfolio. Management reviews a range of information, including past due status for the portfolio, to assess the credit quality of these assets.

Under AASB 139, credit quality of retail lending exposures was disclosed based on regulatory PDs (through-the-cycle PDs) and considered the credit rating of the insurance provider for insured mortgages.

#### Due from subsidiaries/due from related body corporate entities:

Balances with subsidiaries and related body corporate entities are mapped to the rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis.

#### Portfolio and country risk

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 management framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is mitigated by political risk insurance.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

#### Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost or FVOCI and off balance sheet exposures of the Consolidated Entity subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

	Stage I <sup>(1)</sup> \$m	Stage II <sup>(1)</sup> \$m	Stage III <sup>(1)</sup> \$m	Total \$m
<b>Investment grade</b>				
<b>CONSOLIDATED 2019</b>				
Cash and bank balances	7,561	–	–	7,561
Cash collateral on securities borrowed and reverse repurchase agreements	8,622	–	–	8,622
Margin money and settlement assets	7,820	–	–	7,820
Financial investments	4,930	–	–	4,930
Other assets	679	–	–	679
Loan assets	34,239	398	–	34,637
Due from related body corporate entities	1,265	–	–	1,265
Interests in associates and joint ventures – loans	3	–	–	3
Undrawn credit commitments and financial guarantees	4,942	–	–	4,942
<b>Total investment grade</b>	<b>70,061</b>	<b>398</b>	<b>–</b>	<b>70,459</b>
<b>Non-Investment Grade</b>				
Cash and bank balances	132	–	–	132
Cash collateral on securities borrowed and reverse repurchase agreements	1,371	–	–	1,371
Margin money and settlement assets	2,754	160	–	2,914
Financial investments	65	–	–	65
Other assets	357	9	–	366
Loan assets	27,381	10,456	–	37,837
Due from related body corporate entities	257	–	–	257
Interests in associates and joint ventures – loans	4	–	–	4
Undrawn credit commitments and financial guarantees	2,432	79	–	2,511
<b>Total Non-Investment Grade</b>	<b>34,753</b>	<b>10,704</b>	<b>–</b>	<b>45,457</b>
<b>Default</b>				
Margin money and settlement assets	–	–	15	15
Financial investments	–	–	122	122
Other assets	–	–	3	3
Loan assets	–	–	1,344	1,344
Interests in associates and joint ventures – loans	–	–	1	1
Undrawn credit commitments and financial guarantees	–	–	21	21
<b>Total default</b>	<b>–</b>	<b>–</b>	<b>1,506</b>	<b>1,506</b>
<b>Total<sup>(2)</sup></b>	<b>104,814</b>	<b>11,102</b>	<b>1,506</b>	<b>117,422</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	7,693	–	–	7,693
Cash collateral on securities borrowed and reverse repurchase agreements	9,993	–	–	9,993
Margin money and settlement assets	10,574	160	15	10,749
Financial investments	4,995	–	122	5,117
Other assets	1,036	9	3	1,048
Loan assets	61,620	10,854	1,344	73,818
Due from related body corporate entities	1,522	–	–	1,522
Interests in associates and joint ventures – loans	7	–	1	8
Undrawn credit commitments and financial guarantees	7,374	79	21	7,474
<b>Total financial assets by ECL stage<sup>(2)</sup></b>	<b>104,814</b>	<b>11,102</b>	<b>1,506</b>	<b>117,422</b>

(1) For the definition of Stage I, II, and III, refer to Note 12 *Expected credit losses*. Whilst exposure may have migrated to stage II, it should not be inferred that such exposures are of lower credit quality. The ECL for stage III assets includes the benefit of the collateral and other credit enhancements.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

## Note 34

## Financial risk management continued

## Note 34.1 Credit risk continued

The table below discloses, by credit rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts of the Company.

	Stage I <sup>(1)</sup> \$m	Stage II <sup>(1)</sup> \$m	Stage III <sup>(1)</sup> \$m	Total \$m
<b>Investment grade</b>				
<b>COMPANY 2019</b>				
Cash and bank balances	6,266	–	–	6,266
Cash collateral on securities borrowed and reverse repurchase agreements	8,621	–	–	8,621
Margin money and settlement assets	5,885	–	–	5,885
Financial investments	4,845	–	–	4,845
Other assets	651	–	–	651
Loan assets	29,220	373	–	29,593
Due from related body corporate entities	804	–	–	804
Due from subsidiaries	23,158	–	–	23,158
Interests in associates and joint ventures – loans	4	–	–	4
Undrawn credit commitments and financial guarantees	4,862	–	–	4,862
<b>Total investment grade</b>	<b>84,316</b>	<b>373</b>	<b>–</b>	<b>84,689</b>
<b>Non-Investment Grade</b>				
Cash and bank balances	111	–	–	111
Cash collateral on securities borrowed and reverse repurchase agreements	1,362	–	–	1,362
Margin money and settlement assets	1,962	154	–	2,116
Financial investments	63	–	–	63
Other assets	200	3	–	203
Loan assets	14,465	8,872	–	23,337
Due from related body corporate entities	235	–	–	235
Interests in associates and joint ventures – loans	1	–	–	1
Undrawn credit commitments and financial guarantees	2,063	34	–	2,097
<b>Total Non-Investment Grade</b>	<b>20,462</b>	<b>9,063</b>	<b>–</b>	<b>29,525</b>
<b>Default</b>				
Margin money and settlement assets	–	–	1	1
Financial investments	–	–	122	122
Other assets	–	–	1	1
Loan assets	–	–	688	688
Interests in associates and joint ventures – loans	–	–	–	–
Undrawn credit commitments and financial guarantees	–	–	2	2
<b>Default total</b>	<b>–</b>	<b>–</b>	<b>814</b>	<b>814</b>
<b>Total<sup>(2)</sup></b>	<b>104,778</b>	<b>9,436</b>	<b>814</b>	<b>115,028</b>
<b>Financial assets by ECL stage</b>				
Cash and bank balances	6,377	–	–	6,377
Cash collateral on securities borrowed and reverse repurchase agreements	9,983	–	–	9,983
Margin money and settlement assets	7,847	154	1	8,002
Financial investments	4,908	–	122	5,030
Other assets	851	3	1	855
Loan assets	43,685	9,245	688	53,618
Due from related body corporate entities	1,039	–	–	1,039
Due from subsidiaries	23,158	–	–	23,158
Interests in associates and joint ventures – loans	5	–	–	5
Undrawn credit commitments and financial guarantees	6,925	34	2	6,961
<b>Total financial assets by ECL stage<sup>(2)</sup></b>	<b>104,778</b>	<b>9,436</b>	<b>814</b>	<b>115,028</b>

(1) For the definition of Stage I, II, and III, refer to Note 12 *Expected credit losses*. Whilst exposure may have migrated to stage II, it should not be inferred that such exposures are of lower credit quality. The ECL for stage III assets includes the benefit of the collateral and other credit enhancements.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

Further analysis of credit risk for loan assets being the Consolidated Entity's most material credit exposure is presented below:

	Investment Grade \$m	Non- Investment Grade \$m	Total other than default \$m	OF WHICH PAST DUE			Default \$m	Total \$m
				Up to 30 days \$m	31 to <90 days \$m	Total past due but not default \$m		
<b>CONSOLIDATED 2019</b>								
Mortgages <sup>(1)</sup>	26,678	14,938	41,616	438	233	671	349	41,965
Asset financing	3,003	14,671	17,674	745	93	838	551	18,225
Corporate, commercial and other lending	3,477	8,065	11,542	113	42	155	444	11,986
Investment lending	1,479	163	1,642	-	-	-	-	1,642
<b>Total<sup>(2)</sup></b>	<b>34,637</b>	<b>37,837</b>	<b>72,474</b>	<b>1,296</b>	<b>368</b>	<b>1,664</b>	<b>1,344</b>	<b>73,818</b>
<b>COMPANY 2019</b>								
Mortgages <sup>(1)</sup>	25,850	14,689	40,539	420	221	641	349	40,888
Asset financing	1,238	2,123	3,361	110	16	126	71	3,432
Corporate, commercial and other lending	2,497	6,399	8,896	113	42	155	268	9,164
Investment lending	8	126	134	-	-	-	-	134
<b>Total<sup>(2)</sup></b>	<b>29,593</b>	<b>23,337</b>	<b>52,930</b>	<b>643</b>	<b>279</b>	<b>922</b>	<b>688</b>	<b>53,618</b>

(1) Includes \$16,457 million Mortgages for which insurance has been obtained from investment grade Lenders Mortgage Insurance (LMI) counterparties and another \$18,802 million Mortgages where the Consolidated Entity has bought risk protection from a panel of investment grade companies via an excess of loss structure.

(2) The credit quality is based on the counterparty's credit rating as determined by the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements.

## Note 34

## Financial risk management continued

## Note 34.1 Credit risk continued

## Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Consolidated Entity's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(1)</sup> \$m	Due from related body corporate entities \$m	Interests in associates and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>CONSOLIDATED 2019</b>										
<b>Australia</b>										
Governments	–	–	–	–	–	67	–	–	–	67
Financial institutions	2,495	2,522	3,398	1,077	151	2,243	92	1	363	12,342
Other	–	–	818	1,599	131	62,728	233	3	5,350	70,862
Total Australia	2,495	2,522	4,216	2,676	282	65,038	325	4	5,713	83,271
<b>Asia Pacific</b>										
Governments	–	–	–	256	–	–	–	–	–	256
Financial institutions	1,554	2,438	500	880	12	1	–	–	–	5,385
Other	–	–	–	835	85	1,044	561	1	177	2,703
Total Asia Pacific	1,554	2,438	500	1,971	97	1,045	561	1	177	8,344
<b>Europe, Middle East and Africa</b>										
Governments	550	–	–	143	152	3	–	–	34	882
Financial institutions	476	2,265	155	970	80	717	–	–	323	4,986
Other	–	–	–	1,664	328	2,237	185	3	538	4,955
Total Europe, Middle East and Africa	1,026	2,265	155	2,777	560	2,957	185	3	895	10,823
<b>Americas</b>										
Governments	–	–	–	28	1	12	–	–	6	47
Financial institutions	2,618	2,768	246	991	17	2,831	–	–	123	9,594
Other	–	–	–	2,306	91	1,935	451	–	560	5,343
Total Americas	2,618	2,768	246	3,325	109	4,778	451	–	689	14,984
<b>Total gross credit risk<sup>(2)</sup></b>	<b>7,693</b>	<b>9,993</b>	<b>5,117</b>	<b>10,749</b>	<b>1,048</b>	<b>73,818</b>	<b>1,522</b>	<b>8</b>	<b>7,474</b>	<b>117,422</b>

(1) Loan assets in Australia region includes Mortgages \$41,965 million, Asset financing \$16,228 million, Corporate, commercial and other lending \$6,635 million and Investment lending \$210 million.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

#### Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Company's assets measured at amortised cost or FVOCI and off balance sheet exposures subject to the impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile. Counterparty type is based on APRA classification.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets <sup>(1)</sup> \$m	Due from related body corporate entities \$m	Due from subsidiaries \$m	Interests in associates and joint ventures – loans \$m	Undrawn credit commitments and financial guarantees \$m	Total \$m
<b>COMPANY 2019</b>											
<b>Australia</b>											
Governments	–	–	–	–	–	46	–	–	–	–	46
Financial institutions	2,359	2,522	3,334	1,061	131	2,085	90	4	–	2,624	14,210
Other	–	–	818	1,412	511	48,083	121	13,507	4	2,871	67,327
<b>Total Australia</b>	<b>2,359</b>	<b>2,522</b>	<b>4,152</b>	<b>2,473</b>	<b>642</b>	<b>50,214</b>	<b>211</b>	<b>13,511</b>	<b>4</b>	<b>5,495</b>	<b>81,583</b>
<b>Asia Pacific</b>											
Governments	–	–	–	256	–	–	–	–	–	–	256
Financial institutions	1,416	2,438	500	810	12	2	–	–	–	–	5,178
Other	–	–	–	627	80	811	528	2,062	1	85	4,194
<b>Total Asia Pacific</b>	<b>1,416</b>	<b>2,438</b>	<b>500</b>	<b>1,693</b>	<b>92</b>	<b>813</b>	<b>528</b>	<b>2,062</b>	<b>1</b>	<b>85</b>	<b>9,628</b>
<b>Europe, Middle East and Africa</b>											
Governments	–	–	–	143	–	–	–	–	–	–	143
Financial institutions	794	2,265	149	972	44	524	–	–	–	403	5,151
Other	–	–	–	1,562	35	988	139	4,294	–	78	7,096
<b>Total Europe, Middle East and Africa</b>	<b>794</b>	<b>2,265</b>	<b>149</b>	<b>2,677</b>	<b>79</b>	<b>1,512</b>	<b>139</b>	<b>4,294</b>	<b>–</b>	<b>481</b>	<b>12,390</b>
<b>Americas</b>											
Governments	–	–	–	–	–	12	–	–	–	6	18
Financial institutions	1,808	2,758	229	726	6	50	–	–	–	8	5,585
Other	–	–	–	433	36	1,017	161	3,291	–	886	5,824
<b>Total Americas</b>	<b>1,808</b>	<b>2,758</b>	<b>229</b>	<b>1,159</b>	<b>42</b>	<b>1,079</b>	<b>161</b>	<b>3,291</b>	<b>–</b>	<b>900</b>	<b>11,427</b>
<b>Total gross credit risk<sup>(2)</sup></b>	<b>6,377</b>	<b>9,983</b>	<b>5,030</b>	<b>8,002</b>	<b>855</b>	<b>53,618</b>	<b>1,039</b>	<b>23,158</b>	<b>5</b>	<b>6,961</b>	<b>115,028</b>

(1) Loan assets in the Australian region includes Mortgages \$40,704 million, Asset financing \$3,356 million, Corporate, commercial and other lending \$6,020 million and Investment lending \$134 million.

(2) For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance and gross carrying amount of financial assets measured at FVOCI represents amortised cost before fair value adjustments and ECL allowance.

## Note 34

## Financial risk management continued

## Note 34.1 Credit risk continued

## Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Consolidated Entity's financial assets which are not subject to impairment requirements of AASB 9 since they are measured at fair value through the income statement. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements \$m	Trading assets \$m	Derivative assets \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets \$m	Interests in associate and joint ventures – loans \$m	Total \$m
<b>CONSOLIDATED 2019</b>									
<b>Australia</b>									
Governments	–	4,243	18	–	–	–	–	–	4,261
Financial institutions	702	125	1,388	–	–	5	1	–	2,221
Other	–	–	1,244	–	–	–	140	3	1,387
<b>Total Australia</b>	<b>702</b>	<b>4,368</b>	<b>2,650</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>141</b>	<b>3</b>	<b>7,869</b>
<b>Asia Pacific</b>									
Governments	–	232	4	–	–	–	–	–	236
Financial institutions	522	599	184	80	–	–	–	–	1,385
Other	–	91	677	–	445	–	41	–	1,254
<b>Total Asia Pacific</b>	<b>522</b>	<b>922</b>	<b>865</b>	<b>80</b>	<b>445</b>	<b>–</b>	<b>41</b>	<b>–</b>	<b>2,875</b>
<b>Europe, Middle East and Africa</b>									
Governments	–	80	7	–	–	–	7	–	94
Financial institutions	5,464	255	3,297	–	–	–	2	–	9,018
Other	–	–	2,874	–	1,451	–	182	–	4,507
<b>Total Europe, Middle East and Africa</b>	<b>5,464</b>	<b>335</b>	<b>6,178</b>	<b>–</b>	<b>1,451</b>	<b>–</b>	<b>191</b>	<b>–</b>	<b>13,619</b>
<b>Americas</b>									
Governments	8	1,001	36	–	–	–	–	–	1,045
Financial institutions	12,459	67	2,346	–	1,554	–	47	–	16,473
Other	–	598	2,015	–	297	16	92	–	3,018
<b>Total Americas</b>	<b>12,467</b>	<b>1,666</b>	<b>4,397</b>	<b>–</b>	<b>1,851</b>	<b>16</b>	<b>139</b>	<b>–</b>	<b>20,536</b>
<b>Total gross credit risk</b>	<b>19,155</b>	<b>7,291</b>	<b>14,090</b>	<b>80</b>	<b>3,747</b>	<b>21</b>	<b>512</b>	<b>3</b>	<b>44,899</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

#### Credit risk concentration

The table below details the concentration by significant geographical locations and counterparty type of the Company's financial assets which are not subject to impairment requirements of AASB 9. Financial assets that are subject to risks other than credit risk, such as equity investments, commodities, bank notes and coins are excluded from the below table.

	Cash collateral on securities borrowed and reverse repurchase agreements	Trading assets	Derivative assets	Financial investments	Margin money and settlement assets	Other assets	Loan assets	Due from subsidiaries	Interests in associate and joint ventures – loans	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>COMPANY 2019</b>										
<b>Australia</b>										
Governments	–	4,243	18	–	–	–	–	–	–	4,261
Financial institutions	703	116	1,138	–	–	–	1	–	–	1,958
Other	–	–	1,243	–	–	–	141	736	3	2,123
<b>Total Australia</b>	<b>703</b>	<b>4,359</b>	<b>2,399</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>142</b>	<b>736</b>	<b>3</b>	<b>8,342</b>
<b>Asia Pacific</b>										
Governments	–	113	4	–	–	–	–	–	–	117
Financial institutions	522	233	178	80	–	–	–	–	–	1,013
Other	–	1	674	–	399	46	41	–	–	1,161
<b>Total Asia Pacific</b>	<b>522</b>	<b>347</b>	<b>856</b>	<b>80</b>	<b>399</b>	<b>46</b>	<b>41</b>	<b>–</b>	<b>–</b>	<b>2,291</b>
<b>Europe, Middle East and Africa</b>										
Governments	–	80	7	–	–	–	7	–	–	94
Financial institutions	5,265	254	3,250	–	–	–	–	–	–	8,769
Other	–	–	2,504	–	1,401	–	182	–	–	4,087
<b>Total Europe, Middle East and Africa</b>	<b>5,265</b>	<b>334</b>	<b>5,761</b>	<b>–</b>	<b>1,401</b>	<b>–</b>	<b>189</b>	<b>–</b>	<b>–</b>	<b>12,950</b>
<b>Americas</b>										
Governments	8	299	2	–	–	–	–	–	–	309
Financial institutions	12,276	13	2,308	–	–	–	162	–	–	14,759
Other	–	12	923	–	–	–	80	–	–	1,015
<b>Total Americas</b>	<b>12,284</b>	<b>324</b>	<b>3,233</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>242</b>	<b>–</b>	<b>–</b>	<b>16,083</b>
<b>Total gross credit risk</b>	<b>18,774</b>	<b>5,364</b>	<b>12,249</b>	<b>80</b>	<b>1,800</b>	<b>46</b>	<b>614</b>	<b>736</b>	<b>3</b>	<b>39,666</b>

## Note 34

### Financial risk management continued

#### Note 34.1 Credit risk continued

##### Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet (refer Note 35 *Measurement categories of financial instruments*). For off balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 11 *Expected credit losses*.

##### Prior year comparative credit risk disclosures

The credit risk disclosures that follow were included in the 2018 annual report and do not reflect the adoption of AASB 9,

principally because the analysis includes the consideration of the credit rating of the insurance provider to ensure mortgages. These tables are accordingly not directly comparable to that provided under AASB 9. These disclosures have been restated for balance sheet presentation changes (Refer Note 1). 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 or bank notes and coins.

##### Credit quality of financial assets

The table below details the credit quality of the Consolidated Entity's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to section on collateral and credit enhancements).

	Investment Grade \$m	Non- Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
<b>CONSOLIDATED 2018</b>					
<b>Cash and bank balances</b>					7,852
Financial institutions	7,766	86	–	–	7,852
<b>Cash collateral on securities borrowed and reverse repurchase agreements<sup>(1)</sup></b>					28,777
Financial institutions	24,592	4,185	–	–	28,777
<b>Trading assets</b>					7,952
Governments	6,514	85	–	–	6,599
Financial institutions	947	28	–	–	975
Other	158	187	33	–	378
<b>Derivative assets</b>					12,695
Governments	518	2	–	–	520
Financial institutions	6,223	647	–	–	6,870
Other	3,073	2,232	–	–	5,305
<b>Margin money and settlement assets</b>					13,723
Governments	328	–	51	–	379
Financial institutions	4,305	581	18	–	4,904
Other	7,443	932	63	2	8,440
<b>Financial investments</b>					5,316
Governments	602	–	–	–	602
Financial institutions	4,464	32	–	–	4,496
Other	115	103	–	–	218
<b>Other assets<sup>(2)</sup></b>					1,266
Governments	103	6	–	–	109
Financial institutions	38	882	–	–	920
Other	211	19	4	3	237
<b>Loan assets<sup>(3)</sup></b>					72,289
Governments	66	30	–	–	96
Financial institutions	3,175	1,241	1	–	4,417
Other	28,274	36,903	2,264	335	67,776
<b>Due from Related Body Corporate entities</b>					1,383
Other	1,383	–	–	–	1,383
<b>Total</b>	<b>100,298</b>	<b>48,181</b>	<b>2,434</b>	<b>340</b>	<b>151,253</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million, which are included in Note 9 *Other assets*.

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as non-investment grade based on probability of default rating either when not insured or the Consolidated Entity bears the first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

The table below details the credit quality of the Company's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and industry type using the Consolidated Entity's credit rating system and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to section on collateral and credit enhancements).

	Investment Grade \$m	Non- Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
<b>COMPANY 2018</b>					
<b>Cash and bank balances</b>					6,648
Financial institutions	6,555	93	–	–	6,648
<b>Cash collateral on securities borrowed and reverse repurchase agreements<sup>(1)</sup></b>					28,437
Financial institutions	24,403	4,034	–	–	28,437
<b>Trading assets</b>					6,534
Governments	5,738	90	–	–	5,828
Financial institutions	460	27	–	–	487
Other	1	189	29	–	219
<b>Derivative assets</b>					10,668
Governments	368	–	–	–	368
Financial institutions	4,890	1,930	–	–	6,820
Other	2,124	1,356	–	–	3,480
<b>Margin money and settlement assets</b>					9,108
Governments	303	12	–	–	315
Financial institutions	4,388	826	14	–	5,228
Other	3,222	340	–	3	3,565
<b>Other assets<sup>(2)</sup></b>					278
Governments	1	1	–	–	2
Financial institutions	14	156	–	–	170
Other	59	43	2	2	106
<b>Financial investments</b>					5,185
Governments	601	–	–	–	601
Financial institutions	4,548	–	–	–	4,548
Other	–	36	–	–	36
<b>Loan assets<sup>(3)</sup></b>					49,833
Governments	58	12	–	–	70
Financial institutions	1,719	685	–	–	2,404
Other	27,753	17,888	1,447	271	47,359
<b>Due from related body corporate entities</b>					1,212
Other	1,212	–	–	–	1,212
<b>Due from subsidiaries</b>					27,841
Other	27,841	–	–	–	27,841
<b>Total</b>	<b>116,258</b>	<b>27,718</b>	<b>1,492</b>	<b>276</b>	<b>145,744</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million, which are included in Note 9 *Other assets*.

(3) Mortgages are classified as investment grade when the Consolidated Entity has taken insurance from investment grade LMI counterparties and classified as non-investment grade based on probability of default rating either when not insured or the Consolidated Entity bears the first loss on the portfolio.



## Note 34

Financial risk management continued

**Note 34.1 Credit risk continued**

Ageing analysis of assets past due but not individually impaired and individually impaired assets

Class of financial asset	PAST DUE BUT NOT INDIVIDUALLY IMPAIRED					Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m				
<b>CONSOLIDATED 2018</b>								
<b>Trading assets</b>								
Other				33	33		–	33
Margin money and settlement assets								
Government	26	3	2	20	51		–	51
<b>Financial institutions</b>	6	2	1	9	18		–	18
Other	35	10	6	12	63		2	65
Other assets								
<b>Other</b>	4	–	–	–	4		3	7
Loan assets								
<b>Financial institutions</b>	1	–	–	–	1		–	1
<b>Other</b>	1,331	358	131	444	2,264		335	2,599
<b>Total</b>	<b>1,403</b>	<b>373</b>	<b>140</b>	<b>518</b>	<b>2,434</b>		<b>340</b>	<b>2,774</b>

Class of financial asset	PAST DUE BUT NOT INDIVIDUALLY IMPAIRED					Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m				
<b>COMPANY 2018</b>								
<b>Trading assets</b>								
Other	–	–	–	29	29		–	29
Margin money and settlement assets								
Government	–	–	–	–	–		–	–
<b>Financial institutions</b>	5	2	–	7	14		–	14
Other	–	–	–	–	–		3	3
Other assets								
<b>Other</b>	2	–	–	–	2		2	4
Loan assets								
<b>Other</b>	640	269	122	416	1,447		271	1,718
<b>Total</b>	<b>647</b>	<b>271</b>	<b>122</b>	<b>452</b>	<b>1,492</b>		<b>276</b>	<b>1,768</b>

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 after provisions 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(xxiii) *Impairment*.

Included in the past due category are balances which were overdue by one day or more.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

#### Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Consolidated Entity's financial assets, credit commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty and does not take into consideration collateral or other credit enhancements (refer to section on collateral and credit enhancements). The geographical location is determined by the domicile and industry type of the counterparty.

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Trading assets \$m	Derivative Assets \$m	Money Margin and Settlement Assets \$m	Other financial assets <sup>(2)</sup> \$m	Financial investments \$m	Loan assets \$m	Due from related body corporates \$m	Credit commitments and contingent liabilities \$m	Total \$m
<b>CONSOLIDATED 2018</b>											
<b>Australia</b>											
Governments	–	–	4,415	356	–	3	365	66	–	–	5,205
Financial institutions	3,854	3,088	160	979	602	386	3,759	2,124	–	139	15,091
Other	–	–	1	757	1,549	52	78	56,127	256	2,481	61,301
<b>Total Australia</b>	<b>3,854</b>	<b>3,088</b>	<b>4,576</b>	<b>2,092</b>	<b>2,151</b>	<b>441</b>	<b>4,202</b>	<b>58,317</b>	<b>256</b>	<b>2,620</b>	<b>81,597</b>
<b>Asia Pacific</b>											
Governments	–	–	1,191	7	256	27	235	3	–	–	1,719
Financial institutions	632	5,058	751	295	816	79	450	220	–	4	8,305
Other	–	–	292	379	536	110	–	1,007	269	76	2,669
<b>Total Asia Pacific</b>	<b>632</b>	<b>5,058</b>	<b>2,234</b>	<b>681</b>	<b>1,608</b>	<b>216</b>	<b>685</b>	<b>1,230</b>	<b>269</b>	<b>80</b>	<b>12,693</b>
<b>Europe, Middle East and Africa</b>											
Governments	–	–	130	2	59	75	2	16	–	13	297
Financial institutions	913	13,336	32	3,163	1,971	325	83	440	–	186	20,449
Other	–	–	68	1,187	2,202	–	1	5,579	697	951	10,685
<b>Total Europe, Middle East and Africa</b>	<b>913</b>	<b>13,336</b>	<b>230</b>	<b>4,352</b>	<b>4,232</b>	<b>400</b>	<b>86</b>	<b>6,035</b>	<b>697</b>	<b>1,150</b>	<b>31,431</b>
<b>Americas</b>											
Governments	–	–	863	155	25	4	–	11	–	6	1,064
Financial institutions	2,453	7,295	32	2,433	1,515	130	204	1,633	–	845	16,540
Other	–	–	17	2,982	4,192	75	139	5,063	161	1,280	13,909
<b>Total Americas</b>	<b>2,453</b>	<b>7,295</b>	<b>912</b>	<b>5,570</b>	<b>5,732</b>	<b>209</b>	<b>343</b>	<b>6,707</b>	<b>161</b>	<b>2,131</b>	<b>31,513</b>
<b>Total gross credit risk</b>	<b>7,852</b>	<b>28,777</b>	<b>7,952</b>	<b>12,695</b>	<b>13,723</b>	<b>1,266</b>	<b>5,316</b>	<b>72,289</b>	<b>1,383</b>	<b>5,981</b>	<b>157,234</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million which are included in Note 9 *Other assets*.

## Note 34

## Financial risk management continued

## Note 34.1 Credit risk continued

## Maximum exposure to credit risk

	Cash and bank balances \$m	Cash collateral on securities borrowed and reverse repurchase agreements <sup>(1)</sup> \$m	Trading assets \$m	Derivative assets \$m	Margin Money & Settlement Assets \$m	Other financial assets <sup>(2)</sup> \$m	Financial investments \$m	Loan assets \$m	Due from related body corporates \$m	Due from subsidiaries \$m	Credit commitments and contingent liabilities \$m	Total \$m
<b>COMPANY 2018</b>												
<b>Australia</b>												
Governments	–	–	4,415	357	–	2	364	46	–	–	–	5,184
Financial institutions	3,687	3,089	155	–	1,333	74	3,812	2,042	–	–	139	14,331
Other	–	–	1	753	1,067	67	37	41,486	144	14,314	3,818	61,687
Total Australia	3,687	3,089	4,571	1,110	2,400	143	4,213	43,574	144	14,314	3,957	81,202
<b>Asia Pacific</b>												
Governments	–	–	811	7	256	–	237	–	–	–	–	1,311
Financial institutions	507	4,907	270	288	737	63	450	1	–	–	4	7,227
Other	–	–	135	378	790	24	–	896	235	2,333	76	4,867
Total Asia Pacific	507	4,907	1,216	673	1,783	87	687	897	235	2,333	80	13,405
<b>Europe, Middle East and Africa</b>												
Governments	–	–	130	–	56	2	–	13	–	–	13	214
Financial institutions	642	13,155	32	2,940	1,708	22	71	354	–	–	186	19,110
Other	–	–	67	992	1,610	–	–	3,288	684	8,285	1,199	16,125
Total Europe, Middle East and Africa	642	13,155	229	3,932	3,374	24	71	3,655	684	8,285	1,398	35,449
<b>Americas</b>												
Governments	–	–	472	5	–	–	–	11	–	–	5	493
Financial institutions	1,812	7,286	30	3,592	1,475	9	192	7	–	–	222	14,625
Other	–	–	16	1,356	76	15	22	1,689	149	2,909	1,944	8,176
Total Americas	1,812	7,286	518	4,953	1,551	24	214	1,707	149	2,909	2,171	23,294
Total gross credit risk	6,648	28,437	6,534	10,668	9,108	278	5,185	49,833	1,212	27,841	7,606	153,350

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$659 million which are included in Note 9 *Other assets*.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

Collateral and credit enhancements held

#### Cash collateral on securities borrowed and reverse repurchase agreements

The Consolidated Entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. Securities borrowed require the deposit of cash collateral at amounts equal to or greater than the market value of the securities borrowed. Reverse repurchase agreements are collateralised financing arrangements with the market value of the securities provided as collateral generally in excess of the principal amount.

The fair value of collateral held not recognised in the statement of financial position as at 31 March 2019 is \$29,304 million (2018: \$28,615 million). The Consolidated entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$7,448 million (2018: \$11,750 million).

#### Loan assets

##### Mortgage loans

Mortgages are secured by fixed charges over a borrower's property. Prior to April 2017, the Consolidated Entity obtained LMI from an investment grade counterparty to cover a substantial portion of the mortgage portfolio against a potential shortfall between the value of a repossessed property sold and loan outstanding, including accrued interest. Since April 2017, the Consolidated Entity has purchased risk protection from a panel of investment grade counterparties via an excess of loss structure.

The tables below provide information on Loan to Value Ratios (LVRs) determined using current loan balances and the most recent valuation of mortgaged assets in response to variation in the loan request.

	2019			2018		
	Australia \$m	EMEA \$m	Total \$m	Australia \$m	EMEA \$m	Total \$m
<b>CONSOLIDATED</b>						
Fully collateralised						
Loan to value ratio						
<= 25%	1,410	–	1,410	1,255	11	1,266
>25% to 50%	7,595	–	7,595	5,942	125	6,067
>50% to 70%	15,609	–	15,609	11,730	461	12,191
>70% to 80%	13,190	–	13,190	12,190	315	12,505
>80% to 90%	3,454	–	3,454	3,961	75	4,036
>90% to 100%	574	–	574	804	19	823
Partly collateralised	73	–	73	40	6	46
Total mortgages	41,905	–	41,905	35,922	1,012	36,934
<b>COMPANY</b>						
Fully collateralised						
Loan to value ratio						
<= 25%	1,339	–	1,339	1,167	10	1,177
>25% to 50%	7,336	–	7,336	5,624	123	5,747
>50% to 70%	15,215	–	15,215	11,201	439	11,640
>70% to 80%	12,941	–	12,941	11,786	296	12,082
>80% to 90%	3,398	–	3,398	3,855	32	3,887
>90% to 100%	572	–	572	798	5	803
Partly collateralised	72	–	72	39	3	42
Total mortgages	40,873	–	40,873	34,470	908	35,378

## Note 34

### Financial risk management continued

#### Note 34.1 Credit risk continued

##### Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Title to the underlying assets are held by the Consolidated Entity as collateral. For the Consolidated Entity, of the asset finance portfolio of \$17,985 million (2018: \$19,084 million), the credit exposure after considering the depreciated value of collateral is \$8,033 million (2018: \$8,414 million). For the Company, of the asset finance portfolio of \$3,361 million (2018: \$3,539 million), the credit exposure after considering the depreciated value of collateral is \$1,371 million (2018: \$1,487 million).

The collateralised value is based on standard recovery rates for the underlying assets of retail and corporate clients.

##### Corporate, commercial and other lending

Collateral held against corporate, commercial and other lending consists of secured positions over assets of the counterparty, often in the form of corporate assets. For the Consolidated Entity, of the term lending of \$12,151 million (2018: \$14,384 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$2,616 million (2018: \$3,207 million). For the Company, of the term lending of \$9,441 million (2018: \$10,787 million), the credit exposure after the estimated value of collateral and credit enhancements is \$2,049 million (2018: \$2,464 million).

##### Investment lending

The Consolidated Entity lends to clients for investment lending, where it holds the underlying investment and/or alternative acceptable assets as collateral or holds security by way of a registered pledge over the underlying investment. For the Consolidated Entity, of the investment lending portfolio of \$1,780 million (2018: \$2,134 million), \$1,780 million (2018: \$2,134 million) is fully collateralised. For the Company, of the investment lending portfolio of \$265 million (2018: \$272 million), \$265 million (2018: \$272 million) is fully collateralised.

##### Additional collateral

The Consolidated Entity and the Company also holds other types of collateral, such as unsupported guarantees. While such mitigants have value, as a credit risk mitigant, often providing rights in insolvency, their assignable values are uncertain and therefore are assigned no value for disclosure purposes. The loan balance includes \$10,753 million (2018: \$11,560 million) which has been securitised by consolidated SPEs.

##### Derivative instruments

Derivatives may be traded on an exchange (exchange traded) or they may be privately negotiated contracts, which are referred to as Over the Counter (OTC) derivatives. The Consolidated Entity's and Company's OTC derivatives are cleared and settled either through central clearing counterparties (OTC-cleared), or bilateral contracts between two counterparties.

Exchange traded and OTC derivative contracts have reduced credit risk as the Consolidated Entity's counterparty is a clearing

house. The clearing house is responsible for managing the risk associated with the process on behalf of their members and providing a high level of confidence that adequate resources exist to fulfil its 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 of the underlying derivatives. Further, all members are generally required to contribute to (and guarantee) the compensation or 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 as at 31 March 2019 of \$802 million (2018: \$658 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2019 of \$699 million (2018: \$554 million).

For OTC derivative contracts, the Consolidated Entity and Company 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.

In the event of default, they require balances with a particular counterparty covered by the agreement (for example derivatives and cash margins) to be terminated and settled on a net basis. The Consolidated Entity and Company also often execute a Credit Support Annex in conjunction with a master netting agreement. This facilitates the transfer of margin between parties during the term of arrangements and mitigates counterparty risk arising from changes in market values of the derivatives.

As at 31 March 2019, the Consolidated Entity held OTC contracts with a positive replacement value of \$13,288 million (2018: \$12,037 million). The credit risk of these contracts has been reduced due to master netting agreements covering negative OTC contracts of \$7,311 million (2018: \$6,589 million) and margins held (excluding the impact of over-collateralisation) of \$2,068 million (2018: \$1,377 million).

As at 31 March 2019, the Company held OTC contracts with a positive replacement value of \$11,550 million (2018: \$10,114 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,368 million (2018: \$5,549 million) and margins held (excluding the impact of over-collateralisation) of \$1,802 million (2018: \$1,159 million).

##### Financial investments

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes and other securities for short term gains.

The Consolidated Entity utilises Credit Default Swaps (CDS), guarantees, other forms of credit enhancements or collateral in order to reduce the exposure to this credit risk.

##### Margin money and settlement assets

Security settlements of \$3,203 million (2018: \$3,108 million) in the Consolidated Entity and \$2,811 million (2018: \$2,729 million), in the Company are included in Margin money and settlement assets, represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). These assets are collateralised with the underlying equity securities or cash held by the Consolidated Entity until the date of settlement.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.1 Credit risk continued

#### Credit commitments

Undrawn facilities and lending commitments of \$5,952 million (2018: \$4,182 million) in the Consolidated Entity and \$5,818 million (2018: \$3,872 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$7,300 million (2018: \$6,146 million) in the Consolidated Entity and \$6,816 million (2018: \$5,200 million) in the Company.

### Note 34.2 Liquidity risk

#### Governance and oversight

Macquarie's liquidity risk management framework is designed to ensure 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 (ALCO) and RMG. Macquarie's liquidity policy is approved by the MGL and MBL Boards after endorsement by the ALCO and liquidity reporting is provided to the Boards on a monthly basis. The ALCO includes the MGL CEO, MBL CEO, CFO, CRO, Group Treasurer, Head of Balance Sheet Management and Operating Group Heads.

RMG provides independent oversight of liquidity risk management, including ownership of liquidity policies and key limits and approval of material liquidity scenario assumptions.

#### Liquidity policy and risk appetite

The *MGL and MBL Liquidity Policy* is designed so that each of the Bank Group and the Non-Bank Group maintains sufficient liquidity to meet its obligations as they fall due.

Macquarie Group's liquidity risk appetite is set to ensure that Macquarie Group is able to meet all of its liquidity obligations during a period of liquidity stress: being a twelve month period with constrained access to funding markets for MBL, no access to funding markets for MGL and with only a limited reduction in Macquarie Group's franchise businesses. MBL is an Authorised Deposit-taking Institution (ADI) and is funded mainly with capital, long-term liabilities and deposits.

#### Liquidity contingency plan

Group Treasury maintains a *Liquidity Contingency Plan*, which outlines how a liquidity crisis would be managed. The plan defines roles and responsibilities and actions to be taken in a liquidity event, including identifying 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 responsible for managing a crisis
- the information required to effectively manage a crisis
- a communications strategy

- a high level checklist of possible actions to conserve or raise additional liquidity
- contact lists to facilitate prompt communication with all key internal and external stakeholders.

In addition, Macquarie Group monitors a range of early warning indicators on a daily basis that might assist in identifying emerging risks in Macquarie Group's liquidity position. These indicators are reviewed by Senior Management and are used to inform any decisions regarding invoking the plan.

The *Liquidity Contingency Plan* is subject to regular review by both Group Treasury and RMG. It is submitted to the ALCO and MGL and MBL Boards 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.

#### Funding strategy

Macquarie prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The Funding Strategy aims to maintain Macquarie's diversity of current and projected funding sources, ensure ongoing compliance with all liquidity policy requirements and facilitate forecast asset growth. The *Funding Strategy* is reviewed by the ALCO and approved by the respective Boards.

#### Scenario analysis

Scenario analysis is central to Macquarie's liquidity risk management framework. In addition to regulatory defined scenarios, Group Treasury models a number of additional liquidity scenarios covering both market-wide and Macquarie-specific crises.

The scenarios are run over a number of timeframes and a range of conservative assumptions are used regarding the level of access to capital markets, deposit outflows, contingent funding requirements and asset sales.

As an example, one internal scenario projects the expected cash and liquid asset position during a combined market-wide and Macquarie-specific crisis over a twelve month time frame. This scenario assumes no access to new funding sources, a significant loss of customer deposits and contingent funding outflows resulting from undrawn commitments, market moves impacting derivatives and other margined positions combined with a multiple notch credit rating downgrade items of Macquarie's liquidity risk management. Macquarie's cash and liquid asset portfolio must exceed the minimum requirement as calculated in this scenario at all times.

#### Liquid asset holdings

Group Treasury centrally maintains a portfolio of highly liquid unencumbered assets to ensure adequate liquidity is available in all funding environments, including worst case wholesale and retail market conditions. The minimum level of cash and liquid assets is calculated with reference to internal scenario projections and regulatory requirements.

## Note 34

### Financial risk management continued

#### **Note 34.2 Liquidity risk continued**

The cash and liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. Specifically, cash and liquid assets held to meet minimum internal and regulatory requirements must be held in cash, qualifying High Quality Liquid Assets (HQLA) or be an asset type that is eligible as collateral in the Reserve Bank of Australia's (RBA) Committed Liquidity Facility (CLF) – so called 'Alternative Liquid Assets' (ALA). Composition constraints are also applied to ensure appropriate diversity and quality of the assets in the portfolio. The cash and liquid asset portfolio are held in a range of currencies to ensure Macquarie's liquidity requirements are broadly matched by currency.

#### **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 Macquarie 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

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.2 Liquidity risk continued

#### Contractual undiscounted cash flows

The following tables summarise the maturity profile of the Consolidated Entity's financial liabilities as at 31 March based on a contractual undiscounted repayment basis and hence would vary from the carrying value as at the balance sheet date. Repayments 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 since the deposits are reported at their contractual maturity, the table does not reflect the behaviour expected cash flows indicated by the Consolidated Entity's deposit retention history.

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
<b>CONSOLIDATED 2019</b>							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities <sup>(1)</sup>	7,757	–	7,757	–	–	–	7,757
Margin money and settlement liabilities	17,901	12,727	5,174	–	–	–	17,901
Derivative liabilities (trading) <sup>(1)</sup>	12,013	–	12,013	–	–	–	12,013
Derivative liabilities (hedging relationships) <sup>(2)</sup>	510	–	–	–	–	–	–
Contractual amounts payable	–	–	784	421	1,204	264	2,673
Contractual amounts receivable	–	–	(687)	(300)	(832)	(210)	(2,029)
Deposits	56,120	44,329	7,465	4,227	189	–	56,210
Other liabilities <sup>(3)</sup>	1,490	359	1,120	8	3	–	1,490
Bank borrowings	1,560	533	273	178	642	41	1,667
Debt issued <sup>(4)</sup>	33,587	–	8,119	8,755	10,431	9,888	37,193
Due to related body corporate entities	16,791	2,955	8,277	1,109	5,039	12	17,392
Loan capital <sup>(5)</sup>	4,550	–	129	700	2,466	2,368	5,663
<b>Total</b>	<b>156,495</b>	<b>62,562</b>	<b>52,536</b>	<b>15,136</b>	<b>19,142</b>	<b>12,774</b>	<b>162,150</b>
Contingent liabilities	–	–	2,836	–	–	–	2,836
Commitments	–	3,531	1,170	264	2,211	1,150	8,326
<b>Total undiscounted contingent liabilities and commitments<sup>(6)</sup></b>	<b>–</b>	<b>3,531</b>	<b>4,006</b>	<b>264</b>	<b>2,211</b>	<b>1,150</b>	<b>11,162</b>

(1) Derivative liabilities (other than those designated in a hedging relationship) and trading 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.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Includes \$9,617 million payables to SPE holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in the loan assets.

(5) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 23 *Loan Capital*.

(6) 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 unless they are payable on demand or the contractual terms specify a longer dated cash flow.

## Note 34

## Financial risk management continued

## Note 34.2 Liquidity risk continued

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
<b>CONSOLIDATED 2018</b>							
Cash collateral on securities lent and repurchase agreements	5,380	1,734	3,013	224	–	412	5,383
Trading liabilities <sup>(1)</sup>	7,938	–	7,938	–	–	–	7,938
Margin money and settlement liabilities	16,575	12,060	4,514	–	–	–	16,574
Derivative liabilities (trading) <sup>(1)</sup>	11,291	–	11,291	–	–	–	11,291
Derivative liabilities (hedging relationships) <sup>(2)</sup>	497	–	–	–	–	–	–
Contractual amounts payable	–	–	935	1,400	1,519	161	4,015
Contractual amounts receivable	–	–	(846)	(1,261)	(1,206)	(39)	(3,352)
Deposits	48,371	41,132	4,188	2,715	339	48	48,422
Other liabilities <sup>(3)</sup>	1,602	653	857	92	3	–	1,605
Bank borrowings <sup>(4)</sup>	5,223	1,331	735	257	1,715	1,342	5,380
Debt issued <sup>(5)</sup>	41,524	–	7,440	9,448	17,887	12,786	47,561
Due to related body corporate entities	13,993	4,890	3,722	1,393	4,019	–	14,024
Loan capital <sup>(6)</sup>	4,256	–	133	275	2,961	2,301	5,670
<b>Total</b>	<b>156,650</b>	<b>61,800</b>	<b>43,920</b>	<b>14,543</b>	<b>27,237</b>	<b>17,011</b>	<b>164,510</b>
Contingent liabilities	–	–	1,262	–	–	–	1,262
Commitments	–	1,763	79	909	1,562	1,840	6,153
<b>Total undiscounted contingent liabilities and commitments<sup>(7)</sup></b>	<b>–</b>	<b>1,763</b>	<b>1,341</b>	<b>909</b>	<b>1,562</b>	<b>1,840</b>	<b>7,415</b>

(1) Derivative liabilities (other than those designated in a hedging relationship) and trading liabilities are included in the 0 to 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

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Subsequent to 31 March 2018, as part of refinancing, contractual maturities for \$820 million primarily in 1 to 5 years maturity category have been extended to more than 5 years. A further \$3,200 million facility for maturity beyond 5 years has been put in place and remains undrawn.

(5) Includes \$12,335 million payables to SPE Note holders disclosed on a contractual maturity basis. The expected maturity of the notes is dependent on the repayment of the underlying loans included in loan assets.

(6) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 23 *Loan capital*.

(7) 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 0 to 3 months' column unless they are payable on demand or the contractual terms specify a longer dated cash flow.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.2 Liquidity risk continued

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
<b>COMPANY 2019</b>							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities <sup>(1)</sup>	8,375	–	8,375	–	–	–	8,375
Margin money and settlement liabilities	15,221	11,090	4,131	–	–	–	15,221
Derivative liabilities (trading) <sup>(1)</sup>	11,104	–	11,104	–	–	–	11,104
Derivative liabilities (hedging relationships) <sup>(2)</sup>	226	–	–	–	–	–	–
Contractual amounts payable	–	–	314	43	1,033	264	1,654
Contractual amounts receivable	–	–	(264)	(20)	(832)	(210)	(1,326)
Deposits	56,033	44,204	7,459	4,227	184	–	56,074
Other liabilities <sup>(3)</sup>	665	–	665	–	–	–	665
Bank borrowings	1,167	533	87	62	518	–	1,200
Debt issued	26,514	–	7,735	7,578	7,360	4,903	27,576
Due to subsidiaries	10,116	6,191	1,377	–	–	2,900	10,468
Due to related body corporate entities	15,106	2,852	8,096	583	4,004	5	15,540
Loan capital <sup>(4)</sup>	4,550	–	129	700	2,466	2,368	5,663
<b>Total</b>	<b>153,293</b>	<b>66,529</b>	<b>51,320</b>	<b>13,211</b>	<b>14,733</b>	<b>10,641</b>	<b>156,434</b>
Contingent liabilities	–	–	3,892	–	–	–	3,892
Commitments	–	3,453	988	195	2,047	1,137	7,820
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>–</b>	<b>3,453</b>	<b>4,880</b>	<b>195</b>	<b>2,047</b>	<b>1,137</b>	<b>11,712</b>

(1) Derivative liabilities (other than those designated in a hedging relationship) and trading 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.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 23 *Loan capital*.

(5) 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 unless they are payable on demand or the contractual terms specify a longer dated cash flow.

## Note 34

## Financial risk management continued

## Note 34.2 Liquidity risk continued

	Statement of financial position carrying value \$m	On demand \$m	0 to 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
<b>COMPANY 2018</b>							
Cash collateral on securities lent and repurchase agreements	5,380	1,734	3,013	224	–	412	5,383
Trading liabilities <sup>(1)</sup>	8,286	–	8,286	–	–	–	8,286
Margin money and settlement liabilities	14,343	10,749	3,594	–	–	–	14,343
Derivative liabilities (trading) <sup>(1)</sup>	9,660	–	9,660	–	–	–	9,660
Derivative liabilities (hedging relationships) <sup>(2)</sup>	383	–	–	–	–	–	–
Contractual amounts payable	–	–	210	610	697	153	1,670
Contractual amounts receivable	–	–	(173)	(548)	(408)	(20)	(1,149)
Deposits	48,220	41,054	4,185	2,714	292	26	48,271
Other liabilities <sup>(3)</sup>	540	–	540	–	–	–	540
Bank borrowings	2,582	1,322	259	27	844	244	2,696
Debt issued	32,513	–	6,984	8,084	14,073	5,989	35,130
Due to subsidiaries	10,549	716	6,486	–	10	3,340	10,552
Due to related body corporate entities	11,830	4,890	3,716	1,378	2,613	–	12,597
Loan capital <sup>(4)</sup>	4,256	–	133	275	2,961	2,301	5,670
<b>Total</b>	<b>148,542</b>	<b>60,465</b>	<b>46,893</b>	<b>12,764</b>	<b>21,082</b>	<b>12,445</b>	<b>153,649</b>
Contingent liabilities	–	–	2,402	–	–	–	2,402
Commitments	–	1,582	79	287	1,418	1,834	5,200
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>–</b>	<b>1,582</b>	<b>2,481</b>	<b>287</b>	<b>1,418</b>	<b>1,834</b>	<b>7,602</b>

(1) Derivative liabilities (other than those designated in a hedging relationship) and trading 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.

(2) Where multiple derivatives are combined in order to form a single hedge instrument designated in a hedge accounting relationship, each derivative is considered independently for the purposes of assessing liquidity risk and for the disclosure requirements.

(3) Excludes non-contractual accruals and provisions.

(4) Includes securities with conditional repayment obligations. The cash outflow on the principal component on these securities is disclosed using the earliest optional exchange dates and the cash outflow of the interest component is disclosed using repricing dates instead of the contractual maturity. For contractual maturity of these securities refer Note 23 *Loan capital*.

(5) 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 unless they are payable on demand or the contractual terms specify a longer dated cash flow.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.3 Market risk

#### Traded market risk

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

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

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.

RMG sets three complementary limit structures:

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

## Note 34

Financial risk management continued

### Note 34.3 Market risk continued

Value-at-Risk figures (1 day, 99% confidence level)

The tables below show the average, maximum and minimum VaR over the financial year for the major markets in which the Consolidated Entity and Company operate. The VaR shown in the tables are based on a one-day holding period. The aggregated VaR is on a correlated basis.

	2019			2018		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
	<b>CONSOLIDATED</b>					
Equities	5.29	8.60	2.59	7.18	10.90	2.60
Interest rates	2.69	3.35	2.17	3.86	5.67	2.68
Foreign exchange and bullion	2.07	5.06	1.04	1.73	3.30	0.71
Commodities	23.39	56.89	13.76	7.78	13.73	3.47
Aggregate	23.29	55.08	13.75	10.62	14.58	7.92

	2019			2018		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
	<b>COMPANY</b>					
Equities	5.69	8.51	2.71	6.85	10.21	2.42
Interest rates	2.68	3.34	2.11	3.73	5.55	2.71
Foreign exchange and bullion	5.07	11.85	1.54	2.18	5.18	0.83
Commodities	8.61	12.96	5.96	8.43	15.62	5.76
Aggregate	11.33	16.09	8.72	11.34	16.49	8.61

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 34

Financial risk management continued

### Note 34.3 Market risk continued

#### 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% 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.

#### Non-traded market risk

The Consolidated Entity and the Company have exposure to non-traded market risks arising from transactions entered into during its normal course of business and as a result of its investments in foreign operations. These risks include:

- Interest rate: changes in the level, shape and volatility of yield curves, and/or client behaviour given these changes
- Foreign exchange: changes in the spot exchange rates.

The Consolidated Entity has limited appetite for non-traded market risks. Where commercially feasible, these risks are transferred into the trading books of CGM and Group Treasury and governed within the traded market risk framework described above.

Responsibility for managing exposures rests with individual businesses, with additional central monitoring from FMG for foreign exchange risks. Any residual non-traded market risks are subject to independent limits approved by RMG and reported regularly to Senior Management.

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the Non-traded market risk policy of the Consolidated Entity is to reduce the sensitivity of regulatory capital ratios to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements and captured in the foreign currency translation reserve, a component of regulatory capital. This aligns the currency of capital supply with capital requirements.

As a result of this policy, the Consolidated Entity is therefore partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars. Apart from this there is no material non-trading foreign exchange risk in the income statement.

#### Accounting considerations arising from hedging activities

The use of derivative and other financial instruments to hedge non-traded positions potentially gives rise to income statement volatility due to accounting treatments. The Consolidated Entity manages this through hedge accounting as set out in Note 1(xi) *Derivative instruments* and Note 33 *Hedge accounting*.



## Note 34

Financial risk management continued

### Note 34.3 Market risk continued

#### Foreign currency risk

The table below indicates the sensitivity of its partial exposure to movements in the Australian dollar rate against various foreign currencies as at 31 March in relation to its net investment in foreign operations. The Consolidated Entity is active in various currencies globally. Those with the most impact on the sensitivity analysis below are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

	2019		2018	
	Movement in exchange rates %	Sensitivity of equity after tax \$m	Movement in exchange rates %	Sensitivity of equity after tax \$m
				<b>CONSOLIDATED</b>
United States dollar	+10	(261)	+10	(366)
Great British pound	+10	(48)	+10	(82)
Canadian dollar	+10	(14)	+10	(13)
Euro	+10	–	+10	(38)
Total		(323)		(499)
United States dollar	-10	319	-10	448
Great British pound	-10	59	-10	100
Canadian dollar	-10	16	-10	16
Euro	-10	–	-10	46
Total		394		610

#### Equity price risk

The Consolidated Entity and the Company is not exposed to significant equity risk on their non-trading investment portfolios.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 35

### Measurement categories of financial instruments

The following table contains information relating to the measurement categories of financial instruments under AASB 9 of the Consolidated Entity. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 36 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS						FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	Carried at fair value						Total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments			
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>CONSOLIDATED 2019</b>									
<b>Assets</b>									
Cash and bank balances	-	-	-	-	7,693	-	7,693	-	7,693
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	19,155	-	9,993	-	29,148	19,155	9,993
Trading assets	17,502	-	-	-	-	-	17,502	17,502	-
Margin money and settlement assets	-	-	3,747	-	10,749	-	14,496	3,747	10,749
Derivative assets <sup>(1)</sup>	14,090	-	-	-	-	-	14,090	14,090	-
Financial investments									
Equity	-	-	260	-	-	-	260	260	-
Debt <sup>(4)</sup>	-	-	80	5,130	-	-	5,210	5,210	-
Other assets <sup>(2)</sup>	-	80	323	-	1,026	676	2,105	403	1,026
Loan assets <sup>(4)</sup>	-	146	366	-	73,309	-	73,821	512	73,354
Due from related body corporate entities	-	-	-	-	1,522	-	1,522	-	1,522
Property, plant and equipment	-	-	-	-	-	2,738	2,738	-	-
Interests in associates and joint ventures									
Equity interests	-	-	-	-	-	209	209	-	-
Loans to associates and joint ventures	-	-	3	-	7	-	10	3	7
Intangible assets	-	-	-	-	-	177	177	-	-
Deferred tax assets	-	-	-	-	-	441	441	-	-
<b>Total assets</b>	<b>31,592</b>	<b>226</b>	<b>23,934</b>	<b>5,130</b>	<b>104,299</b>	<b>4,241</b>	<b>169,442</b>	<b>60,882</b>	<b>104,344</b>
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	-	1,740	-	-	2,476	-	4,216	1,740	2,476
Trading liabilities	7,757	-	-	-	-	-	7,757	7,757	-
Margin money and settlement liabilities	-	-	-	-	17,901	-	17,901	-	17,901
Derivative liabilities <sup>(1)</sup>	12,523	-	-	-	-	-	12,523	12,523	-
Deposits	-	-	-	-	56,120	-	56,120	-	56,177
Other liabilities <sup>(3)</sup>	-	527	-	-	963	1,553	3,043	527	963
Bank borrowings	-	-	-	-	1,560	-	1,560	-	1,572
Due to related body corporate entities	-	-	-	-	16,791	-	16,791	-	16,791
Debt issued <sup>(4)</sup>	-	2,087	-	-	31,500	-	33,587	2,087	31,617
Deferred tax liabilities	-	-	-	-	-	134	134	-	-
Loan capital <sup>(4)</sup>	-	-	-	-	4,550	-	4,550	-	4,591
<b>Total liabilities</b>	<b>20,280</b>	<b>4,354</b>	<b>-</b>	<b>-</b>	<b>131,861</b>	<b>1,687</b>	<b>158,182</b>	<b>24,634</b>	<b>132,088</b>

(1) All derivatives including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represents prepayments and tax receivables.

(3) Non-financial liabilities primarily represent employee related provisions and tax payables.

(4) Items measured at amortised cost and FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risk.

## Note 35

## Measurement categories of financial instruments continued

The following table summarises the categories of financial instruments under AASB 139 as at 31 March 2018:

	FINANCIAL INSTRUMENTS							FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	Carried at fair value							Total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	Available for sale	Loans and receivables/ amortised cost	Non-financial instruments	\$m			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
<b>Assets</b>									<b>CONSOLIDATED 2018</b>	
Cash and bank balances	-	-	-	-	7,852	-	7,852	-	7,852	
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	-	-	28,777	-	28,777	-	28,777	
Trading assets	14,894	-	-	-	-	-	14,894	14,894	-	
Margin money and settlement assets	-	-	-	-	13,723	-	13,723	-	13,723	
Derivative assets <sup>(1)</sup>	12,695	-	-	-	-	-	12,695	12,695	-	
Financial investments										
Equity	-	339	-	78	-	-	417	417	-	
Debt <sup>(4)</sup>	-	72	-	5,244	-	-	5,316	5,316	-	
Other assets <sup>(2)</sup>	-	143	648	-	1,123	1,800	3,714	791	1,123	
Loan assets <sup>(4)</sup>	-	153	-	-	72,136	-	72,289	153	72,407	
Due from related body corporate entities	-	-	-	-	1,383	-	1,383	-	1,383	
Property, plant and equipment	-	-	-	-	-	11,074	11,074	-	-	
Interests in associates and joint ventures										
Equity interests	-	-	-	-	-	713	713	-	-	
Loans to associates and joint ventures	-	-	-	-	14	-	14	-	14	
Intangible assets	-	-	-	-	-	214	214	-	-	
Deferred tax assets	-	-	-	-	-	143	143	-	-	
<b>Total assets</b>	<b>27,589</b>	<b>707</b>	<b>648</b>	<b>5,322</b>	<b>125,008</b>	<b>13,944</b>	<b>173,218</b>	<b>34,266</b>	<b>125,279</b>	
<b>Liabilities</b>										
Cash collateral on securities lent and repurchase agreements	-	-	-	-	5,380	-	5,380	-	5,380	
Trading liabilities	7,938	-	-	-	-	-	7,938	7,938	-	
Margin money and settlement liabilities	-	-	-	-	16,575	-	16,575	-	16,575	
Derivative liabilities <sup>(1)</sup>	11,788	-	-	-	-	-	11,788	11,788	-	
Deposits	-	-	-	-	48,371	-	48,371	-	48,387	
Other liabilities <sup>(3)</sup>	-	793	-	-	809	2,879	4,481	793	809	
Bank borrowings	-	-	-	-	5,223	-	5,223	-	5,257	
Due to related body corporate entities	-	-	-	-	13,993	-	13,993	-	13,993	
Debt issued <sup>(4)</sup>	-	1,839	-	-	39,685	-	41,524	1,839	39,918	
Deferred tax liabilities	-	-	-	-	-	586	586	-	-	
Loan capital <sup>(4)</sup>	-	-	-	-	4,256	-	4,256	-	4,422	
<b>Total liabilities</b>	<b>19,726</b>	<b>2,632</b>	<b>-</b>	<b>-</b>	<b>134,292</b>	<b>3,465</b>	<b>160,115</b>	<b>22,358</b>	<b>134,741</b>	

(1) All derivatives including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represent equity interests in associates held for sale, prepayments, property held for sale and tax receivables.

(3) Non-financial liabilities primarily represent income received in advance, aircraft and rail maintenance liabilities, employee related provisions and tax payables.

(4) Items measured at amortised cost and FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risk.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 35

### Measurement categories of financial instruments continued

The following table contains information relating to the measurement categories of financial instruments under AASB 9 of the Company. The descriptions of measurement categories are included in Note 1(viii) *Financial instruments*. The methods and significant assumptions that have been applied in determining the fair values of financial instruments are disclosed in Note 36 *Fair value of financial assets and financial liabilities*.

	FINANCIAL INSTRUMENTS							FAIR VALUE OF FINANCIAL INSTRUMENTS AT	
	Carried at fair value								
	HFT	DFVTPL	FVTPL	FVOCI	Amortised cost	Non-financial instruments	Total	Fair value	Amortised cost
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>COMPANY 2019</b>									
<b>Assets</b>									
Cash and bank balances	-	-	-	-	6,377	-	6,377	-	6,377
Cash collateral on securities borrowed and reverse repurchase agreements	-	-	18,774	-	9,983	-	28,757	18,774	9,983
Trading assets	13,960	-	-	-	-	-	13,960	13,960	-
Margin money and settlement assets	-	-	1,800	-	8,002	-	9,802	1,800	8,002
Derivative assets <sup>(1)</sup>	12,249	-	-	-	-	-	12,249	12,249	-
Financial investments									
Equity	-	-	191	-	-	-	191	191	-
Debt <sup>(5)</sup>	-	-	80	5,044	-	-	5,124	5,124	-
Other assets <sup>(2)</sup>	-	-	46	-	851	372	1,269	46	802
Loan assets <sup>(3),(5)</sup>	-	146	468	37,698	15,628	-	53,940	38,312	15,722
Due from related body corporate entities <sup>(2)</sup>	-	-	-	-	1,039	-	1,039	-	1,039
Due from subsidiaries	-	-	736	-	23,158	-	23,894	736	23,158
Property, plant and equipment	-	-	-	-	-	1,317	1,317	-	-
Interests in associates and joint ventures									
Equity interests	-	-	-	-	-	40	40	-	-
Loans to associates and joint ventures	-	-	3	-	5	-	8	3	5
Intangible assets	-	-	-	-	-	81	81	-	-
Investment in subsidiaries	-	-	-	-	-	5,166	5,166	-	-
Deferred tax assets	-	-	-	-	-	418	418	-	-
<b>Total assets</b>	<b>26,209</b>	<b>146</b>	<b>22,098</b>	<b>42,742</b>	<b>65,043</b>	<b>7,394</b>	<b>163,632</b>	<b>91,195</b>	<b>65,088</b>
<b>Liabilities</b>									
Cash collateral on securities lent and repurchase agreements	-	1,740	-	-	2,476	-	4,216	1,740	2,477
Trading liabilities	8,375	-	-	-	-	-	8,375	8,375	-
Margin money and settlement liabilities	-	-	-	-	15,221	-	15,221	-	15,222
Derivative liabilities <sup>(1)</sup>	11,330	-	-	-	-	-	11,330	11,330	-
Deposits	-	-	-	-	56,033	-	56,033	-	56,090
Other liabilities <sup>(4)</sup>	-	-	-	-	665	1,158	1,823	-	682
Bank borrowings	-	-	-	-	1,167	-	1,167	-	1,179
Due to related body corporate entities	-	-	-	-	15,106	-	15,106	-	15,106
Due to subsidiaries	-	-	-	-	10,116	-	10,116	-	10,116
Debt issued <sup>(5)</sup>	-	2,087	-	-	24,427	-	26,514	2,087	24,586
Deferred tax liabilities	-	-	-	-	-	46	46	-	-
Loan capital <sup>(5)</sup>	-	-	-	-	4,550	-	4,550	-	4,591
<b>Total liabilities</b>	<b>19,705</b>	<b>3,827</b>	<b>-</b>	<b>-</b>	<b>129,761</b>	<b>1,204</b>	<b>154,497</b>	<b>23,532</b>	<b>130,049</b>

(1) All derivatives including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represents prepayments and tax receivables.

(3) Includes loans held by the company measured at amortised cost under AASB 139. Under AASB 9, these loans were determined to be held within a business model to both collect contractual cash flows and realise through securitisation and accordingly were classified to be measured as FVOCI on AASB 9 adoption.

(4) Non-financial liabilities primarily represents employee related provisions and tax payables.

(5) Items measured at amortised cost and FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risks.

## Note 35

## Measurement categories of financial instruments continued

The following table summarises the categories of financial instruments under AASB 139 as at 31 March 2018:

	FINANCIAL INSTRUMENTS							FAIR VALUE OF FINANCIAL INSTRUMENTS AT		
	Carried at fair value							Total	Fair value	Amortised cost
	HFT	DFVTPL	FVTPL	Available for sale	Loans and receivables/ amortised cost	Non-financial instruments	\$m			
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
<b>Assets</b>										
Cash and bank balances	–	–	–	–	6,648	–	6,648	–	6,648	
Cash collateral on securities borrowed and reverse repurchase agreements	–	–	–	–	28,437	–	28,437	–	28,437	
Trading assets	11,823	–	–	–	–	–	11,823	11,823	–	
Margin money and settlement assets	–	–	–	–	9,108	–	9,108	–	9,108	
Derivative assets <sup>(1)</sup>	10,668	–	–	–	–	–	10,668	10,668	–	
Financial investments										
Equity	–	317	–	45	–	–	362	362	–	
Debt <sup>(5)</sup>	–	72	–	5,113	–	–	5,185	5,185	–	
Other assets <sup>(2)</sup>	–	–	–	–	679	658	1,337	–	604	
Loan assets <sup>(3),(5)</sup>	–	152	–	–	49,681	–	49,833	152	49,808	
Due from related body corporate entities	–	–	–	–	1,212	–	1,212	–	1,212	
Due from subsidiaries	–	–	–	–	27,841	–	27,841	–	27,841	
Property, plant and equipment	–	–	–	–	–	1,127	1,127	–	–	
Interests in associates and joint ventures										
Equity interests	–	–	–	–	–	425	425	–	–	
Loans to associates and joint ventures	–	–	–	–	7	–	7	–	7	
Intangible assets	–	–	–	–	–	91	91	–	–	
Investments in subsidiaries	–	–	–	–	–	7,390	7,390	–	–	
Deferred tax assets	–	–	–	–	–	139	139	–	–	
<b>Total assets</b>	<b>22,491</b>	<b>541</b>	<b>–</b>	<b>5,158</b>	<b>123,613</b>	<b>9,830</b>	<b>161,633</b>	<b>28,190</b>	<b>123,665</b>	
<b>Liabilities</b>										
Cash collateral on securities lent and repurchase agreements	–	–	–	–	5,380	–	5,380	–	5,380	
Trading liabilities	8,286	–	–	–	–	–	8,286	8,286	–	
Margin money and settlement liabilities	–	–	–	–	14,343	–	14,343	–	14,343	
Derivative liabilities <sup>(1)</sup>	10,043	–	–	–	–	–	10,043	10,043	–	
Deposits	–	–	–	–	48,220	–	48,220	–	48,236	
Other liabilities <sup>(4)</sup>	–	–	–	–	540	1,577	2,117	–	540	
Bank borrowings	–	–	–	–	2,582	–	2,582	–	2,613	
Due to related body corporate entities	–	–	–	–	11,830	–	11,830	–	11,830	
Due to subsidiaries	–	–	–	–	10,549	–	10,549	–	10,549	
Debt issued	–	1,839	–	–	30,674	–	32,513	1,839	30,914	
Deferred tax liabilities	–	–	–	–	–	114	114	–	–	
Loan capital <sup>(5)</sup>	–	–	–	–	4,256	–	4,256	–	4,422	
<b>Total liabilities</b>	<b>18,329</b>	<b>1,839</b>	<b>–</b>	<b>–</b>	<b>128,374</b>	<b>1,691</b>	<b>150,233</b>	<b>20,168</b>	<b>128,827</b>	

(1) All derivatives including those held for hedging purposes, are classified as HFT.

(2) Non-financial assets primarily represents prepayments and tax receivables.

(3) Includes loans held by the Company measured at amortised cost under AASB 139. Under AASB 9, these loans were determined to be held within a business model to both collect contractual cash flows and realise through securitisation and according were classified to be measured as FVOCI under AASB 9 adoption.

(4) Non-financial liabilities primarily represents tax payables, employee related provisions and aircraft and rail maintenance liabilities.

(5) Items measured at amortised cost and FVOCI includes, where applicable, hedge accounting adjustments for the designated hedged risks.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 36

### Fair value of financial assets and financial liabilities

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

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

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:

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<b>Level 1:</b>	quoted prices (unadjusted) in active markets for identical assets or liabilities
<b>Level 2:</b>	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)
<b>Level 3:</b>	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

AASB 13 *Fair Value Management* requires the use of the price within the bid-offer spread that is most representative of fair value. Valuation systems will typically generate mid-market prices. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments.

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 approximates their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including cash collateral on securities borrowed/cash collateral on securities lent, repurchase agreements over commodities approximates by their carrying amounts. Fair value of all loan assets and debt liabilities carried at amortised cost, is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt investments carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness of the borrower
- the fair value of debt issued, and loan capital issued at amortised cost 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

- 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
- the fair value of balances due from/to related body corporate entities and subsidiaries is approximated by their carrying amount as the balances are generally of a short term nature.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments including balances with related body corporate entities and subsidiaries measured at fair value:

- trading portfolio assets and liabilities, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices where available (for example 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
- repurchase and reverse repurchase agreements being collateralised financing arrangements, are measured at fair value with reference to the securities which are held or provided as the collateral for the financing
- Financial investments at FVOCI and FVTPL are measured at fair value by reference to active quoted market prices where available (for example 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. For FVOCI assets, unrealised gains and losses, excluding impairment write-downs on debt instruments, are recorded in the FVOCI reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of variable rate loans classified at FVOCI in the Company approximates its amortised cost carrying value on the basis that the interest rates are reflective of market rates offered on similar loans
- fair values of fixed rate loans classified as at FVTPL and FVOCI and issued debt classified as DFVTPL 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). FVA is determined by calculating the net expected exposures at a counterparty level and applying MGL's internal Treasury lending rates as an input into the calculation. The approach takes into account the probability of default of each counterparty, as well as any mandatory break clauses.

## Note 36

### Fair value of financial assets and financial liabilities continued

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 (for example for OTC 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.

The fair values calculated for financial assets which are carried in the statement of financial position at amortised cost are for disclosure purposes only. The methods and assumptions applied to derive these fair values, as described below, can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions.

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2019</b>				
<b>Assets</b>				
Cash and bank balances	7,693	–	–	7,693
Cash collateral on securities borrowed and reverse repurchase agreements	–	9,993	–	9,993
Margin money and settlement assets	5,398	5,351	–	10,749
Other assets	–	1,026	–	1,026
Loan assets	–	6,032	67,322	73,354
Due from related body corporate entities	–	1,522	–	1,522
Interests in associates and joint ventures – loans	–	–	7	7
<b>Total assets</b>	<b>13,091</b>	<b>23,924</b>	<b>67,329</b>	<b>104,344</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	2,476	–	2,476
Margin money and settlement liabilities	12,968	4,933	–	17,901
Deposits	42,889	13,288	–	56,177
Other liabilities	–	963	–	963
Bank borrowings	532	831	209	1,572
Due to related body corporate entities	–	16,791	–	16,791
Debt issued	–	26,655	4,962	31,617
Loan capital	431	4,160	–	4,591
<b>Total liabilities</b>	<b>56,820</b>	<b>70,097</b>	<b>5,171</b>	<b>132,088</b>
<b>CONSOLIDATED 2018</b>				
<b>Assets</b>				
Cash and bank balances	7,852	–	–	7,852
Cash collateral on securities borrowed and reverse repurchase agreements	–	28,777	–	28,777
Margin money and settlement assets	8,007	5,716	–	13,723
Other assets	–	1,123	–	1,123
Loan assets	–	8,238	64,169	72,407
Due from related body corporate entities	–	1,383	–	1,383
Interests in associates and joint ventures – loans	–	–	14	14
<b>Total assets</b>	<b>15,859</b>	<b>45,237</b>	<b>64,183</b>	<b>125,279</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	5,380	–	5,380
Margin money and settlement liabilities	11,009	5,566	–	16,575
Deposits	40,616	7,771	–	48,387
Other liabilities	–	809	–	809
Bank borrowings	2,024	1,117	2,116	5,257
Due to related body corporate entities	–	13,993	–	13,993
Debt issued	–	35,001	4,917	39,918
Loan capital	423	3,999	–	4,422
<b>Total liabilities</b>	<b>54,072</b>	<b>73,636</b>	<b>7,033</b>	<b>134,741</b>



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 36

Fair value of financial assets and financial liabilities continued

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>COMPANY 2019</b>				
<b>Assets</b>				
Cash and bank balances	6,377	–	–	6,377
Cash collateral on securities borrowed and reverse repurchase agreements	–	9,983	–	9,983
Margin money and settlement assets	3,922	4,080	–	8,002
Other assets	–	802	–	802
Loan assets	–	3,562	12,160	15,722
Due from related body corporate entities	–	1,039	–	1,039
Due from subsidiaries	–	23,158	–	23,158
Interests in associates and joint ventures – loans	–	–	5	5
<b>Total assets</b>	<b>10,299</b>	<b>42,624</b>	<b>12,165</b>	<b>65,088</b>
<b>Liabilities</b>				
Cash collateral on securities borrowed and repurchase agreements	–	2,477	–	2,477
Margin money and settlement liabilities	11,195	4,027	–	15,222
Deposits	42,808	13,282	–	56,090
Other liabilities	–	682	–	682
Bank borrowings	532	647	–	1,179
Due to related body corporate entities	–	15,106	–	15,106
Due to subsidiaries	–	10,116	–	10,116
Debt issued	–	24,586	–	24,586
Loan capital	431	4,160	–	4,591
<b>Total liabilities</b>	<b>54,966</b>	<b>75,083</b>	<b>–</b>	<b>130,049</b>
<b>COMPANY 2018</b>				
<b>Assets</b>				
Cash and bank balances	6,648	–	–	6,648
Cash collateral on securities lent and reverse repurchase agreements	–	28,437	–	28,437
Margin money and settlement assets	4,862	4,246	–	9,108
Other assets	–	604	–	604
Loan assets	–	3,930	45,878	49,808
Due from related body corporate entities	–	1,212	–	1,212
Due from subsidiaries	–	27,841	–	27,841
Interests in associates and joint ventures – loans	–	–	7	7
<b>Total assets</b>	<b>11,510</b>	<b>66,270</b>	<b>45,885</b>	<b>123,665</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	5,380	–	5,380
Margin money and settlement liabilities	10,748	3,595	–	14,343
Deposits	40,474	7,762	–	48,236
Other liabilities	–	540	–	540
Bank borrowings	974	1,639	–	2,613
Due to related body corporate entities	–	11,830	–	11,830
Due to subsidiaries	–	10,549	–	10,549
Debt issued	–	30,914	–	30,914
Loan capital	1,378	3,044	–	4,422
<b>Total liabilities</b>	<b>53,574</b>	<b>75,253</b>	<b>–</b>	<b>128,827</b>

## Note 36

### Fair value of financial assets and financial liabilities continued

The following table summarises 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
<b>CONSOLIDATED 2019</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	19,155	–	19,155
Trading assets	12,361	4,969	172	17,502
Margin money and settlement assets	1,547	2,200	–	3,747
Derivative assets	240	13,304	546	14,090
Financial investments	3,310	1,584	576	5,470
Other assets	9	394	–	403
Loan assets	–	462	50	512
Interests in associates and joint ventures – loans	–	–	3	3
<b>Total assets</b>	<b>17,467</b>	<b>42,068</b>	<b>1,347</b>	<b>60,882</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,740	–	1,740
Trading liabilities	6,440	1,317	–	7,757
Derivative liabilities	320	11,885	318	12,523
Other liabilities	3	524	–	527
Debt issued	–	2,087	–	2,087
<b>Total liabilities</b>	<b>6,763</b>	<b>17,553</b>	<b>318</b>	<b>24,634</b>
<b>CONSOLIDATED 2018</b>				
<b>Assets</b>				
Trading assets	10,015	4,709	170	14,894
Derivative assets	451	11,628	616	12,695
Financial investments	3,925	1,670	138	5,733
Other assets	31	759	1	791
Loan assets	–	153	–	153
<b>Total assets</b>	<b>14,422</b>	<b>18,919</b>	<b>925</b>	<b>34,266</b>
<b>Liabilities</b>				
Trading liabilities	6,377	1,561	–	7,938
Derivative liabilities	632	10,810	346	11,788
Other liabilities	–	792	1	793
Debt issued	–	1,833	6	1,839
<b>Total liabilities</b>	<b>7,009</b>	<b>14,996</b>	<b>353</b>	<b>22,358</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 36

Fair value of financial assets and financial liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>COMPANY 2019</b>				
<b>Assets</b>				
Cash collateral on securities borrowed and reverse repurchase agreements	–	18,774	–	18,774
Trading assets	11,346	2,485	129	13,960
Margin money and settlement assets	–	1,800	–	1,800
Derivative assets	234	11,683	332	12,249
Financial investments	3,308	1,485	522	5,315
Other assets	–	46	–	46
Loan assets <sup>(1)</sup>	–	568	37,744	38,312
Due from subsidiaries <sup>(2)</sup>	–	–	736	736
Interests in associates and joint ventures – loans	–	–	3	3
<b>Total assets</b>	<b>14,888</b>	<b>36,841</b>	<b>39,466</b>	<b>91,195</b>
<b>Liabilities</b>				
Cash collateral on securities lent and repurchase agreements	–	1,740	–	1,740
Trading liabilities	7,043	1,332	–	8,375
Derivative liabilities	192	10,977	161	11,330
Debt issued	–	2,087	–	2,087
<b>Total liabilities</b>	<b>7,235</b>	<b>16,136</b>	<b>161</b>	<b>23,532</b>
<b>COMPANY 2018</b>				
<b>Assets</b>				
Trading assets	9,175	2,518	130	11,823
Derivative assets	445	9,945	278	10,668
Financial investments	3,922	1,524	102	5,548
Loan assets	–	152	–	152
<b>Total assets</b>	<b>13,542</b>	<b>14,139</b>	<b>510</b>	<b>28,191</b>
<b>Liabilities</b>				
Trading liabilities	6,703	1,583	–	8,286
Derivative liabilities	483	9,429	131	10,043
Debt issued	–	1,833	6	1,839
<b>Total liabilities</b>	<b>7,186</b>	<b>12,845</b>	<b>137</b>	<b>20,168</b>

(1) Includes loans held by the Company measured at amortised cost under AASB 139. Under AASB 9, these loans were determined to be held within a business model to both collect contractual cash flows and realise through securitisation and accordingly classified to be measured as FVOCI. These loans are recognised at amortised cost in the Consolidated Entity since the securitisation vehicles to which such loans may be sold are consolidated, and on a consolidated basis are held in a business model to collect contractual cash flows. For details refer to the AASB 9 transition disclosure under Note 1.

(2) Includes subordinated notes held by the Company in consolidated securitisation vehicles measured at amortised cost under AASB 139 which had certain features resulting in failing AASB 9 SPPI requirements, and accordingly concluded to be measured at FVTPL on AASB 9 adoption. For details refer to the AASB 9 transition disclosure under Note 1.

## Note 36

Fair value of financial assets and financial liabilities continued

## Reconciliation of balances in Level 3 of the fair value hierarchy

The following table summarises the movements in Level 3 of the fair value hierarchy for the financial instruments measured at fair value.

	Trading assets \$m	Financial investments \$m	Other assets \$m	Loan assets \$m	Interest in associate and joint ventures (loans) \$m	Other liabilities \$m	Debt issued \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
<b>CONSOLIDATED 2018</b>									
Balance as at 1 Apr 17	328	391	7	–	–	(7)	(57)	147	809
Purchases, originations, issuances and other additions	96	24	–	–	–	–	51	175	346
Sales, settlements and repayments	(321)	(268)	(6)	–	–	6	–	(72)	(661)
Transfers into Level 3 <sup>(3)</sup>	70	31	–	–	–	–	–	4	105
Transfers out of Level 3 <sup>(3)</sup>	(4)	(15)	–	–	–	–	–	(5)	(24)
Fair value movements recognised in the income statement <sup>(1)</sup>	1	(1)	–	–	–	–	–	21	21
Fair value movements recognised in OCI <sup>(1)</sup>	–	(24)	–	–	–	–	–	–	(24)
<b>Balance as at 31 Mar 18</b>	<b>170</b>	<b>138</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>(6)</b>	<b>270</b>	<b>572</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	(2)	10	–	–	–	(2)	–	(28)	(22)
<b>CONSOLIDATED 2019</b>									
Balance as at 1 Apr 18	<b>170</b>	<b>138</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>(1)</b>	<b>(6)</b>	<b>270</b>	<b>572</b>
Change on initial application of AASB 9	–	1	1	72	3	–	–	–	77
Restated balance as at 1 Apr 18	<b>170</b>	<b>139</b>	<b>2</b>	<b>72</b>	<b>3</b>	<b>(1)</b>	<b>(6)</b>	<b>270</b>	<b>649</b>
Purchases, originations, issuances and other additions	40	402	–	6	–	–	–	26	474
Sales, settlements and repayments	(38)	(39)	(2)	(28)	–	1	6	(48)	(148)
Transfers into Level 3 <sup>(3)</sup>	8	60	–	–	–	–	–	12	80
Transfer out of Level 3 <sup>(3)</sup>	–	–	–	–	–	–	–	13	13
Fair value movements recognised in the income statement <sup>(1)</sup>	(8)	17	–	–	–	–	–	(45)	(36)
Fair value movements recognised in OCI <sup>(1)</sup>	–	(3)	–	–	–	–	–	–	(3)
<b>Balance as at 31 Mar 19</b>	<b>172</b>	<b>576</b>	<b>–</b>	<b>50</b>	<b>3</b>	<b>–</b>	<b>–</b>	<b>228</b>	<b>1,029</b>
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	6	(3)	–	–	–	–	–	(45)	(42)

(1) The Consolidated Entity employs various 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 as Levels 1 and/or 2. The realised and unrealised gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss arising on economic hedging instruments classified in Level 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 \$546 million (2018: \$616 million) and derivative liabilities are \$318 million (2018: \$346 million).

(3) Assets and liabilities transferred into or out of Level 3 are presented as if those had been transferred at the beginning of the period.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 36

Fair value of financial assets and financial liabilities continued

### Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading assets \$m	Financial investments \$m	Loan asset \$m	Due from Subsidiaries \$m	Interest in associate and joint ventures (loans) \$m	Debt issued \$m	Derivative financial instruments (net replacement values) <sup>(2)</sup> \$m	Total \$m
<b>COMPANY 2018</b>								
Balance at 1 Apr 17	239	265	–	–	–	(56)	114	562
Purchases, originations, issuances and other additions	37	21	–	–	–	–	101	159
Sales, settlements and repayments	(207)	(171)	–	–	–	51	(14)	(341)
Transfers into Level 3 <sup>(3)</sup>	68	20	–	–	–	–	–	88
Transfers out of Level 3 <sup>(3)</sup>	(2)	(18)	–	–	–	(1)	4	(17)
Fair value losses recognised in the income statement <sup>(1)</sup>	(5)	–	–	–	–	–	(58)	(64)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(14)	–	–	–	–	–	(14)
<b>Balance as at 31 Mar 18</b>	<b>130</b>	<b>102</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6)</b>	<b>147</b>	<b>373</b>
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	(5)	10	–	–	–	–	(58)	(53)
<b>COMPANY 2019</b>								
Balance at 1 Apr 18	<b>130</b>	<b>102</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(6)</b>	<b>147</b>	<b>373</b>
Change on initial application of AASB 9	–	–	<b>31,642</b>	<b>865</b>	<b>3</b>	–	–	<b>32,510</b>
Restated balance as at 1 Apr 18	<b>130</b>	<b>102</b>	<b>31,642</b>	<b>865</b>	<b>3</b>	<b>(6)</b>	<b>147</b>	<b>32,883</b>
Purchases, originations, issuances and other additions	<b>40</b>	<b>370</b>	<b>11,271</b>	<b>74</b>	–	–	<b>57</b>	<b>11,812</b>
Sales, settlements and repayments	<b>(38)</b>	<b>(32)</b>	<b>(5,147)</b>	<b>(200)</b>	–	<b>6</b>	<b>(29)</b>	<b>(5,440)</b>
Transfers into Level 3 <sup>(3)</sup>	<b>9</b>	<b>67</b>	–	–	–	–	<b>(4)</b>	<b>72</b>
Transfers out of Level 3 <sup>(3)</sup>	–	–	–	–	–	–	<b>17</b>	<b>17</b>
Fair value losses recognised in the income statement <sup>(1)</sup>	<b>(12)</b>	<b>18</b>	<b>(22)</b>	<b>(3)</b>	–	–	<b>(17)</b>	<b>(36)</b>
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	<b>(3)</b>	–	–	–	–	–	<b>(3)</b>
<b>Balance as at 31 Mar 19</b>	<b>129</b>	<b>522</b>	<b>37,744</b>	<b>736</b>	<b>3</b>	<b>–</b>	<b>171</b>	<b>39,305</b>
Fair value (losses)/gains for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	<b>(7)</b>	<b>(3)</b>	<b>(22)</b>	<b>(3)</b>	–	–	<b>(17)</b>	<b>(52)</b>

(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 gain and loss for assets and liabilities in Level 3 presented in the table above do not reflect the related realised or unrealised gain and loss 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 \$332 million (2018: \$278 million) and derivative liabilities are \$161 million (2018: \$131 million).

(3) Assets and liabilities transferred in or out of Level 3 are presented as if those had been transferred at the beginning of the period.

## Note 36

Fair value of financial assets and financial liabilities continued

### Significant transfers between levels of the fair value hierarchy

During the financial year the Consolidated Entity and the Company 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 financial year.

### Unrecognised gains

For financial instruments measured at FVTPL, the best evidence of 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 financial instrument is recognised ('day 1 profit or loss'). When significant unobservable inputs are used to determine fair value, the day 1 profit is deferred and is recognised in the income statement over the life of the transaction or when the inputs become observable.

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		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Balance at the beginning of the financial year	178	185	144	143
Deferral on new transactions	69	47	54	24
Amounts recognised in the income statement during the financial year	(64)	(54)	(46)	(23)
<b>Balance at the end of the financial year</b>	<b>183</b>	<b>178</b>	<b>152</b>	<b>144</b>

### Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity to reasonably possible alternative assumptions, for Level 3 financial instruments whose fair values are determined in whole or in part using unobservable inputs, valuation techniques such as discounted cash flows based on assumptions by reference to historical company and industry experience.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	OCI \$m	Profit or loss \$m	OCI \$m
<b>CONSOLIDATED 2019</b>				
<b>Product type</b>				
Equity and equity-linked products	7	–	(11)	–
Commodities	99	–	(106)	–
Interest rate and other products	12	–	(11)	–
<b>Total</b>	<b>118</b>	<b>–</b>	<b>(128)</b>	<b>–</b>
<b>CONSOLIDATED 2018</b>				
<b>Product type</b>				
Equity and equity-linked products	1	7	(1)	(4)
Commodities	47	–	(51)	–
Interest rate and other products	17	–	(17)	–
<b>Total</b>	<b>65</b>	<b>7</b>	<b>(69)</b>	<b>(4)</b>

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 36

Fair value of financial assets and financial liabilities continued

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
<b>COMPANY 2019</b>				
<b>Product type</b>				
Equity and equity-linked products	4	–	(8)	–
Commodities	47	–	(58)	–
Interest rate and other products <sup>(1)</sup>	3	–	(3)	–
<b>Total</b>	<b>54</b>	<b>–</b>	<b>(69)</b>	<b>–</b>
<b>COMPANY 2018</b>				
<b>Product type</b>				
Equity and equity-linked products	–	6	–	(2)
Commodities	35	–	(41)	–
Interest rate and other products	6	–	(6)	–
<b>Total</b>	<b>41</b>	<b>6</b>	<b>(47)</b>	<b>(2)</b>

(1) Includes subordinated notes held by the Company in consolidated securitisation vehicles which were earlier measured at amortised cost under AASB 139 had certain features resulting in failing AASB 9 SPPI requirements, and accordingly concluded to be measured at FVTPL on AASB 9 adoption. For details refer AASB 9 transition disclosure under Note 1.



## Note 36

### Fair value of financial assets and financial liabilities continued

#### 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 values 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
<b>CONSOLIDATED 2019</b>						
Equity and equity-linked products	82	–	Market comparability Pricing model	Price in % <sup>(1)</sup> Earnings multiple		
Commodities	546	317	Pricing model	Volatility	3.7%	176.4%
Interest rate and other products	719	–	Discounted cash flows Pricing Model Market comparability	Discount rate <sup>(2)</sup> Correlation Price in % <sup>(1)</sup>	0.0%	100%
<b>Total</b>	<b>1,347</b>	<b>317</b>				
<b>CONSOLIDATED 2018</b>						
Equity and equity-linked products	101	29	Market comparability Pricing model	Price in % <sup>(1)</sup> Earnings multiple		
Commodities	635	322	Pricing model	Volatility	5.0%	106.0%
Interest rate and other products	189	2	Discounted cash flows Pricing model Market comparability	Discount rate <sup>(2)</sup> Correlation Price in % <sup>(1)</sup>	0.0%	95.0%
<b>Total</b>	<b>925</b>	<b>353</b>				

(1) The range of inputs relating to market comparability is not disclosed as the diverse nature of the underlying investments results in a wide range of inputs.

(2) The range of inputs relating to discounted cash flows is not disclosed as the diverse nature of the underlying products results in a wide range of inputs.

#### 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.

#### Inputs for unlisted equity securities (discount rate, earnings multiple)

Unlisted equity instruments are generally valued based on earnings multiples of comparable companies. Significant unobservable inputs may include earnings multiple discount rates and forecast earnings of the investee companies.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 37

### Offsetting financial assets and financial liabilities

The Consolidated Entity reports financial assets and financial liabilities on a net basis in the statement of financial position when they meet the criteria described in Note 1(viii) *Financial instruments: Offsetting of financial instruments*. The following tables provide information on the impact of offsetting that has occurred in the statement of financial position, as well as amounts subject to enforceable netting arrangements that do not meet all the criteria for offsetting in the statement of financial position. Enforceable netting arrangements may allow for net settlement of specified contracts with a counterparty only in the event of default or other pre-determined events, such that their potential effects on the Consolidated Entity's and Company's financial position in that circumstance is to settle as one arrangement. The Consolidated Entity uses a variety of credit risk mitigation strategies in addition to netting and collateral arrangements, therefore amounts presented in this note are not intended to represent the credit risk exposure of the entity, refer to Note 34.1 *Credit risk for information on credit risk management*.

#### AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>		Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m			
<b>CONSOLIDATED 2019</b>								
Cash collateral on securities borrowed and reverse repurchase agreements	28,079	(682)	27,397	(576)	(26,624)	197	1,751	29,148
Margin money and settlement assets	4,063	(3,130)	933	(14)	–	919	13,563	14,496
Derivative assets	20,512	(7,183)	13,329	(7,311)	(2,870)	3,148	761	14,090
Due from related body corporate entities	10,182	(8,898)	1,284	–	–	1,284	238	1,522
<b>Total assets</b>	<b>62,836</b>	<b>(19,893)</b>	<b>42,943</b>	<b>(7,901)</b>	<b>(29,494)</b>	<b>5,548</b>	<b>16,313</b>	<b>59,256</b>
Cash collateral on securities lent and repurchase agreements	(4,458)	682	(3,776)	576	3,173	(27)	(440)	(4,216)
Margin money and settlement liabilities	(4,042)	3,130	(912)	14	–	(898)	(16,989)	(17,901)
Derivative liabilities	(19,514)	7,183	(12,331)	7,311	1,596	(3,424)	(192)	(12,523)
Due to related body corporate entities	(25,476)	8,898	(16,578)	–	–	(16,578)	(213)	(16,791)
<b>Total liabilities</b>	<b>(53,490)</b>	<b>19,893</b>	<b>(33,597)</b>	<b>7,901</b>	<b>4,769</b>	<b>(20,927)</b>	<b>(17,834)</b>	<b>(51,431)</b>

(1) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

(2) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

## Note 37

## Offsetting financial assets and financial liabilities continued

AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS									
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>			Net amount	Amounts not subject to enforceable netting arrangements	Statement of financial position total
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m	\$m			
<b>CONSOLIDATED 2018</b>									
Cash collateral on securities borrowed and reverse repurchase agreements	28,999	(1,099)	27,900	(1,664)	(25,772)	464		877	28,777
Margin money and settlement assets	4,105	(2,863)	1,242	(17)	–	1,225		12,481	13,723
Derivative assets	17,811	(6,046)	11,765	(6,588)	(2,036)	3,141		930	12,695
Due from related body corporate entities	11,582	(10,368)	1,214	–	–	1,214		169	1,383
<b>Total assets</b>	<b>62,497</b>	<b>(20,376)</b>	<b>42,121</b>	<b>(8,269)</b>	<b>(27,808)</b>	<b>6,044</b>		<b>14,457</b>	<b>56,578</b>
Cash collateral on securities lent and repurchase agreements	(6,461)	1,099	(5,362)	1,664	3,382	(316)		(18)	(5,380)
Margin money and settlement liabilities	(3,640)	2,863	(777)	17	–	(760)		(15,798)	(16,575)
Derivative liabilities	(17,069)	6,046	(11,023)	6,588	2,156	(2,279)		(765)	(11,788)
Due to related body corporate entities	(24,274)	10,368	(13,906)	–	–	(13,906)		(87)	(13,993)
<b>Total liabilities</b>	<b>(51,444)</b>	<b>20,376</b>	<b>(31,068)</b>	<b>8,269</b>	<b>5,538</b>	<b>(17,261)</b>		<b>(16,668)</b>	<b>(47,736)</b>

(1) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

(2) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 37

Offsetting financial assets and financial liabilities continued

### AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>		Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m			
<b>COMPANY 2019</b>								
Cash collateral on securities borrowed and reverse repurchase agreements	27,688	(682)	27,006	(576)	(26,235)	195	1,751	28,757
Margin money and settlement assets	2,692	(1,945)	747	–	–	747	9,055	9,802
Derivative assets	17,868	(6,257)	11,611	(6,369)	(2,500)	2,742	638	12,249
Due from related body corporate entities	8,827	(8,014)	813	–	–	813	226	1,039
Due from subsidiaries	46,564	(24,873)	21,691	–	–	21,691	2,203	23,894
<b>Total assets</b>	<b>103,639</b>	<b>(41,771)</b>	<b>61,868</b>	<b>(6,945)</b>	<b>(28,735)</b>	<b>26,188</b>	<b>13,873</b>	<b>75,741</b>
Cash collateral on securities lent and repurchase agreements	(4,458)	682	(3,776)	576	3,173	(27)	(440)	(4,216)
Margin money and settlement liabilities	(2,622)	1,945	(677)	–	–	(677)	(14,544)	(15,221)
Derivative liabilities	(16,998)	6,257	(10,741)	6,369	1,390	(2,982)	(589)	(11,330)
Due to related body corporate entities	(22,922)	8,014	(14,908)	–	–	(14,908)	(198)	(15,106)
Due to subsidiaries	(31,430)	24,873	(6,557)	–	–	(6,557)	(3,559)	(10,116)
<b>Total liabilities</b>	<b>(78,430)</b>	<b>41,771</b>	<b>(36,659)</b>	<b>6,945</b>	<b>4,563</b>	<b>(25,151)</b>	<b>(19,330)</b>	<b>(55,989)</b>

(1) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

(2) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

## Note 37

## Offsetting financial assets and financial liabilities continued

AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS								
SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(1)</sup>			Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(2)</sup> \$m	Cash and other financial collateral <sup>(3)</sup> \$m				
<b>COMPANY 2018</b>								
Cash collateral on securities borrowed and reverse repurchase agreements	28,650	(1,099)	27,551	(1,632)	(25,455)	464	886	28,437
Margin money and settlement assets	3,483	(2,458)	1,025	–	–	1,025	8,083	9,108
Derivative assets	15,009	(5,090)	9,919	(5,549)	(1,714)	2,656	749	10,668
Due from related body corporate entities	10,602	(9,535)	1,067	–	–	1,067	145	1,212
Due from subsidiaries	46,475	(21,502)	24,973	–	–	24,973	2,868	27,841
<b>Total assets</b>	<b>104,219</b>	<b>(39,684)</b>	<b>64,535</b>	<b>(7,181)</b>	<b>(27,169)</b>	<b>30,185</b>	<b>12,731</b>	<b>77,266</b>
Cash collateral on securities lent and repurchase agreements	(6,403)	1,099	(5,304)	1,632	3,356	(316)	(76)	(5,380)
Margin money and settlement liabilities	(3,117)	2,458	(659)	–	–	(659)	(13,684)	(14,343)
Derivative liabilities	(14,385)	5,090	(9,295)	5,549	1,815	(1,931)	(748)	(10,043)
Due to related body corporate entities	(21,294)	9,535	(11,759)	–	–	(11,759)	(71)	(11,830)
Due to subsidiaries	(27,656)	21,502	(6,154)	–	–	(6,154)	(4,395)	(10,549)
<b>Total liabilities</b>	<b>(72,855)</b>	<b>39,684</b>	<b>(33,171)</b>	<b>7,181</b>	<b>5,171</b>	<b>(20,819)</b>	<b>(18,974)</b>	<b>(52,145)</b>

(1) Related amounts not offset have been limited to the net amount presented in the statement of financial position so as not to include the effect of over-collateralisation.

(2) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(3) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

Intercompany balances with subsidiaries are presented on net basis in the statement of financial position where subsidiaries have signed master netting agreements while cases where a subsidiary is not a party to a master netting agreement the balances are presented on gross basis.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 38

### Pledged assets and transfers of financial assets

#### Pledged assets

Assets pledged as security for liabilities include the following:

- Securities included under trading assets provided as collateral for repurchase transactions, stock lending arrangements and arrangements relating to trading liabilities. These transactions are governed by standard industry agreements
- Loan assets held by the consolidated SPEs provided as collateral against debt issued
- Property, plant and equipment, loan assets, financial investments, other assets and cash and bank balance provided as collateral for bank borrowings.

The table below represents assets presented within the statement of financial position that have been pledged as security for liabilities.

	CONSOLIDATED	
	2019 \$m	2018 \$m
Cash and bank balances	22	130
Trading assets <sup>(1)</sup>	1,421	2,837
Financial investments	188	522
Other assets	17	510
Loan assets	11,039	12,173
Property, plant and equipment	79	2,765
<b>Total pledged assets<sup>(2)</sup></b>	<b>12,766</b>	<b>18,937</b>

(1) For trading securities, the transferee has the right to sell or re-pledge the entire value of securities received.

(2) The fair value of collateral held not recognised in the statement of financial position as at 31 March 2019 is \$29,304 million (2018: \$28,615 million). The Consolidated entity is permitted to sell or re-pledge the entire value of securities received, of which the fair value of collateral sold or re-pledged is \$7,448 million (2018: \$11,750 million).

#### Transfers of financial assets

The Consolidated Entity may enter into transactions in the normal course of business that transfer financial assets recognised in the statement of financial position to other entities. Depending on the criteria discussed in Note 1(viii) *Financial instruments* the Consolidated Entity may be unable to derecognise the transferred asset, be able to derecognise the transferred assets in full or continue to recognise the asset to the extent of its continuing involvement.

#### Transferred financial assets that are derecognised

When financial assets are derecognised, some continuing involvement may be retained in the assets through liquidity support, financial guarantees, certain derivatives or certain securitisation interests. For the financial years ending 31 March 2019 and 31 March 2018, there were no material transfers of financial assets where the Consolidated Entity or Company retained continuing involvement in the transferred asset.

#### Transferred financial assets that are not derecognised

The Consolidated Entity and the Company did not derecognise any financial assets only to the extent of continuing involvement in the years ending 31 March 2019 and 31 March 2018. The following transactions typically result in the transferred assets continuing to be recognised in full.

#### Repurchase and securities lending agreements

Securities sold under agreement to repurchase and securities subject to lending agreements continue to be recognised in

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 by the transferee, 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 Company do not have legal rights to these assets but have full economic exposure to them. The transferred assets cannot otherwise be pledged or sold by the transferee.

#### 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 Company is entitled to any residual income of a securitisation vehicle, the Company continues to recognise the financial assets. The transferred assets cannot otherwise be pledged or sold.

#### Other transfers

Includes loans and leases sold or lent to an external funder but the Consolidated Entity still has full economic exposure to them. In such instances the Consolidated Entity has an obligation to receive cash and pay them to external funder.

## Note 38

## Pledged assets and Transfers of financial assets continued

## Transfers of financial assets continued

	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS				
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair value of transferred assets \$m	Fair value of associated liabilities \$m	Net fair value \$m
<b>CONSOLIDATED 2019</b>					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	1,397	(1,375)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Trading assets	24	(24)	–	–	–
Financial investments	188	(178)	–	–	–
Other financial assets not derecognised:					
Loan assets	286	(307)	290	(307)	(17)
<b>Total financial assets not derecognised</b>	<b>1,895</b>	<b>(1,884)</b>	<b>290</b>	<b>(307)</b>	<b>(17)</b>
<b>CONSOLIDATED 2018</b>					
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	2,690	(2,654)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	517	(485)	–	–	–
Other financial assets not derecognised:					
Loan assets	591	(610)	595	(613)	(18)
<b>Total financial assets not derecognised</b>	<b>3,798</b>	<b>(3,749)</b>	<b>595</b>	<b>(613)</b>	<b>(18)</b>



# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 38

Pledged assets and Transfers of financial assets continued

Transfers of financial assets continued

	FOR THOSE LIABILITIES THAT ONLY HAVE RECOURSE TO THE TRANSFERRED ASSETS				
	Carrying amount of transferred assets \$m	Carrying amount of associated liabilities \$m	Fair Value of transferred assets \$m	Fair value of associated liabilities \$m	Net fair value \$m
	<b>COMPANY 2019</b>				
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	1,397	(1,375)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Trading assets	24	(24)	–	–	–
Financial investments	188	(178)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan assets <sup>(1)</sup>	5,289	(5,289)	5,289	(5,290)	(1)
<b>Total financial assets not derecognised</b>	<b>6,898</b>	<b>(6,866)</b>	<b>5,289</b>	<b>(5,290)</b>	<b>(1)</b>
	<b>COMPANY 2018</b>				
Financial assets not derecognised due to repurchase and securities lending agreements:					
Trading assets	2,690	(2,654)	–	–	–
Financial assets not derecognised due to total return/asset swaps:					
Financial investments	517	(485)	–	–	–
Financial assets not derecognised due to securitisation:					
Loan assets <sup>(1)</sup>	4,593	(4,593)	4,593	(4,600)	(7)
<b>Total financial assets not derecognised</b>	<b>7,800</b>	<b>(7,732)</b>	<b>4,593</b>	<b>(4,600)</b>	<b>(7)</b>

(1) Excludes \$20,825 million (2018: \$15,899 million) of securitised assets where Macquarie Bank holds all of the instruments issued by the trusts.

## Note 39

### Audit and other services provided by PricewaterhouseCoopers (PwC)

During the financial year, PwC and its network firms, the auditor of the Consolidated Entity and the Company, earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>PwC – Australia</b>				
Audit of the Group and controlled entities	10,607	8,781	8,481	7,597
Other assurance services <sup>(1)</sup>	2,335	3,658	713	713
Advisory services	213	214	–	–
Taxation	125	11	–	–
Total non-audit services	2,673	3,883	713	713
<b>Total remuneration paid to PwC Australia</b>	<b>13,280</b>	<b>12,664</b>	<b>9,194</b>	<b>8,310</b>
<b>Network firms of PwC Australia</b>				
Audit of the Group and controlled entities	8,577	8,180	2,497	2,070
Other assurance services <sup>(1)</sup>	512	299	–	–
Advisory services	–	604	–	–
Taxation	1,434	682	–	–
Total non-audit services	1,946	1,585	–	–
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>10,523</b>	<b>9,765</b>	<b>2,497</b>	<b>2,070</b>
Total audit services remuneration paid to PwC	19,184	16,961	10,978	9,667
Total non-audit services remuneration paid to PwC	4,619	5,468	713	713
<b>Total remuneration paid to PwC (Note 2)</b>	<b>23,803</b>	<b>22,429</b>	<b>11,691</b>	<b>10,380</b>

(1) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include regulatory compliance, accounting advice, comfort letters on debt issuance programs, certifications, due diligence and reviews of controls and other agreed upon procedures.

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Consolidated Entity's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects and all non-audit services provided by PwC have been approved in accordance with its *Auditor Independence Policy*.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 40

### Discontinued operations

#### (i) Description

On 10 December 2018, the Consolidated Entity disposed of its CAF Principal Finance and Transportation Finance businesses (the businesses) to MFHPL and its subsidiaries, resulting in a pre-tax gain of \$507 million. CAF Principal Finance provides flexible primary financing solutions and engages in secondary market investing across the capital structure. CAF Transportation Finance involves the financing of aircraft, rotorcraft and rail assets. Prior to the disposal date the businesses were reported as part of the CAF operating segment.

The Consolidated Entity utilised the sale proceeds to repay capital of \$2,040 million and pay a dividend of \$264 million to its holding company – Macquarie B.H. Pty Ltd.

The gain on disposal and the financial results of the businesses are disclosed as profit from discontinued operations in the income statement.

#### (ii) Income statement

The financial results of the businesses including the impacts of the sale transaction are presented below:

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Operating profit from discontinued operations before income tax</b>				
Net operating lease income <sup>(1)</sup>	459	694	–	–
Net interest (expense)/income <sup>(2)</sup>	(3)	174	125	307
Fee and commission income <sup>(3)</sup>	–	–	80	71
Net trading expense	(8)	(48)	(16)	(50)
Other operating income and charges <sup>(4),(5),(6)</sup>	435	341	1,006	903
Gain on disposal (Note 40(iii))	507	–	236	–
<b>Net operating income</b>	<b>1,390</b>	<b>1,161</b>	<b>1,431</b>	<b>1,231</b>
Operating expenses	(252)	(399)	(132)	(207)
<b>Operating profit from discontinued operations before income tax</b>	<b>1,138</b>	<b>762</b>	<b>1,299</b>	<b>1,024</b>
Income tax expense	(182)	(217)	(47)	(99)
<b>Profit from discontinued operations after income tax</b>	<b>956</b>	<b>545</b>	<b>1,252</b>	<b>925</b>
<b>Other comprehensive (loss)/income:</b>				
Net movement for period/year <sup>(7)</sup>				
Exchange differences on translation and hedge of foreign operations (Note 40(v))	(73)	82	–	–
Cash flow hedges, net movements recognised in OCI (Note 40(v))	(47)	20	–	–
<b>Other comprehensive (loss)/income from discontinued operations</b>	<b>(120)</b>	<b>102</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income from discontinued operations</b>	<b>836</b>	<b>647</b>	<b>1,252</b>	<b>925</b>
Total comprehensive income from discontinued operations attributable to non-controlling interests	(1)	(4)	–	–
<b>Total comprehensive income from discontinued operations attributable to the equity holder of the Company</b>	<b>835</b>	<b>643</b>	<b>1,252</b>	<b>925</b>

(1) Includes \$820 million (2018: \$1,199 million) of rental income (of which \$40 million (2018: \$82 million) is net supplemental rent on aircraft) net of \$361 million (2018: \$505 million) of depreciation on operating lease assets.

(2) Includes \$195 million (2018: \$360 million) of interest expenses in the Consolidated Entity and \$43 million (2018: \$67 million) in the Company paid by the businesses to Group Treasury (own funds). These amounts have been reported as interest income in the Consolidated entity's continuing operations.

(3) Includes income under fee sharing and other arrangements from subsidiaries.

(4) Includes \$339 million (2018: \$Nil) of gain on disposal of assets and liabilities held for sale and \$Nil (2018: \$90 million) net gain on change of control or significant influence on investments in the Consolidated Entity.

(5) Includes \$715 million (2018: \$603 million) of dividend income and \$219 million (2018: \$24 million) of net gain on disposal of subsidiaries in the Company.

(6) Includes ECL allowance of \$8 million (2018: \$52 million) of the Consolidated Entity and \$2 million (2018: \$12 million) for the Company.

(7) 10 December 2018, being the disposal date.

## Note 40

## Discontinued operations continued

## (iii) Gain on disposal

	CONSOLIDATED	COMPANY
	2019 \$m	2019 \$m
Consideration <sup>(1)</sup>	6,949	4,010
Carrying value of net assets and liabilities disposed of or deconsolidated (Note 40(iv))	6,649	3,774
Gain on disposal before transfer of OCI to the income statement	300	236
Items reclassified from OCI to the income statement:		
Exchange differences on translation and hedge of foreign operations (Note 40(v))	160	–
Cash flow hedges (Note 40(v))	47	–
<b>Total gain on disposal</b>	<b>507</b>	<b>236</b>

(1) Includes cash consideration of \$6,506 million for the consolidated entity and \$3,991 million for the company.

## (iv) Carrying value of net assets and liabilities disposed of

	CONSOLIDATED	COMPANY
	2019 \$m	2019 \$m
<b>Assets</b>		
Cash and bank balances	422	11
Other assets	641	27
Loan assets <sup>(1)</sup>	3,795	2,341
Property, plant and equipment	8,162	–
Investment in associates and joint ventures	629	351
Investment in subsidiaries	–	1,146
Deferred tax assets	185	–
<b>Total assets</b>	<b>13,834</b>	<b>3,876</b>
<b>Liabilities</b>		
Deposits	(192)	–
Other liabilities	(1,195)	(40)
Bank borrowings	(5,113)	–
Debt issued	(37)	–
Due to subsidiaries	–	(62)
Deferred tax liabilities	(648)	–
<b>Total liabilities</b>	<b>(7,185)</b>	<b>(102)</b>
<b>Net assets</b>	<b>6,649</b>	<b>3,774</b>

(1) Net of ECL allowance of \$33 million for the Consolidated Entity and \$8 million for the Company.

# Notes to the financial statements

For the financial year ended 31 March 2019 continued

## Note 40

Discontinued operations continued

### (v) Reserves

	CONSOLIDATED	
	2019 \$m	2018 \$m
<b>Foreign currency translation and net investment hedge reserve<sup>(1)</sup></b>		
Balance at the beginning of the financial year	73	(9)
Net movement for the period/year	(73)	9
Exchange differences on translation of foreign operations, net of hedge	87	82
Transferred to income statement on disposal of foreign operations	(160)	–
<b>Balance at the end of the period/year<sup>(2)</sup></b>	<b>–</b>	<b>73</b>
<b>Cash flow hedging reserve<sup>(1)</sup></b>		
Balance at the beginning of the financial year	47	27
Net movement for the period/year	(47)	27
Revaluation movement for the financial year	(1)	22
Transferred to income statement	(7)	(2)
Transferred to income statement on disposal of foreign operations	(39)	–
<b>Balance at the end of the period/year<sup>(2)</sup></b>	<b>–</b>	<b>47</b>

(1) All items are net of tax, where applicable.

(2) 10 December 2018, being the disposal date.

### (vi) Cash flow information

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
<b>Net cash flow</b>				
Cash (utilised in)/generated from operating activities	(183)	(37)	2	73
Cash generated from/(utilised in) investing activities	384	(11)	–	(135)
<b>Net increase/(decrease) in cash and cash equivalents from discontinued operations</b>	<b>201</b>	<b>(48)</b>	<b>2</b>	<b>(62)</b>
Cash and cash equivalents at the beginning of the financial year	221	269	9	71
Cash and cash equivalents at the end of the period/year <sup>(1)</sup>	422	221	11	9

(1) 10 December 2018, being the disposal date.

## Note 41

### 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 current and previous financial year.

#### Other entities or businesses acquired or consolidated due to acquisition of control

##### Year ended 31 March 2019

There were no other entities or businesses acquired or consolidated due to acquisition of control during the current financial year.

##### Year ended 31 March 2018

Cargill, Inc.'s North American natural gas and electricity business (Cargill North American Power and Gas), PropertyIQ Pty. Ltd. PropertyIQ Strata Pty. Ltd., ADL Software Pty. Ltd.

#### Significant disposal of entities or businesses

There were no individually significant entities or businesses disposed of or deconsolidated due to loss of control during the current and previous financial year other than as disclosed in Note 40 *Discontinued operations*.

#### Other disposal of entities or businesses (refer below for aggregate details of the entities and businesses disposed of)

##### Year ended 31 March 2019

ADL Software Pty Limited and Energetics.

The gain on sale of Energetics is included under other Operating Income and charges as part of profit from discontinued operations. Refer Note 40 *Discontinued operations*.

##### Year ended 31 March 2018

Advantage Funding Management Co. Inc., Levantera Development Limited and Macquarie Financial Ltd.

	2019 \$m	2018 \$m
<b>Carrying value of assets and liabilities disposed of</b>		
Cash and bank balances	9	48
Intangible assets	2	–
Other financial assets	–	1,003
Other assets	40	31
Property, plant and equipment	577	66
Payables, provisions, borrowings and other liabilities	(372)	(751)
Non-controlling interests	(2)	–
<b>Total carrying value of net assets</b>	<b>254</b>	<b>397</b>
Consideration		
Cash consideration (net of cost of disposal)	591	116
Consideration receivable	2	351
<b>Total consideration</b>	<b>593</b>	<b>467</b>
<b>Direct costs relating to disposal</b>	<b>(13)</b>	<b>(2)</b>
<b>Net cash flow</b>		
Cash consideration	591	116
Less: Cash and cash equivalents disposed of or deconsolidated	(9)	(48)
<b>Net cash inflow</b>	<b>582</b>	<b>68</b>

## Note 42

### Events after the reporting date

There were no material events subsequent to 31 March 2019 that have not been reflected in the financial statements.

# Directors' declaration

Macquarie Bank Limited

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 44 to 187 are in accordance with the *Corporations Act 2001* (Cth), including:
- (i) complying with the Australian accounting standards, and
  - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial positions as at 31 March 2019 and their performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(i) includes a statement that the financial report complies with International Financial Reporting Standards.

The Directors have been given the declarations by the CEO and CFO required by section 295A of the *Corporations Act 2001* (Cth). This declaration is made in accordance with a resolution of the Directors.



**Peter Warne**  
Independent Director and Chairman



**Mary Reemst**  
Managing Director and Chief Executive Officer

Sydney  
3 May 2019



# Independent auditor's report

To the members of Macquarie Bank Limited



## Report on the audit of the financial report

### Our opinion

In our opinion:

The accompanying financial report of Macquarie Bank Limited (the Company) and its controlled entities (together the Consolidated Entity) is in accordance with the *Corporations Act 2001* (Cth), including:

- (a) giving a true and fair view of the Company's and Consolidated Entity's financial positions as at 31 March 2019 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

### What we have audited

The Consolidated and Company financial report comprises:

- the Consolidated and Company statements of financial position as at 31 March 2019
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company income statements for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Company and the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* (Cth) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

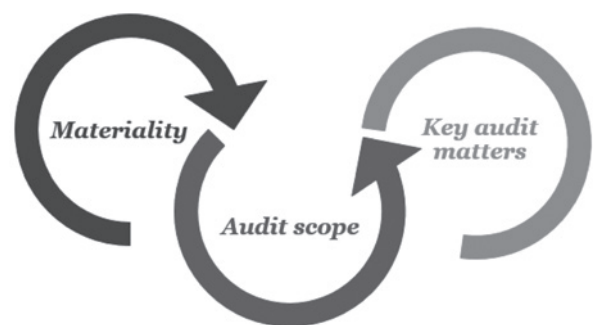
### Our audit approach for the Consolidated Entity

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report

as a whole, taking into account the geographic and management structure of the Consolidated Entity, its accounting processes and controls and the industry in which it operates.

The Consolidated Entity is structured into three operating groups and a corporate segment. The Consolidated Entity has operations in multiple overseas locations, including sites in Gurugram, Jacksonville and Manila which undertake operational activities that are important to the financial reporting processes. The Consolidated Entity's financial report includes the three operating groups and the corporate segment.



### Consolidated Entity materiality

For the purpose of our audit we used overall Consolidated Entity materiality of \$93 million, which represents approximately 1% of the Consolidated Entity's net assets.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Consolidated Entity net assets as the benchmark as the Consolidated Entity is a wholly owned subsidiary with listed debt and, in our view, net assets represent an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders.

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### Consolidated Entity audit scope

Our audit focused on where the Consolidated Entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. To conduct this risk assessment, we considered the inherent risks facing the Consolidated Entity, including those arising from its respective business operations, and how the Consolidated Entity manages these risks. We also considered a number of other factors including the design and implementation of the Consolidated Entity's control environment relevant to the audit, the appropriateness of the use of the going concern basis of accounting in the preparation of the financial report and the risk of management override of controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the three operating groups and the corporate segment. These component audit teams established an audit strategy tailored for each operating group and the corporate segment, in consultation with the group audit team.

# Independent auditor's report

To the members of Macquarie Bank Limited *continued*



Given the extent of the overseas operations of the Consolidated Entity, the component audit teams instructed a number of other PwC firms in overseas locations to perform audit procedures ranging from an audit of financial information to specified audit procedures. The group audit team determined the level of supervision and direction it needed to have over the audit work performed by the component audit teams, including over the component audit teams' review and supervision of the overseas audit teams they, in turn instructed. As part of the overall supervision of our audit and to develop our understanding of the Consolidated Entity's global operations, the group audit team or the component audit teams also visited overseas locations, including Gurugram, Hong Kong, Houston, Jacksonville, London, Manila, New York and Singapore.

The work performed by the component audit teams and the overseas audit teams, together with additional audit procedures performed by the group audit team such as procedures over

the Consolidated Entity's consolidation and the financial report disclosures, provided us with the information we needed for our opinion on the Consolidated Entity's financial report as a whole.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee. The key audit matters identified below relate to the audit of both the Consolidated Entity and the Company, and references to the Consolidated Entity also apply to the Company.

Key audit matter	How our audit addressed the key audit matter
<b>Provision for expected credit losses on loan assets held at amortised cost (Refer to Note 11)</b>	
<p>The Consolidated Entity implemented AASB 9 on 1 April 2018.</p> <p>Under the AASB 9 credit impairment model, losses are recognised on an Expected Credit Loss (ECL) basis. ECLs are required to incorporate forward-looking information, reflecting the Consolidated Entity's view of potential future economic scenarios.</p> <p>In order to meet the ECL requirements of AASB 9, the Consolidated Entity has exercised judgement in developing ECL models and also in determining assumptions such as defining a significant increase in credit risk. The ECL models of the Consolidated Entity rely on numerous data inputs and certain post model adjustments are applied based on the Consolidated Entity's judgement.</p> <p>Loan assets held at amortised cost are classified as stage III under the ECL model where they are determined to be credit impaired. The ECL for credit impaired loan assets is measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate for that exposure.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls supporting the Consolidated Entity's estimate of the ECL including controls relating to:</p> <ul style="list-style-type: none"> <li>– review and approval of certain forward looking information used in the key models</li> <li>– the accuracy of certain critical data elements used in key ECL models, and</li> <li>– the review and challenge forums to assess the ECL output and post model adjustments.</li> </ul> <p>In addition to controls testing, we also performed substantive procedures including:</p> <ul style="list-style-type: none"> <li>– engaging PwC credit modelling experts to assess the reasonableness of the model monitoring performed for key models and to assess the reasonableness of the critical data elements identified by the Consolidated Entity</li> <li>– testing the completeness and accuracy of certain critical data elements used in key ECL models</li> <li>– testing the reasonableness of certain forward looking economic data selected by the Consolidated Entity, and</li> <li>– assessing certain post model adjustments identified by the Consolidated Entity</li> </ul> <p>For credit impaired loan (stage III) provisions, we examined a sample of individual loan exposures to consider the reasonableness of provisions adopted.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>



Key audit matter	How our audit addressed the key audit matter
<b>Valuation of financial assets and liabilities held at fair value (Refer to Note 36)</b>	
<p>The Consolidated Entity exercises judgement in valuing certain financial assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.</p> <p>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivatives and unlisted equity and debt investments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.</p> <p>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> <li>– approval and validation of the models adopted</li> <li>– accuracy of data and inputs to models</li> <li>– the Consolidated Entity's process for testing valuations, and</li> <li>– governance and review.</li> </ul> <p>For derivatives, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.</p> <p>For a sample of unlisted equity and debt investments, we assessed the appropriateness of the valuation methodologies applied, and assessed the sensitivity of the Consolidated Entity's valuations to alternative assumptions where appropriate.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>
<b>IT systems and controls over financial reporting</b>	
<p>The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:</p> <ul style="list-style-type: none"> <li>– the framework of governance over IT systems</li> <li>– controls over program development and changes</li> <li>– controls over access to programs, data and IT operations, and</li> <li>– governance over generic and privileged user accounts.</li> </ul> <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.</p> <p>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>Where we noted design or operating effectiveness matters relating to IT system or application controls relevant to our audit, we performed alternative audit procedures. We also considered mitigating controls in order to respond to the impact on our overall audit approach.</p>
<b>Provisions for tax payable and deferred tax liabilities (Refer to Note 16 and 20)</b>	
<p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.</p> <p>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosures in the financial report.</p>

# Independent auditor's report

To the members of Macquarie Bank Limited *continued*



## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the financial report

The directors of the Company 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* (Cth) and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Consolidated Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

PricewaterhouseCoopers

**K.G. Smith**

Partner

Sydney  
3 May 2019

## Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

## Report on the remuneration report

### Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 42 of the Directors' Report for the year ended 31 March 2019.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2019 complies with section 300A of the *Corporations Act 2001* (Cth).

### Responsibilities

The directors of the Company 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.

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