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Application has been made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for permission to deal in and for quotation of the Warrants (defined below). The SGX-ST takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of Macquarie Bank Limited, the Index, the Shares or the Warrants.

**Base Listing Document
relating to Warrants
to be issued by**



MACQUARIE BANK LIMITED

(ABN 46 008 583 542)

(Incorporated under the laws of Australia)

This document is published for the purpose of obtaining a listing on the SGX-ST of warrants to be issued from time to time by Macquarie Bank Limited (the “**Issuer**”). The warrants include European style cash settled call warrants on single equities (“**European Style Cash Settled Call Warrants**”), European style cash settled basket call warrants on a basket of equities (“**European Style Cash Settled Basket Call Warrants**”), European style index call warrants on indices (“**European Style Index Call Warrants**”), European style cash settled average return call warrants on single equities (“**European Style Cash Settled Average Return Call Warrants**”), European style investment (dividend) call warrants on single equities (“**European Style Investment (Dividend) Call Warrants**”), European style cash settled call warrants on single trusts (“**European Style Trust Call Warrants**”), European style cash settled put warrants on single equities (“**European Style Cash Settled Put Warrants**”), European style index put warrants on indices (“**European Style Index Put Warrants**”), European style cash settled average return put warrants on single equities (“**European Style Cash Settled Average Return Put Warrants**”), European style cash settled put warrants on single trusts (“**European Style Trust Put Warrants**”) and such other warrants to be issued from time to time by the Issuer (together the “**Warrants**” save that where the context requires, references to the “**Warrants**” shall mean the European Style Cash Settled Call Warrants, European Style Cash Settled Basket Call Warrants, European Style Index Call Warrants, European Style Cash Settled Average Return Call Warrants, European Style Investment (Dividend) Call Warrants, European Style Trust Call Warrants, European Style Cash Settled Put Warrants, European Style Index Put Warrants, European Style Cash Settled Average Return Put Warrants, European Style Trust Put Warrants, or such other warrants to be issued from time to time by the Issuer, as the case may be).

This document is published in connection with a listing of the Warrants on the SGX-ST for the purpose of giving information with regard to the Issuer and the Warrants. This document may be updated or amended from time to time by way of addenda. References to this document include references to this

document as amended by such addenda. The additional terms relating to each series of Warrants will be set out in a supplemental listing document (each a “**Supplemental Listing Document**”) which will be supplemental to, and should be read in conjunction with, this document.

This document does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Warrants or other securities of the Issuer, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration Warrants or other securities of the Issuer.

Warrants are complex instruments and are not suitable for inexperienced investors. Investors are warned that the price of the Warrants 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 Warrants and carefully study the risk factors set out in this document and, where necessary, seek professional advice before they invest in the Warrants. They should also have sufficient financial resources and liquidity to bear all of the risks of an investment in the Warrants. Prospective purchasers should not invest in Warrants which are complex financial instruments unless they have the expertise (either alone or with a financial adviser) to evaluate how the Warrants will perform under changing conditions, the resulting effects on the value of the Warrants and the impact this investment will have on the potential investor's overall investment portfolio.

The information in this document does not take into account the investment objectives or financial position of any particular investor. Accordingly, nothing in this document should be construed as a recommendation or invitation by the Issuer or any associate of the Issuer or any other person concerning investment in the Warrants or any security underlying the Warrants.

The Warrants are classified as capital markets products other than prescribed capital markets products¹ and Specified Investment Products (SIPs)², and may only be sold to retail investors with enhanced safeguards, including an assessment of such investors' investment knowledge or experience.

The Warrants constitute general unsecured contractual obligations of the Issuer and of no other person and if you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against, if applicable, the company or trust which has issued the underlying securities, the sponsor of the underlying indices, or any companies or trusts forming part of any indices to which the Warrants relate. The Warrants are not secured on any collateral.

As at the date of this document, the Issuer has long-term credit ratings as shown in the table below. Current credit ratings may be obtained at www.macquarie.com.

	Long-Term rating	
	Rating	Outlook
Moody's Investors Service	A2	Stable
S&P Global Ratings	A	Positive
Fitch Ratings	A	Stable

Source: www.macquarie.com, as at date of this document.

¹ As defined in the Securities and Futures (Capital Markets Products) Regulations 2018.

² As defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

Credit ratings are subject to change or withdrawal at anytime within each rating agency's sole discretion. Prospective purchasers should conduct their own research using publicly available sources to obtain the latest information with respect to the Issuer's ratings from time to time. The Issuer's credit ratings are only an assessment by the rating agencies of the Issuer's overall financial capacity to pay its debts. Rating agencies usually receive a fee from the companies that they rate. When evaluating the Issuer's creditworthiness, prospective purchasers should not solely rely on the Issuer's credit ratings because:

- (i) a credit rating is not a recommendation to buy, sell or hold the Warrants;
- (ii) ratings of companies may involve difficult-to-quantify factors such as market competition, the availability of systemic support in Australia and macro-economic conditions or by other events that are not related to the entity;
- (iii) a high credit rating is not necessarily indicative of low risk. The Issuer's credit ratings as of the above date are for reference only. Any downgrading of the Issuer's ratings could result in a reduction in the value of the Warrants;
- (iv) a credit rating is not an indication of the liquidity or volatility of the Warrants; and
- (v) a credit rating may be downgraded if the credit quality of the Issuer declines.

Subject as set out below, the Issuer accepts full responsibility for the information contained in this document in relation to itself and the Warrants. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document for which it accepts responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information. This document should be read in conjunction with the relevant Supplemental Listing Document.

The Issuer is regulated as an authorised deposit taking institution by the Australian Prudential Regulation Authority ("APRA"). The Issuer, acting through its Singapore branch is authorised and licensed by the Monetary Authority of Singapore to carry on wholesale banking business in Singapore pursuant to the Banking Act, Chapter 19 of Singapore and therefore is subject to the supervision of the Monetary Authority of Singapore.

No persons have been authorised to give any information or to make any representation save as contained in this document or otherwise authorised by the Issuer in connection with the Warrants and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer. Neither the delivery of this document nor any sale of any Warrants shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or its subsidiaries and associates since the date hereof. **This document does not constitute an offer by, or an invitation on behalf of, the Issuer to subscribe for or purchase any of the Warrants.**

The distribution of this document and the offering of the Warrants may, in certain jurisdictions, be restricted by law. The Issuer requires persons into whose possession this document comes to inform themselves of and observe all such restrictions. The Issuer does not assume any fiduciary responsibility or liability for any consequences financial or otherwise arising from the subscription or acquisition of the Warrants. An investor should make his own appraisal of the risks and should consult to the extent necessary its own legal, financial, tax, accounting and other professional advisers in this respect prior to any subscription or acquisition of the Warrants.

In particular, the Warrants have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, Warrants, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the

Securities Act) or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Warrants, 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 registration requirements of the Securities Act or pursuant to an exemption therefrom.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in the Warrants, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer and/or any of its affiliates may repurchase Warrants at any time on or after the date of issue and any Warrants so repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumption as to the number of Warrants on issue at any one time.

The Issuer undertakes, in respect of each series of Warrants, until the expiry of the Warrants (as defined in the applicable Supplemental Listing Document) to make available for inspection by the public or in respect of such series of Warrants at the office of Macquarie Capital Securities (Singapore) Pte. Limited, presently at 9 Straits View, #21-07 Marina One West Tower, Singapore 018937, a copy of its latest publicly available annual reports and interim financial statements (if any), and a copy of this document.

This document includes the terms and conditions of each of the European Style Cash Settled Call Warrants, European Style Cash Settled Basket Call Warrants, European Style Index Call Warrants, European Style Cash Settled Average Return Call Warrants, European Style Investment (Dividend) Call Warrants, European Style Trust Call Warrants, European Style Cash Settled Put Warrants, European Style Index Put Warrants, European Style Cash Settled Average Return Put Warrants and European Style Trust Put Warrants (together, the “**Conditions**” or the “**Conditions of the Warrants**”, save that where the context requires references to the Conditions or the Conditions of the Warrants shall mean the terms and conditions of the European Style Cash Settled Call Warrants, the terms and conditions of the European Style Cash Settled Basket Call Warrants, the terms and conditions of the European Style Index Call Warrants, the terms and conditions of the European Style Cash Settled Average Return Call Warrants, the terms and conditions of the European Style Investment (Dividend) Call Warrants, the terms and conditions of the European Style Trust Call Warrants, the terms and conditions of the European Style Cash Settled Put Warrants, the terms and conditions of the European Style Index Put Warrants, the terms and conditions of the European Style Cash Settled Average Return Put Warrants, the terms and conditions of the European Style Trust Put Warrants or such other warrants to be issued from time to time by the Issuer, as the case may be).

All references herein to “**Singapore dollars**” are to the lawful currency of Singapore and to “**A\$**” are to the lawful currency of Australia.

References in this document to websites and other sources where further information may be obtained are intended to be guides as to where further public information may be obtained free of charge. Information appearing on these websites and in such other sources does not form part of this document.

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RISK FACTORS

The following risk factors are relevant to the Warrants:

- (a) investment in Warrants involves substantial risks including market risk, liquidity risk, and the risk that the Issuer will be unable to satisfy its obligations under the Warrants. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Warrants. You should consider carefully whether Warrants are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Warrants are not suitable for inexperienced investors;
- (b) the Warrants constitute direct, general and unsecured contractual obligations of the Issuer and no other person and will rank *pari passu* with the Issuer's other unsecured contractual obligations and with the Issuer's unsecured and unsubordinated debt other than indebtedness preferred by mandatory provisions of law. The Warrants are not secured by any collateral. Section 13A of the Banking Act of 1959 of Australia provides that, in the event of the Issuer becoming unable to meet its obligations or suspending payments, the assets of the Issuer in Australia shall be available to satisfy specified liabilities in priority to all other liabilities of the Issuer (including the obligations of the Issuer under the Warrants). The specified liabilities include first, certain obligations of the Issuer to APRA in respect of amounts payable by APRA to holders of protected accounts, and then as the next priority obligations of the Issuer in respect of APRA's costs of administration, then other liabilities of the Issuer in relation to protected accounts in Australia, following this any debts that the Authorized Deposit-taking Institution 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. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against any other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Warrants, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the company or trust which has issued the underlying securities, the sponsor of the underlying indices or any companies or trusts forming part of any indices to which the Warrants relate. The Issuer is not a fiduciary of Warrantheholders (as defined in the Conditions) and has substantially no obligation to a Warrantheholder other than to pay amounts and/or deliver securities in accordance with the terms thereof as set forth herein and in the relevant Supplemental Listing Document. The Issuer does not in any respect underwrite or guarantee the performance of any Warrant. Any profit or loss realised by a Warrantheholder in respect of a Warrant upon exercise or otherwise due to changes in the value of such Warrant, or the shares, baskets of shares or indices underlying such Warrant, is solely for the account of such Warrantheholder. In addition, the Issuer shall have the absolute discretion to put in place any hedging transaction or arrangement which it deems appropriate in connection with any Warrant or the applicable underlying securities or indices. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by any one of its rating agencies could result in a reduction in the trading value of the Warrants;
- (c) the price of the Warrants may fall in value as rapidly as it may rise and Warrantheholders may sustain a total loss of their investment. The risk of losing all or any part of the purchase price of a Warrant upon the expiry of the Warrants means that, in order to recover and realise a return on investment, investors in Warrants must generally anticipate correctly the direction, timing and magnitude of any change in the value of the shares of the underlying company, units of the underlying trust or index as may be specified in the applicable Supplemental Listing Document. Changes in the price of the shares of the underlying company, units of the underlying trust or index can be unpredictable, sudden and large and such changes may result in the price of such shares, units or index moving in a direction which will negatively impact upon the return on an investment. In the case of Warrants relating to a unit, share or shares or share index, certain events relating to such units or the underlying trust or shares or the underlying company may

cause adverse movements in the value and price of the unit, underlying share or other security, as a result of which, the Warrantheolders may, in certain circumstances, sustain a total loss of their investment if, for Call Warrants, the price of the underlying share or unit falls below or is equal to the relevant exercise price on the relevant valuation date(s) and, for Put Warrants, the price of the underlying share or unit is equal to or higher than the relevant exercise price on the relevant valuation date(s);

- (d) due to their nature, the Warrants can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Warrants may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the price of the underlying share, unit or index, dividends and interest rate, the time remaining to expiry and the creditworthiness of the Issuer;
- (e) before exercising or selling the Warrants, the holders of Warrants should carefully consider, among other things, (i) the trading price of the Warrants; (ii) the value and volatility of the reference security (or basket of securities) or index or other basis of reference as specified in the relevant Supplemental Listing Document; (iii) the time remaining to expiration; (iv) in the case of cash settled Warrants, the probable range of Cash Settlement Amounts; (v) any change(s) in interim interest rates and dividend yields; (vi) any change(s) in currency exchange rates; (vii) the depth of the market or liquidity of the reference security (or basket of securities) or index or other basis of reference as specified in the relevant Supplemental Listing Document; (viii) any related transaction costs; and (ix) the creditworthiness of the Issuer;
- (f) fluctuations in the price of the underlying share, units or other security will affect the price of the Warrants but not necessarily in the same magnitude and direction, therefore, prospective investors intending to purchase Warrants to hedge their market risk associated with investing in the underlying share, unit or other security which may be specified in the relevant Supplemental Listing Document, should recognise the complexities of utilising the Warrants in this manner;
- (g) the settlement amount of Warrants at any time prior to the expiry of the Warrants may be less than the trading price of such Warrants at that time. The difference between the trading price and the settlement amount as the case may be, will reflect, among other things, a "time value" for the Warrants. The "time value" of the Warrants will depend partly upon the length of the period remaining to the expiry date of the Warrants and expectations concerning the value of the shares of the underlying company, units of the underlying trust or index;
- (h) investors should note that an investment in the Warrants involves valuation risks in relation to the underlying asset. The value of the underlying asset may vary over time and may increase or decrease by reference to various factors, which may include corporate actions (where the underlying asset is a share or a basket of shares), changes in computation or composition (where the underlying asset is an index), macro economic factors and market trends. Certain (but not all) events relating to the underlying shares or any indices underlying the Warrants require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions (including, but not limited to, adjusting the Exercise Price (if applicable) and the Conversion Ratio). However, the Issuer is not required to make an adjustment for every event that affects the underlying asset. If an event occurs that does not require the Issuer to adjust the Conversion Ratio or any other part of the Conditions, the market price of the Warrants and the return upon the exercise of the Warrants may be affected;
- (i) as indicated in the Conditions and as shall be indicated in the applicable Supplemental Listing Document, a Warrantheolder must tender a specified number of Warrants at any one time in order to exercise. Thus, Warrantheolders with fewer than the specified minimum number of Warrants in a particular series will either have to sell their Warrants or purchase additional Warrants, incurring transactions costs in each case, in order to realise their investment;

- (j) unless otherwise specified in the Conditions, in the case of any exercise of the Warrants, there may be a time lag between the date on which the Warrants are exercised and the time the applicable settlement amount relating to such an event is determined. Any such delay between the time of exercise and the determination of the settlement amount will be specified in the Conditions. However such delay could be significantly longer, particularly in the case of a delay in the exercise of the Warrants arising from, a determination by the Issuer that a Market Disruption Event has occurred at any relevant time or that adjustments are required in accordance with the 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 Warrants. Investors should note that, in the case of European Style Investment (Dividend) Call Warrants, in the event of there being a Settlement Disruption Event, physical delivery of the Physical Settlement Shares may be delayed, as more fully described in the Conditions;
- (k) the description "Average Return" refers to the calculation of the return on the Warrants only i.e. that the return of the Average Return Call Warrants is calculated by reference to the average of the Periodic Reference Prices over each of the Periodic Fixing Dates. If on the expiry date, the average of the Periodic Reference prices is less than the Exercise Price, the Warranholders will not receive any payment and will sustain a total loss of their investment;
- (l) if, whilst any of the European Style Cash Settled Call Warrants, European Style Cash Settled Basket Call Warrants, European Style Index Call Warrants, European Style Cash Settled Average Return Call Warrants, European Style Investment (Dividend) Call Warrants, European Style Trust Call Warrants, European Style Cash Settled Put Warrants and/or European Style Index Put Warrants, European Style Cash Settled Average Return Put Warrants, European Style Trust Put Warrants remain unexercised, trading in the underlying shares or units on the relevant stock exchange is suspended, trading of options or futures relating to the relevant Index on any options or futures exchanges is suspended, or options or futures generally on any options and/or futures exchanges on which options or futures relating to the relevant Index are traded is suspended, or if the relevant Index for whatever reason is not calculated, trading in the relevant Warrants may be suspended for a similar period;
- (m) in the case of European Style Cash Settled Call Warrants, European Style Cash Settled Basket Call Warrants, European Style Cash Settled Average Return Call Warrants, European Style Investment (Dividend) Call Warrants, European Style Trust Call Warrants, European Style Cash Settled Put Warrants, European Style Cash Settled Average Return Put Warrants and/or European Style Trust Put Warrants, certain events relating to the shares of the underlying company or units of the underlying trust require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions, and investors have limited anti-dilution protection under the Conditions. The Issuer may at its sole discretion adjust the entitlement upon exercise or valuation of the Warrants for events such as, amongst others, subdivision of the shares of the underlying company or units of the underlying trust and dividend *in specie*, however the Issuer is not required to make an adjustment for every event that may affect the shares of the underlying company or units of the underlying trust;
- (n) in the case of the European Style Investment (Dividend) Call Warrants, the purchase of the Warrants confers on the Warranholder (if they are a holder of the Warrants on the Dividend Record Date (as defined below)) the right to any ordinary dividend declared by the underlying company during the period commencing on the issue date of the Warrants up to and including the expiry date. This excludes any amount determined by the Issuer to be in the nature of an extraordinary dividend, special dividend or capital distribution. The Issuer will make such adjustments as it believes appropriate in these circumstances according to the Conditions of the Warrants. The purchase of Warrants does not confer on the Warranholder any right (whether in respect of voting or other distributions in respect of the Shares or otherwise) which the holder of a share may have;

- (o) in the case of European Style Index Call Warrants and European Style Index Put Warrants, certain events relating to indices permit the Issuer to make certain determinations in respect of the indices;
- (p) in the case of European Style Index Call Warrants and European Style Index Put Warrants, a level for the Index (as defined in the Conditions) may be published by the Index Sponsor (as defined in the Conditions) at a time when one or more shares comprised in the Index are not trading. If this occurs on a Valuation Date (as defined in the Conditions) and there is no Market Disruption Event under the terms of the relevant Warrants then the value of such shares will not be included in the closing 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 the Issuer to determine the level of the Index on the basis of the formula or method last in effect prior to such change of formula;
- (q) a European Style Cash Settled Call Warrant, a European Style Cash Settled Basket Call Warrant, a European Style Index Call Warrant, a European Style Cash Settled Average Return Call Warrant, a European Style Trust Call Warrant, a European Style Cash Settled Put Warrant, a European Style Index Put Warrant, a European Style Cash Settled Average Return Put Warrant or a European Style Trust Put Warrant is only exercisable on its respective expiry date and may not be exercised by Warrantholders prior to such expiry date. Accordingly, if on such expiry date the Cash Settlement Amount (where applicable) is zero or negative, a Warrantholder will lose the value of his investment;
- (r) investors should note that there may be an exchange rate risk in the case of the Warrants where the Cash Settlement Amount may be converted from a foreign currency into Singapore dollars. 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 Warrants. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies;
- (s) investors should note that it is not possible to predict the price at which the Warrants will trade in the secondary market or whether such market will be liquid or illiquid. A decrease in the liquidity of the Warrants, the underlying shares, futures, derivatives or other security related to the Warrants may cause, in turn, an increase in the volatility associated with the price of such issue of Warrants. The Issuer may, but is not obligated to, at any time, purchase Warrants at any price in the open market or by tender or private agreement. Any Warrants so purchased may be held or resold or surrendered for cancellation. As European Style warrants are only exercisable on the expiry date, an investor will not be able to exercise his warrants to realize value in the event that the relevant issue becomes illiquid;
- (t) in the case of European Style Investment (Dividend) Call Warrants, the European Style Investment (Dividend) Call Warrants are exercisable at the election of the Warrantholder. In the event an Election Notice is not given on or before the Election Notice Date or an Election Notice is not valid, the Warrantholder will be entitled to a Cash Settlement Amount (if positive) on the expiry date. Accordingly, if on the expiry date the Cash Settlement Amount (where applicable) is zero or negative, a Warrantholder will lose the value of his investment and will not be delivered the Physical Settlement Shares;
- (u) in the event of any delisting of the Warrants from the SGX-ST (other than at expiry), the Issuer will use all reasonable efforts to list the Warrants on another exchange. If the Warrants are not

listed or traded on any exchange, pricing information for the Warrants may be difficult to obtain and the liquidity of the Warrants may be adversely affected;

- (v) two or more risk factors may simultaneously have an effect on the value of a Warrant such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Warrant;
- (w) in the ordinary course of their business, including without limitation in connection with the Issuer or its appointed designated market-maker's market-making activities, the Issuer and any of its respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the underlying shares, baskets of shares, units and/or indices or related derivatives. In addition, in connection with the offering of any Warrants, the Issuer and any of its respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the underlying shares, baskets of shares, units and/or indices or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and any of its respective subsidiaries and its affiliates, the Issuer and any of its respective subsidiaries and affiliates may enter into transactions in the underlying shares, baskets of shares, units and/or indices or related derivatives which may affect the market price, liquidity or value of the Warrants and which may affect the interests of Warrantheholders;
- (x) if the Issuer determines in good faith that the performance of its obligations under the Conditions has become unlawful or impractical in whole or in part, the Issuer may at its sole and absolute discretion and without obligation, terminate early the Warrants, in which event the Issuer to the extent permitted by any relevant applicable law, will pay to each Warrantheholder an amount as determined by the Issuer, in its sole and absolute discretion, in accordance with the Conditions. If the Issuer terminates the Warrants prior to expiry date, the Issuer will, if and to the extent permitted by any relevant applicable law, pay each Warrantheholder an amount to be determined by the Issuer, in its sole and absolute discretion, to be the fair market value of the Warrants immediately prior to such termination or otherwise determined as specified in the Conditions, notwithstanding the illegality or impracticality;
- (y) the Issuer may enter into discount, commission or fee arrangements with brokers and/or any of its affiliates with respect to the primary or secondary market in the Warrants and such arrangement may present certain conflicts of interest for the brokers. The arrangements may or may not result in the benefit to investors in Warrants buying and selling Warrants through nominated brokers. Investors in the Warrants should note that any brokers with whom the Issuer has a commission arrangement does not, and cannot be expected to deal, exclusively in the Warrants, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the shares in the underlying company, units in the underlying trust and/or structured products of other issuers over the same shares in the same underlying company or units in the underlying trust as the Warrants for their proprietary accounts and/or 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 Warrants and present certain conflicts of interests;
- (z) changes in Singapore tax law and/or policy may adversely affect Warrantheholders. Warrantheholders who are in any doubt as to the effects of any such changes should consult their stockbrokers, bank managers, accountants, solicitors or other professional advisers;
- (aa) as the Warrants are represented by a global warrant certificate which will be deposited with The Central Depository (Pte) Limited ("CDP"):
 - (i) investors should note that no definitive certificate will be issued in relation to the Warrants;

- (ii) there will be no register of Warranholders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants by way of interest (to the extent of such number) in the global warrant certificate in respect of those Warrants represented thereby shall be treated as the holder of such number of Warrants;
 - (iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Warrants; and
 - (iv) notices to such Warranholders will be published on the web-site of the SGX-ST. Investors will need to check the web-site of the SGX-ST and/or rely on their brokers/custodians to obtain such notices;
- (bb) the value of the Warrants depends upon, amongst other things, the ability of Issuer to fulfil its obligations under the terms which, in turn is primarily dependent on the financial prospects of the Issuer;
- (cc) Foreign Account Tax Compliance withholding may affect payments on the Warrants.

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 Warrants are in dematerialised 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 Warrants 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;

- (dd) 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.

Macquarie Group Limited (ABN 94 122 169 279) ("**MGL**") and its controlled entities ("**Macquarie Group**") 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.

The Issuer 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 the Issuer'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.

- (ee) 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.

- (ff) 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 Issuer and/or its controlled entities (“**MBL 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 Korea³ and representative offices in the United States 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 the Issuer’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 the Issuer. 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 the Issuer’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 particular market could

³ Note that Macquarie Group will close its South Korean banking branch on or around 25 July 2019.

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 the Issuer as an ADI. Any such event could result in changes to the organisational structure of Macquarie Group and adversely affect 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.

- (gg) 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.

- (hh) 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.

- (ii) 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.

- (jj) 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 the MBL 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.

- (kk) 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.

- (ll) 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.

- (mm) 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.

- (nn) 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.

- (oo) 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.

- (pp) 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.

- (qq) 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.

- (rr) 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.

- (ss) 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.

- (tt) 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.

- (uu) 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.

- (vv) 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.

- (ww) 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.

- (xx) 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.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED CALL WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to:

(A) (i) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below) LESS (ii) the Exercise Price for the time being MULTIPLIED by (B) the Conversion Ratio,

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if

that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“**Valuation Date**” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheolder only (or, in the case of joint Warrantheolders, the first-named Warrantheolder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheolder and posted to the Warrantheolder's address appearing in the records maintained by CDP (or, in the case of joint Warrantheolders, to the address of the first-named Warrantheolder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warranholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warranholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warranholders.

6. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.
- (b) *Definitions.* “**Potential Adjustment Event**” means any of the following:
 - (i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
 - (ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;
 - (iii) an extraordinary dividend;
 - (iv) a call by the Company in respect of the Shares that are not fully paid;

- (v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warranholders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warranholder in respect of each Warrant held by such Warranholder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warranholders in accordance with Condition 9; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warranholders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warranholders should be aware that due to the nature of such events, the Issuer will not make an immediate

determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction).
- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders. Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warranholder.
- (b) *Notices.* All notices to Warranholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of

the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantheolders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer (“**De-Listing**”), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantheolders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantheolder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantheolders, make such adjustments to the entitlements of Warrantheolders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantheolder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED BASKET CALL WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

References in these Conditions to “**Company**” shall be a reference to a company comprising one of the Companies and references to “**Shares**” shall be a reference to the shares of the Companies or, as the context requires, to the shares of a particular Company.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding

any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to: (1) (i) the aggregate for all the Shares constituting the basket as specified by the Issuer for the time being of the amount derived by multiplying (A) the number or fraction of the relevant Shares constituting the basket by (B) the arithmetic mean of the respective closing prices of such Shares (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below), LESS (ii) the Exercise Price for the time being MULTIPLIED by (2) the Conversion Ratio.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if

that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“**Valuation Date**” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheolder only (or, in the case of joint Warrantheolders, the first-named Warrantheolder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheolder and posted to the Warrantheolder's address appearing in the records maintained by CDP (or, in the case of joint Warrantheolders, to the address of the first-named Warrantheolder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warranholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warranholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warranholders.

6. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the relevant Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the relevant Shares are traded.
- (b) *Definitions.* “**Potential Adjustment Event**” means any of the following:
 - (i) a subdivision, consolidation or reclassification of the relevant Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
 - (ii) a distribution or dividend to existing holders of the relevant Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;
 - (iii) an extraordinary dividend;
 - (iv) a call by the Company in respect of the relevant Shares that are not fully paid;

- (v) a repurchase by the Company of the relevant Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the relevant Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the relevant Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warrantheolders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantheolder in respect of each Warrant held by such Warrantheolder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warrantheolders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warrantheolders should

be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction).
- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there

is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders.

Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used

if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.

- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Liquidation

In the event of a liquidation or dissolution of any of the Companies or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of any of the Companies, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer ("**De-Listing**"), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where any of the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.

- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantheolder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE INDEX CALL WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantheader, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 4.
- (b) *Exercise Expenses.* Warrantheaders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheaders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheaders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date (as defined below) falls after the Expiry Date, the Expiry Date shall be the Business Day (as defined below) following the Valuation Date).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheaders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Closing Level of the Index is greater than the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Closing Level of the Index is less than or equal to the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) and Warrantheaders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheader the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheader only (or, in the case of joint Warrantheaders, the first-named Warrantheader) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheader and posted to the Warrantheader's address appearing in the records maintained by CDP (or, in the case of joint Warrantheaders, to the address of the first-named Warrantheader appearing in the records

maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Index Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Index Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (i) that fifth Index Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) 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 fifth Index Business Day but for the Market Disruption Event.

For the avoidance of doubt, if the Closing Level references the final settlement price for settling a futures contract and the final settlement price is not available on the scheduled Valuation Date, the Issuer may postpone the Valuation Date further until the publication of the relevant final settlement price.

“Market Disruption Event” means the occurrence or existence, on a Valuation Date, of any of:

- (A) the suspension or limitation of the trading of a material number of securities/commodities from time to time comprising the Index; or
- (B) the suspension or limitation of the trading of securities/commodities (1) on the SGX-ST or the relevant stock exchange on which the Shares related to the Warrants are traded (**“Relevant Stock Exchange”**) (as specified in the relevant Supplemental Listing Document) or (2) generally; or
- (C) the suspension or limitation of the trading of (1) options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index, on any options or futures exchanges or (2) options or futures generally on any options and/or futures exchanges on which options or futures relating to the Index are traded; or
- (D) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (aa) the limitation on 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 exchange, and (bb) a limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the relevant exchange will constitute a Market Disruption Event.

“Valuation Date” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, the date or dates specified in the relevant Supplemental Listing Document.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the

exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.

- (e) *Business Day*. In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore and an “**Index Business Day**” shall be a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor and where the Index closes at the normal trading hours.

5. Warrant Agent

- (a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantheolders in accordance with Condition 9.
- (b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantheolders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantheolders.

6. Adjustments to the Index

- (a) *Successor Sponsor Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the “**Successor Index Sponsor**”) acceptable to the Issuer or (ii) 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 Sponsor or that successor index, as the case may be.
- (b) *Modification and Cessation of Calculation of Index*. If:
- (i) on or prior to a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor 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 stocks, contracts or commodities and other routine events); or
- (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index,

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 (A) 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); or (B) by reference to the price of the options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index.

- (c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warranholders. The Issuer will give, or procure that there is given, notice as soon as practicable of determination in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders.

Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used

if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.

- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

12. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

13. Prescription

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

14. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

**TERMS AND CONDITIONS OF
THE EUROPEAN STYLE CASH SETTLED AVERAGE RETURN CALL WARRANTS**

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to the Conversion Ratio multiplied by:

$$\frac{\text{Sum of the Periodic Reference Prices}}{\text{Total number of Periodic Fixing Dates}} - \text{Exercise Price}$$

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Periodic Reference Price**” means, in respect of each Periodic Fixing Date, the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date prior to the relevant Periodic Fixing Date.

The Issuer will announce each Periodic Reference Price (on the web-site of the SGX-ST) after trading on the relevant Periodic Fixing Date (save for the Expiry Date). The Periodic Reference Price in respect of the Expiry Date will be specified in the Expiry Notice.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the Periodic Reference Price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after a Periodic Fixing Date, then (1) the Business Day immediately preceding the relevant Periodic Fixing Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (2) the Issuer shall determine the Periodic Reference Price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“Market Disruption Event” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“Valuation Date” means, with respect to the calculation of Periodic Reference Prices, Cash Settlement Amount and the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding a Periodic Fixing Date.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the **“Exercise Expenses”**). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later

than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a "**Business Day**" shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantholders.

6. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.
- (b) *Definitions.* "**Potential Adjustment Event**" means any of the following:
 - (i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
 - (ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities

of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;

- (iii) an extraordinary dividend;
 - (iv) a call by the Company in respect of the Shares that are not fully paid;
 - (v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warrantholders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantholder in respect of each Warrant held by such Warrantholder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be,

that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warrantholders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warrantholders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer’s sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such

adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction).

- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warranholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders. Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warrantholder or to which a Warrantholder is entitled or which the Issuer shall have agreed to deliver to a Warrantholder may be delivered by hand or sent by post addressed to the Warrantholder at his address appearing in the records maintained by CDP or, in the case of joint Warrantholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.
- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer ("**De-Listing**"), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these

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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantheolders, make such adjustments to the entitlements of Warrantheolders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.

- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantheolder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE INVESTMENT (DIVIDEND) CALL WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 12) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions) and, in particular, the Warrants will not be secured by Shares (as defined below). Warrantholders will receive the Settlement Amount (as defined below) in accordance with these Conditions.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Definitions.* Unless otherwise defined, the defined terms shall have the following meanings:

“**Board Lot**” means the minimum board lot size specified by the Issuer in which the Warrants are traded.

“**Business Day**” means a day (excluding Saturdays, Sundays and public holidays) on which banks are open for business in Singapore.

“**Cash Settlement Amount**” in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to the FX Rate (if required), multiplied by:

(A) (i) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the Relevant Stock Exchange, subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for the Valuation Dates (the “**Final Reference Level**”) LESS (ii) the Exercise Price for the time being MULTIPLIED by (B) the Conversion Ratio.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Cash Settlement Date**” means the date falling no later than five Business Days after the Expiry Date.

“**Company**” means the issuer of the Shares.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Dividend**” means any ordinary dividend declared by the Company during the period commencing on the issue date of the Warrants up to and including the Expiry Date (net of any taxes and charges incurred by the Issuer on such dividend and payable to any applicable authority having power to tax in respect of such a dividend) and which

excludes, for the avoidance of doubt, any amount determined by the Issuer to be in the nature of an extraordinary dividend, special dividend or capital distribution.

“Dividend Amount” means, in respect of each Warrant held by Warrantholders as at the Dividend Record Date (as defined below), an amount payable in the Settlement Currency equal to the Dividend multiplied by the Conversion Ratio for the time being.

“Election Notice” means a duly completed election notice, the form of which is obtainable from the Warrant Agent, pursuant to which the Warrantholder elects to exercise the Warrants and receive the Physical Settlement Shares in lieu of the Cash Settlement Amount.

“Election Notice Date” means the date falling nine Exchange Business Days immediately preceding the Expiry Date.

“Exchange Business Day” means a day (excluding Saturdays, Sundays and public holidays) on which the Relevant Stock Exchange is open for dealings during its normal trading hours.

“Exercise Price” means the amount as may be specified by the Issuer.

“FX Rate” means the rate of exchange for the conversion of the Reference Currency to the Settlement Currency as may be specified by the Issuer.

“Market Disruption Event” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“Minimum Exercise Amount” means the minimum number of Warrants required as may be specified by the Issuer.

“Physical Settlement Amount” in respect of each Election Notice means the amount calculated as follows:

Number of Warrants to be exercised x Exercise Price x Conversion Ratio

plus the aggregate of the Exercise Expenses as may be determined by the Warrant Agent at that time or, if later, as soon as the same shall have been determined by the Warrant Agent.

“Physical Settlement Shares” means, in respect of each valid Election Notice delivered by a holder, the number of Shares equal to number of Warrants exercised in the Election Notice multiplied by the Conversion Ratio, provided that such number will be rounded down to the nearest Board Lot for the trading of the Shares on the Relevant Stock Exchange on the basis of the Physical Settlement Shares to be delivered for every Board Lot of Warrants. The remaining number of Shares and any fraction thereof will be cash settled in the Settlement Currency based on the Final Reference Level and (if required)

converted at the relevant prevailing exchange rate. Such cash amount (the “**Excess Share Cash Amount**”) shall, for the purposes of Condition 4, be treated as the or, as the case may be, an additional Cash Settlement Amount.

“**Physical Settlement Date**” means the date falling no later than five Exchange Business Days after the later of the Expiry Date and the day on which the Warrantholder has satisfied any obligations under the terms and conditions of the Warrants to enable the Issuer to deliver, or procure the delivery of the Physical Settlement Shares to the Warrantholder.

“**Settlement Amount**” means, in respect of each Exercise Amount of Warrants, the Cash Settlement Amount or the Physical Settlement Shares, as applicable.

“**Share**” means the relevant share or securities as specified by the Issuer.

“**Valuation Date**” means, with respect to the exercise of the Warrants, and subject to the occurrence of a Market Disruption Event, each of the five Exchange Business Days immediately preceding the Expiry Date.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Exchange Business Day on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Exchange Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Exchange Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Exchange Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) the Exchange 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

- (b) *Settlement Amount.* Warrantholders are entitled to receive the Physical Settlement Shares in lieu of the Cash Settlement Amount by delivering an Election Notice on or before the Election Notice Date. Accordingly, every Exercise Amount of Warrants entitles each Warrantholder to:
 - (i) if an Election Notice is delivered in accordance with Condition 4(c) on or before the Election Notice Date, the Physical Settlement Shares; or
 - (ii) if no Election Notice is delivered on or before the Election Notice Date, the Cash Settlement Amount (if positive).
- (c) *Exercise Expenses.* Warrantholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the Warrants exercised in accordance with Condition 4(c) and/or 4(i) (the “**Exercise Expenses**”).

- (i) In respect of Warrants which are subject to an Election Notice, Warrantheolders will be required to pay all charges which they incur on or in respect of or in connection with the purchase and transfer of Shares, including without limitation, any applicable depository charges, transaction or exercise charges imposed by CDP, stamp duty, clearing fees, agent's expenses, scrip fees, levies, registration charges and other expenses payable on or in respect of or in connection with such purchase and transfer of Shares.

In addition, Warrantheolders will be required to pay a sum equal to all the expenses payable by the seller and transferor of the relevant Shares, including without limitation, any applicable depository charges, transaction or exercise charges imposed by CDP, stamp duty, clearing fees, agent's expenses, scrip fees, levies, registration charges and other expenses payable on or in respect of or in connection with the purchase and transfer of Shares to which the relevant Warrants and/or the exercise of the Warrants relate.

An amount equivalent to the Exercise Expenses must be paid by the Warrantheolders together with the Exercise Price in accordance with Condition 4. In certain circumstances, part of the Exercise Expenses may be required to be paid by Warrantheolders after the exercise of the Warrants but prior to the credit of the Warrantheolders' securities accounts with CDP with the relevant number of Shares.

- (ii) In respect of Warrants exercised in accordance with Condition 4(i), an amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4(j). Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.
- (d) *No Rights.* Except as otherwise provided herein, the purchase of Warrants does not confer on the Warrantheolder any right (whether) in respect of voting or other distributions in respect of the Shares or otherwise) which the holder of a Share may have.

3. Expiry Date

Unless exercised in accordance with Condition 4(i) or an Election Notice has been delivered in accordance with Condition 4(c), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not an Exchange Business Day, the immediately preceding Exchange Business Day).

4. Exercise of Warrants

- (a) *Exercise.* In the event an Election Notice is not given in accordance with Condition 4(c), the Warrants shall be deemed to be automatically exercised under Condition 4(i) if the Cash Settlement Amount is positive.
- (b) *Exercise Amounts.* The Warrants may only be exercised in Board Lots or integral multiples thereof.
- (c) *Delivery of Election Notice.* In order to receive the Physical Settlement Shares in lieu of the Cash Settlement Amount, the Warrantheolder must deliver to the specified office of the Warrant Agent in Singapore, on or before 12:00 noon (Singapore time) on the Election Notice Date, an Election Notice in respect of a number of Warrants not less than the

Minimum Exercise Amount and a banker's draft or other forms of payment, in each case in immediately available funds, in favour of the Issuer for the Physical Settlement Amount. No Election Notice shall be accepted after 12:00 noon (Singapore time) on the Election Notice Date and the Warrants in respect of which no Election Notice is delivered shall entitle the Warrantheader to the Cash Settlement Amount (if positive).

- (d) *Election Notice.* The Election Notice shall:
- (i) declare and confirm that the Warrantheader elects to exercise the Warrants and receive the Physical Settlement Shares in lieu of the Cash Settlement Amount;
 - (ii) specify the name(s) and contact details of the Warrantheader(s) and the number of Warrants being exercised;
 - (iii) be accompanied by payments by way of banker's draft or other forms of payment, in each case in immediately available funds, in favour of the Issuer for the Physical Settlement Amount;
 - (iv) declare and confirm that the Warrantheader has not less than the number of Warrants being exercised in the "Free" balance of such Warrantheader's securities account with CDP;
 - (v) specify the number of the Warrantheader's securities account with CDP to be earmarked and debited with each Warrant being exercised and irrevocably authorise the Warrant Agent to earmark upon receipt of the Election Notice, and CDP to debit upon receipt of notification of such earmarking, from such securities account the Warrants being exercised;
 - (vi) specify the number of the Warrantheader's securities account with CDP to be credited with the Shares and irrevocably instruct CDP to credit (if applicable) the "Free" balance of such securities account with the Shares;
 - (vii) declare that the information and instructions set out above are correct and authorise the Issuer, the Warrant Agent and CDP to act on the said information and instructions; and
 - (viii) be delivered in accordance with Condition 4(c) above.

Any Exercise Expenses which have not been determined by the Warrant Agent on the Election Notice Date shall be notified to the Warrantheader as soon as practicable after determination thereof by the Warrant Agent and shall be paid by the Warrantheader forthwith.

- (e) *Consequences of delivery of an Election Notice.* Delivery of an Election Notice in accordance with Condition 4(c) shall constitute (i) an irrevocable election and undertaking by the Warrantheader specified in such Election Notice to exercise the number of Warrants specified in such Election Notice and to receive the Physical Settlement Shares in lieu of the Cash Settlement Amount in respect of such Warrants and (ii) an irrevocable authority to the Warrant Agent to earmark, and to CDP to debit, the number of Warrants exercised in the "Free" balance of the relevant Warrantheader's securities account with CDP specified in the Election Notice.

If the Exercise Expenses or the full Physical Settlement Amount in respect of any Warrants being exercised are not received in accordance with Conditions 2(c) and 4(c) for any reason, any such payment may, with the consent of the Issuer (which consent

may be granted or withheld at the Issuer's absolute discretion), be effected as soon as possible after delivery of the Election Notice or, as the case may be, prior to transfer of the relevant Shares being effected by CDP, but without prejudice to the rights of the Issuer or of any other person in respect of the actions or omissions of the Warrantheader in question. In no event will any payment be accepted after 12:00 noon (Singapore time) on the Election Notice Date.

- (f) *Earmarking of Warrants.* Upon receipt of an Election Notice, the Warrant Agent shall verify that the person exercising the Warrants specified therein is the holder thereof according to the records maintained by CDP and will earmark that number of Warrants exercised in the "Free" balance of the relevant Warrantheader's securities account with CDP specified in the Election Notice.
- (g) *Delivery of Shares.* Subject to delivery of an Election Notice in accordance with Condition 4(c) and on compliance with 4(d), and subject as provided below in the case of a Settlement Disruption Event the Issuer will no later than the Physical Settlement Date deliver, or procure the delivery of, the Physical Settlement Shares to the Warrantheader. The delivery of the Shares comprising the Physical Settlement Shares shall be evidenced by a transfer in the records of CDP of such Shares to the Warrantheader's securities account with CDP as specified in the relevant Election Notice. Notwithstanding the foregoing, such delivery shall not take place until the Warrantheader shall have accounted to the Warrant Agent for unpaid Exercise Expenses to the extent that they were not or could not be paid on the Election Notice Date.

If a Settlement Disruption Event exists on any Exchange Business Day from and including the Expiry Date to and including the Physical Settlement Date, then the Physical Settlement Date shall be postponed by the number of Exchange Business Days upon which there has been a Settlement Disruption Event unless a Settlement Disruption Event prevents settlement on each of the five Exchange Business Days immediately following the original date that, but for the Settlement Disruption Event, would have been a Physical Settlement Date. In that case: (i) if the Shares can be delivered in any other commercially reasonable manner on the fifth Exchange Business Day immediately following the original Physical Settlement Date then they shall so be delivered; and (ii) if the Shares cannot be delivered in any other commercially reasonable manner, the Physical Settlement Date shall be postponed until settlement can reasonably be effected under this Condition or in any other commercially reasonable manner.

"Settlement Disruption Event" means an event beyond the control of the Issuer as a result of which (A) it is unable to deliver Shares pursuant to an exercise of Warrants as a result of the suspension of, or a material limitation on, trading in the Shares or a general suspension of, or a material limitation on, trading on the Relevant Stock Exchange or (B) otherwise a transfer of Shares on exercise of Warrants cannot be effected through the settlement system of CDP.

If, as a result of a Settlement Disruption Event, it is not possible for the Issuer to deliver or procure the delivery of the Shares to the exercising Warrantheader, all as set out above, on or before the original Physical Settlement Date, the Issuer shall procure that the exercising Warrantheader is notified (in accordance with Condition 10(a)) of the postponement of the Physical Settlement Date.

- (h) *Validity of Election Notice.* Any determination as to whether an Election Notice is duly completed and in proper form shall be made by the Warrant Agent and shall be conclusive and binding on the relevant Warrantheader. Any Election Notice so determined to be incomplete or not in proper form or which is not accompanied by the full amount of the payment referred to in Condition 4(d)(iii) above shall be null and void. If

such Election Notice is subsequently corrected to the satisfaction of the Warrant Agent it shall be deemed to be a new Election Notice submitted at the time such correction was delivered to the Warrant Agent. The Warrant Agent shall, as soon as practicable, use all reasonable efforts to notify the Warrantholder submitting an Election Notice if it has determined that such Election Notice is incomplete or not in proper form. In the absence of negligence or wilful misconduct on its part, the Warrant Agent shall not be liable to any person with respect to any action taken or omitted to be taken by it in connection with such notification to a Warrantholder on such determination.

- (i) *Automatic Exercise.* In the event no valid Election Notice is delivered in accordance with Condition 4(c), the exercise of the Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not an Exchange Business Day, the immediately preceding Exchange Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(j) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not an Exchange Business Day, the immediately preceding Exchange Business Day) and Warrantholders shall not be entitled to receive any payment or any Shares from the Issuer in respect of the Warrants.
- (j) *Cash Settlement Amount.* In respect of Warrants which are not the subject of an Election Notice and which are automatically exercised in accordance with Condition 4(i), the Issuer will pay to the relevant Warrantholder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than the Cash Settlement Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(j) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.
- (k) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (l) *Relationship of agency or trust.* These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent or nominee and any exercising Warrantholder in its capacity as beneficial owner of Shares, or any other such beneficial owner of Shares, and neither the Issuer nor its agent or nominee shall owe any duty of a fiduciary nature to either such Warrantholder or such beneficial owner in respect of such Shares.

5. Dividends

- (a) *Payment of the Dividend Amount.* The Issuer will pay the Warrantheolders the Dividend Amount five Business Days after the payment date of the relevant Dividend. In order to be entitled to the Dividend Amount, the Warrantheolder must be a holder of a Warrant on the Dividend Record Date.
- (b) *Dividend Record Date.* The “**Dividend Record Date**” means, in relation to any Dividend, the date as at the close of business on which a holder of Shares must be registered to participate therein.

6. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantheolders in accordance with Condition 10.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantheolders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantheolders.

7. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.
- (b) *Definitions.* “**Potential Adjustment Event**” means any of the following:
 - (i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
 - (ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;
 - (iii) an extraordinary dividend or special dividend;

- (iv) a call by the Company in respect of the Shares that are not fully paid;
 - (v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warrantheolders in accordance with Condition 10. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantheolder in respect of each Warrant held by such Warrantheolder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 10; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warrantheolders in accordance with Condition 10 stating the occurrence of the Merger

Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warrantheolders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 7 and Condition 13, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction).

- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.
- (g) *Excess Shares.* If, an exercise of a number of Warrants specified in an Election Notice would (if not for the provisions of this Condition 7(g)) result in the relevant Warrantheholder becoming entitled to delivery of a number of Shares which is not equal to a Board Lot of the Shares at such time or an integral multiple thereof, then:
- (i) the Issuer shall not deliver to the relevant Warrantheholder, and the Warrantheholder shall cease to be entitled to receive in respect of the relevant exercise of Warrants, that number of Shares (the “**Excess Shares**”) which exceeds the amount of such Board Lot or integral multiple thereof; and
 - (ii) the relevant Warrantheholder shall be entitled to receive a cash amount from the Issuer (to be paid at the same time as the delivery of Shares to which that Warrantheholder has become entitled, in accordance with these Conditions, is made) equal to the closing price on the Exchange Business Day immediately preceding the Election Notice Date (as derived from the daily publications of the Relevant Stock Exchange or, if no such quotation is available, the most recently available closing price (subject, in any case, to adjustments determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like)) of one Share multiplied by the number of the Excess Shares.

8. Purchases

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

9. Meetings of Warrantheholders; Modification

- (a) *Meetings of Warrantheholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantheholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warrantheholders. Such a meeting may be convened by the Issuer or by Warrantheholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantheholders whatever the number of Warrants 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 Warrantheholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 10.

10. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warranholder.
- (b) *Notices.* All notices to Warranholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warranholders, to create and issue further warrants so as to form a single series with the Warrants.

13. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer (“**De-Listing**”), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warranholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warranholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 13(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warranholders, make such adjustments to the entitlements of Warranholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warranholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warranholders in accordance with Condition 10 as soon as practicable after they are determined.

14. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warranholders in accordance with Condition 10.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warranholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warranholders in accordance with Condition 10.

15. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warranholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

16. Prescription

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

17. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE TRUST CALL WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to:

(A) (i) the arithmetic mean of the closing prices of one Unit (as derived from the daily publications of the relevant stock exchange on which the Units related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below) LESS (ii) the Exercise Price for the time being MULTIPLIED by (B) the Conversion Ratio,

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Units to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Units requested by the Trust if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Units if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that

disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“**Valuation Date**” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheolder only (or, in the case of joint Warrantheolders, the first-named Warrantheolder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheolder and posted to the Warrantheolder's address appearing in the records maintained by CDP (or, in the case of joint Warrantheolders, to the address of the first-named Warrantheolder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warranholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warranholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warranholders.

6. Adjustments

- (a) *Adjustments.* The Issuer reserves the right (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to this paragraph) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction).
- (b) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warranholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders. Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warranholder.
- (b) *Notices.* All notices to Warranholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Dissolution

In the event of dissolution of the Trust all unexercised Warrants will lapse and shall cease to be valid for any purpose on and from the effective date of such dissolution subject to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Units cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer (“**De-Listing**”), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Units are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer’s Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED PUT WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to:

(A) (i) the Exercise Price for the time being LESS (ii) the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below) MULTIPLIED by (B) the Conversion Ratio,

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if

that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“**Valuation Date**” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheolder only (or, in the case of joint Warrantheolders, the first-named Warrantheolder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheolder and posted to the Warrantheolder's address appearing in the records maintained by CDP (or, in the case of joint Warrantheolders, to the address of the first-named Warrantheolder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warranholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warranholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warranholders.

6. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.
- (b) *Definitions.* “**Potential Adjustment Event**” means any of the following:
 - (i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
 - (ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;
 - (iii) an extraordinary dividend;
 - (iv) a call by the Company in respect of the Shares that are not fully paid;

- (v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warrantheolders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantheolder in respect of each Warrant held by such Warrantheolder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warrantheolders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warrantheolders should be aware that due to the nature of such events, the Issuer will not make an immediate

determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction).
- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders.

Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warranholder.

- (b) *Notices.* All notices to Warrantheolders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantheolders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer ("**De-Listing**"), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantheolders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantheolder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantheolders, make such adjustments to the entitlements of Warrantheolders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or

amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantheolder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE INDEX PUT WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warranholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 4.
- (b) *Exercise Expenses.* Warranholders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warranholders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warranholders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date (as defined below) falls after the Expiry Date, the Expiry Date shall be the Business Day (as defined below) following the Valuation Date).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warranholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Strike Level is greater than the Closing Level of the Index and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Strike Level is less than or equal to the Closing Level of the Index and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Valuation Date falls after the Expiry Date, the Expiry Date shall be the Business Day following the Valuation Date) and Warranholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are exercised automatically in accordance with Condition 4(b), the Issuer will pay to the relevant Warranholder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warranholder only (or, in the case of joint Warranholders, the first-named Warranholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warranholder and posted to the Warranholder's address appearing in the records maintained by CDP (or, in the case of joint Warranholders, to the address of the first-named Warranholder appearing in the records maintained by

CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Index Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Index Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (i) that fifth Index Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) 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 fifth Index Business Day but for the Market Disruption Event.

For the avoidance of doubt, if the Closing Level references the final settlement price for settling a futures contract and the final settlement price is not available on the scheduled Valuation Date, the Issuer may postpone the Valuation Date further until the publication of the relevant final settlement price.

“Market Disruption Event” means the occurrence or existence, on a Valuation Date, of any of:

- (A) the suspension or limitation of the trading of a material number of securities/commodities from time to time comprising the Index; or
- (B) the suspension or limitation of the trading of securities/commodities (1) on the SGX-ST or the relevant stock exchange on which the Shares related to the Warrants are traded (**“Relevant Stock Exchange”**) (as specified in the relevant Supplemental Listing Document) or (2) generally; or
- (C) the suspension or limitation of the trading of (1) options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index on any options or futures exchanges or (2) options or futures generally on any options and/or futures exchanges on which options or futures relating to the Index are traded; or
- (D) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (aa) the limitation on 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 exchange, and (bb) a limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the relevant exchange will constitute a Market Disruption Event.

“Valuation Date” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, the date or dates specified in the relevant Supplemental Listing Document.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the

exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.

- (e) *Business Day*. In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore and an “**Index Business Day**” shall be a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor and where the Index closes at the normal trading hours.

5. Warrant Agent

- (a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantheolders in accordance with Condition 9.
- (b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantheolders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantheolders.

6. Adjustments to the Index

- (a) *Successor Sponsor Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the “**Successor Index Sponsor**”) acceptable to the Issuer or (ii) 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 Sponsor or that successor index, as the case may be.
- (b) *Modification and Cessation of Calculation of Index*. If:
- (i) on or prior to a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor 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 stocks, contracts or commodities and other routine events); or
- (ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index,

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 (A) 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); or (B) by reference to the price of the options or futures relating to (i) the Index or (ii) any exchange-traded fund over the Index.

- (c) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warranholders. The Issuer will give, or procure that there is given, notice as soon as practicable of determination in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders.

Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used

if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.

- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantholders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantholder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9.

12. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

13. Prescription

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

14. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED AVERAGE RETURN PUT WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to the Conversion Ratio multiplied by:

$$\text{Exercise Price} - \frac{\text{Sum of the Periodic Reference Prices}}{\text{Total number of Periodic Fixing Dates}}$$

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

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

“**Conversion Ratio**” means the ratio (expressed as the number of Shares to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Periodic Reference Price**” means, in respect of each Periodic Fixing Date, the arithmetic mean of the closing prices of one Share (as derived from the daily publications of the relevant stock exchange on which the Shares related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date prior to the relevant Periodic Fixing Date.

The Issuer will announce each Periodic Reference Price (on the web-site of the SGX-ST) after trading on the relevant Periodic Fixing Date (save for the Expiry Date). The Periodic Reference Price in respect of the Expiry Date will be specified in the Expiry Notice.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the Periodic Reference Price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after a Periodic Fixing Date, then (1) the Business Day immediately preceding the relevant Periodic Fixing Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event and (2) the Issuer shall determine the Periodic Reference Price on the basis of its good faith estimate of the

bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“Market Disruption Event” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Shares requested by the Company if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Shares if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“Valuation Date” means, with respect to the calculation of Periodic Reference Prices, Cash Settlement Amount and the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding a Periodic Fixing Date.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the **“Exercise Expenses”**). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantholder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.
- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a "**Business Day**" shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantholders.

6. Adjustments

- (a) *Potential Adjustment Event.* Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Shares are traded.
- (b) *Definitions.* "**Potential Adjustment Event**" means any of the following:
 - (i) a subdivision, consolidation or reclassification of the Shares (excluding a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;

- (ii) a distribution or dividend to existing holders of the Shares of (1) such Shares, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares, or (3) share capital or other securities of another issuer acquired by the Company as a result of a “spin-off” or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;
 - (iii) an extraordinary dividend;
 - (iv) a call by the Company in respect of the Shares that are not fully paid;
 - (v) a repurchase by the Company of the Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
 - (vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or
 - (vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Shares.
- (c) *Merger Event, Tender Offer, Nationalisation and Insolvency.* If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Shares, the Issuer may take any action described below:
- (i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Shares traded on that options exchange;
 - (ii) cancel the Warrants by giving notice to the Warrantholders in accordance with Condition 9. If the Warrants are so cancelled, the Issuer will pay an amount to each Warrantholder in respect of each Warrant held by such Warrantholder which amount shall be the fair market value of a Warrant taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 9; or
 - (iii) following any adjustment to the settlement terms of options on the Shares on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Shares are not traded on the Option Reference Source,

the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Warranholders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Warranholders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

- (d) *Definitions.* “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Shares of that Company are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Company become legally prohibited from transferring them. “**Merger Date**” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. “**Merger Event**” means, in respect of the Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Shares outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the Valuation Date or, if there is more than one Valuation Date, the Last Valuation Date. “**Nationalisation**” means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.
- (e) *Other Adjustments.* Except as provided in this Condition 6 and Condition 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer’s sole and unfettered discretion and

without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction).

- (f) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warrantheolders; Modification

- (a) *Meetings of Warrantheolders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantheolders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warrantheolders. Such a meeting may be convened by the Issuer or by Warrantheolders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantheolders whatever the number of Warrants 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 Warrantheolders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantheolders shall be binding on all the Warrantheolders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warrantheolders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantheolders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warrantheolders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warrantholder or to which a Warrantholder is entitled or which the Issuer shall have agreed to deliver to a Warrantholder may be delivered by hand or sent by post addressed to the Warrantholder at his address appearing in the records maintained by CDP or, in the case of joint Warrantholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.
- (b) *Notices.* All notices to Warrantholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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, 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 (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other 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. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Shares cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer ("**De-Listing**"), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantholders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Shares are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantheolders, make such adjustments to the entitlements of Warrantheolders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer's Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantheolder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided

herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

The relevant Conditions will be supplemented by the supplemental provisions contained in the relevant Supplemental Listing Document. The applicable Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions, replace or modify the relevant Conditions for the purpose of such series of Warrants. Capitalised terms used in the Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE TRUST PUT WARRANTS

1. Form, Status, Transfer and Title

- (a) *Form.* The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) are issued subject to and with the benefit of:
- (i) an instrument by way of deed poll (the “**Instrument**”) dated the Closing Date, made by Macquarie Bank Limited (the “**Issuer**”); and
 - (ii) a master warrant agent agreement (the “**Warrant Agent Agreement**”) dated 26 November 2004 and such other Warrant Agent Agreement as may be in force from time to time, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Warrant Agent Agreement.

- (b) *Status.* The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise.
- (c) *Transfer.* The Warrants are represented by a global warrant certificate (“**Global Warrant**”) which will be deposited with The Central Depository (Pte) Limited (“**CDP**”). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.
- (d) *Title.* Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The “**Cash Settlement Amount**”, in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to:

(A) (i) the Exercise Price for the time being LESS (ii) the arithmetic mean of the closing prices of one Unit (as derived from the daily publications of the relevant stock exchange on which the Units related to the Warrants are traded (“**Relevant Stock Exchange**”) (as specified in the relevant Supplemental Listing Document), subject to any adjustments to such closing prices determined by the Issuer to be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below) MULTIPLIED by (B) the Conversion Ratio,

and multiplied by the applicable exchange rate if the Reference Currency is different from the Settlement Currency.

If the Issuer determines, in its sole discretion, that on any Valuation Date a Market Disruption Event (as defined below) has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day (as defined below) on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the two Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:

- (A) that second Business Day shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (B) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on that second Business Day but for the Market Disruption Event.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then (1) 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 (2) the Issuer shall determine the closing price on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

“**Conversion Ratio**” means the ratio (expressed as the number of Units to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

“**Market Disruption Event**” means the occurrence or existence on any Valuation Date of (i) any suspension of trading on the Relevant Stock Exchange of the Units requested by the Trust if that suspension, is in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Units if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that

disruption, is in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion, terrorism or otherwise.

“**Valuation Date**” means, with respect to the exercise of Warrants, and subject as provided above in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date relating to such exercise.

- (b) *Exercise Expenses.* Warrantheolders will be required to pay all charges (including any taxes if applicable) which are incurred in respect of the exercise of the Warrants (the “**Exercise Expenses**”). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantheolders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantheolders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day).

4. Exercise of Warrants

- (a) *Exercise.* Warrants may only be exercised on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) in accordance with Condition 4(b).
- (b) *Automatic Exercise.* Warrantheolders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day). The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 12:00 noon (Singapore time) on the Expiry Date (or if the Expiry Date is not a Business Day, the immediately preceding Business Day) and Warrantheolders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
- (c) *Settlement.* In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Warrantheolder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Last Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantheolder only (or, in the case of joint Warrantheolders, the first-named Warrantheolder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantheolder and posted to the Warrantheolder's address appearing in the records maintained by CDP (or, in the case of joint Warrantheolders, to the address of the first-named Warrantheolder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

- (d) *CDP not liable.* CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.
- (e) *Business Day.* In these Conditions, a “**Business Day**” shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

- (a) *Warrant Agent.* The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warranholders in accordance with Condition 9.
- (b) *Agent of Issuer.* The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warranholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warranholders.

6. Adjustments

- (a) *Adjustments.* The Issuer reserves the right (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to this paragraph) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment provided that such adjustment is considered by the Issuer not to be materially prejudicial to the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such adjustment in any particular jurisdiction).
- (b) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warranholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

7. Purchases

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

8. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warranholders. Such a meeting may be convened by the Issuer or by Warranholders holding not less than ten per cent. of the Warrants 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 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants 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 Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warranholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Warranholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

- (a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Warranholder or to which a Warranholder is entitled or which the Issuer shall have agreed to deliver to a Warranholder may be delivered by hand or sent by post addressed to the Warranholder at his address appearing in the records maintained by CDP or, in the case of joint Warranholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warranholder.
- (b) *Notices.* All notices to Warranholders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above, provided that if the tenure of the Warrant is less than one month, the Issuer shall publish the expiry notice as soon as practicable after the listing of the Warrant.

10. Dissolution

In the event of dissolution of the Trust all unexercised Warrants will lapse and shall cease to be valid for any purpose on and from the effective date of such dissolution subject to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantheolders, to create and issue further warrants so as to form a single series with the Warrants.

12. De-Listing

- (a) *De-Listing.* If at any time, any Units cease to be listed, traded or publicly quoted on the Relevant Stock Exchange for any reason and are not immediately re-listed, re-traded or re-quoted on an exchange, trading system or quotation system acceptable to the Issuer (“**De-Listing**”), the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants (including terminating the Warrants early) 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 Warrantheolders generally are not materially prejudiced as a consequence of such De-Listing (without considering the individual circumstances of any Warrantheolder or the tax or other consequences that may result in any particular jurisdiction).
- (b) *Adjustments.* Without prejudice to the generality of Condition 12(a), where the Units are, or, upon the De-Listing, become, listed on any other stock exchange, these 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 Relevant Stock Exchange and the Issuer may, without the consent of the Warrantheolders, make such adjustments to the entitlements of Warrantheolders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the Settlement Currency) as may be appropriate in the circumstances.
- (c) *Issuer’s Determination.* The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantheolders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantheolders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination for Illegality and Force Majeure, etc.

- (a) *Illegality and Force Majeure, etc.* If the Issuer determines that, for reasons beyond its control, the performance of its obligations under the Warrants has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Warrants for any reason, the Issuer may at its discretion and without obligation terminate the Warrants early by giving notice to the Warrantheolders in accordance with Condition 9.

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

- (b) *Termination.* If the Issuer terminates the Warrants early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Warrantheolder in respect of each Warrant held by such holder equal to the fair market value of a Warrant notwithstanding such illegality or impracticality less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 9.

14. Governing Law

The Warrants, the Instrument and the Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

15. Prescription

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

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Instrument and the Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

TERMS AND CONDITIONS OF THE OTHER WARRANTS

The terms and conditions of any other Warrants issued by the Issuer pursuant to this Base Listing Document will be set out in the relevant Supplemental Listing Document in relation to such series of Warrants issued by the Issuer.

INFORMATION RELATING TO MACQUARIE BANK LIMITED

Business

Macquarie Bank Limited (“**MBL**”) is an APRA regulated ADI headquartered in Sydney, Australia and is a wholly owned subsidiary of Macquarie Group Limited (ABN 94 122 169 279) (“**MGL**”). MBL’s expertise covers asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. MBL 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.

MBL began in 1969 as the merchant bank Hill Samuel Australia Limited, a wholly owned subsidiary of Hill Samuel & Co Limited, London. Authority for MBL to conduct banking business in Australia was received from Australian Federal Treasurer on 28 February 1985.

MBL’s ordinary shares were listed on the Australian Securities Exchange operated by ASX Limited (“**ASX**”) on 29 July 1996 until the corporate restructuring of the Macquarie Group in November 2007. As part of the restructure, MBL became an indirect subsidiary of MGL, a new ASX listed company comprising a “Banking Group” and a “Non-Banking Group”. MBL comprises the “Banking Group” activities of MGL. Although MBL’s ordinary shares are no longer listed on ASX, MBL’s Macquarie Income Securities continue to be quoted on ASX and accordingly, MBL remains subject to the disclosure and other requirements of ASX as they apply to companies with debt securities listed on the ASX.

MBL’s registered office is Level 6, 50 Martin Place Sydney, New South Wales 2000, Australia. MBL’s principal administrative office is 50 Martin Place, Sydney, New South Wales 2000, Australia. The telephone number of its principal place of business is +612 8232 3333.

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

MGL provides shared services to both the Banking Group and the Non-Banking Group through the Corporate segment. The Corporate segment is not considered an operating group and comprises four central functions: Risk Management, Legal and Governance, Financial Management and Corporate Operations. Shared services include: Risk Management, Finance, Information Technology, Group Treasury, Settlement Services, Equity Markets Operations, Human Resources Services, Business Services, Corporate Governance, Corporate Affairs, Taxation Services, Business Improvement and Strategy Services, Central Executive Services, Other Group-wide Services, Business Shared Services, and other services as may be agreed from time to time.

For further information on Macquarie, please visit its website at www.macquarie.com.

Directors of the Issuer

As at the date of this document, the persons named below are the Voting Directors of the Issuer under its constitution and exercise the powers of directors for the purposes of the Corporations Act 2001 of Australia.

Peter H Warne, BA (Macquarie), FAICD

Independent Chairman since 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)
Managing Director and Chief Executive Officer of Macquarie Group Limited since December 2018
Executive Voting Director of Macquarie Bank Limited since August 2018

Gary R Banks AO, BEc (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
Chairman of the Board Risk Committee
Member of the Board Audit Committee

Glenn R Stevens AC, BEc (Hons) (Sydney), MA (Econ) (UWO)
Independent Voting Director since November 2017
Member of the Board Risk Committee
Member of the Board Audit 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 MBL is:

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FGIA
Company Secretary since October 1993

The business address of the Directors of MBL is Level 6, 50 Martin Place, Sydney NSW, 2000, Australia.

Financial Information

Macquarie Bank Limited 2019 Financial Report is set out in the Appendix to this document and has been extracted from the Macquarie Bank 2019 Annual Report. References to page numbers in the Appendix are to page numbers of the Macquarie Bank 2019 Annual Report. Copies of Macquarie Bank 2019 Annual Report can be obtained at the specified office of Macquarie Capital Securities (Singapore) Pte. Limited and viewed at <http://www.macquarie.com/au/about/investors>.

Risk Management

Risk is an integral part of MBL and its subsidiaries' ("**Consolidated Entity**") 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.

The Risk Management Group ("**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 the Macquarie Bank 2019 Annual Report.

Please refer to Note 34 of the Macquarie Bank 2019 Annual Report.

TAXATION

The comments below are of a general nature and are only a summary of the law and practice currently applicable in Singapore as at the date of this document and are subject to any changes in such laws or administrative guidelines, or the interpretation of those laws, or guidelines, occurring after such date, which changes could be made on a retrospective basis. The comments relate to the position of persons who are the absolute beneficial owners of the Warrants and may not apply equally to all persons. Neither these statements nor any other statements in this document are to be regarded as advice on the tax position of any holder of the Warrants or of any person acquiring, selling or otherwise dealing with the Warrants or on any tax implications arising from the acquisition, sale or other dealings in respect of the Warrants. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to subscribe for, purchase, own or dispose of the Warrants and do not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Prospective Warrantholders are advised to consult their own tax advisers as to the Singapore or other tax consequences of the acquisition, ownership of or disposal of the Warrants, including, in particular, the effect of any foreign, state or local tax laws to which they are subject. In particular, this general summary does not consider any specific facts or circumstances that may apply to any particular purchaser. It is emphasised that neither the Issuer nor any other persons involved in the preparation of this document accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Warrants.

GENERAL

Purchasers and sellers of the Warrants may be required to pay stamp duties, taxes or other charges in accordance with the laws and practice of the country of purchase or sale in addition to the issue price of each Warrant.

TAXATION IN SINGAPORE

The comments below are of a general nature based on the Issuer's understanding of current Singapore law and practice. They summarise certain aspects of Singapore taxation only which may be applicable to the Warrants but do not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase, hold, transfer or redeem the Warrants.

General

Individual taxpayers who are Singapore tax residents are subject to Singapore income tax on income accrued in or derived from Singapore. Generally, foreign-sourced income received (except in some circumstances such as income received through a partnership in Singapore) in Singapore on or after 1 January 2004 by Singapore tax resident individuals is exempt from income tax.

Non-resident individuals, subject to certain exceptions, are subject to income tax on income accrued in or derived from Singapore at the rate of 22% currently.

An individual is tax resident in Singapore in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he resides in Singapore.

The rate of tax for Singapore resident individuals is tiered, subject to a maximum rate which is 22% currently.

Corporate taxpayers who are Singapore tax residents are subject to Singapore income tax on income accrued in or derived from Singapore and, subject to certain exceptions and exemptions, on foreign-sourced income received or deemed to be received in Singapore from outside Singapore.

Certain concessions and clarifications have also been announced by the Inland Revenue Authority of Singapore (“**IRAS**”) with respect to the above conditions.

Non-resident corporate taxpayers are subject to income tax on income accrued in or derived from Singapore, and on foreign-sourced income received in Singapore, subject to certain exceptions.

A company is tax resident in Singapore if the control and management of its business is exercised in Singapore.

Currently, the corporate tax rate in Singapore is 17%.

Dividend Equivalent Amounts

The tax treatment of dividend equivalent amounts (if any) derived by Warrantholders is not completely clear, and Warrantholders should therefore consult their own tax advisers as to the tax treatment of such amounts.

Capital Gains

Singapore imposes a tax on income but does not impose tax on gains which are considered non-income (i.e., gains which are considered to be capital in nature). The question of whether a gain is income or capital ultimately remains a matter of fact based on the Warrantholder's personal circumstances. Accordingly, Warrantholders should consult their own tax advisers as to the tax treatment of gains arising from the Warrants.

Income Tax Implications Arising from the Adoption of Financial Reporting Standard (“FRS”) 39, FRS 109 and Singapore Financial Reporting Standard (International) 9 (“SFRS(I) 9”)

Section 34A of the Income Tax Act, Chapter 134 of Singapore (“**ITA**”) provides for the tax treatment for financial instruments in accordance with FRS 39 (subject to certain exceptions and “opt-out” provisions) to taxpayers who are required to comply with FRS 39 for financial reporting purposes. The IRAS has also issued a circular entitled “Income Tax Implications Arising from the Adoption of FRS 39 – Financial Instruments: Recognition & Measurement”.

FRS 109 or SFRS(I) 9 (as the case may be) is mandatorily effective for annual periods beginning on or after 1 January 2018, replacing FRS 39. Section 34AA of the ITA requires taxpayers who comply or who are required to comply with FRS 109 or SFRS(I) 9 for financial reporting purposes to calculate their profit, loss or expense for Singapore income tax purposes in respect of financial instruments in accordance with FRS 109 or SFRS(I) 9 (as the case may be), subject to certain exceptions. The IRAS has also issued a circular entitled “Income Tax: Income Tax Treatment Arising from Adoption of FRS 109 – Financial Instruments”.

Purchasers and Warrantholders who may be subject to the tax treatment under Sections 34A or 34AA of the ITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding, disposal, exercise, non-exercise or redemption of the Warrants.

Goods and Services Tax

Under the Singapore Goods and Services Tax Act, Chapter 117A of Singapore (“**GST Act**”), the issue, allotment or transfer of ownership of an equity security (i.e., any interest in or right to a share in the capital of a body corporate or any option to acquire any such interest or right) and the renewal or variation of an equity security are exempt supplies not subject to Goods and Services Tax (“**GST**”). The GST Act does not, however, contain any specific provision relating to the GST treatment of all kinds of warrants. The Issuer is nevertheless of the view that the issue, allotment, transfer of ownership, renewal or variation

of such Warrants should in practice not be subject to GST. Warrantholders should consult their own tax advisers if they are in any doubt of the treatment that would be applicable.

Stamp Duty

Singapore stamp duty is not chargeable upon the transfer of any Warrant through the book-entry settlement system of The Central Depository (Pte) Limited.

The above does not purport to be a comprehensive description of all of the tax considerations that may be relevant to the ownership and disposal of the Warrants and the underlying shares, securities or index, and does not consider any specific facts or circumstances that may apply to a particular investor. Investors are therefore urged to consult their tax advisers regarding income and other tax consequences of owning and disposing of the Warrants and the underlying shares, securities or index under Singapore law and under the laws of any other country to which they may be subject.

SALES RESTRICTIONS

General

No action has been or will be taken by the Issuer that would permit a public offering of the Warrants or possession or distribution of any offering material in relation to the Warrants in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Warrants, or distribution of any offering material relating to the Warrants may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to places.

United Kingdom and European Economic Area

Please note that in relation to EEA states, additional selling restrictions may apply in respect of any specific EEA state, including those set out below for the United Kingdom.

The Warrants are not offered, sold or otherwise made available and will not be offered, sold, or otherwise made available under this 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 Warrants or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Warrants 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 Warrants to be offered so as to enable an investor to decide to purchase or subscribe the Warrants.

In addition, all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") must be complied with in respect of anything done in relation to any Warrants in, from or otherwise involving the United Kingdom. An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) may only be communicated or caused to be communicated in connection with the issue or sale of any Warrants in circumstances in which Section 21(1) of the FSMA does not or where applicable would not, if the Issuer was not an authorised person, apply to the Issuer.

United States of America

The Warrants have not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Warrants, or interests therein, may not at any time be offered, sold, resold 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

Warrants, 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 registration requirements of the Securities Act or pursuant to an exemption therefrom. 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 citizen 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.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Warrants may not be circulated or distributed, nor may Warrants be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

Hong Kong

Each distributor, purchaser or subscriber of the Warrants has represented and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue, or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Warrants, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Warrants which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Commonwealth of 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 Warrantholder 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 Warrant in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this document, any addendum to this document and the relevant Supplemental Listing Document or any other offering material or advertisement relating to any Warrant 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.

GENERAL INFORMATION

1. Settlement of trades done on a normal “ready basis” on the SGX-ST generally takes place on the third Business Day following the transaction. Dealing in the Warrants will take place in Board Lots. For further details on transfer of the Warrants and their exercise, please refer to the Conditions of the Warrants.
2. Macquarie Capital Securities (Singapore) Pte. Limited has been authorised to accept, on behalf of the Issuer, service of process and any other notices required to be served on the Issuer. Any notices required to be served on the Issuer should be sent to 9 Straits View, #21-07 Marina One West Tower, Singapore 018937 at the above address for the attention of Ai Lin Tan.
3. Under the terms and conditions of the Warrants, Warrantholders are required to pay all the charges arising on the delivery of the Shares upon exercise of the Warrants. Please refer to the Conditions of the Warrants.
4. MBL is an indirect subsidiary of MGL. Macquarie Group is a large diversified Australian-based financial institution with a long and successful history. Like any financial institution, Macquarie Group has been subject to lawsuits.

There are no, nor have there been, any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which MBL or the Macquarie Group is aware) in the 12 month period prior to the date of this document which may have or have had a significant effect on the financial position or profitability of MBL.

Germany

The Issuer was a lender to a group of independent investment funds in 2011. The funds were trading shares around the dividend payment dates where investors were seeking to obtain the benefit of dividend withholding tax credits. The investors’ credit claims were refused and there was no loss to the German revenue in relation to this matter.

With respect to the civil case, two of the investors have already sued the Swiss bank that introduced them to the investment. They and other investors have now sold their claims to a German litigation special purpose vehicle controlled by the same lawyer who acted in the litigation against the Swiss bank. In 2018 that vehicle brought a claim against the Issuer seeking €30 million in damages. The Issuer strongly disputes this claim noting that it did not arrange, advise or otherwise engage with the investors, who were high net-worth individuals with their own advisers. Many, if not all, had previously participated in similar transactions.

The Cologne Prosecutor’s Office (“CPO”) is investigating the transaction. Although no current staff members have been interviewed to date, as expected as part of their ongoing investigation, the CPO has formally classified 22 current and former staff members as persons of interest or suspects under German law, including the Macquarie Group CEO and the former Macquarie Group CEO.

Macquarie Group will continue to cooperate fully with the German authorities. Macquarie Group notes that it has already resolved its two other matters involving German dividend trading that took place between 2006 and 2009, where the authorities noted Macquarie’s “unreserved cooperation”. The industry-wide investigation relating to dividend trading continues and Macquarie Group continues to respond to requests for information about its activities in this market. Macquarie Group’s profits from these activities were not material.

5. To the best of the Issuer’s knowledge, there has been no material adverse change in the context of the issue of the Warrants, in the financial position of the Issuer since 31 March 2019.

6. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of Macquarie Capital Securities (Singapore) Pte. Limited at 9 Straits View, #21-07 Marina One West Tower, Singapore 018937, until the expiry of the Warrants (as defined in the applicable Supplemental Listing Document):
- (a) the annual reports for the financial years ended 31 March 2018 and 31 March 2019 of the Issuer;
 - (b) this document; and
 - (c) the Constitution of the Issuer.

APPENDIX

**REPRODUCTION OF THE AUDITED FINANCIAL STATEMENTS OF
MACQUARIE BANK LIMITED FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019**

Financial Report – Contents

For the financial year ended 31 March 2019

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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 ^{(1),(2)} \$m	2018 ⁽²⁾ \$m	2019 ^{(1),(2)} \$m	2018 ⁽²⁾ \$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)
Net interest income		1,978	1,844	1,267	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
Net operating income		5,911	5,002	3,717	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)
Total operating expenses		(4,432)	(3,611)	(3,197)	(2,760)
Operating profit from continuing operations before income tax		1,479	1,391	520	1,246
Income tax expense	4	(394)	(353)	(141)	(152)
Profit from continuing operations after income tax		1,085	1,038	379	1,094
Profit from discontinued operations after income tax	40	956	545	1,252	925
Profit from continuing and discontinued operations after income tax		2,041	1,583	1,631	2,019
Profit attributable to non-controlling interests		(4)	(1)	–	–
Profit attributable to equity holders of Macquarie Bank Limited		2,037	1,582	1,631	2,019
Distribution paid or provided for on:					
Macquarie Income Securities	5	(15)	(14)	–	–
Profit attributable to the ordinary equity holder of Macquarie Bank Limited		2,022	1,568	1,631	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 ^{(1),(2)} \$m	2018 ⁽²⁾ \$m	2019 ^{(1),(2)} \$m	2018 ⁽²⁾ \$m
Profit from continuing and discontinued operations after income tax		2,041	1,583	1,631	2,019
Other comprehensive income/(loss) ⁽³⁾ :					
Movements in items that may be subsequently reclassified to the income statement:					
Fair value through other comprehensive income (FVOCI) reserve ⁽⁴⁾ :	25				
Revaluation (loss)/gain recognised in other comprehensive income		(8)	(33)	4	(15)
Changes in allowance for expected credit losses		(1)	–	(3)	–
Transferred to income statement on:					
Impairment		–	12	–	11
Sale or reclassification		–	(80)	–	(68)
Cash flow hedges, net movement recognised in OCI		(89)	77	(34)	24
Share of other comprehensive loss of associates and joint ventures	25	(3)	(1)	–	–
Exchange differences on translation and hedge of foreign operations		140	132	(13)	–
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	6	37	6	37
Total other comprehensive income/(loss)		45	144	(40)	(11)
Other comprehensive income/(loss) from continuing operations		165	42	(40)	(11)
Other comprehensive (loss)/income from discontinued operations after tax	40	(120)	102	–	–
Total comprehensive income		2,086	1,727	1,591	2,008
Total comprehensive income attributable to non-controlling interests		(5)	(4)	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		(15)	(14)	–	–
Total comprehensive income attributable to the ordinary equity holder of Macquarie Bank Limited		2,066	1,709	1,591	2,008
From continuing operations		1,231	1,066	339	1,083
From discontinued operations		835	643	1,252	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 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Assets					
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
Total assets		169,422	173,218	163,632	161,633
Liabilities					
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
Total liabilities excluding loan capital		153,632	155,859	149,947	145,977
Loan capital	23	4,550	4,256	4,550	4,256
Total liabilities		158,182	160,115	154,497	150,233
Net assets		11,240	13,103	9,135	11,400
Equity					
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
Total capital and reserves attributable to ordinary equity holder of Macquarie Bank Limited		11,238	13,091	9,135	11,400
Non-controlling interests	25	2	12	–	–
Total equity		11,240	13,103	9,135	11,400

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
CONSOLIDATED							
Balance as at 1 Apr 17		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)
Balance as at 31 Mar 18		9,928	477	2,686	13,091	12	13,103
Change on initial application of AASB 9		–	1	(141)	(140)	–	(140)
Restated balance as at 1 Apr 18		9,928	478	2,545	12,951	12	12,963
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. ⁽¹⁾	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)
Balance as at 31 Mar 19		7,898	516	2,824	11,238	2	11,240

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
COMPANY					
Balance as at 1 Apr 17		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)
Balance as at 31 Mar 18		9,821	(3)	1,582	11,400
Change on initial application of AASB 9		–	6	(78)	(72)
Restated balance as at 1 Apr 18		9,821	3	1,504	11,328
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. ⁽¹⁾	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)
Balance as at 31 Mar 19		7,785	(43)	1,393	9,135

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 ⁽¹⁾ \$m	2018 \$m	2019 ⁽¹⁾ \$m	2018 \$m
Cash flows (utilised in)/generated from operating activities					
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
Cash flows generated from investing activities					
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
Cash flows utilised in financing activities					
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)
Net increase/(decrease) in cash and cash equivalents					
Cash and cash equivalents at the beginning of the financial year		11,350	10,164	9,730	8,122
Cash and cash equivalents at the end of the financial year	26	12,839	11,350	9,246	9,730

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

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

(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
Assets				
Receivables from financial institutions ⁽¹⁾	Amortised cost	35,085	(35,085)	–
Cash and bank balances ⁽¹⁾	Amortised cost	–	6,648	6,648
Cash collateral on securities borrowed and reverse repurchase agreements ^{(1),(A)}	Amortised cost	–	28,437	28,437
Trading assets	FVTPL	11,823	–	11,823
Margin money and settlement assets ^{(4),(5)}	Amortised cost	–	9,108	9,108
Derivative assets	FVTPL	10,668	–	10,668
Financial investments ^{(2),(3),(B)}	Available for sale	–	5,158	5,158
	FVTPL (designated)	–	389	389
Investment securities available for sale ⁽²⁾	Available for sale	5,158	(5,158)	–
Other assets ⁽⁴⁾	Amortised cost	4,924	(4,246)	678
	Non financial asset	659	–	659
Loan assets ^{(3),(4),(C),(D)}	Amortised cost	54,542	(4,862)	49,680
	FVTPL (designated)	–	153	153
Other financial assets at fair value through profit or loss ⁽³⁾	FVTPL (designated)	542	(542)	–
Due from subsidiaries ^(E)	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 ^(F)	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
Total assets		161,633	–	161,633
Liabilities				
Cash collateral on securities lent and repurchase agreements ^{(1),(A)}	Amortised cost	–	5,380	5,380
		–	–	–
Trading liabilities	FVTPL	8,286	–	8,286
Margin money and settlement liabilities ⁽⁴⁾	Amortised cost	–	14,343	14,343
Derivative liabilities	FVTPL	10,043	–	10,043
Deposits ⁽⁴⁾	Amortised cost	57,919	(9,699)	48,220
Other liabilities ⁽⁴⁾	Amortised cost	4,135	(3,595)	540
	Non financial liability	1,577	–	1,577
Payables to financial institutions ^{(1),(4)}	Amortised cost	9,011	(9,011)	–
Bank borrowings ^{(1),(A)}	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 ⁽⁵⁾	Amortised cost	30,674	–	30,674
	FVTPL	–	1,839	1,839
Other debt issued at fair value through profit or loss ⁽⁵⁾	FVTPL	1,839	(1,839)	–
Deferred tax liabilities	Non financial liability	114	–	114
Total liabilities excluding loan capital		145,977	–	145,977
Loan capital	Amortised cost	4,256	–	4,256
Total liabilities		150,233	–	150,233
Net assets		11,400	–	11,400
Equity				
Contributed equity		9,821	–	9,821
Reserves		(3)	–	(3)
Retained earnings		1,582	–	1,582
Total capital and reserves attributable to ordinary equity holders of Macquarie Bank Limited		11,400	–	11,400
Non-controlling interests		–	–	–
Total equity		11,400	–	11,400

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 ⁽¹⁾ \$m	Adjusted to value at transition date ⁽²⁾ \$m	ECL allowance under AASB 9 \$m
COMPANY							
Loan assets	Amortised cost	Amortised cost	313	(126)	86	–	273
		FVTPL	–	118	–	(118)	–
		FVOCI	–	8	34	–	42
			313	–	120	(118)	315
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)	–
			1	–	–	(1)	–
Undrawn commitments and financial guarantees			–	–	10	–	10
Total			322	–	173	(119)	376

(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
Nature of hedge	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.
Hedged risk	<ul style="list-style-type: none"> – Interest rate risk – Commodity price risk 	<ul style="list-style-type: none"> – Interest rate risk – Foreign exchange risk 	<ul style="list-style-type: none"> – Foreign exchange risk (spot)
Hedged item	<ul style="list-style-type: none"> – Fixed interest rate financial assets and liabilities – Commodity transportation contracts 	<ul style="list-style-type: none"> – Floating interest rate financial assets and liabilities – Foreign currency denominated interest bearing financial assets and liabilities 	<ul style="list-style-type: none"> – Foreign operations
Hedging instruments	<ul style="list-style-type: none"> – Interest rate swaps – Commodity forward contracts 	<ul style="list-style-type: none"> – Interest rate swaps – Cross currency swaps 	<ul style="list-style-type: none"> – Foreign exchange forward contracts – Foreign currency denominated issued debt
Designation and documentation	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.		
Hedge effectiveness method	<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"> – an economic relationship exists between the hedged item and the hedging instrument – credit risk does not dominate the changes in value of either the hedged item or the hedging instrument – the hedge ratio is reflective of the Consolidated Entity's risk management approach. <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>		
Accounting treatment for the hedging instrument	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
Accounting treatment for the hedged item	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.
Accounting treatment for hedge ineffectiveness	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.	
Accounting treatment if the hedge relationship is discontinued	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.
Other accounting policies	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 ⁽¹⁾	10 to 20%
Equipment	33 to 50%
Infrastructure assets	2 to 10%
Aviation ⁽²⁾	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.

(xxxi) 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 ⁽⁶⁾ \$m	2018 ⁽⁶⁾ \$m	2019 ⁽⁶⁾ \$m	2018 ⁽⁶⁾ \$m
Note 2				
Operating profit from continuing operations before income tax				
Net interest income				
Interest and similar income				
Effective interest method ⁽¹⁾	4,135	3,942	3,696	3,465
Others	678	415	587	370
Interest and similar expense ⁽²⁾	(2,835)	(2,513)	(3,016)	(2,659)
Net interest income	1,978	1,844	1,267	1,176
Fee and commission income				
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 ⁽³⁾	1,231	889	544	432
Net trading income⁽⁴⁾				
Equities	476	473	391	290
Commodities ⁽⁵⁾	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
Net operating lease income				
Rental income	1,119	722	645	329
Depreciation on operating lease assets	(830)	(479)	(595)	(293)
Net operating lease income	289	243	50	36
Share of net profits of associates and joint ventures				
	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 ⁽⁵⁾ \$m	2018 ⁽⁵⁾ \$m	2019 ⁽⁵⁾ \$m	2018 ⁽⁵⁾ \$m
Note 2				
Operating profit from continuing operations before income tax continued				
Credit and other impairment (charges)/reversal				
Credit impairment (charges)/reversal⁽¹⁾				
Loan assets and due from subsidiaries ⁽²⁾	(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
Total credit impairment (charges)/reversal	(131)	(74)	(38)	4
Other impairment (charges)/reversal				
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
Total other impairment (charges)/reversal	(116)	(38)	–	3
Total credit and other impairment (charges)/reversal	(247)	(112)	(38)	7
Other operating income and charges				
Investment income				
Net gain on equity investments ⁽³⁾	48	35	40	17
Net gain on debt investments ⁽⁴⁾	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
Total investment income	127	127	474	766
Other (charges)/income	(21)	57	367	347
Total other operating income and charges	106	184	841	1,113
Net operating income	5,911	5,002	3,717	4,006

(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 ⁽³⁾ \$m	2018 ⁽³⁾ \$m	2019 ⁽³⁾ \$m	2018 ⁽³⁾ \$m
Note 2				
Operating profit from continuing operations before income tax continued				
Employment expenses				
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)
Total employment expenses	(1,448)	(1,278)	(1,054)	(968)
Brokerage, commission and trading-related expenses				
Brokerage and other trading-related expenses	(525)	(508)	(362)	(311)
Other fee and commission expenses ⁽¹⁾	(252)	(108)	(239)	(91)
Total brokerage, commission and trading-related expenses	(777)	(616)	(601)	(402)
Occupancy expenses				
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)
Total occupancy expenses	(117)	(106)	(91)	(83)
Non-salary technology expenses				
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)
Total non-salary technology expenses	(167)	(128)	(136)	(101)
Other operating expenses				
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 ^{(1),(2)}	(1,668)	(1,227)	(1,123)	(1,013)
Total other operating expenses	(1,923)	(1,483)	(1,315)	(1,206)
Total operating expenses	(4,432)	(3,611)	(3,197)	(2,760)
Operating profit from continuing operations before income tax	1,479	1,391	520	1,246

(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
Note 3			
Segment reporting continued			
(i) Operating segments continued			
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	–	–	–
Net profit/(loss) attributable to ordinary equity holders from continuing operations	249	753	1,002
Reportable segment assets	8,638	63,885	72,523
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	–	–	–
Net profit/(loss) attributable to ordinary equity holders from continuing operations	311	733	1,044
Reportable segment assets	23,697	58,515	82,212

Commodities and Global Market \$m	Markets-facing business \$m	Corporate \$m	Total \$m
CONSOLIDATED 2019			
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
CONSOLIDATED 2018			
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
Fee and commission income/(expense)	CONSOLIDATED 2019						
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
Total fee and commission income/(expense)	105	474	579	640	640	12	1,231
Fee and commission income/(expense)	CONSOLIDATED 2018						
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
Total fee and commission income/(expense)	80	490	570	390	390	(71)	889

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
Revenue from external customers		
Lending	4,655	4,349
Financial Markets	4,595	3,475
Asset and Wealth Management	790	510
Capital Markets	133	102
Total revenue from external customers⁽¹⁾	10,173	8,436

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

(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
Note 4				
Income tax expense				
(i) Income tax (expense)/benefit				
Current tax expense	(745)	(426)	(298)	(73)
Deferred tax benefit/(expense)	169	(144)	110	(178)
Total income tax expense	(576)	(570)	(188)	(251)
Income tax (expense)/benefit is attributable to:				
Profit from continuing operations	(394)	(353)	(141)	(152)
Profit from discontinued operations	(182)	(217)	(47)	(99)
Total income tax expense	(576)	(570)	(188)	(251)
(ii) Reconciliation of income tax (expense)/benefit to prima facie tax payable				
Prima facie income tax expense on operating profit ⁽¹⁾	(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)
Total income tax expense	(576)	(570)	(188)	(251)
(iii) Tax benefit/(expense) relating to items of other comprehensive income				
Available for sale reserve ⁽²⁾	–	32	–	17
FVOCI reserve ⁽²⁾	3	–	(3)	–
Own credit risk	(3)	(3)	(3)	–
Cash flow hedge reserve	29	(19)	8	(2)
Foreign currency translation reserve	–	(1)	–	–
Total tax benefit/(expense) relating to items of other comprehensive income	29	9	2	15
(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/(liabilities)				
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)
Total deferred tax benefit/(expense) represents movements in deferred tax assets/(liabilities)	169	(144)	110	(178)

(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
Note 5				
Dividends and distributions paid or provided for				
(i) Ordinary share capital				
Dividends paid ⁽¹⁾	1,188	1,210	1,188	1,210
Dividend provided for ⁽²⁾	560	–	560	–
Total dividends paid or provided for (Note 25)	1,748	1,210	1,748	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

Macquarie Income Securities⁽¹⁾

Distributions paid (net of distributions previously provided for)	12	11	–	–
Distributions provided for	3	3	–	–
Total distributions paid or provided for	15	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

Equities				
Listed	7,658	4,429	7,227	3,837
Unlisted	–	17	–	1
Debt securities				
Commonwealth and foreign government securities	4,752	5,846	4,695	5,722
Corporate loans and securities	1,732	798	575	588
Treasury notes	783	611	80	222
Other debt securities	24	697	14	2
Commodities	2,553	2,496	1,369	1,451
Total trading assets	17,502	14,894	13,960	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
Note 7				
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
Total margin money and settlement assets	14,496	13,723	9,802	9,108

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 ⁽¹⁾				
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
Total financial investments	5,470	5,733	5,315	5,547

(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 ⁽¹⁾	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
Total other assets	2,105	3,714	1,269	1,337

(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 ⁽¹⁾ \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment ⁽¹⁾ \$m	Net \$m
Note 10						
Loan assets	CONSOLIDATED					
Mortgages ⁽²⁾	41,965	(60)	41,905	36,937	(3)	36,934
Asset financing ⁽²⁾	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
Total	74,331	(510)	73,821	72,656	(120)	72,536
Less: collective allowance for credit losses ⁽¹⁾			–			(247)
Total loan assets⁽³⁾			73,821			72,289
	COMPANY					
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
Total	54,210	(270)	53,940	50,146	(170)	49,976
Less: collective allowance for credit losses ⁽¹⁾			–			(143)
Total loan assets⁽³⁾			53,940			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
Note 10		
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.		
Individually assessed provisions for impairment		
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
Balance at the end of the financial year	120	170
Individually assessed provisions as a percentage of total gross loan assets	0.17%	0.34%
Collective allowance for credit losses		
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
Balance at the end of the financial year	247	143

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
CONSOLIDATED						
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
Total	6,002	(602)	5,400	5,995	(623)	5,372
COMPANY						
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
Total	457	(62)	395	143	(12)	131

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>Global: The baseline scenario assumes global economic performance is relatively stable throughout most of the forecast period.</p> <p>Australia: 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>United States: 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>Europe: 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>Global: Marginally higher growth in GDP against the baseline scenario during the forecast period.</p> <p>Australia: 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>United States: 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>Europe: 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>Globally: Marginally lower growth in GDP against the baseline through to 2022.</p> <p>Australia: 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>United States: 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>Europe: 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>Globally: A recession from 2019–2020 following a marked retraction in GDP growth before recovering in 2021.</p> <p>Australia: 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>United States: 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>Europe: 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^{(1),(2)}.

	AS AT 31 MARCH 2019		AS AT 1 APRIL 2018	
	Gross exposure ⁽²⁾ \$m	ECL allowance \$m	Gross exposure ⁽²⁾ \$m	ECL allowance \$m
CONSOLIDATED				
Cash and bank balances ⁽³⁾	7,693	–	7,852	–
Cash collateral on securities borrowed and reverse repurchase agreements ⁽³⁾	9,993	–	12,694	–
Margin money and settlement assets ⁽³⁾	10,749	–	13,950	–
Financial investments	5,117	–	5,131	–
Other assets	1,048	21	891	38
Loan assets ⁽⁴⁾	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 ⁽⁵⁾	7,474	6	6,159	12
Total	117,422	540	119,866	556
COMPANY				
Cash and bank balances ⁽³⁾	6,377	–	6,648	–
Cash collateral on securities borrowed and reverse repurchase agreements ⁽³⁾	9,983	–	12,687	–
Margin money and settlement assets ⁽³⁾	8,002	–	9,108	–
Financial investments	5,030	–	5,001	–
Other assets	855	4	690	13
Loan assets ⁽⁴⁾	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 ⁽⁵⁾	6,961	5	7,086	10
Total	115,028	356	118,959	376

(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	
CONSOLIDATED							
Balance as at 31 March 2018	22	367	–	2	–	391	
Change on initial application of AASB 9	16	137	1	(1)	12	165	
Balance as at 1 April 2018	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)	
Balance as at 31 March 2019	21	511	1	1	6	540	
COMPANY							
	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
Balance as at 31 March 2018	–	8	313	–	1	–	322
Change on initial application of AASB 9	–	5	2	38	(1)	10	54
Balance as at 1 April 2018	–	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
Balance as at 31 March 2019	–	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			
	LIFETIME ECL					
						CONSOLIDATED
Balance as at 31 Mar 18	–	–	–	247	120	367
Change on initial application of AASB 9	144	202	158	(247)	(120)	137
Balance as at 1 Apr 18	144	202	158	–	–	504
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
Balance as at 31 Mar 19	135	173	203	–	–	511
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.						
						COMPANY
Balance as at 31 Mar 18	–	–	–	143	170	313
Change on initial application of AASB 9	82	129	104	(143)	(170)	2
Balance as at 1 Apr 18	82	129	104	–	–	315
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	–	–	–	–	–	–
Balance as at 31 Mar 19	85	118	113	–	–	316

	2019			2018		
	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
Note 12						
Property, plant and equipment						
CONSOLIDATED						
Assets for own use						
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
Total assets for own use	151	(40)	111	616	(67)	549
Assets under operating lease						
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
Total assets under operating lease	4,112	(1,485)	2,627	14,176	(3,651)	10,525
Total property, plant and equipment	4,263	(1,525)	2,738	14,792	(3,718)	11,074
COMPANY						
Assets for own use						
Land and buildings	82	–	82	–	–	–
Furniture, fittings and leasehold improvements	18	(10)	8	17	(9)	8
Equipment	14	(9)	5	11	(5)	6
Total assets for own use	114	(19)	95	28	(14)	14
Assets under operating lease						
Telecommunication	1,568	(619)	949	963	(255)	708
Meters	–	–	–	33	(4)	29
Others	362	(89)	273	474	(98)	376
Total assets under operating lease	1,930	(708)	1,222	1,470	(357)	1,113
Total property, plant and equipment	2,044	(727)	1,317	1,498	(371)	1,127

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
Assets for own use					
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)
Balance as at 31 Mar 18	2	16	10	521	549
Acquisitions/additions	75	7	6	57	145
Disposals	–	(4)	–	(572)	(576)
Reclassification and other adjustments	8	–	–	(11)	(3)
Foreign exchange movements	–	–	–	11	11
Depreciation expense (Note 2)	–	(4)	(5)	(6)	(15)
Balance as at 31 Mar 19	85	15	11	–	111

	Aviation \$m	Meters \$m	Telecommunication \$m	Rail cars \$m	Others \$m	Total \$m
Assets under operating lease						
Balance as at 1 Apr 17	8,171	735	188	633	528	10,255
Acquisitions	7	437	847	–	114	1,405
Disposals ⁽¹⁾	(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)
Balance as at 31 Mar 18	7,501	1,088	708	686	542	10,525
Acquisitions	33	415	1,105	–	64	1,617
Disposals ⁽¹⁾	(7,711)	(31)	(272)	(645)	(120)	(8,779)
Reclassification and other adjustments	–	(46)	–	–	(8)	(54)
Impairments	–	–	(4)	–	–	(4)
Foreign exchange movements	515	6	–	(20)	10	511
Depreciation expense	(338)	(184)	(571)	(21)	(75)	(1,189)
Balance as at 31 Mar 19	–	1,248	966	–	413	2,627

(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
Assets for own use				
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)
Balance as at 31 Mar 18	–	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)
Balance as at 31 Mar 19	82	8	5	95

	Meters \$m	Telecommunication \$m	Other \$m	Total \$m
Assets under operating lease				
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)
Balance as at 31 Mar 18	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)
Balance as at 31 Mar 19	–	949	273	1,223

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
Total future minimum lease payments receivable⁽¹⁾	1,036	4,297	936	787

(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
Note 13				
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 ⁽¹⁾	(1)	(2)	–	(1)
Total loans to associates and joint venture ⁽²⁾	10	14	8	7
Total interests in associates and joint ventures^{(3),(4)}	219	727	48	432

(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
CONSOLIDATED						
Goodwill	101	(33)	68	97	(30)	67
Other identifiable intangible assets	375	(266)	109	383	(236)	147
Total intangible assets	476	(299)	177	480	(266)	214
COMPANY						
Other identifiable intangible assets	285	(204)	81	277	(186)	91
Total intangible assets	285	(204)	81	277	(186)	91

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
Balance as at 1 Apr 17	56	137	193	104	104
Acquisitions	18	70	88	7	7
Impairment	(10)	(5)	(15)	–	–
Amortisation ⁽¹⁾	–	(57)	(57)	(20)	(20)
Foreign exchange movements	3	2	5	–	–
Balance as at 31 Mar 18	67	147	214	91	91
Acquisitions	–	6	6	6	6
Disposals, reclassifications and other adjustments	(1)	(1)	(2)	–	–
Impairment	(1)	(8)	(9)	–	–
Amortisation ⁽¹⁾	–	(22)	(22)	(16)	(16)
Foreign exchange movements	3	(13)	(10)	–	–
Balance as at 31 Mar 19	68	109	177	81	81

(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 ⁽¹⁾	(625)	(653)
Investments with provisions for impairment	967	663
Total investments in subsidiaries	5,166	7,390

(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
Note 16				
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)
Net deferred tax assets	441	143	418	139
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
Net deferred tax liabilities	(134)	(586)	(46)	(114)

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
Total trading liabilities	7,757	7,938	8,375	8,286

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
Total margin money and settlement liabilities	17,901	16,575	15,221	14,343

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 19				
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
Total deposits	56,120	48,371	56,033	48,220

Note 20				
Other Liabilities				
Accrued charges, income received in advance and other liabilities ⁽¹⁾	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	–	–
Total other liabilities	3,043	4,481	1,823	2,117

(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.

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

(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
Note 21				
Debt issued continued				
Reconciliation of debt issued by major currency				
<i>(In Australian dollar equivalent)</i>				
United States dollar	16,918	20,834	16,675	20,389
Australian dollar	9,685	12,153	2,894	3,757
Euro	4,004	4,945	3,966	4,774
Swiss franc	1,058	1,487	1,058	1,487
Great British pound	783	727	783	727
Japanese yen	580	579	580	579
Yuan renminbi	169	246	168	246
Norwegian krone	164	163	164	163
Korean won	114	112	114	112
Hong Kong dollar	112	152	112	152
Canadian dollar	–	126	–	127
Total	33,587	41,524	26,514	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
Code	BCN	MACS
Issuer	Macquarie Bank Limited	Macquarie Bank Limited
Par value	\$100	n/a
Currency	AUD	USD
Carrying value at the reporting date	\$429 million	\$750 million
Accounting measurement basis	Financial liability at amortised cost	Financial liability at amortised cost
Issue date	8 October 2014	8 March 2017
Interest rate	180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits	6.125% per annum
Interest payment frequency	Semi-annually in arrears	Semi-annually in arrears
Mandatory interest payment	Yes	Yes
Dividend stopper	Yes	Yes
Outstanding notes at reporting date	4.3 million	
Maturity	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.
Convertible into shares	Yes	Yes
Convertible in issuer shares	MGL	MGL
Mandatory conversion date	24 March 2023	n/a
Maximum number of shares on conversion	37,056,481	56,947,286
Optional exchange dates	<ul style="list-style-type: none"> – 24 March 2020 – 24 September 2020 – 24 March 2021 – earlier in specified circumstances at the discretion of MBL subject to APRA approval 	n/a
Other exchange events	<ul style="list-style-type: none"> – Acquisition date (where a party acquires control of MBL) – where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support) – where MBL's common equity Tier 1 capital rate falls below 5.125% 	<ul style="list-style-type: none"> – Acquisition date (where a party acquires control of MBL or MGL) – where MBL's common equity Tier 1 capital ratio falls below 5.125% – where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support)
Capital treatment	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)
Total loan capital⁽¹⁾	4,550	4,256	4,550	4,256

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)
Total loan capital⁽¹⁾	4,550	4,256	4,550	4,256

(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
Note 24				
Contributed equity				
(i) Ordinary share capital⁽¹⁾				
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 ⁽²⁾	–	–	(2,040)	–
Closing balance of fully paid ordinary shares	589,276,303	589,276,303	7,288	9,328

(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
(ii) Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	209	192	102	93
Additional paid up capital	10	17	4	9
Balance at the end of the financial year	219	209	106	102

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)
Total Macquarie Income Securities	391	391	391	391

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
Total contributed equity	7,898	9,928	7,785	9,821

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 25				
Reserves, retained earnings and non-controlling interests				
(i) Reserves				
Foreign currency translation reserve and net investment hedge reserve⁽¹⁾				
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 ⁽¹⁾	(160)	–	–	–
Balance at the end of the financial year	631	492	(28)	(15)
FVOCI reserve⁽²⁾				
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	–
Restated balance as at 1 Apr 18	16	116	22	88
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)
Balance at the end of the financial year	7	15	23	16
Cash flow hedging reserve⁽¹⁾				
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
Balance at the end of the financial year⁽³⁾	(118)	(29)	(38)	(4)
Share of reserves of interest in associates and joint ventures				
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)	–	–
Balance at the end of the financial year	(4)	(1)	–	–
Total reserves at the end of the financial year	516	477	(43)	(3)

(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
Note 25				
Reserves, retained earnings and non-controlling interests continued				
(ii) Retained earnings				
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)	–
Restated balance as at 1 Apr 18	2,545	2,296	1,504	736
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
Balance at the end of the financial year	2,824	2,686	1,393	1,582
(iii) Non-controlling interests⁽¹⁾				
Share capital and partnership interests	48	56	–	–
Reserve	4	3	–	–
Accumulated losses	(50)	(47)	–	–
Total non-controlling interests	2	12	–	–

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

(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
Note 26				
Notes to the statements of cash flows continued				
(ii) Reconciliation of profit after income tax to net cash flows (utilised in)/generated from operating activities				
Profit after income tax ⁽¹⁾	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 ⁽²⁾	(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)
Net cash flows (utilised in)/generated from operating activities	(2,918)	2,666	(809)	908

(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 ⁽¹⁾	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 ⁽¹⁾	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 ⁽²⁾	284,741	686,758
Management fees, group service charges and cost recoveries ⁽³⁾	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 ⁽¹⁾	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 ⁽¹⁾	820,921	–	820,921	–
Undrawn credit facilities and securities underwriting ⁽²⁾	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 ⁽¹⁾	(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 ⁽¹⁾	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⁽²⁾

G.A. Farrell	Co-Head of CAF
A.H. Harvey	CFO, Head of FMG (appointed effective 1 January 2018)
N. O'Kane ⁽³⁾	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 ⁽¹⁾	Other benefits		Restricted profit share including earnings on restricted profit share ⁽²⁾	Equity awards including shares ⁽³⁾	PSUs ⁽⁴⁾	
	\$	\$	\$	\$	\$	\$	\$	\$
Executive remuneration								
2019	5,635,488	33,345,490	–	38,980,978	9,444,048	43,366,193	16,077,868	107,869,087
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								
2019	901,722	–	–	901,722	–	–	–	901,722
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 ⁽¹⁾
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total for key management personnel and their related parties						
2019	464	825	33	(47)	–	1,275
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 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾
Retained DPS Awards representing 2009 retention	Executive Director	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽²⁾
Retained DPS Awards for 2010 and all future years' retention	Executive Committee member and Designated Executive Director	1/5 th in the 3 rd , 4 th , 5 th , 6 th and 7 th year following the year of grant ⁽²⁾
Retained DPS Awards for 2010 and all future years' retention	All other Executive Directors	1/3 rd in the 3 rd , 4 th and 5 th year following the year of grant ⁽¹⁾
PSU Awards granted in relation to 2012 and following years	Executive Committee members	50% three and four years after the year of grant ⁽³⁾
Commission Awards	Below Executive Director	1/3 rd in the 2 nd , 3 rd and 4 th year following the year of grant ⁽¹⁾
Incentive Awards	All Macquarie Group staff	1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th anniversaries of the date of allocation
New Hire Awards	All Director-level staff	1/3 rd on each first day of a staff trading window on or after the 2 nd , 3 rd and 4 th 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⁽¹⁾ 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.

(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.

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.

Notes to the financial statements

For the financial year ended 31 March 2019 continued

	CONSOLIDATED		COMPANY	
	2019 \$m	2018 \$m	2019 \$m	2018 \$m
Note 30				
Contingent liabilities and commitments				
Contingent liabilities exist in respect of:				
Letters of credit	1,221	874	1,241	891
Performance related contingents ⁽¹⁾	1,112	237	1,122	247
Indemnities	389	44	389	44
Guarantees	114	107	1,140	1,220
Total contingent liabilities^{(2),(3)}	2,836	1,262	3,892	2,402
Commitments exist in respect of:				
Undrawn credit facilities and securities' underwriting ^{(4),(5),(6)}	7,300	6,146	6,816	5,200
Property, plant and equipment and other asset developments	1,026	7	1,004	–
Total commitments	8,326	6,153	7,820	5,200
Total contingent liabilities and commitments	11,162	7,415	11,712	7,602

(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	–	–
Total operating lease commitments	50	27	–	–

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
Carrying value of assets				
Trading assets	368	72	128	189
Derivative assets	163	–	110	–
Financial investments ⁽¹⁾	1,734	2	1,366	–
Loan assets	536	603	237	794
Total carrying value of assets ⁽²⁾	2,801	677	1,841	983
Maximum exposure to loss⁽³⁾				
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 ⁽¹⁾		
		Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m	Total \$m	
CONSOLIDATED 2019								
Hedging instruments-assets								
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 ⁽²⁾	Foreign exchange contracts	Foreign exchange	1,330	597	627	–	2,554	75
Hedging instruments-liabilities								
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 ⁽²⁾	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
CONSOLIDATED 2018								
Hedging instruments-assets								
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 ⁽²⁾	Foreign exchange contracts	Foreign exchange	257	178	173	–	608	22
Hedging instruments-liabilities								
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 ⁽²⁾	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 ⁽¹⁾		
		Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	Over 5 years \$m	Total \$m	Total \$m	
COMPANY 2019								
Hedging instruments-assets								
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
Hedging instruments-liabilities								
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
COMPANY 2018								
Hedging instruments-assets								
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
Hedging instruments-liabilities								
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⁽¹⁾ 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	2.03–4.99%	1.77–4.99%	2.03–2.42%	1.77–2.42%
		GBP	1.30–2.13%	0.40–2.13%	1.30–2.13%	0.40–2.17%
		USD	N/A	2.02%	N/A	NA
Cash flow hedges	Cross currency swaps	USD/CHF	0.92–0.93	0.92–0.93	0.92–0.93	0.92–0.93
		AUD/EUR	0.64–0.69	0.64–0.69	0.68–0.69	0.68–0.69
		AUD/USD	0.76–0.78	0.72–0.78	0.78	0.78
Net investment hedges	Foreign exchange contracts	USD/GBP	0.65–0.78	0.64–0.81	0.69–0.77	0.64–0.81
		USD/SGD	1.35–1.39	1.31–1.39	1.35–1.39	1.31–1.39
		AUD/GBP	0.53	N/A	0.53	N/A
		USD/CAD	1.31–1.36	1.25–1.30	N/A	N/A
		AUD/CAD	0.94	N/A	N/A	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 ⁽¹⁾	Fair value hedge adjustments	Carrying amount ⁽¹⁾	Fair value hedge adjustments
	\$m	Debit/(Credit) \$m	\$m	Debit/(Credit) \$m
Assets				
Financial investments	104	4	188	8
Loan assets	12,063	105	10,047	(23)
Non-financial contracts	55	55	–	–
Liabilities				
Debt issued	11,306	(38)	16,468	154
Loan capital	4,041	(48)	3,771	(18)
	COMPANY 2019		COMPANY 2018	
	Carrying amount ⁽¹⁾	Fair value hedge adjustments	Carrying amount ⁽¹⁾	Fair value hedge adjustments
	\$m	Debit/(Credit) \$m	\$m	Debit/(Credit) \$m
Assets				
Financial investments	104	4	188	8
Loan assets	499	11	1,570	(4)
Liabilities				
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
CONSOLIDATED 2019					
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
Total			9	–	9
CONSOLIDATED 2018					
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
Total			(157)	153	(4)

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
COMPANY 2019					
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)	–
Total			159	(173)	(14)
COMPANY 2018					
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	–
Total			(270)	261	(9)

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 ⁽¹⁾ \$m	Stage II ⁽¹⁾ \$m	Stage III ⁽¹⁾ \$m	Total \$m
Investment grade				
CONSOLIDATED 2019				
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
Total investment grade	70,061	398	–	70,459
Non-Investment Grade				
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
Total Non-Investment Grade	34,753	10,704	–	45,457
Default				
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
Total default	–	–	1,506	1,506
Total⁽²⁾	104,814	11,102	1,506	117,422
Financial assets by ECL stage				
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
Total financial assets by ECL stage⁽²⁾	104,814	11,102	1,506	117,422

(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 ⁽¹⁾ \$m	Stage II ⁽¹⁾ \$m	Stage III ⁽¹⁾ \$m	Total \$m
Investment grade				COMPANY 2019
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
Total investment grade	84,316	373	–	84,689
Non-Investment Grade				
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
Total Non-Investment Grade	20,462	9,063	–	29,525
Default				
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
Default total	–	–	814	814
Total⁽²⁾	104,778	9,436	814	115,028
Financial assets by ECL stage				
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
Total financial assets by ECL stage⁽²⁾	104,778	9,436	814	115,028

(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		
CONSOLIDATED 2019								
Mortgages ⁽¹⁾	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
Total⁽²⁾	34,637	37,837	72,474	1,296	368	1,664	1,344	73,818
COMPANY 2019								
Mortgages ⁽¹⁾	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
Total⁽²⁾	29,593	23,337	52,930	643	279	922	688	53,618

(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 ⁽¹⁾ \$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
CONSOLIDATED 2019										
Australia										
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
Asia Pacific										
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
Europe, Middle East and Africa										
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
Americas										
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
Total gross credit risk⁽²⁾	7,693	9,993	5,117	10,749	1,048	73,818	1,522	8	7,474	117,422

(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 ⁽¹⁾ \$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
COMPANY 2019											
Australia											
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
Total Australia	2,359	2,522	4,152	2,473	642	50,214	211	13,511	4	5,495	81,583
Asia Pacific											
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
Total Asia Pacific	1,416	2,438	500	1,693	92	813	528	2,062	1	85	9,628
Europe, Middle East and Africa											
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
Total Europe, Middle East and Africa	794	2,265	149	2,677	79	1,512	139	4,294	–	481	12,390
Americas											
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
Total Americas	1,808	2,758	229	1,159	42	1,079	161	3,291	–	900	11,427
Total gross credit risk⁽²⁾	6,377	9,983	5,030	8,002	855	53,618	1,039	23,158	5	6,961	115,028

(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
CONSOLIDATED 2019									
Australia									
Governments	–	4,243	18	–	–	–	–	–	4,261
Financial institutions	702	125	1,388	–	–	5	1	–	2,221
Other	–	–	1,244	–	–	–	140	3	1,387
Total Australia	702	4,368	2,650	–	–	5	141	3	7,869
Asia Pacific									
Governments	–	232	4	–	–	–	–	–	236
Financial institutions	522	599	184	80	–	–	–	–	1,385
Other	–	91	677	–	445	–	41	–	1,254
Total Asia Pacific	522	922	865	80	445	–	41	–	2,875
Europe, Middle East and Africa									
Governments	–	80	7	–	–	–	7	–	94
Financial institutions	5,464	255	3,297	–	–	–	2	–	9,018
Other	–	–	2,874	–	1,451	–	182	–	4,507
Total Europe, Middle East and Africa	5,464	335	6,178	–	1,451	–	191	–	13,619
Americas									
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
Total Americas	12,467	1,666	4,397	–	1,851	16	139	–	20,536
Total gross credit risk	19,155	7,291	14,090	80	3,747	21	512	3	44,899

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 \$m	Trading assets \$m	Derivative assets \$m	Financial investments \$m	Margin money and settlement assets \$m	Other assets \$m	Loan assets \$m	Due from subsidiaries \$m	Interests in associate and joint ventures – loans \$m	Total \$m
COMPANY 2019										
Australia										
Governments	-	4,243	18	-	-	-	-	-	-	4,261
Financial institutions	703	116	1,138	-	-	-	1	-	-	1,958
Other	-	-	1,243	-	-	-	141	736	3	2,123
Total Australia	703	4,359	2,399	-	-	-	142	736	3	8,342
Asia Pacific										
Governments	-	113	4	-	-	-	-	-	-	117
Financial institutions	522	233	178	80	-	-	-	-	-	1,013
Other	-	1	674	-	399	46	41	-	-	1,161
Total Asia Pacific	522	347	856	80	399	46	41	-	-	2,291
Europe, Middle East and Africa										
Governments	-	80	7	-	-	-	7	-	-	94
Financial institutions	5,265	254	3,250	-	-	-	-	-	-	8,769
Other	-	-	2,504	-	1,401	-	182	-	-	4,087
Total Europe, Middle East and Africa	5,265	334	5,761	-	1,401	-	189	-	-	12,950
Americas										
Governments	8	299	2	-	-	-	-	-	-	309
Financial institutions	12,276	13	2,308	-	-	-	162	-	-	14,759
Other	-	12	923	-	-	-	80	-	-	1,015
Total Americas	12,284	324	3,233	-	-	-	242	-	-	16,083
Total gross credit risk	18,774	5,364	12,249	80	1,800	46	614	736	3	39,666

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 ⁽⁴⁾ \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018					
Cash and bank balances					7,852
Financial institutions	7,766	86	–	–	7,852
Cash collateral on securities borrowed and reverse repurchase agreements⁽¹⁾					28,777
Financial institutions	24,592	4,185	–	–	28,777
Trading assets					7,952
Governments	6,514	85	–	–	6,599
Financial institutions	947	28	–	–	975
Other	158	187	33	–	378
Derivative assets					12,695
Governments	518	2	–	–	520
Financial institutions	6,223	647	–	–	6,870
Other	3,073	2,232	–	–	5,305
Margin money and settlement assets					13,723
Governments	328	–	51	–	379
Financial institutions	4,305	581	18	–	4,904
Other	7,443	932	63	2	8,440
Financial investments					5,316
Governments	602	–	–	–	602
Financial institutions	4,464	32	–	–	4,496
Other	115	103	–	–	218
Other assets⁽²⁾					1,266
Governments	103	6	–	–	109
Financial institutions	38	882	–	–	920
Other	211	19	4	3	237
Loan assets⁽³⁾					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
Due from Related Body Corporate entities					1,383
Other	1,383	–	–	–	1,383
Total	100,298	48,181	2,434	340	151,253

(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 ⁽⁴⁾ \$m	Individually impaired \$m	Total \$m
COMPANY 2018					
Cash and bank balances					6,648
Financial institutions	6,555	93	–	–	6,648
Cash collateral on securities borrowed and reverse repurchase agreements⁽¹⁾					28,437
Financial institutions	24,403	4,034	–	–	28,437
Trading assets					6,534
Governments	5,738	90	–	–	5,828
Financial institutions	460	27	–	–	487
Other	1	189	29	–	219
Derivative assets					10,668
Governments	368	–	–	–	368
Financial institutions	4,890	1,930	–	–	6,820
Other	2,124	1,356	–	–	3,480
Margin money and settlement assets					9,108
Governments	303	12	–	–	315
Financial institutions	4,388	826	14	–	5,228
Other	3,222	340	–	3	3,565
Other assets⁽²⁾					278
Governments	1	1	–	–	2
Financial institutions	14	156	–	–	170
Other	59	43	2	2	106
Financial investments					5,185
Governments	601	–	–	–	601
Financial institutions	4,548	–	–	–	4,548
Other	–	36	–	–	36
Loan assets⁽³⁾					49,833
Governments	58	12	–	–	70
Financial institutions	1,719	685	–	–	2,404
Other	27,753	17,888	1,447	271	47,359
Due from related body corporate entities					1,212
Other	1,212	–	–	–	1,212
Due from subsidiaries					27,841
Other	27,841	–	–	–	27,841
Total	116,258	27,718	1,492	276	145,744

(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				
CONSOLIDATED 2018								
Trading assets								
Other				33	33		–	33
Margin money and settlement assets								
Government	26	3	2	20	51		–	51
Financial institutions	6	2	1	9	18		–	18
Other	35	10	6	12	63		2	65
Other assets								
Other	4	–	–	–	4		3	7
Loan assets								
Financial institutions	1	–	–	–	1		–	1
Other	1,331	358	131	444	2,264		335	2,599
Total	1,403	373	140	518	2,434		340	2,774

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				
COMPANY 2018								
Trading assets								
Other	–	–	–	29	29		–	29
Margin money and settlement assets								
Government	–	–	–	–	–		–	–
Financial institutions	5	2	–	7	14		–	14
Other	–	–	–	–	–		3	3
Other assets								
Other	2	–	–	–	2		2	4
Loan assets								
Other	640	269	122	416	1,447		271	1,718
Total	647	271	122	452	1,492		276	1,768

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 ⁽¹⁾ \$m	Trading assets \$m	Derivative Assets \$m	Money Margin and Settlement Assets \$m	Other financial assets ⁽²⁾ \$m	Financial investments \$m	Loan assets \$m	Due from related body corporates \$m	Credit commitments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2018											
Australia											
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
Total Australia	3,854	3,088	4,576	2,092	2,151	441	4,202	58,317	256	2,620	81,597
Asia Pacific											
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
Total Asia Pacific	632	5,058	2,234	681	1,608	216	685	1,230	269	80	12,693
Europe, Middle East and Africa											
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
Total Europe, Middle East and Africa	913	13,336	230	4,352	4,232	400	86	6,035	697	1,150	31,431
Americas											
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
Total Americas	2,453	7,295	912	5,570	5,732	209	343	6,707	161	2,131	31,513
Total gross credit risk	7,852	28,777	7,952	12,695	13,723	1,266	5,316	72,289	1,383	5,981	157,234

(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 ⁽¹⁾ \$m	Trading assets \$m	Derivative assets \$m	Margin Money & Settlement Assets \$m	Other financial assets ⁽²⁾ \$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
COMPANY 2018												
Australia												
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
Asia Pacific												
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
Europe, Middle East and Africa												
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
Americas												
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
CONSOLIDATED						
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
COMPANY						
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
CONSOLIDATED 2019							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities ⁽¹⁾	7,757	–	7,757	–	–	–	7,757
Margin money and settlement liabilities	17,901	12,727	5,174	–	–	–	17,901
Derivative liabilities (trading) ⁽¹⁾	12,013	–	12,013	–	–	–	12,013
Derivative liabilities (hedging relationships) ⁽²⁾	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 ⁽³⁾	1,490	359	1,120	8	3	–	1,490
Bank borrowings	1,560	533	273	178	642	41	1,667
Debt issued ⁽⁴⁾	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 ⁽⁵⁾	4,550	–	129	700	2,466	2,368	5,663
Total	156,495	62,562	52,536	15,136	19,142	12,774	162,150
Contingent liabilities	–	–	2,836	–	–	–	2,836
Commitments	–	3,531	1,170	264	2,211	1,150	8,326
Total undiscounted contingent liabilities and commitments⁽⁶⁾	–	3,531	4,006	264	2,211	1,150	11,162

(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
CONSOLIDATED 2018							
Cash collateral on securities lent and repurchase agreements	5,380	1,734	3,013	224	–	412	5,383
Trading liabilities ⁽¹⁾	7,938	–	7,938	–	–	–	7,938
Margin money and settlement liabilities	16,575	12,060	4,514	–	–	–	16,574
Derivative liabilities (trading) ⁽¹⁾	11,291	–	11,291	–	–	–	11,291
Derivative liabilities (hedging relationships) ⁽²⁾	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 ⁽³⁾	1,602	653	857	92	3	–	1,605
Bank borrowings ⁽⁴⁾	5,223	1,331	735	257	1,715	1,342	5,380
Debt issued ⁽⁵⁾	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 ⁽⁶⁾	4,256	–	133	275	2,961	2,301	5,670
Total	156,650	61,800	43,920	14,543	27,237	17,011	164,510
Contingent liabilities	–	–	1,262	–	–	–	1,262
Commitments	–	1,763	79	909	1,562	1,840	6,153
Total undiscounted contingent liabilities and commitments⁽⁷⁾	–	1,763	1,341	909	1,562	1,840	7,415

(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
COMPANY 2019							
Cash collateral on securities lent and repurchase agreements	4,216	1,659	2,112	38	–	411	4,220
Trading liabilities ⁽¹⁾	8,375	–	8,375	–	–	–	8,375
Margin money and settlement liabilities	15,221	11,090	4,131	–	–	–	15,221
Derivative liabilities (trading) ⁽¹⁾	11,104	–	11,104	–	–	–	11,104
Derivative liabilities (hedging relationships) ⁽²⁾	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 ⁽³⁾	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 ⁽⁴⁾	4,550	–	129	700	2,466	2,368	5,663
Total	153,293	66,529	51,320	13,211	14,733	10,641	156,434
Contingent liabilities	–	–	3,892	–	–	–	3,892
Commitments	–	3,453	988	195	2,047	1,137	7,820
Total undiscounted contingent liabilities and commitments⁽⁵⁾	–	3,453	4,880	195	2,047	1,137	11,712

(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
COMPANY 2018							
Cash collateral on securities lent and repurchase agreements	5,380	1,734	3,013	224	–	412	5,383
Trading liabilities ⁽¹⁾	8,286	–	8,286	–	–	–	8,286
Margin money and settlement liabilities	14,343	10,749	3,594	–	–	–	14,343
Derivative liabilities (trading) ⁽¹⁾	9,660	–	9,660	–	–	–	9,660
Derivative liabilities (hedging relationships) ⁽²⁾	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 ⁽³⁾	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 ⁽⁴⁾	4,256	–	133	275	2,961	2,301	5,670
Total	148,542	60,465	46,893	12,764	21,082	12,445	153,649
Contingent liabilities	–	–	2,402	–	–	–	2,402
Commitments	–	1,582	79	287	1,418	1,834	5,200
Total undiscounted contingent liabilities and commitments⁽⁵⁾	–	1,582	2,481	287	1,418	1,834	7,602

(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
	CONSOLIDATED					
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
	COMPANY					
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
	CONSOLIDATED			
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	
CONSOLIDATED 2019									
Assets									
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 ⁽¹⁾	14,090	–	–	–	–	–	14,090	14,090	–
Financial investments									
Equity	–	–	260	–	–	–	260	260	–
Debt ⁽⁴⁾	–	–	80	5,130	–	–	5,210	5,210	–
Other assets ⁽²⁾	–	80	323	–	1,026	676	2,105	403	1,026
Loan assets ⁽⁴⁾	–	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	–	–
Total assets	31,592	226	23,934	5,130	104,299	4,241	169,442	60,882	104,344
Liabilities									
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 ⁽¹⁾	12,523	–	–	–	–	–	12,523	12,523	–
Deposits	–	–	–	–	56,120	–	56,120	–	56,177
Other liabilities ⁽³⁾	–	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 ⁽⁴⁾	–	2,087	–	–	31,500	–	33,587	2,087	31,617
Deferred tax liabilities	–	–	–	–	–	134	134	–	–
Loan capital ⁽⁴⁾	–	–	–	–	4,550	–	4,550	–	4,591
Total liabilities	20,280	4,354	–	–	131,861	1,687	158,182	24,634	132,088

(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	\$m		
Assets									CONSOLIDATED 2018	
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 ⁽¹⁾	12,695	-	-	-	-	-	12,695	12,695	-	
Financial investments										
Equity	-	339	-	78	-	-	417	417	-	
Debt ⁽⁴⁾	-	72	-	5,244	-	-	5,316	5,316	-	
Other assets ⁽²⁾	-	143	648	-	1,123	1,800	3,714	791	1,123	
Loan assets ⁽⁴⁾	-	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	-	-	
Total assets	27,589	707	648	5,322	125,008	13,944	173,218	34,266	125,279	
Liabilities										
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 ⁽¹⁾	11,788	-	-	-	-	-	11,788	11,788	-	
Deposits	-	-	-	-	48,371	-	48,371	-	48,387	
Other liabilities ⁽³⁾	-	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 ⁽⁴⁾	-	1,839	-	-	39,685	-	41,524	1,839	39,918	
Deferred tax liabilities	-	-	-	-	-	586	586	-	-	
Loan capital ⁽⁴⁾	-	-	-	-	4,256	-	4,256	-	4,422	
Total liabilities	19,726	2,632	-	-	134,292	3,465	160,115	22,358	134,741	

(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
COMPANY 2019									
Assets									
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 ⁽¹⁾	12,249	–	–	–	–	–	12,249	12,249	–
Financial investments									
Equity	–	–	191	–	–	–	191	191	–
Debt ⁽⁵⁾	–	–	80	5,044	–	–	5,124	5,124	–
Other assets ⁽²⁾	–	–	46	–	851	372	1,269	46	802
Loan assets ^{(3),(5)}	–	146	468	37,698	15,628	–	53,940	38,312	15,722
Due from related body corporate entities ⁽²⁾	–	–	–	–	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	–	–
Total assets	26,209	146	22,098	42,742	65,043	7,394	163,632	91,195	65,088
Liabilities									
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 ⁽¹⁾	11,330	–	–	–	–	–	11,330	11,330	–
Deposits	–	–	–	–	56,033	–	56,033	–	56,090
Other liabilities ⁽⁴⁾	–	–	–	–	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 ⁽⁵⁾	–	2,087	–	–	24,427	–	26,514	2,087	24,586
Deferred tax liabilities	–	–	–	–	–	46	46	–	–
Loan capital ⁽⁵⁾	–	–	–	–	4,550	–	4,550	–	4,591
Total liabilities	19,705	3,827	–	–	129,761	1,204	154,497	23,532	130,049

(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		
Assets									COMPANY 2018	
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 ⁽¹⁾	10,668	–	–	–	–	–	10,668	10,668	–	
Financial investments										
Equity	–	317	–	45	–	–	362	362	–	
Debt ⁽⁵⁾	–	72	–	5,113	–	–	5,185	5,185	–	
Other assets ⁽²⁾	–	–	–	–	679	658	1,337	–	604	
Loan assets ^{(3),(5)}	–	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	–	–	
Total assets	22,491	541	–	5,158	123,613	9,830	161,633	28,190	123,665	
Liabilities										
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 ⁽¹⁾	10,043	–	–	–	–	–	10,043	10,043	–	
Deposits	–	–	–	–	48,220	–	48,220	–	48,236	
Other liabilities ⁽⁴⁾	–	–	–	–	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 ⁽⁵⁾	–	–	–	–	4,256	–	4,256	–	4,422	
Total liabilities	18,329	1,839	–	–	128,374	1,691	150,233	20,168	128,827	

(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:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2:	inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3:	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The appropriate level for an instrument is determined on the basis of the lowest level input that is significant to the fair value measurement.

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
CONSOLIDATED 2019				
Assets				
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
Total assets	13,091	23,924	67,329	104,344
Liabilities				
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
Total liabilities	56,820	70,097	5,171	132,088
CONSOLIDATED 2018				
Assets				
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
Total assets	15,859	45,237	64,183	125,279
Liabilities				
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
Total liabilities	54,072	73,636	7,033	134,741

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
COMPANY 2019				
Assets				
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
Total assets	10,299	42,624	12,165	65,088
Liabilities				
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
Total liabilities	54,966	75,083	–	130,049
COMPANY 2018				
Assets				
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
Total assets	11,510	66,270	45,885	123,665
Liabilities				
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
Total liabilities	53,574	75,253	–	128,827

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
CONSOLIDATED 2019				
Assets				
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
Total assets	17,467	42,068	1,347	60,882
Liabilities				
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
Total liabilities	6,763	17,553	318	24,634
CONSOLIDATED 2018				
Assets				
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
Total assets	14,422	18,919	925	34,266
Liabilities				
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
Total liabilities	7,009	14,996	353	22,358

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
COMPANY 2019				
Assets				
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 ⁽¹⁾	–	568	37,744	38,312
Due from subsidiaries ⁽²⁾	–	–	736	736
Interests in associates and joint ventures – loans	–	–	3	3
Total assets	14,888	36,841	39,466	91,195
Liabilities				
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
Total liabilities	7,235	16,136	161	23,532
COMPANY 2018				
Assets				
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
Total assets	13,542	14,139	510	28,191
Liabilities				
Trading liabilities	6,703	1,583	–	8,286
Derivative liabilities	483	9,429	131	10,043
Debt issued	–	1,833	6	1,839
Total liabilities	7,186	12,845	137	20,168

(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) ⁽²⁾ \$m	Total \$m
CONSOLIDATED 2018									
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 ⁽³⁾	70	31	–	–	–	–	–	4	105
Transfers out of Level 3 ⁽³⁾	(4)	(15)	–	–	–	–	–	(5)	(24)
Fair value movements recognised in the income statement ⁽¹⁾	1	(1)	–	–	–	–	–	21	21
Fair value movements recognised in OCI ⁽¹⁾	–	(24)	–	–	–	–	–	–	(24)
Balance as at 31 Mar 18	170	138	1	–	–	(1)	(6)	270	572
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year ⁽¹⁾	(2)	10	–	–	–	(2)	–	(28)	(22)
CONSOLIDATED 2019									
Balance as at 1 Apr 18	170	138	1	–	–	(1)	(6)	270	572
Change on initial application of AASB 9	–	1	1	72	3	–	–	–	77
Restated balance as at 1 Apr 18	170	139	2	72	3	(1)	(6)	270	649
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 ⁽³⁾	8	60	–	–	–	–	–	12	80
Transfer out of Level 3 ⁽³⁾	–	–	–	–	–	–	–	13	13
Fair value movements recognised in the income statement ⁽¹⁾	(8)	17	–	–	–	–	–	(45)	(36)
Fair value movements recognised in OCI ⁽¹⁾	–	(3)	–	–	–	–	–	–	(3)
Balance as at 31 Mar 19	172	576	–	50	3	–	–	228	1,029
Fair value movements for the financial year included in the income statement for assets and liabilities held at the end of the financial year ⁽¹⁾	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) ⁽²⁾ \$m	Total \$m
COMPANY 2018								
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 ⁽³⁾	68	20	–	–	–	–	–	88
Transfers out of Level 3 ⁽³⁾	(2)	(18)	–	–	–	(1)	4	(17)
Fair value losses recognised in the income statement ⁽¹⁾	(5)	–	–	–	–	–	(58)	(64)
Fair value losses recognised in other comprehensive income ⁽¹⁾	–	(14)	–	–	–	–	–	(14)
Balance as at 31 Mar 18	130	102	–	–	–	(6)	147	373
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 ⁽¹⁾	(5)	10	–	–	–	–	(58)	(53)
COMPANY 2019								
Balance at 1 Apr 18	130	102	–	–	–	(6)	147	373
Change on initial application of AASB 9	–	–	31,642	865	3	–	–	32,510
Restated balance as at 1 Apr 18	130	102	31,642	865	3	(6)	147	32,883
Purchases, originations, issuances and other additions	40	370	11,271	74	–	–	57	11,812
Sales, settlements and repayments	(38)	(32)	(5,147)	(200)	–	6	(29)	(5,440)
Transfers into Level 3 ⁽³⁾	9	67	–	–	–	–	(4)	72
Transfers out of Level 3 ⁽³⁾	–	–	–	–	–	–	17	17
Fair value losses recognised in the income statement ⁽¹⁾	(12)	18	(22)	(3)	–	–	(17)	(36)
Fair value losses recognised in other comprehensive income ⁽¹⁾	–	(3)	–	–	–	–	–	(3)
Balance as at 31 Mar 19	129	522	37,744	736	3	–	171	39,305
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 ⁽¹⁾	(7)	(3)	(22)	(3)	–	–	(17)	(52)

(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)
Balance at the end of the financial year	183	178	152	144

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
CONSOLIDATED 2019				
Product type				
Equity and equity-linked products	7	–	(11)	–
Commodities	99	–	(106)	–
Interest rate and other products	12	–	(11)	–
Total	118	–	(128)	–
CONSOLIDATED 2018				
Product type				
Equity and equity-linked products	1	7	(1)	(4)
Commodities	47	–	(51)	–
Interest rate and other products	17	–	(17)	–
Total	65	7	(69)	(4)

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
COMPANY 2019				
Product type				
Equity and equity-linked products	4	–	(8)	–
Commodities	47	–	(58)	–
Interest rate and other products ⁽¹⁾	3	–	(3)	–
Total	54	–	(69)	–
COMPANY 2018				
Product type				
Equity and equity-linked products	–	6	–	(2)
Commodities	35	–	(41)	–
Interest rate and other products	6	–	(6)	–
Total	41	6	(47)	(2)

(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
CONSOLIDATED 2019						
Equity and equity-linked products	82	–	Market comparability Pricing model	Price in % ⁽¹⁾ 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 ⁽²⁾ Correlation Price in % ⁽¹⁾	0.0%	100%
Total	1,347	317				
CONSOLIDATED 2018						
Equity and equity-linked products	101	29	Market comparability Pricing model	Price in % ⁽¹⁾ 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 ⁽²⁾ Correlation Price in % ⁽¹⁾	0.0%	95.0%
Total	925	353				

(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 ⁽¹⁾		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 ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m			
CONSOLIDATED 2019								
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
Total assets	62,836	(19,893)	42,943	(7,901)	(29,494)	5,548	16,313	59,256
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)
Total liabilities	(53,490)	19,893	(33,597)	7,901	4,769	(20,927)	(17,834)	(51,431)

(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 ⁽¹⁾					
Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m	
CONSOLIDATED 2018								
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
Total assets	62,497	(20,376)	42,121	(8,269)	(27,808)	6,044	14,457	56,578
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)
Total liabilities	(51,444)	20,376	(31,068)	8,269	5,538	(17,261)	(16,668)	(47,736)

(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 ⁽¹⁾		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 ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m			
COMPANY 2019								
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
Total assets	103,639	(41,771)	61,868	(6,945)	(28,735)	26,188	13,873	75,741
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)
Total liabilities	(78,430)	41,771	(36,659)	6,945	4,563	(25,151)	(19,330)	(55,989)

(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 ⁽¹⁾		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 ⁽²⁾ \$m	Cash and other financial collateral ⁽³⁾ \$m			
COMPANY 2018								
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
Total assets	104,219	(39,684)	64,535	(7,181)	(27,169)	30,185	12,731	77,266
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)
Total liabilities	(72,855)	39,684	(33,171)	7,181	5,171	(20,819)	(18,974)	(52,145)

(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 ⁽¹⁾	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
Total pledged assets⁽²⁾	12,766	18,937

(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
CONSOLIDATED 2019					
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)
Total financial assets not derecognised	1,895	(1,884)	290	(307)	(17)
CONSOLIDATED 2018					
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)
Total financial assets not derecognised	3,798	(3,749)	595	(613)	(18)

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
	COMPANY 2019				
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 ⁽¹⁾	5,289	(5,289)	5,289	(5,290)	(1)
Total financial assets not derecognised	6,898	(6,866)	5,289	(5,290)	(1)
	COMPANY 2018				
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 ⁽¹⁾	4,593	(4,593)	4,593	(4,600)	(7)
Total financial assets not derecognised	7,800	(7,732)	4,593	(4,600)	(7)

(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
PwC – Australia				
Audit of the Group and controlled entities	10,607	8,781	8,481	7,597
Other assurance services ⁽¹⁾	2,335	3,658	713	713
Advisory services	213	214	–	–
Taxation	125	11	–	–
Total non-audit services	2,673	3,883	713	713
Total remuneration paid to PwC Australia	13,280	12,664	9,194	8,310
Network firms of PwC Australia				
Audit of the Group and controlled entities	8,577	8,180	2,497	2,070
Other assurance services ⁽¹⁾	512	299	–	–
Advisory services	–	604	–	–
Taxation	1,434	682	–	–
Total non-audit services	1,946	1,585	–	–
Total remuneration paid to network firms of PwC Australia	10,523	9,765	2,497	2,070
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
Total remuneration paid to PwC (Note 2)	23,803	22,429	11,691	10,380

(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
Operating profit from discontinued operations before income tax				
Net operating lease income ⁽¹⁾	459	694	–	–
Net interest (expense)/income ⁽²⁾	(3)	174	125	307
Fee and commission income ⁽³⁾	–	–	80	71
Net trading expense	(8)	(48)	(16)	(50)
Other operating income and charges ^{(4),(5),(6)}	435	341	1,006	903
Gain on disposal (Note 40(iii))	507	–	236	–
Net operating income	1,390	1,161	1,431	1,231
Operating expenses	(252)	(399)	(132)	(207)
Operating profit from discontinued operations before income tax	1,138	762	1,299	1,024
Income tax expense	(182)	(217)	(47)	(99)
Profit from discontinued operations after income tax	956	545	1,252	925
Other comprehensive (loss)/income:				
Net movement for period/year ⁽⁷⁾				
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	–	–
Other comprehensive (loss)/income from discontinued operations	(120)	102	–	–
Total comprehensive income from discontinued operations	836	647	1,252	925
Total comprehensive income from discontinued operations attributable to non-controlling interests	(1)	(4)	–	–
Total comprehensive income from discontinued operations attributable to the equity holder of the Company	835	643	1,252	925

(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 ⁽¹⁾	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	–
Total gain on disposal	507	236

(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
Assets		
Cash and bank balances	422	11
Other assets	641	27
Loan assets ⁽¹⁾	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	–
Total assets	13,834	3,876
Liabilities		
Deposits	(192)	–
Other liabilities	(1,195)	(40)
Bank borrowings	(5,113)	–
Debt issued	(37)	–
Due to subsidiaries	–	(62)
Deferred tax liabilities	(648)	–
Total liabilities	(7,185)	(102)
Net assets	6,649	3,774

(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
Foreign currency translation and net investment hedge reserve⁽¹⁾		
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)	–
Balance at the end of the period/year⁽²⁾	–	73
Cash flow hedging reserve⁽¹⁾		
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)	–
Balance at the end of the period/year⁽²⁾	–	47

(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
Net cash flow				
Cash (utilised in)/generated from operating activities	(183)	(37)	2	73
Cash generated from/(utilised in) investing activities	384	(11)	–	(135)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	201	(48)	2	(62)
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 ⁽¹⁾	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
Carrying value of assets and liabilities disposed of		
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)	–
Total carrying value of net assets	254	397
Consideration		
Cash consideration (net of cost of disposal)	591	116
Consideration receivable	2	351
Total consideration	593	467
Direct costs relating to disposal	(13)	(2)
Net cash flow		
Cash consideration	591	116
Less: Cash and cash equivalents disposed of or deconsolidated	(9)	(48)
Net cash inflow	582	68

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

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.

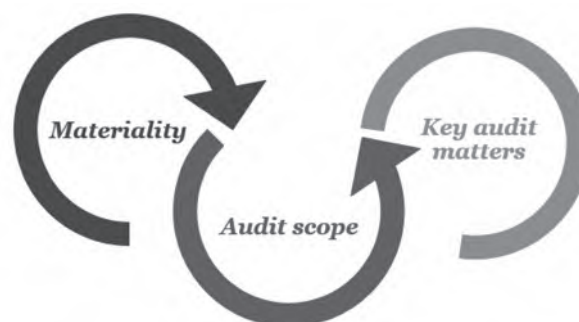
Our audit approach for the Consolidated Entity

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
Provision for expected credit losses on loan assets held at amortised cost (Refer to Note 11)	
<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"> – review and approval of certain forward looking information used in the key models – the accuracy of certain critical data elements used in key ECL models, and – the review and challenge forums to assess the ECL output and post model adjustments. <p>In addition to controls testing, we also performed substantive procedures including:</p> <ul style="list-style-type: none"> – 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 – testing the completeness and accuracy of certain critical data elements used in key ECL models – testing the reasonableness of certain forward looking economic data selected by the Consolidated Entity, and – assessing certain post model adjustments identified by the Consolidated Entity <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
Valuation of financial assets and liabilities held at fair value (Refer to Note 36)	
<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"> – approval and validation of the models adopted – accuracy of data and inputs to models – the Consolidated Entity's process for testing valuations, and – governance and review. <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>
IT systems and controls over financial reporting	
<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"> – the framework of governance over IT systems – controls over program development and changes – controls over access to programs, data and IT operations, and – governance over generic and privileged user accounts. <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>
Provisions for tax payable and deferred tax liabilities (Refer to Note 16 and 20)	
<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. 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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