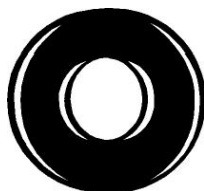


If you are in doubt as to any aspect of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

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 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](http://www.macquarie.com).

<b>Long-Term rating</b>		
	Rating	Outlook
<b>Moody's Investors Service</b>	A2	Stable
<b>S&amp;P Global Ratings</b>	A	Negative
<b>Fitch Ratings</b>	A	Stable

Source: [www.macquarie.com](http://www.macquarie.com), as at date of this document.

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 of 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 Warrantheolders (as defined in the Conditions) and has substantially no obligation to a Warrantheolder 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 Warrantheolder 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 Warrantheolder. 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 Warrantheolders 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 Warrantholders 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 Warrantholder (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 Warrantholder 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 Warrantholders;
- (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 Warrantholder 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 Warrantholder 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 Warrantholders. Warrantholders 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 Warrantholders 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 Warrantholders 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 impacted by adverse global credit and other market conditions as well as geopolitical events. Global economic conditions may have a negative impact 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, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In particular, past uncertainty and volatility in global credit markets, liquidity, increased funding costs, constrained access to funding, and the decline in equity and capital market activity have impacted and may again impact transaction flow in a range of industry sectors. If repeated, such factors could adversely impact the Issuer and its controlled entities ("**MBL Group**").

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 perception 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 U.S. and China relating to tariff levels and reciprocal trade between the two countries more generally, can adversely affect and have adversely affected investor and client confidence, resulting in declines in the size and number of underwritings, 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.

Governments, regulators and central banks globally have taken numerous steps to increase liquidity and to restore investor and public confidence since the global financial crisis. While the global economic environment has since improved, there can be no assurance as to the impact that the withdrawal of relief measures will have on global economic conditions on the MBL Group.

- (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 businesses, and we rely on credit and equity markets to fund our operations. Our liquidity may be impaired by an inability to access secured or unsecured debt markets, an inability to sell assets or 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 us or our trading clients, or changes in our credit spreads, which are continuous, market-driven, and subject at times to unpredictable and highly volatile movements.

General business and economic conditions are key considerations in determining 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, commodities prices, debt and equity capital markets, foreign exchange rates, consumer confidence and the strength of the economies in which we operate. Should conditions remain uncertain for a prolonged period, or deteriorate further, our funding costs may increase and may limit our ability to replace, in a timely manner, maturing liabilities, which could adversely affect our ability to fund and grow our business or otherwise have a material impact on us.

In the event that 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 their 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, all of which could affect the MBL Group

- (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 MBL Group own or manage assets and businesses that are regulated. 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 in most jurisdictions in which we operate. Certain regulatory developments will significantly alter the regulatory framework and may adversely affect our competitive position and profitability.

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 or impacts across our business. 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 the markets in which we operate 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 ("Royal Commission") was established in December 2017 with the final report expected to be released in February 2019. The Royal Commission may result in adverse findings against or relevant to the MBL Group and impose further regulatory measures on the banking industry.

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 exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in all cases. 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.

MBL is an Authorised Deposit-taking Institution ("ADI") regulated by The Australian Prudential Regulation Authority ("APRA"). 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 the Macquarie Group and could 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. 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, which could adversely affect the MBL Group.

- (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 and with counterparties around the world. 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 non-Australian currencies, our reported profit or foreign currency translation reserve would be affected.

Investors should be aware that exchange rate movements may adversely impact our future financial results. MBL Group's regulatory capital position 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 certain 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, and if any such risks eventuate they may have a negative impact on our businesses, prospects, results of operation or financial condition. 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 is substantially dependent 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.

The financial condition and results of operation of MBL Group may be indirectly adversely affected by the negative performance, or negative publicity 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 and results of operation.

We face significant competition from local and international competitors, which compete vigorously for participation in the various markets and sectors across which we operate. Furthermore, 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 trend toward 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 the MBL Group.

- (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 is largely dependent on the talents and efforts of highly skilled individuals. As such, 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 is expected 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 (including the potential for negative interest rates), exchange rates, equity and commodity prices, 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 increasingly complex, as we employ structured products to benefit our clients and ourselves, 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. These risks may impact the value of financial instruments and other financial assets that are carried at fair market value by the Issuer and its’ ability to deal in those assets. If these risks eventuate, they may have an impact on the MBL Group.

- (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 that can occur 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 a third party to satisfy its 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 broad and diversified set 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.

MGL 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 and 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 the MBL Group. Any failure by MGL 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 operation 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 are highly dependent 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, adversely affecting our ability to process these transactions or provide these services.

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 and reputational damage that could adversely affect the MBL Group. We also 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, we increasingly face the risk of operational failure with respect to our clients' and counterparties' systems.

- (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 are highly dependent 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.

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.

Despite efforts to protect the integrity of our systems and implement protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches. 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 the MBL Group.

- (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 MBL 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 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 materially adversely affect our reputation or business, including give rise to claims by and liabilities to clients, litigation or enforcement actions or discourage clients or counterparties to do business with us.

- (xx) Litigation, regulatory actions and contingent liabilities may adversely impact our results of operations.

We may, from time to time, be subject to material litigation, regulatory actions and contingent liabilities, 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 operation 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 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 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.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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 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 Warrantholders; Modification

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantholders. Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, 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 Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders 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 Warrantholders 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 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.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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 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 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 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 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 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 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 (if any) in the manner set out in Condition 4.
- (b) *Exercise Expenses.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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 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 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.

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 Warrantholders. 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 Warrantholders; Modification**

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantholders.

Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders 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 Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders 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 Warrantholders 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. 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 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 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 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 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 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, Warrantholders 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, Warrantholders 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 Warrantholders 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 Warrantholders after the exercise of the Warrants but prior to the credit of the Warrantholders' 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 Warrantholders 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 Warrantholders in accordance with Condition 4.
- (d) *No Rights.* Except as otherwise provided herein, the purchase of Warrants does not confer on the Warrantholder 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 Warrantholder 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 Warrantholder to the Cash Settlement Amount (if positive).

(d) *Election Notice.* The Election Notice shall:

- (i) declare and confirm that the Warrantholder 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 Warrantholder(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 Warrantholder has not less than the number of Warrants being exercised in the "Free" balance of such Warrantholder's securities account with CDP;
- (v) specify the number of the Warrantholder'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 Warrantholder'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 Warrantholder as soon as practicable after determination thereof by the Warrant Agent and shall be paid by the Warrantholder 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 Warrantholder 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 Warrantholder'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 Warrantholder 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 Warrantholder'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 Warrantholder. 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 Warrantholder's securities account with CDP as specified in the relevant Election Notice. Notwithstanding the foregoing, such delivery shall not take place until the Warrantholder 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 Warrantholder, all as set out above, on or before the original Physical Settlement Date, the Issuer shall procure that the exercising Warrantholder 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 Warrantholder. 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 Warrantholders the Dividend Amount five Business Days after the payment date of the relevant Dividend. In order to be entitled to the Dividend Amount, the Warrantholder 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 Warrantholders 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 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.

## 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 Warrantholders in accordance with Condition 10. 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 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 Warrantholders 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. 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 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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders. 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 Warrantholder 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 Warrantholder, and the Warrantholder 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 Warrantholder 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 Warrantholder 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 Warrantholders; Modification

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantholders. Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders 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 10.

## **10. Notices**

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

## **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 Warrantheolders, 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 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 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 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 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 Warrantholders 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 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 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 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.

**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 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) *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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders. 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 Warrantholders; Modification

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantheolder or to which a Warrantheolder is entitled or which the Issuer shall have agreed to deliver to a Warrantheolder may be delivered by hand or sent by post addressed to the Warrantheolder at his address appearing in the records maintained by CDP or, in the case of joint Warrantheolders, 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 Warrantheolder.
- (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. 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.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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 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 Warrantholders; Modification

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantholders.

Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, 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 Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders 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 Warrantholders 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 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 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 Warrantholder, 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.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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 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 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.

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 Warrantholders. 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 Warrantholders; Modification**

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantholders.

Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders 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 Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders 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 Warrantholders 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. 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 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 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 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 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 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 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.* Warrantholders 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 Warrantholders 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 Warrantholders 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.* Warrantholders 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 Warrantholders 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) *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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders. 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 Warrantholders; Modification

- (a) *Meetings of Warrantholders.* The Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders 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 Warrantheolder or to which a Warrantheolder is entitled or which the Issuer shall have agreed to deliver to a Warrantheolder may be delivered by hand or sent by post addressed to the Warrantheolder at his address appearing in the records maintained by CDP or, in the case of joint Warrantheolders, 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 Warrantheolder.
- (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. 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.

**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 four operating groups: Corporate & Asset Finance; Banking & Financial Services; Macquarie Asset Management (excluding the Macquarie Infrastructure and Real Assets division and the Macquarie Investment Management division); and Commodities & Global Markets (excluding certain assets of the Credit Markets business; certain activities of the Cash Equities business; and some other less financially significant activities).

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 Communications and Investor Relations Services, 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](http://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***Nicholas W Moore, BCom LLB (UNSW), FCA***Executive Voting Director since May 2008**Managing Director and Chief Executive Officer of Macquarie Group Limited since May 2008***Gary R Banks AO, BEc (Hons) (Monash), MEc (ANU)***Independent Voting Director since August 2013**Member of the Board Risk Committee***Gordon M Cairns, MA (Hons) (Edin)***Independent Voting Director since November 2014**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***Patricia A Cross, BSc (Hons) (Georgetown), FAICD***Independent Voting Director since August 2013**Chairman of the Board Risk Committee**Member of the Board Audit Committee***Diane J Grady AM, BA (Mills), MA (Hawaii), MBA (Harv), FAICD***Independent Voting Director since May 2011**Member of the Board Risk Committee***Michael J Hawker AM, BSc (Sydney), FAICD, SF Fin, FAIM, FIoD***Independent Voting Director since March 2010**Member of the Board Audit Committee**Member of the Board Risk Committee***Glenn R Stevens AC, BEc (Hons) (Sydney), MA (Econ) (UWO)***Independent Voting Director since November 2017**Member of the Board Risk Committee***Nicola M Wakefield Evans, BJuris/BLaw (UNSW), FAICD***Independent Voting Director since February 2014**Member of the Board Audit Committee**Member of the Board Risk Committee*

The Company Secretary of 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 2018 Financial Report is set out in the Appendix to this document and has been extracted from the Macquarie Bank 2018 Annual Report. References to page numbers in the Appendix

are to page numbers of the Macquarie Bank 2018 Annual Report. Copies of Macquarie Bank 2018 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 credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and information security, environmental and social, and data risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers 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 identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the MGL CEO with a secondary reporting line to the Board Risk Committee.

Please refer to Note 36 of the Macquarie Bank 2018 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 and FRS 109**

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 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 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, 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 placees.

### 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 2002/92/EC (as amended, the Insurance Mediation 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.

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 2018.
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 2017 and 31 March 2018 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 2018**



## FINANCIAL REPORT

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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The Financial Report was authorised for issue by the Board of Directors on 4 May 2018.

The Board of Directors has the power to amend and reissue the Financial Report.

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## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
Interest and similar income	2	<b>4,619</b>	4,778	<b>4,120</b>	4,276
Interest expense and similar charges	2	<b>(2,601)</b>	(2,608)	<b>(2,637)</b>	(2,490)
Net interest income		<b>2,018</b>	2,170	<b>1,483</b>	1,786
Fee and commission income	2	<b>890</b>	820	<b>503</b>	414
Net trading income	2	<b>1,881</b>	1,667	<b>1,192</b>	773
Net operating lease income	2	<b>937</b>	922	<b>37</b>	24
Share of net profits/(losses) of associates and joint ventures	2	<b>22</b>	(19)	<b>–</b>	–
Other operating income and charges	2	<b>415</b>	261	<b>2,022</b>	785
Net operating income		<b>6,163</b>	5,821	<b>5,237</b>	3,782
Employment expenses	2	<b>(1,487)</b>	(1,487)	<b>(1,094)</b>	(1,105)
Brokerage, commission and trading-related expenses	2	<b>(619)</b>	(626)	<b>(403)</b>	(427)
Occupancy expenses	2	<b>(124)</b>	(118)	<b>(89)</b>	(87)
Non-salary technology expenses	2	<b>(133)</b>	(158)	<b>(104)</b>	(123)
Other operating expenses	2	<b>(1,647)</b>	(1,699)	<b>(1,277)</b>	(1,319)
Total operating expenses		<b>(4,010)</b>	(4,088)	<b>(2,967)</b>	(3,061)
<b>Operating profit before income tax</b>		<b>2,153</b>	1,733	<b>2,270</b>	721
Income tax expense	4	<b>(570)</b>	(509)	<b>(251)</b>	(73)
<b>Profit after income tax</b>		<b>1,583</b>	1,224	<b>2,019</b>	648
(Profit)/loss attributable to non-controlling interests		<b>(1)</b>	12	<b>–</b>	–
<b>Profit attributable to equity holders of Macquarie Bank Limited</b>		<b>1,582</b>	1,236	<b>2,019</b>	648
Distributions paid or provided for on Macquarie Income Securities	5	<b>(14)</b>	(15)	<b>–</b>	–
<b>Profit attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,568</b>	1,221	<b>2,019</b>	648

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

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Profit after income tax</b>		<b>1,583</b>	1,224	<b>2,019</b>	648
Other comprehensive income/(expense):					
Movements in items that may be subsequently reclassified to profit or loss:					
Available for sale investments, net of tax:	27				
Revaluation (losses)/gains transferred to equity		<b>(33)</b>	11	<b>(15)</b>	36
Transferred to income statement on:					
Impairment		<b>12</b>	22	<b>11</b>	20
Sale or reclassification		<b>(80)</b>	(29)	<b>(68)</b>	(26)
Cash flow hedges, net movement taken to equity, net of tax	27	<b>77</b>	16	<b>24</b>	(12)
Share of other comprehensive expense of associates and joint ventures, net of tax	27	<b>(1)</b>	(1)	–	–
Exchange differences on translation of foreign operations, net of hedge and tax		<b>132</b>	(129)	–	3
Movements in items that will not be reclassified to profit or loss:					
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	27	<b>37</b>	(30)	<b>37</b>	(30)
Total other comprehensive income/(expense)		<b>144</b>	(140)	<b>(11)</b>	(9)
<b>Total comprehensive income</b>		<b>1,727</b>	1,084	<b>2,008</b>	639
Total comprehensive (income)/expense attributable to non-controlling interests		<b>(4)</b>	12	–	–
Total comprehensive income attributable to Macquarie Income Securities holders		<b>(14)</b>	(15)	–	–
<b>Total comprehensive income attributable to ordinary equity holders of Macquarie Bank Limited</b>		<b>1,709</b>	1,081	<b>2,008</b>	639

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

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## STATEMENTS OF FINANCIAL POSITION

### AS AT 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Assets</b>					
Receivables from financial institutions	6	36,629	25,565	35,085	23,907
Trading portfolio assets	7	14,894	26,637	11,823	20,609
Derivative assets		12,695	12,067	10,668	10,788
Investment securities available for sale	8	5,322	5,182	5,158	4,801
Other assets	9	9,287	8,646	5,583	5,179
Loan assets held at amortised cost	10	80,143	75,550	54,542	52,680
Other financial assets at fair value through profit or loss	12	707	760	542	594
Due from related body corporate entities		1,383	1,733	1,212	1,535
Due from subsidiaries	29	–	–	27,841	31,071
Property, plant and equipment	13	11,074	10,743	1,127	568
Interests in associates and joint ventures	14	727	203	432	53
Intangible assets	15	214	193	91	104
Investments in subsidiaries	16	–	–	7,390	9,331
Deferred tax assets	17	143	162	139	319
<b>Total assets</b>		<b>173,218</b>	<b>167,441</b>	<b>161,633</b>	<b>161,539</b>
<b>Liabilities</b>					
Trading portfolio liabilities	18	7,938	4,922	8,286	5,143
Derivative liabilities		11,788	11,101	10,043	10,280
Deposits	19	59,379	57,682	57,919	56,298
Other liabilities	20	8,845	9,375	5,712	6,216
Payables to financial institutions	21	11,653	14,236	9,011	11,212
Due to related body corporate entities	29	13,993	7,367	11,830	5,959
Due to subsidiaries	29	–	–	10,549	17,480
Debt issued at amortised cost	22	39,685	43,137	30,674	29,691
Other debt issued at fair value through profit or loss	23	1,992	1,934	1,839	3,921
Deferred tax liabilities	17	586	484	114	131
<b>Total liabilities excluding loan capital</b>		<b>155,859</b>	<b>150,238</b>	<b>145,977</b>	<b>146,331</b>
<b>Loan capital</b>	25	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>
<b>Total liabilities</b>		<b>160,115</b>	<b>154,853</b>	<b>150,233</b>	<b>150,946</b>
<b>Net assets</b>		<b>13,103</b>	<b>12,588</b>	<b>11,400</b>	<b>10,593</b>
<b>Equity</b>					
Contributed equity	26	9,928	9,911	9,821	9,812
Reserves	27	477	373	(3)	45
Retained earnings	27	2,686	2,296	1,582	736
<b>Total capital and reserves attributable to equity holders of Macquarie Bank Limited</b>		<b>13,091</b>	<b>12,580</b>	<b>11,400</b>	<b>10,593</b>
Non-controlling interests	27	12	8	–	–
<b>Total equity</b>		<b>13,103</b>	<b>12,588</b>	<b>11,400</b>	<b>10,593</b>

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

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total \$m	Non-controlling interests \$m	Total equity \$m
CONSOLIDATED							
Balance as at 1 April 2016		9,882	483	2,333	12,698	12	12,710
Profit after income tax		–	–	1,236	1,236	(12)	1,224
Other comprehensive expense, net of tax		–	(110)	(30)	(140)	–	(140)
Total comprehensive (expense)/income		–	(110)	1,206	1,096	(12)	1,084
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	(1,241)	(1,241)	–	(1,241)
Non-controlling interests:							
Change in non-controlling ownership interests	27	–	–	(2)	(2)	9	7
Distributions paid or provided for		–	–	–	–	(1)	(1)
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	26	29	–	–	29	–	29
		29	–	(1,243)	(1,214)	8	(1,206)
<b>Balance as at 31 March 2017</b>		<b>9,911</b>	<b>373</b>	<b>2,296</b>	<b>12,580</b>	<b>8</b>	<b>12,588</b>
Profit after income tax		–	–	<b>1,582</b>	<b>1,582</b>	<b>1</b>	<b>1,583</b>
Other comprehensive income, net of tax		–	<b>104</b>	<b>37</b>	<b>141</b>	<b>3</b>	<b>144</b>
Total comprehensive income		–	<b>104</b>	<b>1,619</b>	<b>1,723</b>	<b>4</b>	<b>1,727</b>
Transactions with equity holders:							
Dividends and distributions paid or provided for	5	–	–	<b>(1,224)</b>	<b>(1,224)</b>	–	<b>(1,224)</b>
Non-controlling interests:							
Change in non-controlling ownership interests	27	–	–	<b>(5)</b>	<b>(5)</b>	–	<b>(5)</b>
Other equity movements:							
Contribution from ultimate parent entity in relation to share-based payments	26	<b>17</b>	–	–	<b>17</b>	–	<b>17</b>
		<b>17</b>	–	<b>(1,229)</b>	<b>(1,212)</b>	–	<b>(1,212)</b>
<b>Balance as at 31 March 2018</b>		<b>9,928</b>	<b>477</b>	<b>2,686</b>	<b>13,091</b>	<b>12</b>	<b>13,103</b>

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**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018**  
 CONTINUED

	Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
COMPANY					
Balance as at 1 April 2016		9,808	24	1,344	11,176
Profit after income tax		–	–	648	648
Other comprehensive income/(expense), net of tax		–	21	(30)	(9)
Total comprehensive income		–	21	618	639
Transactions with equity holders:					
Dividends and distributions paid	5	–	–	(1,226)	(1,226)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	26	4	–	–	4
		4	–	(1,226)	(1,222)
<b>Balance as at 31 March 2017</b>		<b>9,812</b>	<b>45</b>	<b>736</b>	<b>10,593</b>
Profit after income tax		–	–	2,019	2,019
Other comprehensive (expense)/income, net of tax		–	(48)	37	(11)
Total comprehensive (expense)/income		–	(48)	2,056	2,008
Transactions with equity holders:					
Dividends and distributions paid	5	–	–	(1,210)	(1,210)
Other equity movements:					
Contributions from ultimate parent entity in relation to share-based payments	26	9	–	–	9
		9	–	(1,210)	(1,201)
<b>Balance as at 31 March 2018</b>		<b>9,821</b>	<b>(3)</b>	<b>1,582</b>	<b>11,400</b>

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

## STATEMENTS OF CASH FLOWS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

	Notes	CONSOLIDATED		COMPANY	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Cash flows from/(used in) operating activities</b>					
Interest and similar income received		4,628	4,835	4,157	4,316
Interest expense and similar charges paid		(2,612)	(2,558)	(2,646)	(2,447)
Fees and other non-interest income received		1,026	869	834	726
Fees and commissions paid		(696)	(662)	(567)	(457)
Operating lease income received		1,855	1,627	292	59
Dividends and distributions received		26	14	1,489	745
Employment expenses paid		(1,318)	(1,297)	(1,084)	(1,091)
Operating expenses paid		(1,800)	(1,756)	(1,327)	(1,504)
Income tax paid		(99)	(176)	(6)	(98)
Changes in operating assets and liabilities:					
Net receipts from trading portfolio assets and other assets/liabilities		3,526	4,069	(1,821)	3,805
Net movement in deposits		1,493	5,559	1,451	5,448
Net movement in debt issued at amortised cost		(3,857)	(11,362)	207	(10,120)
Net movement in payables to financial institutions and other borrowings		(899)	(3,971)	(812)	(3,940)
Net movement in loan assets in balances with related entities		2,699	318	992	4,310
Net margin money (paid)/received		(105)	(1,113)	627	(213)
Net payments for assets under operating lease		(1,206)	(301)	(878)	(245)
Life business:					
Life investment linked contract premiums received, disposal of investment assets and other unitholder contributions		1,104	1,181	–	–
Life investment linked contract payments, acquisition of investment assets and unitholder redemptions		(1,099)	(1,077)	–	–
Net cash flow from/(used in) operating activities	28	2,666	(5,801)	908	(706)
<b>Cash flows from investing activities</b>					
Net proceeds from investment securities available for sale and financial instruments designated at fair value		197	2,547	60	2,415
Proceeds from the disposal or capital return of associates, subsidiaries and businesses, net of cash deconsolidated		224	1,487	3,029	386
Payments for the acquisition of associates or capital contribution, subsidiaries and businesses, net of cash acquired		(273)	(152)	(831)	(2,178)
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		(109)	(151)	(18)	(29)
Net cash flows from investing activities		74	3,731	2,240	594
<b>Cash flows used in financing activities</b>					
Proceeds from the issue of loan capital		–	980	–	980
Payments on redemption of loan capital		(330)	(221)	(330)	(221)
Proceeds from non-controlling interests		–	6	–	–
Dividends and distributions paid		(1,224)	(1,241)	(1,210)	(1,226)
Net cash flows used in financing activities		(1,554)	(476)	(1,540)	(467)
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,186	(2,546)	1,608	(579)
Cash and cash equivalents at the beginning of the financial year		10,164	12,710	8,122	8,701
<b>Cash and cash equivalents at the end of the financial year</b>	28	11,350	10,164	9,730	8,122

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

### 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, 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 entity for the purpose of preparing the 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.

##### Historical cost convention

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

Fair value measurement basis – derivative financial instruments, trading portfolio assets and liabilities, investment securities available for sale, other financial assets and other financial liabilities designated at fair value through profit or loss, and non current assets and disposal groups held for sale where the fair value less cost of disposal is less than their carrying value.

Amortised cost adjusted for changes in fair value attributable to the risk being hedged – recognised financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships.

##### 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 Macquarie Bank Limited and its subsidiaries (Consolidated Entity) and the consolidated Financial Report such as:

- fair value of financial assets and financial liabilities including accounting for day 1 profit or loss (Note 37)
- impairment of loan assets held at amortised cost, investment securities available for sale, interests in associates and joint ventures and assets under operating lease (Notes 1(xiii), 1(xv), 1(xvii), 8, 10, 13, 14)
- 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 34)
- determination of significant influence over associates and joint control over joint ventures (Note 1(ii))
- recoverability of deferred tax assets and measurement of current and deferred tax liabilities (Notes 1(vii), 4 and 17)
- the impairment of goodwill and other identifiable intangible assets with indefinite useful lives (Notes 1(xviii) and 15)
- recognition and measurement of supplemental income, maintenance liabilities and end of lease compensation (Note 1(xx), 9 and 20).

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

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

##### New Australian Accounting Standards and amendments to Accounting Standards that are not yet effective

###### AASB 9 Financial Instruments

AASB 9 results in changes to accounting policies for financial assets and financial liabilities covering Classification and Measurement, Impairment and Hedge accounting. The Consolidated Entity will first apply AASB 9 in the financial year beginning 1 April 2018 and it will be applied retrospectively in respect of Classification and Measurement and Impairment, with no requirement to restate comparatives. The cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance sheet.

###### Classification and Measurement:

###### Financial assets

AASB 9 has three classification categories for financial assets; amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The classification is based on the business model under which the financial instrument is managed and its contractual cash flows.

Compared to AASB 139, the FVTOCI and amortised cost categories will be added and held-to-maturity, loans and receivables and available-for-sale classification categories will be removed.

Under AASB 9, financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

The Consolidated Entity will apply the following policies for the newly adopted classification categories under AASB 9.

###### Amortised cost

A financial asset will be measured at amortised cost if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

###### FVTOCI

A financial asset will be measured at FVTOCI if both of 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 are solely payments of principal and interest on the principal amount outstanding.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

###### FVTPL

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the Consolidated Entity irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Consolidated Entity does not expect to make this election.

The Consolidated Entity may also irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

###### Business model assessment

The Consolidated Entity will determine 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:

- (i) how the performance of financial assets held within that business model are evaluated and reported to the Consolidated Entity's key management personnel;
- (ii) 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; and
- (iii) 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).

###### Financial liabilities:

The component of change in fair value of financial liabilities designated at fair value through profit or loss due to the Consolidated Entity's own credit risk is presented in other comprehensive income, unless this creates an accounting mismatch. If a mismatch is created or enlarged, all changes in fair value (including the effects of credit risk) are presented in profit or loss. Under AASB 139, this component was recognised in profit or loss. This treatment was early adopted prospectively from 1 October 2016.

###### Impairment:

AASB 9 replaces the incurred loss model of AASB 139 with an expected loss model, resulting in an acceleration of impairment recognition.

The impairment requirements apply to financial assets measured at amortised cost and FVTOCI, lease receivables, amounts receivable from contracts with customers as defined in AASB 15 Revenue from Contracts with Customers, loan commitments, certain letters of credit and financial guarantee contracts.

Under the expected credit loss model, the Consolidated Entity will apply a three-stage approach to measuring the expected credit loss (ECL) based on credit migration between the stages. 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 assessment of credit risk, and the estimation of ECL, will be unbiased and probability weighted, and incorporate all relevant available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable information about future events and economic conditions at the reporting date.

The impairment allowance is intended to be more forward looking under AASB 9.

###### (i) Stage 1 – 12 month ECL

At initial recognition, ECL is measured as the product of the 12 month PD, LGD and EAD, adjusted for forward-looking information.

###### (ii) Stage 2 – Lifetime ECL not credit-impaired

When there has been a significant increase in credit risk (SICR), the ECL is increased to reflect the product of the lifetime PD, LGD and EAD, adjusted for forward-looking information.

###### (iii) Stage 3 – Lifetime ECL credit-impaired

An ECL is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the effective interest rate (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 forward-looking information.

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

The ECL is measured as the product of the lifetime PD, LGD and EAD adjusted for forward-looking information or by discounting the difference between the contractual and expected cash flows from the individual exposure using the credit-adjusted effective interest rate, with increases and decreases in the measured ECL from the date of origination or purchase being recognised in profit or loss as an impairment expense or gain.

Credit impaired assets generally match the Australian Prudential Regulatory Authority (APRA) definition of default which includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

###### Hedge accounting:

The new hedge accounting requirements under AASB 9 simplify hedge accounting by more closely aligning hedge relationships with Macquarie Bank's risk management activities. Hedge accounting may be applied to a greater variety of hedging instruments and related hedged risks. Hedge effectiveness testing will be less prescriptive under the new standard and make achieving hedge accounting more likely.

The new standard does not explicitly address the accounting for macro hedging activities and includes the choice to retain the current hedge accounting requirements of AASB 139 until an amended standard as an outcome of the IASB's project on macro hedge accounting is effective. The Consolidated Entity has early adopted the hedge accounting requirements under AASB 9 prospectively for the reporting period beginning 1 April 2018. Enhanced disclosures required by amendments to AASB 7 Financial Instruments Disclosures relating to hedge accounting will be required in the Consolidated Entity's Financial Report for the financial year beginning 1 April 2018.

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## NOTE 1

### Summary of significant accounting policies continued

#### (i) Basis of preparation continued

##### Transition:

The Consolidated Entity will record a transition adjustment to opening balance sheet, retained earnings and other comprehensive income at 1 April 2018 for the impact of the adoption of the classification and measurement, and impairment requirements of AASB 9.

The transition adjustment will reduce the Consolidated Entity's shareholders' equity by approximately \$125 million after tax and will not have a material impact on the Consolidated Entity's minimum regulatory capital requirements. The estimated transition adjustment relates primarily to the implementation of the impairment requirements, which will reduce opening retained earnings by \$150 million after tax. The Consolidated Entity will not restate comparatives.

The Consolidated Entity will continue to refine and validate components of the ECL impairment models and develop related technology solutions and controls during the financial year ending 31 March 2019.

The adoption of the Classification and Measurement requirements of the standard will result in measurement differences when compared to those under AASB 139. The most significant change is approximately \$17,000 million of financial assets measured at amortised cost will be recognised at FVTPL on adoption. The impacted instruments are primarily short-term reverse repurchase agreements and the fair value re-measurement is included in the above. There are no other material changes in measurement categories expected.

In the separate financial statements of the Company, adoption will result in additional credit provisioning in relation to amounts due from subsidiaries. In addition, the Company will measure certain loan assets and amounts due from subsidiaries, currently measured at amortised costs, at FVOCI and FVTPL respectively. The total transition impact to the Company's shareholders' equity on transition is a reduction of approximately \$100 million.

##### AASB 7 Financial Instruments: Disclosures

AASB 7 has been amended to include more extensive qualitative and quantitative disclosure relating to AASB 9, such as new financial instrument classification categories which will impact disclosures related to the statement of financial performance as well as introducing new qualitative and quantitative disclosure requirements for the three stage impairment model. The amendment also includes new hedge accounting disclosures and transition disclosures related to the adoption of AASB 9.

##### AASB 2017-6 Amendments to Australian Accounting Standards – Prepayments features with negative compensation.

AASB 2017-6 amends AASB 9 to permit entities to measure at amortised cost or fair value through other comprehensive income, particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

AASB 2017-6 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity will early adopt 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 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. Such long term interests are accounted under AASB 9 before applying the loss allocation and impairment requirements in AASB 128 Investments in Associates and Joint Ventures. These long term interests are in the nature of debt instruments. Macquarie will calculate the expected credit losses on these long-term interests under the AASB 9 impairment model.

AASB 2017-6 is effective for annual periods beginning on or after 1 January 2019. The Consolidated Entity will early adopt the amendment in the financial year beginning 1 April 2018. The impact of this amendment is included in the transition adjustment for AASB 9.

##### AASB 15 Revenue from Contracts with Customers

AASB 15 replaces all current guidance on revenue recognition from contracts with customers. It requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of the goods or services are transferred to the customer. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component will occur when the uncertainties around its measurement are removed.

AASB 15 also specifies the accounting treatment for costs incurred to obtain or fulfil a contract. Costs are recognised as an asset only if the entity expects to recover them. Any capitalised contract costs are amortised on a systematic basis that is consistent with the transfer of the related goods and services.

In 2016, the AASB issued clarifying amendments to AASB 15. These amendments provided additional application guidance but did not alter the underlying requirements of the standard.

The Consolidated Entity will first apply AASB 15 in the financial year beginning 1 April 2018, retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings, with no comparatives restatement.

AASB 15 specifically excludes financial instruments recognised under AASB 9 Financial Instruments. As such, the impacted revenue streams for Macquarie Bank are limited to fee-based revenue items such as brokerage and commissions and portfolio administration fees.

Macquarie Bank's assessment of revenue streams existing at transition has concluded. Based on this assessment, neither the Consolidated Entity or the Company will be materially impacted upon adoption and no transition adjustment is required. The application of the requirements of AASB 15 are broadly consistent with Macquarie Bank's current accounting policies.

The Consolidated Entity and the Company expects presentation changes in the income statements relating to certain charges from subsidiaries and related body corporate entities under fee sharing and other arrangements, previously recognised net of any associated revenue.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies continued

##### (i) Basis of preparation continued

###### AASB 16 Leases

AASB 16 replaces the current AASB 117 *Leases* standard and sets out a comprehensive model for identifying lease arrangements and the subsequent measurement. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The majority of leases from the lessee perspective within the scope of AASB 16 will require the recognition of a 'right-of-use' asset and a related lease liability, being the present value of future lease payments. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense. Classification of leases from the Consolidated Entity's perspective as lessor remains unchanged under AASB 16.

Unless early adopted, AASB 16 is effective for the Consolidated Entity for the annual periods beginning 1 April 2019. The Consolidated Entity is expected to apply the standard retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. Alternative methods of calculating the 'right-of-use' asset are allowed under AASB 16 which impact the size of the transition adjustment. The Consolidated Entity is still evaluating which method to apply.

An initial assessment has been performed based on operating leases that exist in the current reporting period. Based on this assessment it is not anticipated that there will be a material impact to retained earnings. This assessment is subject to the composition of operating leases at the date of transition. A schedule of current operating lease commitments is disclosed in Note 33.

###### AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions

The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The requirements would be effective for the Consolidated Entity on 1 April 2018. The Consolidated Entity has early adopted this amendment from 1 April 2017. Retrospective application did not have a material impact on the financial position nor performance of the Consolidated Entity or the Company.

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

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. It requires 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, 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 come to light.

Interpretation 23 will apply to the Consolidated Entity from 1 April 2019. An initial assessment has been performed and based on this assessment it is not expected that the implementation of Interpretation 23 will materially impact the Consolidated Entity's or the Company's statement of financial position or income statement. This assessment is subject to the matters relevant at the date of transition.

##### (ii) Principles of consolidation

###### Subsidiaries

The consolidated financial report comprises the financial report of the Consolidated Entity. Subsidiaries are all those entities (including structured entities) in relation to which the Consolidated Entity has:

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

The determination of control is based on current facts and circumstances and is continuously assessed.

The Consolidated Entity has power over an entity when it has existing substantive rights that give it the current ability to direct the entity's relevant activities. Relevant activities are those activities that significantly affect the entity's returns. The Consolidated Entity evaluates whether it has the power to direct the relevant activities. The Consolidated Entity also considers the entity's purpose and design. If the Consolidated Entity determines that it has power over an entity, the Consolidated Entity then evaluates whether it has exposure or rights to variable returns that, in aggregate, are significant. All variable returns are considered including, but not limited to, returns from debt or equity investments, guarantees, liquidity arrangements, variable fees and certain derivative contracts.

###### Structured entities

Structured entities (SEs) are those entities where voting rights do not have a significant effect on its investors' returns, including where voting rights relate to administrative tasks only and contractual arrangements dictate how the entity should carry out its activities. When assessing whether the Consolidated Entity controls (and therefore consolidates) 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, 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.

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### Summary of significant accounting policies continued

#### (ii) Principles of consolidation continued

##### Consolidation

The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Non-controlling interests (NCI) in the results and equity of subsidiaries, where the Consolidated Entity owns less than 100% of the issued capital, are shown separately in the consolidated income statements, consolidated statements of comprehensive income and consolidated statements of financial position.

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 commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The 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 to complete. 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 in accordance with AASB 127 Separate Financial Statements.

##### 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. Investment in associates and joint ventures that are accounted for under the equity method except those which are classified as held for sale and loans to associates and joint ventures are accounted for under effective interest rate method. 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 statements, and the share of the post-acquisition movements in reserves in the consolidated statements of comprehensive income. Dividends or distributions from associates or joint ventures reduce the carrying amount of the investment.

The Consolidated Entity determines the dates of obtaining or losing significant influence or joint control of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to significantly influence or jointly control the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice, and whether regulatory approval is required to complete. The acquisition or disposal date does not necessarily occur when the transaction is closed or finalised under law.

##### (iii) Business combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the aggregate of the fair values (at the acquisition date) of assets acquired, equity instruments issued or liabilities incurred or assumed at the date of acquisition. Transaction costs arising on the issue of equity instruments are recognised

directly in equity, and those arising on borrowings are capitalised and included in interest expense using the effective interest method.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date. The Consolidated Entity can elect, on a transaction-by-transaction basis, to measure 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. The excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets acquired is recorded as goodwill. If the consideration is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the consolidated income statements, but only after a reassessment of the identification and measurement of the net assets acquired. For contingent consideration provided, the amount is subsequently remeasured to its fair value with changes recognised in the consolidated income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Distinguishing between whether assets or a business is acquired involves judgement. Some of the factors that the Consolidated Entity uses in identifying a business combination are:

- the nature of the Consolidated Entity's industry and business model, which affects the nature of an input, process or output
- whether the acquisition included at least a majority of the critical inputs (for example tangible or intangible assets, and intellectual property) and a majority of the critical processes (for example strategic processes, skilled and experienced workforce)
- the relative ease of replacing the critical processes not acquired by either integrating within the Consolidated Entity's existing processes or sub-contracting them to third parties
- the presence of goodwill.

##### (iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management about components of the Consolidated Entity that are regularly reviewed by senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance. Information reported to 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 and geographical segments is based on the financial information used to produce the Consolidated Entity's financial statements.

##### (v) Foreign currency translation

###### Functional and presentation currency

Items included in the Group financial statements of foreign operations for each of the Groups' entities are measured using 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies *continued* Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gain and loss resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income (OCI) as a result of meeting cash flow hedge or net investment hedge accounting requirements (see Note 1(xii)).

Non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see Note 1(xii)).

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

On consolidation, exchange differences arising from the translation of any net investment in foreign operations and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve through OCI. When a foreign operation is disposed of or any borrowings forming part of the net investment are repaid, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### (vi) Revenue and expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

##### Net interest income

Interest income and interest expense are brought to account using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial instrument and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Fees and transaction costs associated with loans are capitalised and included in the effective interest rate and recognised in the income statement

over the expected life of the instrument. Interest income on finance leases is brought to account progressively over the life of the lease consistent with the outstanding investment balance.

##### Fee and commission income

Fee and commission income includes fees from fund management, brokerage, account servicing, underwriting and securitisation arrangements and is recognised as the related services are performed. Where commissions and fees are subject to clawback or meeting certain performance hurdles, they are recognised as income when it is highly probable those conditions will not affect the outcome.

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are capitalised and included in the effective interest rate and recognised in the income statement over the expected life of the instrument.

##### Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities and include all realised and unrealised fair value changes, dividends, ineffective hedge accounting movements and foreign exchange differences.

##### 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 depreciation expense.

##### Dividends and distributions

Dividends and distributions are recognised as income when the Consolidated Entity becomes entitled to the dividend or distribution. 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.

#### (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 to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts that are payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled under 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 directly in equity are also recognised directly in equity.

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### Summary of significant accounting policies *continued*

#### *(vii) Taxation continued*

The Consolidated Entity and the Company exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

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 MGL 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 asset or expensed to 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.

Cash flows are presented on a gross basis in the statement of cash flows.

#### ***(viii) Cash collateral on securities borrowed/lent and reverse repurchase/repurchase agreements***

As part of its trading activities, the Consolidated Entity borrows and lends securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

Reverse repurchase transactions, where the Consolidated Entity purchases securities under an agreement to resell, and repurchase transactions, where the Consolidated Entity sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase and repurchase agreements are not derecognised from the statements of financial position of the relevant parties, as the risks and rewards of ownership remain with the initial holder.

Cash provided as collateral on securities borrowed or on the reverse repurchase agreement is included in receivables from financial institution or other assets based on the counterparty, while cash received from third parties on securities lent or repurchase agreement is included in payables to financial institutions or other liabilities based on the counterparty.

The Consolidated Entity continually reviews the fair values of the securities on which the above transactions are based and, where appropriate, requests or provides additional collateral to support the transactions, in accordance with the underlying agreements.

#### ***(ix) Recognition and derecognition of financial instruments***

Financial instruments are recognised when the Consolidated Entity becomes a party to the contractual provisions of the instrument. Specific policies are provided for the various financial instrument categories below.

Financial assets are derecognised from the statement of financial position when the rights to cash flows have expired (for example because the borrower repays its obligations), the loan is sold and substantially all the risks and rewards of ownership are transferred.

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

Where an existing financial instrument is replaced by another with the same counterparty on substantially different terms, or the terms of an existing instrument are substantially modified, the exchange or modification is treated as a derecognition of the original instrument and the recognition of a new instrument, with the difference in the respective carrying amounts recognised in the income statement.

#### ***(x) Trading portfolio assets and liabilities***

Trading portfolio assets (long positions) comprise debt and equity securities, bank bills, treasury notes, bullion and commodities purchased with the intent of being actively traded. Trading portfolio liabilities (short positions) comprise obligations to deliver assets across the same trading categories, which the Consolidated Entity has short-sold with the intent of being actively traded.

Assets and liabilities included in the trading portfolio are carried at fair value (see Note 37). Commodities are measured at fair value less costs to sell, in accordance with the broker-trader exception. Realised and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise.

Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Consolidated Entity uses trade date accounting when recording regular way purchases and sales of trading portfolio financial assets. At the date a purchase transaction is entered into (trade date), the Consolidated Entity recognises the resulting financial asset 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 of a financial asset, and the derecognition criteria are met, it derecognises the asset and recognises a trade receivable from trade date until settlement date. The same trade date accounting applies for available for sale financial instruments and financial instruments designated at fair value through profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies *continued*

The Consolidated Entity uses trade date accounting when accounting for purchases and sales of trading portfolio financial liabilities.

#### *(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 for the risk management of existing financial assets and financial liabilities.

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently re-measured to their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models, as appropriate. Movements in the fair values of derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for hedge accounting.

The best evidence of a derivative's fair value at initial recognition is its transaction price, unless its fair value is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique for which variables include only data from observable markets. Where such alternative evidence exists, the Consolidated Entity recognises profit or loss immediately when the derivative is recognised ('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.

#### *(xii) Hedge accounting*

The Consolidated Entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Consolidated Entity documents the hedge relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The Consolidated Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether hedging relationships have been and will continue to be highly effective. Derivatives or financial instruments can be designated in one of three types of hedge relationships.

#### Cash flow hedges

For a derivative or financial instrument designated as hedging the variability in cash flows attributable to a particular risk associated with a recognised asset or liability (or a highly probable forecast transaction), the gain or loss on the derivative or financial instrument associated with the effective portion of the hedge is initially recognised in the cash flow hedging reserve through OCI and subsequently released to the income statement when the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement under net trading income.

#### Fair value hedges

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability (or an unrecognised firm commitment), the gain or loss on the derivative or financial instrument is recognised in the income statement immediately, together with the loss or gain on the hedged asset or liability that is attributable to the hedged risk.

#### Net investment hedges

For a derivative or borrowing designated as hedging a net investment in a foreign operation, the gain or loss on revaluing the derivative or borrowing associated with the effective portion of the hedge is recognised in the foreign currency translation reserve and subsequently released to the income statement when the foreign operation is disposed of. The ineffective portion is recognised in the income statement immediately.

The fair values of various financial instruments used for hedging purposes are disclosed in Note 35 – Derivative Financial Instruments. Movements in the cash flow hedging reserve in equity are shown in Note 27 – Reserves, retained earnings and non-controlling interests.

#### *(xiii) Investments and other financial assets*

With the exception of trading portfolio assets and derivatives, which are classified separately in the statement of financial position, the remaining investments in financial assets are classified into the following categories: loans and receivables, other financial assets at fair value through profit or loss and investment securities available for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for other financial assets at fair value through profit or loss, is re-evaluated at each balance date.

#### Loans and receivables

This category includes loan assets held at amortised cost, other receivables and amounts due from subsidiaries, which are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on settlement date, when cash is advanced to the borrower.

#### Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition.

Management may elect to designate a financial asset as such if:

- the asset contains embedded derivatives which must otherwise be separated and carried at fair value
- it is part of a group of financial assets 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 eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in Note 1(vi).

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### Summary of significant accounting policies *continued* *(xiii) Investments and other financial assets continued*

#### Investment securities available for sale

Investment securities in this category are available for sale and may be sold should the need arise, including for purposes of liquidity, or due to fair value movements resulting from the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair values are recognised through OCI in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices.

If the relevant market is not considered active (or the securities are unlisted), fair value is established by valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in Note 1(vi).

Dividends from equity securities available for sale are recognised in the income statement when the Consolidated Entity becomes entitled to the dividend or distribution as disclosed in Note 1(vi).

#### Life investment linked assets and liabilities

Life investment policies consist of two components: a financial instrument and an investment management fee. The investment management fee is recognised through the income statement over the period for which the service is provided, while the deposit component is designated at fair value through the profit or loss. Life investment contracts 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. Life investment linked assets are measured at fair value through the profit or loss, with any changes in fair value recognised in the income statement in the period in which they occur.

### *(xiv) Non-current assets and disposal groups classified as held for sale*

This category includes interests in businesses, subsidiaries and associates and joint ventures for which their carrying amount will be recovered principally through a sale or distribution transaction rather than continuing use, and subsidiaries held exclusively with a view to sale or distribute. These assets and disposal groups are classified as held for sale when it is highly probable that the asset will be sold or distributed within 12 months subsequent to being classified as such.

Where there is a planned partial disposal of a subsidiary resulting in loss of control, all of the assets and liabilities of the subsidiary are classified as held for sale.

Non-current assets and assets of disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These assets have not been equity accounted and depreciated.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell, limited by 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.

### *(xv) Impairment*

#### Loan assets held at amortised cost

Loan assets are subject to regular review and assessment for possible impairment. Provisions for impairment on loan assets are recognised based on an incurred loss model and re-assessed at each balance date. A provision for impairment is recognised when there is objective evidence of impairment, and is calculated based on the present value of expected future cash flows, discounted using the original effective interest rate.

Individually assessed provisions for impairment are recognised where impairment of individual loans are identified. Where individual loans are found not to be impaired, they are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but are not yet specifically identifiable.

The Consolidated Entity makes judgements as to whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Changes in assumptions used for estimating future cash flows could result in a change in the estimated provisions for impairment on loan assets at the end of a reporting period.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement to the extent of what the amortised cost would have been had the impairment not been recognised.

When the Consolidated Entity concludes that there is no reasonable expectation of recovering cash flows from the loan asset and all possible collateral has been realised, the loan 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.

#### Investment securities available for sale

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that available for sale financial assets have been impaired. Impairment exists if there is objective evidence of impairment as a result of one or more events (loss event) which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. In making this judgement, the Consolidated Entity evaluates, among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies *continued* (xv) *Impairment continued*

In the case of debt securities classified as available for sale, observable data that relates to loss events are considered, including adverse changes in the payment status of the issuer and national or local economic conditions that correlate with defaults on those assets.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

When the fair value of an available for sale financial asset is less than its initial carrying amount and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in OCI is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement for equity securities classified as available for sale are not subsequently reversed through the income statement. However impairment losses recognised for debt investment securities classified as available for sale are subsequently reversed through the income statement if the fair value increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

#### Interests in associates and joint ventures

The Consolidated Entity performs an assessment at each balance date to determine whether there is any objective evidence that its interests in associates and joint ventures are impaired. The entire carrying amount of each investment in associate and joint venture is considered in the assessment. The main indicators of impairment are as for equity securities classified as available for sale, disclosed above.

If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in the associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if there has been a change in the estimates used to determine the recoverable amount since the impairment loss was recognised.

#### (xvi) *Investments in subsidiaries*

Investments in subsidiaries 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 loss recognised for the amount by which the investment's carrying amount exceeds its recoverable amount (which is 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 the impairment recognised in income statement.

#### (xvii) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost (which includes directly attributable borrowing costs) less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for indicators of impairment (or possible reversal of previous impairment losses) at each reporting date. Historical cost includes expenditure directly attributable to the acquisition of the asset. Property, plant and equipment includes assets leased out under operating leases.

Depreciation on 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 rates:

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

- (1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.  
(2) Includes aircraft, for which depreciation is calculated on a diminishing-value basis.

Useful lives and residual values are reviewed annually and reassessed in light of commercial and technological developments. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount. Adjustments arising from such items and on disposal of property, plant and equipment are recognised in the income statement.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised in the income statement.

#### (xviii) *Goodwill and other identifiable intangible assets* Goodwill

Goodwill represents the excess of the consideration over the Consolidated Entity's share of the fair value of the identifiable net assets of the acquired entity or business at the date of acquisition. Goodwill arising from business combinations is included in intangible assets in the statement of financial position.

#### Other identifiable intangible assets

An intangible asset is considered to have an indefinite useful life where it is expected to contribute to the Consolidated Entity's net cash inflows indefinitely.

Licences and trading rights are 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.

Management rights have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and 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 are carried at cost less accumulated impairment loss.

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## NOTE 1

### Summary of significant accounting policies *continued* (xviii) *Goodwill and other identifiable intangible assets* *continued*

#### Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalised and amortised over the estimated useful life, usually a period of three to seven years. Cost incurred on software maintenance is expensed as incurred.

#### Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. For intangible assets that have a finite useful life, an assessment is made at each reporting date for indications of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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.

#### (xix) *Financial liabilities*

The Consolidated Entity has on issue debt securities and instruments which are initially recognised on settlement date at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowing using the effective interest method.

#### *Other debt issued at fair value through profit or loss*

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. Management may elect to designate a financial liability as such if:

- the liability contains embedded derivatives which must otherwise be separated and carried at fair value
- the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis in accordance with a documented risk management or
- investment strategy, and reporting is provided on that basis to key management personnel, or
- doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

For financial liabilities designated at fair value through profit or loss, the Consolidated Entity uses trade date accounting on recognition and settlement date accounting on derecognition of the obligation.

Interest expense on such items is recognised in the income statement as interest expense using the effective interest method. Changes in fair value due to the change in the Consolidated Entity's own credit are recognised in Other Comprehensive Income.

#### (xx) *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 it is 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 lease end.

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

#### (xxi) *Provisions*

##### *Employee benefits*

A liability for employee benefits is recognised by the entity that has the obligation to the employee. Generally, this is consistent with the legal position of the parties to the employment contract.

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the statement of financial position at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made.

In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or is transferred to another entity and the 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 1

#### Summary of significant accounting policies *continued* (xxii) *Performance based remuneration*

##### Share-based payments

The ultimate parent company, MGL operates share-based compensation plans, which include awards (including those delivered through the MEREP) granted to employees under share acquisition plans. Information relating to these schemes is set out in Note 31. The Consolidated Entity recognises an expense and a corresponding increase in equity in case of equity settled awards or a corresponding increase in liability in case of cash settled awards granted to employees. The awards are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense over the respective vesting periods.

Performance hurdles attached to PSUs under the MEREP are not taken into account when determining the fair value of the PSUs at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

##### Profit share remuneration

The Consolidated Entity recognises a liability and an expense for profit share remuneration to be paid in cash.

#### (xxiii) *Cash and cash equivalents*

Cash and cash equivalents comprise of:

- cash and short-term amounts included in receivables from financial institutions and loan assets at amortised cost with original contractual maturity of three months or less, and
- certain trading portfolio assets and debt securities with original contractual maturity of three months or less.

#### (xxiv) *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 the consolidated income statement.

#### (xxv) *Leases*

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 operating leases.

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 held at amortised cost. The difference between the gross receivable and the present value of the receivable is unearned interest income. Lease receipts are discounted using the interest rate implicit in the lease. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

Leases entered into by the Consolidated Entity as lessee are primarily operating leases. The total fixed payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Consolidated Entity is the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 2 to 50 years. Operating lease income is recognised on a straight-line basis over the period of the lease unless another systematic basis is more appropriate. Assets leased out under operating leases are included in property, plant and equipment.

#### (xxvi) *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the amounts and either there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously.

#### (xxvii) *Loan capital*

Loan capital is debt issued by the Consolidated Entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. 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 thereafter at amortised cost using the effective interest method. Capital instruments with conversion features (i.e. Common Equity Capital Trigger Event or Non-Viability Trigger Events) are considered to contain embedded derivatives and are accounted for separately at fair value through profit and loss if the derivative is deemed to not be closely related to the capital instrument.

#### (xxviii) *Contributed equity*

Ordinary shares 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.

#### (xxix) *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 the income statement.

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 the income statement.

When increasing or decreasing the ownership interests of a subsidiary that remains a subsidiary afterwards, the consideration exchanged is recognised directly in equity. Any changes in ownership of an associate that remains an associate only impacts the investment and does not create any profit or loss.

#### (xxx) *Discontinued operations*

A discontinued operation is 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. 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, if any, are presented separately on the face of the income statements.

#### (xxxii) *Comparatives*

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

#### (xxxiii) *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.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax</b>				
<b>Net interest income</b>				
Interest and similar income	4,619	4,778	4,120	4,276
Interest expense and similar charges	(2,601)	(2,608)	(2,637)	(2,490)
Net interest income	2,018	2,170	1,483	1,786
<b>Fee and commission income</b>				
Brokerage and commissions	369	369	250	247
Portfolio administration fee	274	237	21	7
Lending and securitisation fee	137	140	112	111
Other fee and commission income <sup>(1)</sup>	110	74	120	49
Total fee and commission income	890	820	503	414
<b>Net trading income<sup>(2)</sup></b>				
Equities	473	436	290	317
Commodities <sup>(3)</sup>	1,145	1,152	566	561
Credit, interest rate and foreign exchange products	263	79	336	(105)
Net trading income	1,881	1,667	1,192	773
<b>Net operating lease income</b>				
Rental income <sup>(4)</sup>	1,922	1,666	330	70
Depreciation on operating lease assets (Note 13)	(985)	(744)	(293)	(46)
Net operating lease income	937	922	37	24
<b>Share of net profits/(losses) of associates and joint ventures</b>	22	(19)	–	–

(1) Includes charges from other Macquarie Bank entities under fee sharing and other arrangements.

(2) Includes net fair value loss of \$26 million (2017: \$16 million loss) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This also includes the ineffective portion of hedges and fair value changes on derivatives used to economically hedge the Consolidated Entity's interest rate risk where hedge accounting requirements are not met. Refer to Note 1(xi) – Derivative instruments.

(3) Includes \$364 million (2017: \$266 million) of transportation and storage costs.

(4) Includes \$155 million (2017: \$128 million) of net supplement of rent on aircraft (adjusted for maintenance expense).

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax continued</b>				
<i>Other operating income and charges</i>				
<b>Investment income</b>				
Net gain on sale of investment securities available for sale	31	39	16	34
Net gain on sale of interests in associates and joint ventures	27	110	26	57
Net fair value gains on financial instruments designated at fair value	46	–	46	–
Net gain on acquisition, disposal, reclassification and change in ownership interest of investments, associates and businesses and assets held for sale	168	377	79	51
Dividend/distributions from investment securities available for sale	6	10	3	11
Dividends/distributions from Subsidiaries (Note 29)	–	–	1,485	734
Total investment income	278	536	1,655	887
<b>Impairment (charge)/reversal</b>				
Investment securities available for sale	(16)	(32)	(15)	(28)
Intangible assets and other non-financial assets	(26)	(45)	–	(18)
Interests in associates and joint ventures	(8)	(6)	(1)	(11)
Investment in subsidiaries	–	–	19	(164)
Total impairment (charge)/reversal	(50)	(83)	3	(221)
<b>(Provision)/recovery on loans and other receivables</b>				
Individually assessed provisions	(93)	(173)	(80)	(142)
Recovery of individually assessed provisions	33	23	23	12
Collective allowance for credit losses reversed	134	–	112	25
Amounts written off	(134)	(147)	(60)	(92)
Recovery of amounts previously written off	41	44	22	25
Total (provision)/recovery on loan and other receivables	(19)	(253)	17	(172)
Other income	206	61	347	291
Total other operating income and charges	415	261	2,022	785
<b>Net operating income<sup>(1)</sup></b>	<b>6,163</b>	<b>5,821</b>	<b>5,237</b>	<b>3,782</b>

(1) Prior comparative financial year has been reclassified to conform to current financial year presentation.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 2</b>				
<b>Operating profit before income tax continued</b>				
<b>Employment expenses</b>				
Salary and related costs including commissions, superannuation and performance-related profit share	(1,331)	(1,319)	(990)	(997)
Share-based payments	(152)	(163)	(101)	(104)
Provision for long service leave and annual leave	(4)	(5)	(3)	(4)
Total employment expenses	(1,487)	(1,487)	(1,094)	(1,105)
<b>Brokerage, commission and trading-related expenses</b>				
Brokerage and other trading-related expenses	(510)	(518)	(312)	(335)
Other fee and commission expenses	(109)	(108)	(91)	(92)
Total brokerage, commission and trading-related expenses	(619)	(626)	(403)	(427)
<b>Occupancy expenses</b>				
Operating lease rentals	(9)	(10)	(1)	(1)
Depreciation: buildings, furniture, fittings and leasehold improvements (Note 13)	(3)	(2)	(1)	–
Other occupancy expenses	(112)	(106)	(87)	(86)
Total occupancy expenses	(124)	(118)	(89)	(87)
<b>Non-salary technology expenses</b>				
Information services	(73)	(83)	(55)	(63)
Depreciation: equipment (Note 13)	(3)	(3)	(3)	(2)
Service provider and other non-salary technology expenses	(57)	(72)	(46)	(58)
Total non-salary technology expenses	(133)	(158)	(104)	(123)
<b>Other operating expenses</b>				
Professional fees	(189)	(185)	(122)	(129)
Travel and entertainment expenses	(54)	(51)	(36)	(36)
Amortisation of intangible assets	(21)	(11)	(20)	(13)
Auditor's remuneration (Note 40)	(22)	(22)	(10)	(10)
Advertising and promotional expenses	(19)	(14)	(18)	(14)
Communication expenses	(15)	(17)	(10)	(11)
Depreciation: infrastructure assets (Note 13)	(14)	(15)	–	–
Other expenses <sup>(1)</sup>	(1,313)	(1,384)	(1,061)	(1,106)
Total other operating expenses	(1,647)	(1,699)	(1,277)	(1,319)
<b>Total operating expenses</b>	<b>(4,010)</b>	<b>(4,088)</b>	<b>(2,967)</b>	<b>(3,061)</b>
<b>Operating profit before income tax</b>	<b>2,153</b>	<b>1,733</b>	<b>2,270</b>	<b>721</b>

(1) Other expenses include recharges from Macquarie Group Services Australia Pty Limited (MGSA).



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 3

##### Segment reporting

##### (i) Operating segments

AASB 8 *Operating Segments* requires the 'management approach' to disclosing 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 four Operating Groups and a Corporate segment. These segments have been set up based on the different core products and services offered. There were previously five Operating Groups and during the prior year ended Commodities and Financial Markets merged with Macquarie Securities to form CGM. Segment information has been prepared in accordance with the basis of preparation described below.

The Operating Groups comprise:

**MAM** offers a range of investment solutions with an alternate fixed income focus, for its fiduciary clients within the infrastructure debt sector and balance sheet lending to shipping, export credit agency backed debt, hedge funds and private equity investors.

**CAF** operates in selected international markets, providing specialist financing, investing and asset management solutions. CAF has expertise in flexible primary financing, secondary market investing and asset finance including aircraft, vehicles, technology, healthcare, manufacturing, industrial, energy, rail and mining equipment.

**BFS** provides a diverse range of personal banking, wealth management and business banking products and services to retail clients, advisers, brokers and business clients.

**CGM** provides clients with an integrated, end-to-end offering across global markets including equities, fixed income, foreign exchange and commodities.

The Operating Groups are grouped into annuity-style businesses and capital markets facing businesses:

- Annuity-style businesses comprise of MAM, CAF and BFS
- Capital markets facing businesses comprise of CGM only.

The **Corporate** segment, which is not considered an Operating Group, includes head office and central service groups including Group Treasury. The Corporate segment also holds certain legacy investments, assets and businesses that are no longer core for strategic reasons and not allocated to any of the Operating Groups.

Items of income and expense within the Corporate segment include the net impact of managing liquidity for the Consolidated Entity, earnings on capital, non-trading derivative volatility, earnings from investments, central overlay on impairment, provisions 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 loan capital.

All transactions and transfers between segments are generally determined on an arm's length basis and are included within the relevant categories of income or expense. These transactions eliminate on aggregation/consolidation.

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

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### NOTE 3

#### Segment reporting *continued*

##### *(i) Operating segments continued*

#### 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.

In certain cases, Operating Groups may source funding directly from external sources – typically 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 Groups

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

Internal transactions are recognised in each of the relevant categories of income and expense as appropriate.

#### 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 carried at fair value through net trading income unless they form part of a qualifying hedge relationship. Hedge relationships are generally only recognised at a Consolidated Entity level; however for segment reporting, derivatives are accounted for on an accruals basis in the Operating Group segments and changes in fair value are recognised within the Corporate segment offset by the effect of hedge relationships at the total Consolidated Entity level.

#### 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. Central service groups include COG, FMG, 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 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 Operating Groups. However, to recognise an Operating Group's contribution to permanent income tax differences, an internal management revenue or 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 aggregation.



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	Macquarie Asset Management \$m	Corporate and Asset Finance \$m
<b>NOTE 3</b>		
<b>Segment reporting continued</b>		
<b>(i) Operating segments continued</b>		
The following is an analysis of the Consolidated Entity's revenue and results by reportable segment		
Net interest and trading income	108	569
Fee and commission income/(expense)	65	43
Net operating lease income	3	929
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	–	(3)
Other operating income and charges		
Impairment charges, write-offs and provisions, net of recoveries	–	(15)
Other operating income and charges	106	351
Internal management revenue/(charge)	8	4
Net operating income	290	1,878
Total operating expenses	(147)	(676)
Operating profit/(loss) before income tax	143	1,202
Income tax expense	–	–
Operating profit/(loss) after income tax	143	1,202
Profit/(loss) attributable to non-controlling interests	–	(4)
Profit/(loss) attributable to equity holders	143	1,198
Distributions paid or provided for on MIS	–	–
<b>Net profit/(loss) attributable to ordinary equity holders</b>	<b>143</b>	<b>1,198</b>
<b>Reportable segment assets</b>	<b>3,279</b>	<b>36,690</b>
Net interest and trading income	104	694
Fee and commission income/(expense)	65	58
Net operating lease income	13	904
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	–
Other operating income and charges:		
Impairment charges, write-offs and provisions, net of recoveries	1	(111)
Other operating income and charges	(13)	233
Internal management revenue/(charge)	1	40
Net operating income	171	1,818
Total operating expenses	(117)	(631)
Profit/(loss) before income tax	54	1,187
Income tax expense	–	–
Profit/(loss) after income tax	54	1,187
Loss/(profit) attributable to non-controlling interests	–	1
Profit/(loss) attributable to equity holders	54	1,188
Distributions paid or provided for on MIS	–	–
Net profit/(loss) attributable to ordinary equity holders	54	1,188
<b>Reportable segment assets</b>	<b>2,742</b>	<b>37,959</b>

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Banking and Financial Services \$m	Commodities and Global Markets \$m	Corporate \$m	Total \$m
CONSOLIDATED 2018			
1,182	1,874	166	3,899
463	390	(71)	890
–	–	5	937
3	22	–	22
(26)	(90)	62	(69)
13	45	(31)	484
3	4	(19)	–
1,638	2,245	112	6,163
(1,081)	(1,379)	(727)	(4,010)
557	866	(615)	2,153
–	–	(570)	(570)
557	866	(1,185)	1,583
–	–	3	(1)
557	866	(1,182)	1,582
–	–	(14)	(14)
557	866	(1,196)	1,568
42,318	84,047	6,884	173,218
CONSOLIDATED 2017			
1,049	1,982	8	3,837
469	339	(111)	820
–	–	5	922
6	–	(25)	(19)
(91)	(157)	22	(336)
205	148	24	597
5	11	(57)	–
1,643	2,323	(134)	5,821
(1,133)	(1,447)	(760)	(4,088)
510	876	(894)	1,733
–	–	(509)	(509)
510	876	(1,403)	1,224
–	(1)	12	12
510	875	(1,391)	1,236
–	–	(15)	(15)
510	875	(1,406)	1,221
38,096	81,366	7,278	167,441

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 3

##### Segment reporting *continued*

##### *(ii) 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 four areas:

**Lending:** corporate and structured finance, banking activities, mortgages and leasing

**Financial Markets:** trading in fixed income securities, equities, currency, commodities and derivative products

**Asset and Wealth Management:** manufacture and distribution of fund management products, and

**Capital Markets:** underwriting, facilitation, broking.

	CONSOLIDATED	
	2018 \$m	2017 \$m
<b>Revenue from external customers</b>		
Lending	6,069	5,720
Financial Markets	3,475	3,238
Asset and Wealth Management	510	778
Capital Markets	102	151
<b>Total revenue from external customers<sup>(1)</sup></b>	<b>10,156</b>	<b>9,887</b>

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

##### *(iii) Geographical areas*

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

	CONSOLIDATED 2018		CONSOLIDATED 2017	
	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m	Revenue from external customers \$m	Non current assets <sup>(1)</sup> \$m
Australia	4,613	1,350	4,731	784
Europe, Middle East and Africa <sup>(2)</sup>	2,909	9,528	2,689	9,266
Americas <sup>(3)</sup>	1,909	1,081	1,699	1,350
Asia Pacific	725	97	768	117
<b>Total</b>	<b>10,156</b>	<b>12,056</b>	<b>9,887</b>	<b>11,517</b>

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

(2) Includes external revenue generated in the United Kingdom of \$2,172 million (2017: \$1,956 million).

(3) Includes external revenue generated in the United States of America of \$1,815 million (2017: \$1,605 million)

##### *(iv) Major customers*

The Consolidated Entity does not rely on any major customers.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 4</b>				
<b>Income tax expense</b>				
<b>(i) Income tax (expense)/benefit</b>				
Current tax expense	(426)	(387)	(73)	(109)
Deferred tax (expense)/benefit	(144)	(122)	(178)	36
<b>Total income tax expense</b>	<b>(570)</b>	<b>(509)</b>	<b>(251)</b>	<b>(73)</b>
<b>(ii) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable</b>				
Prima facie income tax expense on operating profit <sup>(1)</sup>	(646)	(520)	(681)	(217)
Tax effect of amounts which are (not deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	77	4	(16)	(43)
Impairment charge on subsidiaries	–	–	(4)	(40)
Intra-group dividends	–	–	455	220
Other items	(1)	7	(5)	7
<b>Total income tax expense</b>	<b>(570)</b>	<b>(509)</b>	<b>(251)</b>	<b>(73)</b>
<b>(iii) Tax benefit/(expense) relating to items of other comprehensive income</b>				
Available for sale reserve	32	19	17	–
Cash flow hedge reserve	(19)	(14)	(2)	1
Foreign currency translation reserve	(1)	2	–	–
Own credit risk	(3)	–	–	–
<b>Total tax benefit/(expense) relating to items of other comprehensive income</b>	<b>9</b>	<b>7</b>	<b>15</b>	<b>1</b>
<b>(iv) Deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>				
Fixed assets	(22)	(1)	(13)	17
Intangible assets	–	(1)	–	(1)
Investments	17	(15)	(1)	(20)
Tax losses	(49)	(27)	26	(7)
Leasing and financial instruments	81	(115)	(112)	(14)
Other assets and liabilities	(171)	37	(78)	61
<b>Total deferred tax (expense)/benefit represents movements in deferred tax assets/liabilities</b>	<b>(144)</b>	<b>(122)</b>	<b>(178)</b>	<b>36</b>

(1) Prima facie income tax on operating profit is calculated at the rate of 30% (2017: 30%).

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 advice where appropriate, and considers that it holds appropriate positions.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 5</b>				
<b>Dividends and distributions paid or provided for</b>				
<i>(i) Dividends paid</i>				
<b>Ordinary share capital</b>				
Final dividend paid	607	644	607	644
Interim dividend paid	603	582	603	582
<b>Total dividends paid (Note 27)</b>	<b>1,210</b>	<b>1,226</b>	<b>1,210</b>	<b>1,226</b>

#### *(ii) Dividends not recognised at the end of the financial year*

Since the end of the financial year, the Directors have resolved to pay a dividend. The aggregate amount of the proposed dividend expected to be paid on 16 May 2018 from retained profits, but not recognised as a liability at the end of the financial year, is \$924 million (2017: \$607 million).

#### *(iii) Distributions paid or provided for Macquarie Income Securities<sup>(1)</sup>*

Distributions paid (net of distributions previously provided for)	11	12	–	–
Distributions provided for	3	3	–	–
<b>Total distributions paid or provided for (Note 27)</b>	<b>14</b>	<b>15</b>	<b>–</b>	<b>–</b>

(1) Macquarie Income Securities (MIS) are stapled arrangements, which include perpetual preference shares issued by the Company. Refer to Note 26 – Contributed equity for further details on these instruments.

## NOTE 6

### Receivables from financial institutions

Cash and other receivables <sup>(1)</sup>	7,852	7,645	6,648	6,179
Cash collateral on securities borrowed and reverse repurchase agreements <sup>(2)</sup>	28,777	17,920	28,437	17,728
<b>Total receivables from financial institutions</b>	<b>36,629</b>	<b>25,565</b>	<b>35,085</b>	<b>23,907</b>

(1) Includes \$130 million (2017: \$107 million) provided as security over payables to other financial institutions.

(2) The Consolidated Entity enters into stock borrowings and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2018 is \$28,615 million (2017: \$18,120 million). Under certain transactions, the Consolidated Entity is allowed to resell or re-pledge the collateral held under terms that are usual and customary, but is obliged to return equivalent securities. The fair value of collateral that the Consolidated Entity is permitted to sell or re-pledge in the absence of default is \$28,615 million (2017: \$18,120 million), of which the fair value of collateral sold or re-pledged is \$10,650 million (2017: \$4,605 million).

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

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 7</b>				
<b>Trading portfolio assets</b>				
Equities				
Listed	4,429	12,003	3,837	8,796
Unlisted	391	10	1	2
Debt securities				
Commonwealth and Foreign government securities	5,846	6,310	5,722	6,241
Corporate loans and securities	798	1,620	588	863
Treasury notes	611	1,061	222	474
Other debt securities	323	31	2	6
Commodities	2,496	5,602	1,451	4,227
<b>Total trading portfolio assets<sup>(1)</sup></b>	<b>14,894</b>	<b>26,637</b>	<b>11,823</b>	<b>20,609</b>

(1) Includes \$2,837 million (2017: \$5,124 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending arrangements.

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

**NOTE 8**  
**Investment securities available for sale**

Debt securities <sup>(1)</sup>	5,244	4,585	5,113	4,334
Equity securities				
Listed	18	56	15	49
Unlisted	60	541	30	418
<b>Total investment securities available for sale</b>	<b>5,322</b>	<b>5,182</b>	<b>5,158</b>	<b>4,801</b>

(1) Includes \$517 million (2017: \$509 million) provided as security against payables to financial institutions.

Of the above amounts, \$2,850 million (2017: \$1,831 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$2,850 million (2017: \$1,636 million) by the Company.

**NOTE 9**  
**Other assets**

Debtors and prepayments	4,766	4,475	2,728	2,928
Security settlements	3,108	2,315	2,729	2,105
Life investment linked contracts and other unitholder assets	648	722	–	–
Assets of disposal groups classified as held for sale	345	477	–	–
Income tax receivable	234	254	117	133
Other	186	403	9	13
<b>Total other assets<sup>(1)</sup></b>	<b>9,287</b>	<b>8,646</b>	<b>5,583</b>	<b>5,179</b>

(1) Includes \$510 million (2017: \$434 million) provided as security over payables to financial institutions.

Of the above amounts, \$8,938 million (2017: \$7,917 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$5,183 million (2017: \$4,766 million) by the Company.

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	2018			2017		
	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m	Gross \$m	Individually assessed provisions for impairment \$m	Net \$m
<b>NOTE 10</b>						
<b>Loan assets held at amortised cost</b>						
					CONSOLIDATED	
Mortgages <sup>(1)</sup>	36,937	(3)	36,934	32,791	(3)	32,788
Asset financing <sup>(1)</sup>	19,125	(41)	19,084	19,579	(66)	19,513
Corporate, commercial and other lending	14,437	(76)	14,361	15,007	(287)	14,720
Margin money placed	8,010	–	8,010	7,270	–	7,270
Investment lending	2,001	–	2,001	1,656	(1)	1,655
<b>Total loan assets before collective allowance for credit losses</b>	<b>80,510</b>	<b>(120)</b>	<b>80,390</b>	<b>76,303</b>	<b>(357)</b>	<b>75,946</b>
Less collective allowance for credit losses			(247)			(396)
<b>Total loan assets held at amortised cost<sup>(2)</sup></b>			<b>80,143</b>			<b>75,550</b>
					COMPANY	
Mortgages	35,381	(3)	35,378	31,704	(3)	31,701
Corporate, and commercial and other lending	10,920	(153)	10,767	10,774	(263)	10,511
Margin money placed	4,862	–	4,862	4,878	–	4,878
Asset financing	3,552	(13)	3,539	5,504	(30)	5,474
Investment lending	140	(1)	139	460	(83)	377
<b>Total loan assets before collective allowance for credit losses</b>	<b>54,855</b>	<b>(170)</b>	<b>54,685</b>	<b>53,320</b>	<b>(379)</b>	<b>52,941</b>
Less collective allowance for credit losses			(143)			(261)
<b>Total loan assets held at amortised cost<sup>(2)</sup></b>			<b>54,542</b>			<b>52,680</b>

(1) Includes loans of \$11,560 million (2017: \$16,332 million) held by consolidated Special Purpose Entities (SPEs), which are available as security to note holders and debt providers.

(2) Includes other loans of \$613 million (2017: \$464 million) provided as security against payables to financial institutions.

Of the above amounts, \$31,230 million (2017: \$28,490 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$19,234 million (2017: \$19,054 million) by the Company.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 10</b>				
<b>Loan assets held at amortised cost continued</b>				
<b>Individually assessed provisions for impairment</b>				
Balance at the beginning of the financial year	357	299	379	329
Provided for during the financial year	91	168	80	138
Loan assets written off or sold, previously provided for	(311)	(114)	(275)	(97)
Recovery of loans previously provided for	(23)	(19)	(20)	(12)
Net transfer from collective provisions	5	25	5	23
Foreign exchange movements	1	(2)	1	(2)
<b>Balance at the end of the financial year</b>	<b>120</b>	<b>357</b>	<b>170</b>	<b>379</b>
<b>Individually assessed provisions as a percentage of total gross loan assets</b>	<b>0.15%</b>	<b>0.47%</b>	<b>0.31%</b>	<b>0.71%</b>
<b>Collective allowance for credit losses</b>				
Balance at the beginning of the financial year	396	438	261	310
Reversed during the financial year	(140)	(5)	(114)	(26)
(Disposal)/acquisition during the financial year	(7)	(7)	–	3
Net transfer to specific provisions	(5)	(25)	(5)	(23)
Foreign exchange movements	3	(5)	1	(3)
<b>Balance at the end of the financial year</b>	<b>247</b>	<b>396</b>	<b>143</b>	<b>261</b>

The collective allowance for credit losses is intended to cover losses in the existing overall credit portfolio which are not yet individually identified.

Finance lease receivables are included within loan assets held at amortised cost. The Consolidated Entity provides finance leases to a broad range of clients to support financing needs in acquiring movable assets such as motor vehicles, small plant and equipment, electronic and IT equipment. Finance lease receivables does not include retail products such as hire purchase, chattel mortgages and consumer loans.

	2018			2017		
	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	1,914	(197)	1,717	2,496	(259)	2,237
Later than one year and not later than five years	3,991	(410)	3,581	3,715	(429)	3,286
Later than five years	90	(16)	74	107	(24)	83
<b>Total</b>	<b>5,995</b>	<b>(623)</b>	<b>5,372</b>	<b>6,318</b>	<b>(712)</b>	<b>5,606</b>



## NOTES TO THE FINANCIAL STATEMENTS

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 11</b>				
<b>Impaired financial assets</b>				
Impaired loan assets and other financial assets before individually assessed provisions for impairment	467	875	448	922
Less individually assessed provisions for impairment	(127)	(379)	(172)	(387)
Loan assets and other financial assets after individually assessed provisions for impairment	340	496	276	535
<b>Total net impaired financial assets</b>	<b>340</b>	<b>496</b>	<b>276</b>	<b>535</b>
<b>NOTE 12</b>				
<b>Other financial assets at fair value through profit or loss</b>				
Investment securities				
Equity	339	405	317	379
Debt	72	72	72	72
Loan assets	296	283	153	143
<b>Total other financial assets at fair value through profit or loss<sup>(1)</sup></b>	<b>707</b>	<b>760</b>	<b>542</b>	<b>594</b>

(1) Includes \$5 million (2017: \$10 million) provided as security against payables to financial institutions.

Of the above amounts, \$516 million (2017: 569 million) is expected to be recovered within 12 months of the balance date by the Consolidated Entity and \$394 million (2017: \$416 million) by the Company.

	CONSOLIDATED 2018			CONSOLIDATED 2017		
	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
<b>NOTE 13</b>						
<b>Property, plant and equipment</b>						
<b>Assets for own use</b>						
Land and buildings	2	–	2	9	–	9
Furniture, fittings and leasehold improvements	42	(26)	16	32	(25)	7
Equipment	21	(11)	10	13	(8)	5
Infrastructure assets	551	(30)	521	490	(23)	467
<b>Total assets for own use</b>	<b>616</b>	<b>(67)</b>	<b>549</b>	<b>544</b>	<b>(56)</b>	<b>488</b>
<b>Assets under operating lease</b>						
Aviation	9,938	(2,437)	7,501	10,167	(1,996)	8,171
Meters	1,629	(541)	1,088	1,146	(411)	735
Rail cars	862	(176)	686	762	(129)	633
Telecommunication	963	(255)	708	208	(20)	188
Others	784	(242)	542	730	(202)	528
<b>Total assets under operating lease</b>	<b>14,176</b>	<b>(3,651)</b>	<b>10,525</b>	<b>13,013</b>	<b>(2,758)</b>	<b>10,255</b>
<b>Total property, plant and equipment</b>	<b>14,792</b>	<b>(3,718)</b>	<b>11,074</b>	<b>13,557</b>	<b>(2,814)</b>	<b>10,743</b>

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

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	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m	Cost \$m	Accumulated depreciation and impairment \$m	Total \$m
<b>NOTE 13</b>						
<b>Property, plant and equipment continued</b>						
<b>Assets for own use</b>						
Furniture, fittings and leasehold improvements	17	(9)	8	11	(9)	2
Equipment	11	(5)	6	7	(3)	4
<b>Total assets for own use</b>	<b>28</b>	<b>(14)</b>	<b>14</b>	<b>18</b>	<b>(12)</b>	<b>6</b>
<b>Assets under operating lease</b>						
Telecommunication	963	(255)	708	208	(20)	188
Meters	33	(4)	29	–	–	–
Others	474	(98)	376	445	(71)	374
<b>Total assets under operating lease</b>	<b>1,470</b>	<b>(357)</b>	<b>1,113</b>	<b>653</b>	<b>(91)</b>	<b>562</b>
<b>Total property, plant and equipment</b>	<b>1,498</b>	<b>(371)</b>	<b>1,127</b>	<b>671</b>	<b>(103)</b>	<b>568</b>

Movement in the Consolidated Entity's property, plant and equipment at their written down value:

	Land and buildings \$m	Furniture, fittings and leasehold improvements \$m	Equipment \$m	Infrastructure assets \$m	Total \$m
<b>Assets for own use</b>					
Balance as at 1 April 2016	9	7	5	419	440
Acquisitions	–	3	3	122	128
Foreign exchange movements	–	(1)	–	(59)	(60)
Depreciation expense (Note 2)	–	(2)	(3)	(15)	(20)
<b>Balance as at 31 March 2017</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>467</b>	<b>488</b>
Acquisitions	–	13	8	80	101
Disposals	(2)	(1)	–	–	(3)
Reclassification and other adjustments	(5)	(1)	–	(64)	(70)
Foreign exchange movements	–	1	–	52	53
Depreciation expense (Note 2)	–	(3)	(3)	(14)	(20)
<b>Balance as at 31 March 2018</b>	<b>2</b>	<b>16</b>	<b>10</b>	<b>521</b>	<b>549</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018 CONTINUED

### NOTE 13

#### Property, plant and equipment continued

	Aviation \$m	Meters \$m	Rail Cars \$m	Telecom- muni- cation \$m	Other \$m	Total \$m
<b>Assets under operating lease</b>						
Balance as at 1 April 2016	8,879	690	726	2	567	10,864
Acquisitions	43	272	3	206	47	571
Disposals	(256)	–	–	–	(14)	(270)
Reclassification and other adjustments	1	(33)	–	–	1	(31)
Impairments	(18)	–	–	–	–	(18)
Foreign exchange movements	43	(91)	(68)	–	(1)	(117)
Depreciation expense (Note 2)	(521)	(103)	(28)	(20)	(72)	(744)
<b>Balance as at 31 March 2017</b>	<b>8,171</b>	<b>735</b>	<b>633</b>	<b>188</b>	<b>528</b>	<b>10,255</b>
Acquisitions	7	437	–	847	114	1,405
Disposals	(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)	(29)	(262)	(86)	(985)
<b>Balance as at 31 March 2018</b>	<b>7,501</b>	<b>1,088</b>	<b>686</b>	<b>708</b>	<b>542</b>	<b>10,525</b>

Included in the balance of assets under operating lease are assets pledged as security over payables to financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is \$2,765 million (2017: \$3,028 million).

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

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Not later than one year	1,474	1,150	439	26
Later than one year and not later than five years	2,421	2,591	261	100
Later than five years	402	640	87	110
<b>Total future minimum lease payments receivable</b>	<b>4,297</b>	<b>4,381</b>	<b>787</b>	<b>236</b>

### NOTE 14

#### Interests in associates and joint ventures

Loans and investments without provisions for impairment	617	123	425	42
Loans and investments with provisions for impairment	182	147	37	37
Less provisions for impairment	(72)	(67)	(30)	(26)
Loans and investments with provisions for impairment at recoverable amount	110	80	7	11
<b>Total interests in associates and joint ventures<sup>(1),(2)</sup></b>	<b>727</b>	<b>203</b>	<b>432</b>	<b>53</b>

(1) Includes \$629 million (2017: \$172 million) relating to interests in associates and \$98 million (2017: \$31 million) relating to interests in joint ventures held by the Consolidated Entity, and \$408 million (2017: \$29 million) relating to interests in associates and \$24 million (2017: \$24 million) relating to interests in joint ventures held by the Company.

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

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

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 15</b>				
<b>Intangible assets</b>				
<b>Goodwill</b>				
Cost	97	68	–	–
Less accumulated impairment loss	(30)	(12)	–	–
Total goodwill	67	56	–	–
<b>Other identifiable intangible assets</b>				
Cost	383	309	277	270
Less accumulated amortisation and impairment loss	(236)	(172)	(186)	(166)
Total other identifiable intangible assets	147	137	91	104
<b>Total intangible assets</b>	<b>214</b>	<b>193</b>	<b>91</b>	<b>104</b>

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

**Movement in Consolidated Entity's intangible assets at the written down value:**

	Goodwill \$m	Other identifiable intangible assets \$m	Total \$m
Balance as at 1 April 2016	68	156	224
Acquisitions	–	52	52
Disposals, reclassifications and other adjustments	–	(39)	(39)
Impairments	(8)	(19)	(27)
Amortisation	–	(11)	(11)
Foreign exchange movements	(4)	(2)	(6)
<b>Balance as at 31 March 2017</b>	<b>56</b>	<b>137</b>	<b>193</b>
Acquisitions	18	70	88
Impairments	(10)	(5)	(15)
Amortisation <sup>(1)</sup>	–	(57)	(57)
Foreign exchange movements	3	2	5
<b>Balance as at 31 March 2018</b>	<b>67</b>	<b>147</b>	<b>214</b>

(1) The balance contains amortisation of \$36m which is included in net trading income.

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	COMPANY	
	2018 \$m	2017 \$m
<b>NOTE 16</b>		
<b>Investments in subsidiaries</b>		
Investments at cost without provisions for impairment	<b>6,727</b>	8,731
Investments at cost with provisions for impairment	<b>1,316</b>	1,289
Less provisions for impairment <sup>(1)</sup>	<b>(653)</b>	(689)
Investments with provisions for impairment at recoverable amount	<b>663</b>	600
<b>Total investments in subsidiaries</b>	<b>7,390</b>	9,331

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

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

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 Aerospace Limited (Ireland)
- Macquarie Bank International Limited (Germany, United Kingdom)
- Macquarie Commodities (UK) Limited (United Kingdom)
- Macquarie Commodities Brasil S/A (Brazil)
- Macquarie Emerging Markets Asian Trading Pte Limited (Singapore)
- Macquarie Energy Canada Limited. (United States)
- Macquarie Energy LLC (United States)
- Macquarie Equities Limited (Australia)
- Macquarie Euro Limited (United Kingdom)
- 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 States)
- Macquarie Private Debt Europe Limited (Ireland)
- Macquarie Securitisation Limited (Australia)
- PUMA SUBFUND B-1 (Australia)

The country of incorporation has been stated in brackets next to the name of the subsidiary.

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 and 18-0145 the Consolidated Entity has been granted relief under section 340 of the Act from synchronising the year-end of the following consolidated entities 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 Servicios Electricos de Mexico S. de R.L. de C.V.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 17</b>				
<b>Deferred tax assets/(liabilities)</b>				
The balance comprises temporary differences attributable to:				
Tax losses	239	288	30	4
Fixed assets	80	93	80	93
Intangible assets	5	6	4	4
Other assets and liabilities	356	534	231	324
Investments	63	51	75	70
Leasing and financial instruments	36	5	–	–
Set-off of deferred tax liabilities	(636)	(815)	(281)	(176)
<b>Net deferred tax assets</b>	<b>143</b>	<b>162</b>	<b>139</b>	<b>319</b>
Leasing and financial instruments	(997)	(1,025)	(283)	(166)
Other assets and liabilities	(195)	(216)	(112)	(130)
Fixed assets	(27)	(18)	–	–
Intangible assets	(3)	(4)	–	–
Investments	–	(36)	–	(11)
Set-off of deferred tax assets	636	815	281	176
<b>Net deferred tax liabilities</b>	<b>(586)</b>	<b>(484)</b>	<b>(114)</b>	<b>(131)</b>

The majority of 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 \$111 million (2017: \$60 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 the realisation of the tax assets is probable. Included in this amount are gross losses of \$3 million (2017: \$3 million) that will expire within 2 years; \$2 million (2017: \$1 million) that will expire in 2 – 5 years; \$1 million (2017: nil) that will expire in 5 – 10 years and \$137 million (2017: \$25 million) that will expire in 10 – 20 years. \$310 million (2017: \$271 million) of gross losses do not expire and can be carried forward indefinitely.

## NOTE 18

### Trading portfolio liabilities

Equity securities	7,540	4,321	7,888	4,541
Debt Securities				
Foreign government securities	328	530	328	530
Corporate securities	70	71	70	72
<b>Total trading portfolio liabilities</b>	<b>7,938</b>	<b>4,922</b>	<b>8,286</b>	<b>5,143</b>

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 19</b>				
<b>Deposits</b>				
Interest bearing deposits				
Call	38,606	38,539	38,563	38,509
Term	7,109	7,144	7,063	7,144
Client monies, segregated fund and margin money held	11,008	10,178	9,700	8,887
Non-interest bearing call deposits	2,656	1,821	2,593	1,758
<b>Total deposits</b>	<b>59,379</b>	<b>57,682</b>	<b>57,919</b>	<b>56,298</b>

<b>NOTE 20</b>				
<b>Other Liabilities</b>				
Security settlements	2,977	3,440	2,901	3,321
Creditors	2,750	2,849	1,511	1,595
Accrued charges, income received in advance and other liabilities	1,274	1,162	639	542
Aircraft and rail maintenance liabilities	846	782	620	657
Life investment linked contracts and other unitholder liabilities	640	714	–	–
Liabilities of disposal groups classified as held for sale	219	217	–	–
Income tax payable	139	211	41	101
<b>Total other liabilities</b>	<b>8,845</b>	<b>9,375</b>	<b>5,712</b>	<b>6,216</b>

<b>NOTE 21</b>				
<b>Payables to financial institutions</b>				
Borrowings from banks	6,273	7,357	3,631	4,333
Cash collateral on securities lent and repurchase agreements	5,380	6,879	5,380	6,879
<b>Total payables to financial institutions</b>	<b>11,653</b>	<b>14,236</b>	<b>9,011</b>	<b>11,212</b>

<b>NOTE 22</b>				
<b>Debt issued at amortised cost</b>				
Debt issued at amortised cost <sup>(1)</sup>	39,685	43,137	30,674	29,691
<b>Total debt issued at amortised cost</b>	<b>39,685</b>	<b>43,137</b>	<b>30,674</b>	<b>29,691</b>

(1) Included within this balance are amounts payable to SPE note holders and debt holders of \$8,979 million (2017: \$13,430 million).

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.

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	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 22</b>				
<b>Debt issued at amortised cost continued</b>				
<b>Reconciliation of debt issued at amortised cost by major currency</b>				
<b>(In Australian dollar equivalent):</b>				
United States dollar	19,087	18,379	18,641	17,032
Australian dollar	12,082	14,877	3,687	3,148
Euro	4,945	5,650	4,774	5,282
Swiss franc	1,487	1,912	1,487	1,912
Great British pound	727	767	727	767
Japanese yen	579	715	579	715
Yuan renminbi	225	218	225	218
Norwegian krone	163	153	163	153
Hong Kong dollar	152	222	152	222
Canadian dollar	126	125	127	123
Korean won	112	107	112	107
Others	–	12	–	12
<b>Total</b>	<b>39,685</b>	<b>43,137</b>	<b>30,674</b>	<b>29,691</b>

The Consolidated Entity's and the Company's primary sources for domestic and international debt funding are their multi-currency, multi-jurisdictional Debt Instrument Program and domestic Negotiable Certificate of Deposits (NCD) issuance.

## NOTE 23

### Other debt issued at fair value through profit or loss

Structured notes <sup>(1),(2)</sup>	1,992	1,934	1,839	3,921
<b>Total Other debt issued at fair value through profit or loss</b>	<b>1,992</b>	<b>1,934</b>	<b>1,839</b>	<b>3,921</b>

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

(2) Includes cumulative fair value gain of \$25 million (2017: \$12 million losses) due to changes in the Consolidated Entity's credit risk.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Consolidated Entity is \$2,822 million (2017: \$2,684 million) and for the Company is \$2,668 million (2017: \$4,672 million)

### Reconciliation of Other debt issued at fair value through profit or loss by major currency

(In Australian dollar equivalent):

United States dollar	1,901	1,813	1,748	1,813
Australian dollar	70	56	70	2,061
South African rand	–	42	–	42
Others	21	23	21	5
<b>Total</b>	<b>1,992</b>	<b>1,934</b>	<b>1,839</b>	<b>3,921</b>



## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 24

##### 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). The capital ratios disclosed in this report are relevant for comparisons with banks regulated by APRA.

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, 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.

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## NOTE 25

### Loan capital

#### *Subordinated debt*

Agreements between the Consolidated Entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the Consolidated Entity. Details of selected capital instruments with conditional repayment obligations are discussed below.

#### *Macquarie Bank Capital Notes (BCN)*

On 8 October 2014, the Company issued 4.3 million BCN at face value of \$100 each. These instruments are non-cumulative and unsecured and may be redeemed at face value on 24 March 2020, 24 September 2020 or 24 March 2021 (subject to certain conditions being satisfied) or earlier in specified circumstances at the discretion of the Company, subject to APRA's written approval.

BCN may also be exchanged into a variable number of MGL ordinary shares (subject to certain conditions being satisfied) on these redemption dates or mandatorily exchanged on 24 March 2023. The BCN may also be exchanged earlier on an acquisition event (where a person acquires control of MGL or the Company) or where APRA determines the Company would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

In the event of an exchange, BCN Holders will receive up to approximately \$101 worth of MGL ordinary shares per BCN held. The total number of ordinary shares that would be issued if all BCN were exchanged at 31 March 2018 would be 4,151,492 (31 March 2017: 4,923,360). The maximum number of ordinary shares that can be issued on an exchange is 37,056,481.

The BCN pay discretionary, floating rate cash distributions equal to 180-day BBSW plus a fixed margin of 3.30% per annum, adjusted for franking credits, paid semi-annually in arrears. If interest is not paid on the BCN, the Company will be restricted from paying dividends or returning capital on ordinary shares until the next interest payment date.

#### *Macquarie Additional Capital Securities (MACS)*

On 8 March 2017, the Company, acting through its London Branch, issued \$US750 million of MACS.

The MACS, being unsecured subordinated notes, pay discretionary, non-cumulative interest of 6.125% per annum, payable semi-annually in arrears, with the rate to be reset on the tenth anniversary (and each fifth anniversary thereafter), if the MACS remain outstanding after this time. If interest is not paid on the MACS, the Company will be restricted from paying dividends or returning capital on its ordinary shares until the next interest payment date.

The MACS may be exchanged on an acquisition event (where a person acquires control of the Company or MGL), where the Company's common equity Tier 1 capital ratio falls below 5.125%, or where APRA determines MBL would be non-viable without an exchange or a public sector injection of capital (or equivalent support).

If exchange occurs, a variable number of MGL ordinary shares will be issued at a 1% discount to the share price, as quoted on the ASX and converted to US dollars, determined over a period immediately prior to the date of that exchange.

No MACS were exchanged during the financial year. The total number of MGL ordinary shares that would be issued if all MACS were exchanged at 31 March 2018 would be 9,469,528 (31 March 2017: 11,189,774). The maximum number of ordinary shares that can be issued on an exchange is 56,947,286.

The MACS will only be redeemable, subject to APRA's written approval, at the discretion of MBL in limited circumstances, including following a change in law that has an impact on the regulatory or tax treatment of the MACS.

#### *Exchangeable Capital Securities (ECS)*

On 26 March 2012, MBL, acting through its London Branch, issued \$US250 million of ECS. During the current financial year, MBL bought back ECS and extinguished the entire \$US250 million.

Under its terms, the ECS, being unsecured subordinated notes, paid discretionary, non-cumulative interest of 10.25% per annum, payable semi-annually in arrears.

The ECS were exchangeable for a variable number of fully paid ordinary shares of the Company.

No ECS were exchanged during the period before their buyback.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 25</b>				
<b>Loan capital continued</b>				
<b>Maturity of loan capital:</b>				
Accrued Interest payable as per terms of instruments:				
Less than 12 months	75	83	75	83
Subordinate debt instruments with fixed repayment obligations:				
30 May 2019	1	1	1	1
21 September 2020	773	689	773	689
7 April 2021	1,088	1,149	1,088	1,149
10 June 2025	930	978	930	978
Instruments with a conditional repayment obligation:				
BCN	430	430	430	430
MACS	976	980	976	980
ECS	–	327	–	327
	4,273	4,637	4,273	4,637
Less directly attributable issue cost	(17)	(22)	(17)	(22)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>

#### **Reconciliation of loan capital by major currency:**

##### **(In Australian dollar equivalent):**

United States dollar	3,047	3,498	3,047	3,498
Euro	796	709	796	709
Australian dollar	430	430	430	430
	4,273	4,637	4,273	4,637
Less directly attributable issue cost	(17)	(22)	(17)	(22)
<b>Total loan capital<sup>(1)</sup></b>	<b>4,256</b>	<b>4,615</b>	<b>4,256</b>	<b>4,615</b>

(1) The balance 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.

In accordance with APRA guidelines, the Consolidated Entity includes the BCN, ECS and MACS as Additional Tier 1 capital and the applicable portion of the remaining loan capital as Tier 2 capital.

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	2018 Number of shares	2017 Number of shares	2018 \$m	2017 \$m
<b>NOTE 26</b>				
<b>Contributed equity</b>				
<b>Ordinary share capital<sup>(1)</sup></b>				
Opening balance of fully paid ordinary shares	<b>589,276,303</b>	589,276,303	<b>9,328</b>	9,328
<b>Closing balance of fully paid ordinary shares</b>	<b>589,276,303</b>	589,276,303	<b>9,328</b>	9,328

(1) Ordinary shares have no par value.

#### Equity contribution from ultimate parent entity

Balance at the beginning of the financial year	<b>192</b>	163	<b>93</b>	89
Additional paid up capital	<b>17</b>	29	<b>9</b>	4
<b>Balance at the end of the financial year</b>	<b>209</b>	192	<b>102</b>	93

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 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 31 – Employee equity participation.

#### Macquarie Income Securities

4,000,000 Macquarie Income Securities of \$100 each	<b>400</b>	400	<b>400</b>	400
Less transaction costs for original placement	<b>(9)</b>	(9)	<b>(9)</b>	(9)
<b>Total Macquarie Income Securities</b>	<b>391</b>	391	<b>391</b>	391
<b>Contributed equity</b>	<b>9,928</b>	9,911	<b>9,821</b>	9,812

The 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. They are a perpetual instrument with no conversion rights.

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 27</b>				
<b>Reserves, retained earnings and non-controlling interests</b>				
<b>Reserves</b>				
<b>Foreign currency translation reserve</b>				
Balance at the beginning of the financial year	363	492	(15)	(18)
Exchange differences on translation of foreign operations, net of hedge and tax	129	(129)	–	3
<b>Balance at the end of the financial year</b>	<b>492</b>	<b>363</b>	<b>(15)</b>	<b>(15)</b>
<b>Available for sale reserve</b>				
Balance at the beginning of the financial year	116	112	88	58
Revaluation movement for the financial year, net of tax	(33)	11	(15)	36
Transferred to income statement on:				
Impairment, net of tax	12	22	11	20
Sale or reclassification, net of tax	(80)	(29)	(68)	(26)
<b>Balance at the end of the financial year</b>	<b>15</b>	<b>116</b>	<b>16</b>	<b>88</b>
<b>Cash flow hedging reserve</b>				
Balance at the beginning of the financial year	(106)	(122)	(28)	(16)
Revaluation movement for the financial year, net of tax	77	16	24	(12)
<b>Balance at the end of the financial year</b>	<b>(29)</b>	<b>(106)</b>	<b>(4)</b>	<b>(28)</b>
<b>Share of reserves of associates and joint ventures</b>				
Balance at the beginning of the financial year	–	1	–	–
Share of other comprehensive expense of associates and joint ventures during the year, net of tax	(1)	(1)	–	–
<b>Balance at the end of the financial year</b>	<b>(1)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total reserves at the end of the financial year</b>	<b>477</b>	<b>373</b>	<b>(3)</b>	<b>45</b>
<b>Retained earnings</b>				
Balance at the beginning of the financial year	2,296	2,333	736	1,344
Profit attributable to equity holders of MBL	1,582	1,236	2,019	648
Distributions paid on Macquarie Income Securities (Note 5)	(14)	(15)	–	–
Dividends paid on ordinary share capital (Note 5)	(1,210)	(1,226)	(1,210)	(1,226)
Loss on change in non-controlling ownership interest	(5)	(2)	–	–
Fair value changes attributable to own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	37	(30)	37	(30)
<b>Balance at the end of the financial year</b>	<b>2,686</b>	<b>2,296</b>	<b>1,582</b>	<b>736</b>
<b>Non-controlling interests<sup>(1)</sup></b>				
Share capital and partnership interests	56	56	–	–
Foreign currency translation reserve	3	–	–	–
Accumulated losses	(47)	(48)	–	–
<b>Total non-controlling interests</b>	<b>12</b>	<b>8</b>	<b>–</b>	<b>–</b>

(1) NCI 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.

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**NOTE 28****Notes to the statements of cash flows****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:

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Receivables from financial institutions <sup>(1)</sup>	<b>7,793</b>	7,606	<b>6,594</b>	6,162
Trading portfolio assets <sup>(2)</sup>	<b>611</b>	1,061	<b>222</b>	474
Debt investment securities available for sale <sup>(3)</sup>	<b>1,141</b>	324	<b>1,141</b>	324
Loan assets held at amortised cost <sup>(4)</sup>	<b>1,805</b>	1,173	<b>1,773</b>	1,162
<b>Cash and cash equivalents at the end of the financial year<sup>(5)</sup></b>	<b>11,350</b>	10,164	<b>9,730</b>	8,122

**Reconciliation of profit after income tax to net cash flows from/(used in) operating activities**

Profit after income tax	<b>1,583</b>	1,224	<b>2,019</b>	648
Adjustments to profit after income tax:				
Depreciation and amortisation	<b>1,063</b>	775	<b>317</b>	61
Unrealised foreign exchange and fair value movements on financial assets and liabilities	<b>276</b>	(733)	<b>(296)</b>	(972)
Credit losses and impairment charges	<b>110</b>	337	<b>(1)</b>	418
Investment income and gain on sale of operating lease assets and other non-financial assets	<b>(292)</b>	(526)	<b>(129)</b>	(131)
Share of net (profits)/losses of associates and joint ventures	<b>(22)</b>	19	<b>–</b>	–
Changes in assets and liabilities:				
Change in interest receivable and payable	<b>–</b>	105	<b>27</b>	83
Change in carrying values of associates and joint ventures due to dividends received	<b>19</b>	9	<b>–</b>	–
Change in fees and non-interest income receivable	<b>41</b>	13	<b>(11)</b>	12
Change in fees and commissions payable	<b>(78)</b>	(36)	<b>(164)</b>	(29)
Change in tax balances	<b>471</b>	333	<b>245</b>	(25)
Change in operating lease assets	<b>(1,206)</b>	(301)	<b>(878)</b>	(245)
Change in loan assets and balances with related entities	<b>2,699</b>	318	<b>992</b>	4,310
Change in margin money	<b>(105)</b>	(1,113)	<b>627</b>	(213)
Change in debtors, prepayments, accrued charges and creditors	<b>163</b>	418	<b>93</b>	(27)
Change in net trading portfolio assets and liabilities and net derivative financial instruments <sup>(6)</sup>	<b>1,207</b>	3,131	<b>(2,779)</b>	4,014
Change in payable to financial institutions and other borrowings	<b>(899)</b>	(3,971)	<b>(812)</b>	(3,939)
Change in debt issued at amortised cost	<b>(3,857)</b>	(11,362)	<b>207</b>	(10,119)
Change in deposits	<b>1,493</b>	5,559	<b>1,451</b>	5,448
<b>Net cash flows from/(used in) operating activities</b>	<b>2,666</b>	(5,801)	<b>908</b>	(706)

(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 other short-term debt securities.

(3) Includes short-term debt securities.

(4) Includes margin balances at call.

(5) Cash and cash equivalents include \$4,330 million (31 March 2017: \$5,011 million) in the Consolidated Entity and \$3,478 million (31 March 2017: \$3,656 million)

in the Company in escrow accounts which are restricted for use or held by collateralised securitisation vehicles in segregated deposit fund.

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

## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 29

##### 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. Both MGL and Macquarie B.H. Pty Limited are incorporated in Australia. MGL produces financial statements that are available for public use.

Transactions between the Consolidated Entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of this agreement are set out in Note 1(vii) – Taxation. Amount receivable from MGL includes amount receivable by the Company under the tax funding agreement of the tax consolidated group.

Balances outstanding with MGL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at the financial year end:

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Amounts receivable <sup>(1)</sup>	159,979	184,052	110,250	128,370
Amounts payable	(4,153,013)	–	(3,430,424)	–

(1) As described in Note 1(xxii) – Performance based remuneration, the amounts receivable by the Company includes \$119,250 thousand (2017: \$100,929 thousand) for amounts paid in advance for MEREP awards offered to its employees net of share-based payment expense.

##### *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. Significant transactions between the Company and its subsidiaries are disclosed below.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Company except when the parties have the legal right and intention to offset.

Balances arising from lending and borrowing activities between the Company and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Company enters into legal arrangements with certain subsidiaries and their customers whereby security deposits and maintenance claims are defeased to the Company. This removes the legal requirement for the subsidiary to reimburse the external counterpart and that liability sits with the Company. As of 31 March 2018 these defeased balances were \$570,789 thousand (2017: \$572,769 thousand) and \$115,393 thousand (2017: \$122,129 thousand) for maintenance and security deposits respectively.

The Company has entered 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 of 31 March 2018, the collateral placed was \$381,410 thousand (2017: \$381,410 thousand).

A list of material subsidiaries is set out in Note 16 – Investments in subsidiaries.

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest income	–	–	927,447	682,693
Interest expense	–	–	(569,535)	(498,522)
Fee and commission income	–	–	65,388	45,845
Other operating income	–	–	40,631	83,289
Dividends and distributions	–	–	1,485,272	733,541
Management fees, group service charges and cost recoveries	–	–	381,135	291,805
Other expense	–	–	(6,038)	(4,825)

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

Amounts receivable	–	–	27,841,404	31,071,245
Amounts payable	–	–	(10,549,451)	(17,479,969)



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**NOTE 29****Related party information continued*****Other related body corporate entities***

Transactions between the Consolidated Entity and other related body corporate entities under common control principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, the provision of management and administration services, facilities and accommodation and the provision of guarantees.

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

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

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Interest income	<b>5,709</b>	3,396	<b>8,604</b>	2,019
Interest expense	<b>(269,389)</b>	(232,263)	<b>(210,589)</b>	(181,643)
Rental income	<b>21,168</b>	21,169	<b>21,168</b>	21,169
Fee and commission expense	<b>(157,562)</b>	(220,674)	<b>(142,179)</b>	(196,975)
Other operating expenses	<b>(1,228,199)</b>	(1,312,102)	<b>(1,011,496)</b>	(1,084,432)
Other income/(expense)	<b>1,881</b>	(471)	<b>1,684</b>	(1,284)

The following balances with other related body corporate entities were outstanding as at financial year end:

Amounts receivable	<b>1,222,857</b>	1,548,724	<b>1,101,575</b>	1,406,923
Amounts payable	<b>(9,840,305)</b>	(7,367,119)	<b>(8,399,667)</b>	(5,959,434)

***Associates and joint ventures***

Transactions between the Consolidated Entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All unrealised transactions undertaken with associates and joint ventures are eliminated in the consolidated income statement to the extent of ownership interests held by the Consolidated Entity. During the financial year, the following amounts of income/(expense) resulted from transactions with associates and joint ventures:

Interest income	<b>64,853</b>	19,287	<b>62,596</b>	18,502
Fee and commission expense	<b>(47,806)</b>	(38,539)	<b>(47,481)</b>	(37,964)
Brokerage and commission expense	<b>(6,015)</b>	(4,812)	<b>(5,529)</b>	(3,937)
Dividends and distributions <sup>(1)</sup>	<b>19,075</b>	9,000	<b>–</b>	–

(1) Dividends and distributions are shown as gross amounts. Under the equity method, 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 14 – Interests in associates and joint ventures):

Amounts receivable	<b>82,504</b>	242,262	<b>46,546</b>	228,272
Amounts payable	<b>(3,636)</b>	(3,488)	<b>(3,636)</b>	(3,488)

Balances arising from lending and borrowing activities between the Consolidated Entity and its associates and joint ventures are typically extended on a term basis and where appropriate may be either subordinated or collateralised.



## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 30

##### Key Management Personnel disclosure

##### Key Management Personnel

The following persons were Directors of the Bank during the financial years ended 31 March 2018 and 31 March 2017, unless indicated:

##### Executive Voting Directors<sup>(1)</sup>

N.W. Moore	Macquarie Group CEO
M.J. Reemst	Macquarie Bank CEO

##### Non-Executive Directors

P.H. Warne <sup>(2)</sup>	Chairman
G.R. Banks AO	
G.M. Cairns	
M.J. Coleman	
P.A. Cross	
D.J. Grady AM	
M.J. Hawker AM	
G.R. Stevens AC	(appointed effective 1 November 2017)
N.M. Wakefield Evans	

In addition to the Executive Voting Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the past two financial years ended 31 March 2018 and 31 March 2017, unless otherwise indicated.

##### Current Executives<sup>(1)</sup>

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

##### Former Executive

S.D. Allen	Former CRO, Head of RMG (ceased to be a member of the Executive Committee on 31 December 2017).
M. McLaughlin	Former Country Head, United States of America (ceased to be a member of the Executive Committee on 15 June 2017)
S. Vrcelj	Former Head of MSG (ceased to be a member of the Executive Committee on 29 November 2016)

The remuneration arrangements for all of the persons listed above are described on pages 29 to 36 of the Remuneration Report, contained in the Directors' Report.

- (1) Except where indicated otherwise, the Executive Voting Directors and all Current Executives listed above are members of the Company's Executive Committee as at 4 May 2018.
- (2) P.H. Warne commenced as Chairman of the MBL Board effective 1 April 2016.
- (3) Mr. Upfold was an Executive KMP for FY2018 but changed roles during the year, commencing as CRO, Head of RMG on 1 January 2018. He was formerly CFO, Head of FMG.

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**NOTE 30****Key Management Personnel disclosure continued****Key Management Personnel remuneration**

The following table details the aggregate remuneration for KMP:

	SHORT-TERM EMPLOYEE BENEFITS				LONG-TERM EMPLOYEE BENEFITS	SHARE-BASED PAYMENTS		
	Salary and fees (including super- annuation) \$	Performance related remuneration <sup>(1)</sup> \$	Other benefits \$	Total short term Employee Benefits \$	Restricted profit share including earnings on restricted profit share <sup>(2)</sup> \$	Equity awards including shares <sup>(3)</sup> \$	PSUs <sup>(4)</sup> \$	Total remuneration \$
<b>Executive Remuneration</b>								
<b>2018</b>	<b>5,649,060</b>	<b>29,168,202</b>	<b>–</b>	<b>34,817,262</b>	<b>9,130,839</b>	<b>33,220,964</b>	<b>14,995,110</b>	<b>92,164,175</b>
2017	6,167,275	25,634,799	–	31,802,074	6,938,188	27,847,656	15,822,874	82,410,792
<b>Non-Executive Remuneration</b>								
<b>2018</b>	<b>787,708</b>	<b>–</b>	<b>–</b>	<b>787,708</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>787,708</b>
2017	757,500	–	3,000	760,500	–	–	–	760,500

(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(xxii) – Performance based remuneration.

(4) The current year amortisation for PSUs calculated as described in Note 1(xxii) performance based remuneration. Adjustments were made during the prior years to reduce previously recognised remuneration expense where performance hurdles have not been met, have been partially met or are not expected to be met.

**Loans to 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 \$'000	Interest Charged \$'000	Write -downs \$'000	Closing balance at 31 March <sup>(1)</sup> \$'000
Total for key management personnel and their related parties				
<b>2018</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>464</b>
2017	–	–	–	–

(1) Number of persons included in the aggregate at 31 March 2018: 1 (31 March 2017: Nil).

Loans and other financial instrument transactions were made by the Consolidated Entity in the ordinary course of business with related parties.

**Other transactions with Key Management Personnel and their related parties**

Certain Key Management Personnel and their related parties have acquired investments in a number of products from subsidiaries within the Consolidated Entity. These products typically involve the issuance of investment units and have been financed with limited recourse loans. Some are accounted for as fee and commission income when acting on behalf of investors. This fee represents the service performed by the Consolidated Entity for transferring interest received from investors in exchange for their investment unit returns. The gross receipts by the Consolidated Entity were \$Nil (2017: \$2,700 thousand). Others are subject to swap agreements and are accounted for as derivatives by the Consolidated Entity.

All transactions with Key Management Personnel (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees. From an accounting perspective, amounts recognised by the Consolidated Entity in respect of these transactions are recognised net in either trading income or fee and commission income and have been disclosed below.

	Consolidated 2018 \$'000	Consolidated 2017 \$'000
Aggregated amounts recognised by the Consolidated Entity		
Trading income	–	838
Fee and commission income	–	397

Contributions in respect of these products relate to the following Key Management Personnel: S. Wikramanayake. All products have matured or been redeemed during the year.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 31

##### Employee equity participation

###### MEREP

MGL continues to operate the MEREP in conjunction with other remuneration arrangements.

###### Award Types under the MEREP

###### Restricted Share Units (RSUs)

A RSU is a beneficial interest in a 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 Trust, subject to the vesting and forfeiture provisions of the MEREP.

###### Deferred Share Units (DSUs)

A DSU represents the right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by MGL in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. MGL may issue shares to the Trustee or 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 MGL shares do not generally receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as holders of RSUs. However, holders of DSUs will have no voting rights 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 eight years.

###### Performance Share Units (PSUs)

All PSUs currently on issue are structured as DSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. PSU holders have no right to dividend equivalent payments before the PSUs vest.

###### Restricted Shares

A Restricted Share is a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on, and to exercise the right of, the Restricted Shares. Restricted Shares are only offered in jurisdictions where legal or tax rules make RSU/DSU awards impractical.

The following is a summary of Awards which have been granted to the employees of the Consolidated Entity pursuant to the MEREP:

	NUMBER OF RSU AWARDS	
	2018	2017
RSUs on issue at the beginning of the financial year	6,619,655	7,184,674
Granted during the financial year	1,571,969	1,970,285
Forfeited during the financial year	(1,815,730)	(135,300)
Vested RSUs withdrawn or sold from the MEREP during the financial year	(180,167)	(2,293,701)
Transfers to related body corporate entities	(533,341)	(106,303)
RSUs on issue at the end of the financial year	5,662,386	6,619,655
RSUs vested and not withdrawn from the MEREP at the end of the financial year	1,979	2,637

The weighted average fair value of the RSU awards granted during the financial year was \$90.20 (2017: \$72.74).

	NUMBER OF DSU AWARDS	
	2018	2017
DSUs on issue at the beginning of the financial year	1,281,176	1,290,490
Granted during the financial year	453,383	464,300
Forfeited during the financial year	(358,627)	(767)
Exercised during the financial year	(55,598)	(468,409)
Transfers to related body corporate entities	(7,287)	(4,438)
DSUs on issue at the end of the financial year	1,313,047	1,281,176
DSUs exercisable at the end of the financial year	197,274	153,422

The weighted average fair value of the DSU awards granted during the financial year was \$90.21 (2017: \$72.86).

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**NOTE 31****Employee equity participation continued****Award Types under the MEREP continued**

	NUMBER OF PSU AWARDS	
	2018	2017
PSUs on issue at the beginning of the financial year	<b>539,176</b>	482,431
Granted during the financial year	<b>132,018</b>	149,077
Exercised during the financial year	<b>(186,212)</b>	(85,912)
Transfers to related body corporate entities	<b>(30,754)</b>	–
Expired during the financial year	–	(6,420)
PSUs on issue at the end of the financial year	<b>454,228</b>	539,176
PSUs exercisable at the end of the financial year	–	70,211

The weighted average fair value of the PSU awards granted during the financial year was \$73.00 (2017: \$65.53).

	NUMBER OF RESTRICTED SHARE AWARDS	
	2018	2017
Restricted on issue at the beginning of the financial year	<b>32,485</b>	46,183
Granted during the financial year	<b>13,623</b>	24,032
Transfers to related body corporate entities	<b>(9,525)</b>	–
Released during the financial year	<b>(21,756)</b>	(37,730)
Restricted shares on issue at the end of the financial year	<b>14,827</b>	32,485

The weighted average fair value of the Restricted Shares granted during the financial year was \$87.23 (2017: \$71.36).

The awards are measured at their grant dates based on their fair value<sup>1</sup> and for each PSU the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution from MGL where MGL is not reimbursed or as a prepaid asset where MGL is reimbursed in advance.

RSUs/DSUs and PSUs relating to the MEREP plan for Executive Committee members have been granted in the current year in respect of 2017. The fair value of each of these grants is estimated using Macquarie'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: 2.26% per annum
- expected vesting dates of PSUs: 1 July 2020 and 1 July 2021
- dividend yield: 5.07% per annum.

While RSUs and DSUs, and PSUs (for Executive Committee members) for FY2018 will be granted during FY2019, Macquarie begins recognising an expense for these awards (based on an initial estimate) from 1 April 2017. The expense is estimated using the price of MGL ordinary shares as at 31 March 2018 and the number of equity instruments expected to vest. For PSUs, the estimate also incorporates an interest rate to maturity of 2.58% per annum, expected vesting dates of PSUs of 1 July 2021 and 1 July 2022, and a dividend yield of 4.96% per annum. In the following financial year, Macquarie 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.

Macquarie 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 income statement, with a corresponding adjustment to equity (for equity settled awards), or a corresponding adjustment to liabilities (for cash settled awards) within MGL's consolidated accounts.

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 Group staff with retained commission (Commission Awards)
- Macquarie Group staff who receive a discretionary payment in recognition of contributions over a predetermined period (Incentive Awards)
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level and are awarded a fixed Australian dollar value, depending on level (New Hire Awards)
- members of the MBL and MGL Executive Committees who are eligible for PSUs
- in limited circumstances, Macquarie staff may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of the Group upon the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to above as New Hire Awards).

(1) For employees categorised as Material Risk Takers who are required to comply with the European Banking Authority Guidelines on the CRD IV remuneration requirements, the fair value of the awards granted for performance period after 1 April 2017 has been adjusted to take into account the prohibition of dividends on unvested awards.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 31

##### Employee equity participation *continued*

##### *Award Types under the MEREP continued*

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

(1) Vesting will occur 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 2017 retention, the allocation price was the weighted average price of the Shares acquired for the 2017 Purchase Period, which was 16 May 2017 to 22 June 2017 inclusive. That price was calculated to be \$89.25 (2016 retention: \$71.55).

#### PSUs

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Only members of the MGL and MBL Executive Committees are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members, two performance hurdles have been determined and each will apply individually to 50% of the total number of PSUs awarded. Hurdles are periodically reviewed by the BRC to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for this financial year.

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 with 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).
A sliding scale applies with 50% becoming exercisable above the 50th percentile and 100% vesting at the 75th percentile.		

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### Employee equity participation continued

#### PSUs continued

##### Performance hurdle 2

	REFERENCE GROUP	
	Granted after 31 March 2013	Granted on or before 31 March 2013
Hurdle		
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 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 recent financial year-end results available. 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.

#### Other arrangements

There are certain arrangements with staff that take the form of a share-based payment but that are held outside the MEREP. Employees do not have a legal or beneficial interest in the underlying shares; however the arrangements have the same economic benefits as those held in the MEREP.

Compensation expense relating to these awards for the financial year ended 31 March 2018 was \$70 thousand (2017: \$193 thousand).

#### Employee Share Plan

MGL continues to operate the Macquarie Group Employee Share Plan (ESP) whereby each financial year eligible employees are offered up to \$1,000 worth of fully paid ordinary Macquarie 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 2017. A total of 591 (2017: 507) staff participated in this offer. On 28 November 2017, the participants were each allocated 10 (2017: 11) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$99.33 (2017: \$84.13), a total of 5,910 (2017: 5,577) 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 2018, compensation expense relating to the ESP totalled \$585 thousand (2017: \$467 thousand).

#### Historical Share and Option Plans

Shares are no longer being issued under the Macquarie Group Staff Share Acquisition Plan or the Macquarie Group Non-Executive Director Share Acquisition plan. However employees and Non-Executive Directors still hold shares issued in previous years.

Options over unissued MGL fully paid shares are no longer granted under the Macquarie Group Employee Share Option Plan and no options are outstanding.

#### Other plans

MGL operates other local share-based compensation plans, none of which, individually or in aggregate are material.

## NOTES TO THE FINANCIAL STATEMENTS

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	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>NOTE 32</b>				
<b>Contingent liabilities and commitments</b>				
<b>Contingent liabilities exist in respect of:</b>				
Letters of credit	874	682	891	681
Performance related contingents	237	305	247	320
Guarantees <sup>(1)</sup>	107	50	1,220	1,226
Indemnities	44	44	44	44
Total contingent liabilities <sup>(2),(3)</sup>	1,262	1,081	2,402	2,271
<b>Commitments exist in respect of:</b>				
Undrawn credit facilities and securities underwriting <sup>(4)</sup>	4,712	4,738	3,766	3,777
Forward asset purchases	7	816	–	719
Total commitments	4,719	5,554	3,766	4,496
<b>Total contingent liabilities and commitments</b>	<b>5,981</b>	<b>6,635</b>	<b>6,168</b>	<b>6,767</b>

(1) The Company guarantees the performance obligation of certain subsidiaries in relation to their external obligations.

(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.

## NOTE 33

### Lease commitments

#### Non-cancellable operating leases expiring:

Not later than one year	10	8	–	–
Later than one year and not later than five years	16	18	–	–
Later than five years	1	3	–	–
<b>Total operating lease commitments</b>	<b>27</b>	<b>29</b>	<b>–</b>	<b>–</b>



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## NOTE 34

### Structured entities

The Consolidated Entity engages in various transactions with Structured entities (SEs). SEs are designed so that voting or similar rights are not the dominant factor in affecting an investor's returns (for example decisions relate to administrative tasks only, and contractual arrangements determine the direction of activities). Generally, SEs do not have a range of operating and financing activities for which substantive decision making is required continuously.

### 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, credit card receivables, of the Consolidated Entity or of its clients.

Macquarie 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 aircraft, rail cars, electronic and IT equipment. The Consolidated Entity may act as a lender, manager, derivative counterparty, purchaser of notes and/or purchaser of residual interest units or guarantor.

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:

- (iv) creates rather than absorbs variability of the unconsolidated SE (for example purchase of credit protection under a credit default swap)
- (v) acts as underwriter or placement agent, or provides administrative, trustee or other services to third party managed SEs, and
- (vi) transfers assets and does not have any other interest deemed to be significant in the SE. Trading positions have been included in the following table.

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.

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 2018		CONSOLIDATED 2017	
	Securitisations \$m	Asset-backed financing \$m	Securitisations \$m	Asset-backed financing \$m
<b>Carrying value of assets</b>				
Trading portfolio assets	128	189	488	364
Derivative assets	110	–	33	–
Investment securities available for sale <sup>(1)</sup>	1,366	–	1,068	–
Loan assets held at amortised cost	237	794	504	381
<b>Total carrying value of assets<sup>(2)</sup></b>	<b>1,841</b>	<b>983</b>	<b>2,093</b>	<b>745</b>
<b>Maximum exposure to loss<sup>(3)</sup></b>				
Debt, equity and derivatives held	1,841	983	2,093	745
Undrawn commitments	–	7	3	37
<b>Total maximum exposure to loss</b>	<b>1,841</b>	<b>990</b>	<b>2,096</b>	<b>782</b>

(1) Securitisations includes \$1,158 million (2017: \$702 million) of investments that are managed by the Consolidated Entity under the liquid assets holding policy described in Note 36.2 – Liquidity risk.

(2) Total carrying value of assets includes \$798 million (2017: \$598 million) in subordinated interests, of which \$47 million (2017: \$361 million) is included in securitisation activities and \$751 million (2017: \$237 million) included in asset backed financing activities.

(3) Maximum exposure to loss is the carrying value of debt, equity and derivatives held and the undrawn amount for commitments. The amounts for commitments are reduced for any liabilities already recognised.

The subordinated securitisation interests are primarily trading positions that are typically managed under market risk described in Note 36.3 – 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 subordinated asset backed interests that are included within investments available for sale and loan assets, involve unconsolidated SEs with a total size of \$3,913 million (2017: \$334 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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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### NOTE 35

#### Derivative financial instruments

##### *Objectives of holding and issuing derivative financial instruments*

The Consolidated Entity is an active price-maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price-making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Consolidated Entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market.

All trading positions, including derivatives, are marked to fair value daily.

The Consolidated Entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in Note 1(xii) – Hedge accounting:

**Cash flow hedges:** The Consolidated Entity is exposed to volatility in future interest cash flows arising from the consolidated securitisation vehicles and floating rate issued debt used to fund fixed rate asset positions. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps. The Consolidated Entity is also exposed to foreign exchange risk from foreign currency denominated issued debt and foreign currency denominated assets which are hedged with cross-currency swaps.

At 31 March 2018, the fair value of outstanding derivatives held by the Company and designated as cash flow hedges was \$3 million positive value (2017: \$20 million negative value).

During the financial year the Consolidated Entity recognised \$3 million of gains (2017: \$3 million gains) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as cash flow hedges was \$60 million negative value (2017: \$161 million negative value).

**Fair value hedges:** The Consolidated Entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate assets and liabilities as a result of movements in benchmark interest rates, and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as fair value hedges was \$178 million negative value (2017: \$12 million negative value).

During the financial year fair value loss on the hedging instruments of \$166 million have been recognised (2017: \$329 million loss), offset by \$152 million gains (2017: \$313 million gains) on the hedged items.

**Net investment in foreign operations hedges:** The Consolidated Entity has designated derivatives and borrowings as hedges of its net investment for foreign exchange risk arising from its foreign operations.

At 31 March 2018, the fair value of outstanding derivatives held by the Consolidated Entity and designated as net investment in foreign operations hedges was \$63 million negative value (2017: \$171 million positive value). During the financial year the Consolidated Entity recognised \$nil (2017: \$nil) in the income statement due to hedge ineffectiveness on net investment hedges.

A proportion of the Consolidated Entity's borrowings amounting to \$5,525 million (2017: \$4,927 million) is designated as a hedge of its net investment in foreign operations. The foreign exchange loss of \$93 million (2017: \$11 million loss) on translation of the foreign currency borrowing to Australian dollars at the end of the reporting period is recognised in other comprehensive income.

The types of derivatives which the Consolidated Entity trades and uses for hedging purposes are – Futures, Forwards and forward rate agreements, Swaps, Options.

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## NOTE 36

### 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 credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber and information security, environmental and social, and data risk. Further details on the risks faced by the Consolidated Entity can be found in the Risk Management Report of the MGL Annual Report.

Primary responsibility for risk management lies at the business level. Part of the role of all business managers 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 identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the MGL CEO with a secondary reporting line to the Board Risk Committee.

## NOTE 36.1

### 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 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*

All wholesale exposures are allocated to a Macquarie rating on a scale that broadly corresponds to Standard & Poor's and Moody's Investor Services credit ratings. Each Macquarie rating maps to a Probability of Default estimate. All wholesale counterparties and certain individual facilities are assigned a Loss Given Default estimate which reflects the estimated economic loss in the event of default occurring.

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-
Below Investment Grade	MQ9 to MQ16	BB+ to C
Default <sup>(1)</sup>	MQ99	Default

(1) The Default category primarily correlates to the 'past due more than 90 days not impaired' and 'individually impaired' balances disclosed in the following pages.

Retail pools are mapped to the corresponding rating grade based on their probability of default. All loan assets are subject to recurring review and assessment for possible impairment. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and ensure specific provisioning is adequate.

### *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 2018

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#### NOTE 36.1

##### Credit risk *continued*

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, commodities, interests in associates and joint ventures or bank notes and coins.

##### *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.

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2018										
<b>Australia</b>										
Governments	–	4,415	356	365	3	66	–	–	–	5,205
Financial institutions	6,941	160	979	3,941	908	2,205	2	–	139	15,275
Other	–	1	757	42	332	57,094	154	256	2,481	61,177
Total Australia	6,941	4,576	2,092	4,348	1,243	59,365	156	256	2,620	81,597
<b>Asia Pacific</b>										
Governments	–	1,191	7	165	286	3	70	–	–	1,722
Financial institutions	5,690	377	295	450	567	548	–	–	4	7,931
Other	–	292	379	–	865	1,157	2	269	76	3,040
Total Asia Pacific	5,690	1,860	681	615	1,718	1,708	72	269	80	12,693
<b>Europe, Middle East and Africa</b>										
Governments	–	130	2	–	134	19	–	–	13	298
Financial institutions	14,250	32	3,163	78	560	2,178	–	–	186	20,447
Other	–	68	1,187	–	1,334	6,449	–	697	951	10,686
Total Europe, Middle East and Africa	14,250	230	4,352	78	2,028	8,646	–	697	1,150	31,431
<b>Americas</b>										
Governments	–	863	155	–	29	11	–	–	6	1,064
Financial institutions	9,748	32	2,433	201	171	3,105	3	–	845	16,538
Other	–	17	2,982	2	1,650	7,308	137	161	1,280	13,537
Total Americas	9,748	912	5,570	203	1,850	10,424	140	161	2,131	31,139
<b>Total gross credit risk</b>	<b>36,629</b>	<b>7,578</b>	<b>12,695</b>	<b>5,244</b>	<b>6,839</b>	<b>80,143</b>	<b>368</b>	<b>1,383</b>	<b>5,981</b>	<b>156,860</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,800 million and Life Investment Linked contracts and other unitholder assets \$648 million which are included in Note 9 – Other assets.

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**NOTE 36.1****Credit risk continued****Maximum exposure to credit risk continued**

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amortised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
CONSOLIDATED 2017										
<b>Australia</b>										
Governments	–	4,868	460	853	9	56	–	–	–	6,246
Financial institutions	6,320	126	1,755	2,581	601	1,805	1	–	213	13,402
Other	–	3	1,195	57	210	52,959	121	283	2,214	57,042
<b>Total Australia</b>	<b>6,320</b>	<b>4,997</b>	<b>3,410</b>	<b>3,491</b>	<b>820</b>	<b>54,820</b>	<b>122</b>	<b>283</b>	<b>2,427</b>	<b>76,690</b>
<b>Asia Pacific</b>										
Governments	–	1,065	3	54	472	4	75	–	–	1,673
Financial institutions	1,481	383	173	394	135	565	–	–	8	3,139
Other	–	315	326	–	898	754	7	598	10	2,908
<b>Total Asia Pacific</b>	<b>1,481</b>	<b>1,763</b>	<b>502</b>	<b>448</b>	<b>1,505</b>	<b>1,323</b>	<b>82</b>	<b>598</b>	<b>18</b>	<b>7,720</b>
<b>Europe, Middle East and Africa</b>										
Governments	–	508	3	42	52	2	–	–	12	619
Financial institutions	5,181	160	3,191	310	317	2,666	–	–	94	11,919
Other	–	78	1,576	–	1,639	5,842	10	686	2,180	12,011
<b>Total Europe, Middle East and Africa</b>	<b>5,181</b>	<b>746</b>	<b>4,770</b>	<b>352</b>	<b>2,008</b>	<b>8,510</b>	<b>10</b>	<b>686</b>	<b>2,286</b>	<b>24,549</b>
<b>Americas</b>										
Governments	–	671	143	–	34	11	–	–	2	861
Financial institutions	12,583	60	2,122	207	279	2,600	–	–	280	18,131
Other	–	785	1,120	87	1,285	8,286	141	166	1,622	13,492
<b>Total Americas</b>	<b>12,583</b>	<b>1,516</b>	<b>3,385</b>	<b>294</b>	<b>1,598</b>	<b>10,897</b>	<b>141</b>	<b>166</b>	<b>1,904</b>	<b>32,484</b>
<b>Total gross credit risk</b>	<b>25,565</b>	<b>9,022</b>	<b>12,067</b>	<b>4,585</b>	<b>5,931</b>	<b>75,550</b>	<b>355</b>	<b>1,733</b>	<b>6,635</b>	<b>141,443</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 million which are included in Note 9 – Other assets.

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.1

##### Credit risk *continued*

##### *Maximum exposure to credit risk continued*

	Receiv- ables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amort- ised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
	COMPANY 2018										
<b>Australia</b>											
Governments	–	4,415	357	364	2	46	–	–	–	–	5,184
Financial institutions	6,776	155	–	3,834	557	2,125	2	–	–	139	13,588
Other	–	1	753	37	584	42,409	126	144	14,314	2,380	60,748
Total Australia	6,776	4,571	1,110	4,235	1,143	44,580	128	144	14,314	2,519	79,520
<b>Asia Pacific</b>											
Governments	–	811	7	165	256	–	70	–	–	–	1,309
Financial institutions	5,414	270	288	450	549	253	–	–	–	4	7,228
Other	–	135	378	–	772	935	3	235	2,333	76	4,867
Total Asia Pacific	5,414	1,216	673	615	1,577	1,188	73	235	2,333	80	13,404
<b>Europe, Middle East and Africa</b>											
Governments	–	130	–	–	59	16	–	–	–	13	218
Financial institutions	13,797	32	2,940	71	555	1,803	–	–	–	186	19,384
Other	–	67	992	–	877	3,805	–	684	8,285	1,199	15,909
Total Europe, Middle East and Africa	13,797	229	3,932	71	1,491	5,624	–	684	8,285	1,398	35,511
<b>Americas</b>											
Governments	–	472	5	–	–	11	–	–	–	5	493
Financial institutions	9,098	30	3,592	192	143	1,465	3	–	–	222	14,745
Other	–	16	1,356	–	170	1,674	21	149	2,909	1,944	8,239
Total Americas	9,098	518	4,953	192	313	3,150	24	149	2,909	2,171	23,477
<b>Total gross credit risk</b>	<b>35,085</b>	<b>6,534</b>	<b>10,668</b>	<b>5,113</b>	<b>4,524</b>	<b>54,542</b>	<b>225</b>	<b>1,212</b>	<b>27,841</b>	<b>6,168</b>	<b>151,912</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,059 million which are included in Note 9 – Other assets.

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**NOTE 36.1****Credit risk continued****Maximum exposure to credit risk continued**

	Receivables from financial institutions <sup>(1)</sup> \$m	Trading portfolio assets \$m	Derivative assets \$m	Debt investment securities available for sale \$m	Other financial assets <sup>(2)</sup> \$m	Loan assets held at amort- ised cost \$m	Other financial assets at fair value through profit or loss \$m	Due from related body corporate \$m	Due from subsidiaries \$m	Credit commit- ments and contingent liabilities \$m	Total \$m
COMPANY 2017											
<b>Australia</b>											
Governments	–	4,868	461	852	7	53	–	–	–	–	6,241
Financial institutions	6,078	139	1,269	2,434	540	1,774	1	–	–	213	12,448
Other	–	3	1,192	47	514	40,609	133	159	15,697	2,079	60,433
Total Australia	6,078	5,010	2,922	3,333	1,061	42,436	134	159	15,697	2,292	79,122
<b>Asia Pacific</b>											
Governments	–	996	3	54	429	–	75	–	–	–	1,557
Financial institutions	1,386	269	170	369	98	294	–	–	–	8	2,594
Other	–	103	321	–	900	660	6	589	3,956	11	6,546
Total Asia Pacific	1,386	1,368	494	423	1,427	954	81	589	3,956	19	10,697
<b>Europe, Middle East and Africa</b>											
Governments	–	508	3	–	3	–	–	–	–	12	526
Financial institutions	4,850	160	3,170	302	296	2,192	–	–	–	54	11,024
Other	–	76	1,425	–	1,301	3,811	–	684	8,885	2,244	18,426
Total Europe, Middle East and Africa	4,850	744	4,598	302	1,600	6,003	–	684	8,885	2,310	29,976
<b>Americas</b>											
Governments	–	84	–	–	–	11	–	–	–	2	97
Financial institutions	11,593	44	2,329	192	263	1,471	–	–	–	150	16,042
Other	–	334	445	84	147	1,805	–	103	2,533	1,994	7,445
Total Americas	11,593	462	2,774	276	410	3,287	–	103	2,533	2,146	23,584
<b>Total gross credit risk</b>	<b>23,907</b>	<b>7,584</b>	<b>10,788</b>	<b>4,334</b>	<b>4,498</b>	<b>52,680</b>	<b>215</b>	<b>1,535</b>	<b>31,071</b>	<b>6,767</b>	<b>143,379</b>

(1) Includes reverse repurchase agreements where the classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 36.1

##### Credit risk *continued*

##### *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 (refer to section on collateral and credit enhancements).

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018					
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>32,359</b>	<b>4,270</b>	<b>–</b>	<b>–</b>	<b>36,629</b>
<b>Trading portfolio assets</b>					<b>7,578</b>
Governments	6,515	84	–	–	6,599
Financial institutions	573	28	–	–	601
Other	158	187	33	–	378
<b>Derivative assets</b>					<b>12,695</b>
Governments	520	–	–	–	520
Financial institutions	6,221	649	–	–	6,870
Other	3,072	2,233	–	–	5,305
<b>Debt investment securities available for sale</b>					<b>5,244</b>
Governments	530	–	–	–	530
Financial institutions	4,638	32	–	–	4,670
Other	7	37	–	–	44
<b>Other financial assets<sup>(2)</sup></b>					<b>6,839</b>
Governments	401	–	51	–	452
Financial institutions	1,561	627	18	–	2,206
Other	2,463	1,639	70	9	4,181
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					<b>80,143</b>
Governments	68	31	–	–	99
Financial institutions	6,638	1,397	1	–	8,036
Other	32,669	36,772	2,236	331	72,008
<b>Other financial assets at fair value through profit or loss</b>					<b>368</b>
Governments	70	–	–	–	70
Financial institutions	–	5	–	–	5
Other	74	194	25	–	293
<b>Due from related body corporate entities</b>					<b>1,383</b>
Other	1,383	–	–	–	1,383
<b>Total</b>	<b>99,920</b>	<b>48,185</b>	<b>2,434</b>	<b>340</b>	<b>150,879</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) 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 below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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**NOTE 36.1****Credit risk continued****Credit quality of financial assets continued**

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2017					
<b>Receivables from financial institutions<sup>(1)</sup></b>	23,009	2,556	–	–	25,565
<b>Trading portfolio assets</b>					9,022
Governments	6,979	133	–	–	7,112
Financial institutions	579	150	–	–	729
Other	309	832	40	–	1,181
<b>Derivative assets</b>					12,067
Governments	609	–	–	–	609
Financial institutions	7,045	196	–	–	7,241
Other	2,681	1,536	–	–	4,217
<b>Debt investment securities available for sale</b>					4,585
Governments	949	–	–	–	949
Financial institutions	3,476	16	–	–	3,492
Other	12	132	–	–	144
<b>Other financial assets<sup>(2)</sup></b>					5,931
Governments	525	–	42	–	567
Financial institutions	942	371	19	–	1,332
Other	2,137	1,809	69	17	4,032
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					75,550
Governments	57	16	–	–	73
Financial institutions	6,073	1,563	–	–	7,636
Other	31,830	33,209	2,324	478	67,841
<b>Other financial assets at fair value through profit or loss</b>					355
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	123	148	7	1	279
<b>Due from related body corporate entities</b>					1,733
Other	1,733	–	–	–	1,733
<b>Total</b>	<b>89,143</b>	<b>42,668</b>	<b>2,501</b>	<b>496</b>	<b>134,808</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) Excludes other non-financial assets of \$1,993 million and Life Investment Linked contracts and other unitholder assets \$722 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 below investment grade based on probability of default rating either when not insured or the Consolidated Entity bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.



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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 36.1

##### Credit risk *continued*

##### *Credit quality of financial assets continued*

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
					COMPANY 2018
<b>Receivables from financial institutions<sup>(1)</sup></b>	<b>30,957</b>	<b>4,128</b>	<b>–</b>	<b>–</b>	<b>35,085</b>
<b>Trading portfolio assets</b>					<b>6,534</b>
Governments	5,738	90	–	–	5,828
Financial institutions	460	27	–	–	487
Other	1	189	29	–	219
<b>Derivative assets</b>					<b>10,668</b>
Governments	369	–	–	–	369
Financial institutions	4,889	1,931	–	–	6,820
Other	2,123	1,356	–	–	3,479
<b>Debt investment securities available for sale</b>					<b>5,113</b>
Governments	529	–	–	–	529
Financial institutions	4,547	–	–	–	4,547
Other	–	37	–	–	37
<b>Other financial assets<sup>(2)</sup></b>					<b>4,524</b>
Governments	305	12	–	–	317
Financial institutions	1,229	562	13	–	1,804
Other	1,645	753	2	3	2,403
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					<b>54,542</b>
Governments	60	13	–	–	73
Financial institutions	4,870	776	–	–	5,646
Other	29,414	17,714	1,422	273	48,823
<b>Other financial assets at fair value through profit or loss</b>					<b>225</b>
Governments	70	–	–	–	70
Financial institutions	–	5	–	–	5
Other	–	125	25	–	150
<b>Due from related body corporate entities</b>					<b>1,212</b>
Other	1,212	–	–	–	1,212
<b>Due from subsidiary</b>					<b>27,841</b>
Other	27,841	–	–	–	27,841
<b>Total</b>	<b>116,259</b>	<b>27,718</b>	<b>1,491</b>	<b>276</b>	<b>145,744</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$1,059 million which are included in Note 9 – Other assets.

(3) Mortgages are classified as investment grade when the Company has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Company bears first loss on the portfolio.

(4) Included in the past due category are balances which were overdue by one day or more.

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**NOTE 36.1****Credit risk continued****Credit quality of financial assets continued**

	Investment Grade \$m	Below Investment Grade \$m	Past due but not individually impaired <sup>(4)</sup> \$m	Individually impaired \$m	Total \$m
COMPANY 2017					
<b>Receivables from financial institutions<sup>(1)</sup></b>	21,460	2,447	–	–	23,907
<b>Trading portfolio assets</b>					7,584
Governments	6,342	114	–	–	6,456
Financial institutions	505	107	–	–	612
Other	98	389	29	–	516
<b>Derivative assets</b>					10,788
Governments	466	1	–	–	467
Financial institutions	6,492	446	–	–	6,938
Other	2,220	1,163	–	–	3,383
<b>Debt investment securities available for sale</b>					4,334
Governments	906	–	–	–	906
Financial institutions	3,297	–	–	–	3,297
Other	–	131	–	–	131
<b>Other financial assets<sup>(2)</sup></b>					4,498
Governments	428	11	–	–	439
Financial institutions	906	277	14	–	1,197
Other	1,409	1,429	14	10	2,862
<b>Loan assets held at amortised cost<sup>(3)</sup></b>					52,680
Governments	52	12	–	–	64
Financial institutions	4,784	947	–	–	5,731
Other	25,492	19,333	1,536	524	46,885
<b>Other financial assets at fair value through profit or loss</b>					215
Governments	75	–	–	–	75
Financial institutions	–	1	–	–	1
Other	–	131	7	1	139
<b>Due from related body corporate entities</b>					1,535
Other	1,535	–	–	–	1,535
<b>Due from subsidiaries</b>					31,071
Other	31,071	–	–	–	31,071
<b>Total</b>	<b>107,538</b>	<b>26,939</b>	<b>1,600</b>	<b>535</b>	<b>136,612</b>

(1) Includes reverse repurchase agreements where the credit quality classification is based on the underlying collateral of the agreement.

(2) This balance excludes other non-financial assets of \$681 million which are included in Note 9 – Other assets.

(3) Mortgages are classified as investment grade when the Company has taken insurance from investment grade LMI counterparties and classified as below investment grade based on probability of default rating either when not insured or the Company bears 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 2018

CONTINUED

#### NOTE 36.1

##### Credit risk *continued*

##### *Ageing analysis of assets past due but not individually impaired and individually impaired assets:*

##### PAST DUE BUT NOT INDIVIDUALLY IMPAIRED

Class of financial asset	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m	Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
CONSOLIDATED 2018							
<b>Other financial assets</b>							
Government	26	3	2	20	51	–	51
Financial institutions	6	2	1	9	18	–	18
Other	41	10	7	12	70	9	79
<b>Loan assets held at amortised cost</b>							
Financial institutions	1	–	–	–	1	–	1
Other	1,329	333	130	444	2,236	331	2,567
<b>Trading portfolio assets</b>							
Other	–	–	–	33	33	–	33
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	25	–	–	25	–	25
<b>Total</b>	<b>1,403</b>	<b>373</b>	<b>140</b>	<b>518</b>	<b>2,434</b>	<b>340</b>	<b>2,774</b>
CONSOLIDATED 2017							
<b>Other financial assets</b>							
Government	12	4	3	23	42	–	42
Financial institutions	7	2	1	9	19	–	19
Other	48	10	2	9	69	17	86
<b>Loan assets held at amortised cost</b>							
Other	1,323	312	131	558	2,324	478	2,802
<b>Trading portfolio assets</b>							
Other	–	–	–	40	40	–	40
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	7	–	–	7	1	8
<b>Total</b>	<b>1,390</b>	<b>335</b>	<b>137</b>	<b>639</b>	<b>2,501</b>	<b>496</b>	<b>2,997</b>

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**NOTE 36.1****Credit risk continued****Ageing analysis of assets past due but not individually impaired and individually impaired assets continued:**

PAST DUE BUT NOT INDIVIDUALLY IMPAIRED							
Class of financial asset	Less than 30 days \$m	31 to 60 days \$m	61 to 90 days \$m	More than 90 days \$m	Total past due but not individually impaired \$m	Individually impaired \$m	Total \$m
COMPANY 2018							
<b>Other financial assets</b>							
Financial institutions	5	1	–	7	13	–	13
Other	2	–	–	–	2	3	5
<b>Loan assets held at amortised cost</b>							
Other	640	244	122	416	1,422	273	1,695
<b>Trading portfolio assets</b>							
Other	–	–	–	29	29	–	29
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	25	–	–	25	–	25
<b>Total</b>	<b>647</b>	<b>270</b>	<b>122</b>	<b>452</b>	<b>1,491</b>	<b>276</b>	<b>1,767</b>
COMPANY 2017							
<b>Other financial assets</b>							
Financial institutions	6	1	1	6	14	–	14
Other	13	–	–	1	14	10	24
<b>Loan assets held at amortised cost</b>							
Other	752	243	122	419	1,536	524	2,060
<b>Trading portfolio assets</b>							
Other	–	–	–	29	29	–	29
<b>Other financial assets at fair value through profit or loss</b>							
Other	–	7	–	–	7	1	8
<b>Total</b>	<b>771</b>	<b>251</b>	<b>123</b>	<b>455</b>	<b>1,600</b>	<b>535</b>	<b>2,135</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.1

##### Credit risk *continued*

##### *Ageing analysis of assets past due but not individually impaired and individually impaired assets continued:*

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 and the Company when determining whether an asset is impaired are set out in Note 1(xv) – Impairment.

Of the collateral held against past due or impaired balances for loan assets held at amortised cost, \$1,630 million (2017: \$1,704 million) in the Consolidated Entity and in the Company relates to collateral held against past due or impaired balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due or impaired balances for other assets primarily represents equity securities held as security against failed trade settlements.

##### *Reposessed 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 \$66 million (2017: \$50 million).

##### *Collateral and credit enhancements held*

##### *Receivables from financial institutions*

Cash collateral on securities borrowed and reverse repurchase agreements balances are included in receivables from financial institutions. For details, refer to Note 6 – Receivables from financial institutions.

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.

##### *Loan assets held at amortised cost*

##### *Mortgage loans*

Mortgages are secured by fixed charges over a borrower's property. Further, to cover a substantial portion of the mortgage portfolio against a potential shortfall between the value of a reposessed property sold and loan outstanding, including accrued interest, prior to April 2017 the Consolidated Entity obtained LMI from an investment grade counterparty. Since April 2017, the Consolidated Entity has purchased risk protection from a panel of investment grade companies via an excess of loss structure.

The mortgage loan balance includes \$11,560 million (2017: \$16,332 million) which has been securitised by consolidated SPEs.

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.

	2018			2017		
	Australia \$m	EMEA \$m	Total \$m	Australia \$m	EMEA \$m	Total \$m
<b>Fully collateralised</b>						CONSOLIDATED
Loan to value ratio						
<= 25%	1,255	11	1,266	1,018	13	1,031
>25% to 50%	5,942	125	6,067	4,535	168	4,703
>50% to 70%	11,730	461	12,191	9,054	464	9,518
>70% to 80%	12,190	315	12,505	11,402	225	11,627
>80% to 90%	3,961	75	4,036	4,625	132	4,757
>90% to 100%	804	19	823	985	123	1,108
<b>Partly collateralised</b>	40	6	46	44	–	44
<b>Total mortgages</b>	<b>35,922</b>	<b>1,012</b>	<b>36,934</b>	<b>31,663</b>	<b>1,125</b>	<b>32,788</b>
<b>Fully collateralised</b>						COMPANY
Loan to value ratio						
<= 25%	1,167	10	1,177	947	12	959
>25% to 50%	5,624	123	5,747	4,354	164	4,518
>50% to 70%	11,201	439	11,640	8,748	429	9,177
>70% to 80%	11,786	296	12,082	11,202	196	11,398
>80% to 90%	3,855	32	3,887	4,545	51	4,596
>90% to 100%	798	5	803	972	41	1,013
<b>Partly collateralised</b>	39	3	42	40	–	40
<b>Total mortgages</b>	<b>34,470</b>	<b>908</b>	<b>35,378</b>	<b>30,808</b>	<b>893</b>	<b>31,701</b>

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## NOTE 36.1

### Credit risk *continued*

#### ***Collateral and credit enhancements held continued***

##### Asset financing

The Consolidated Entity leases assets and provides asset-related financing, predominantly motor vehicles, to corporate and retail clients. Titles to the underlying assets are held by the Consolidated Entity as collateral. For the Consolidated Entity, of the asset finance portfolio of \$19,084 million (2017: \$19,513 million), the credit exposure after considering the depreciated value of collateral is \$8,414 million (2017: \$8,483 million). For the Company, of the asset finance portfolio of \$3,539 million (2017: \$5,474 million), the credit exposure after considering the depreciated value of collateral is \$1,487 million (2017: \$2,513 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 \$14,361 million (2017: \$14,720 million), the credit exposure after considering the estimated value of collateral and credit enhancements is \$3,207 million (2017: \$3,527 million). For the Company, of the term lending of \$10,767 million (2017: \$10,511 million), the credit exposure after the estimated value of collateral and credit enhancements is \$2,464 million (2017: \$2,564 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 \$2,001 million (2017: \$1,655 million), \$2,001 million (2017: \$1,655 million) is fully collateralised. For the Company, of the investment lending portfolio of \$139 million (2017: \$377 million), \$139 million (2017: \$195 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.

##### *Other financial assets at fair value through profit or loss*

Other financial assets at fair value through profit or loss include financing provided to clients for investing. Financing may be unsecured or secured (partially or fully). Collateral is generally comprised of underlying securities investments or cash deposits of the investors.

##### *Derivative financial 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-cleared 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 ensuring it has adequate resources 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. 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 2018 of \$658 million (2017: \$1,414 million). The Company held exchange traded derivatives with positive replacement values as at 31 March 2018 of \$554 million (2017: \$1,269 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 2018, the Consolidated Entity held OTC contracts with a positive replacement value of \$12,037 million (2017: \$10,653 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$6,589 million (2017: \$6,651 million) and margins held (excluding the impact of over-collateralisation) of \$1,377 million (2017: \$1,340 million).

As at 31 March 2018, the Company held OTC contracts with a positive replacement value of \$10,114 million (2017: \$9,519 million). The credit risk of these contracts is reduced due to master netting agreements covering negative OTC contracts of \$5,549 million (2017: \$5,972 million) and margins held (excluding the impact of over-collateralisation) of \$1,159 million (2017: \$1,203 million).

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### NOTE 36.1

#### Credit risk *continued*

#### *Collateral and credit enhancements held continued*

##### *Debt investments securities available for sale*

This classification mainly includes debt securities held by Group Treasury for liquidity management purposes as well as certain asset-backed securities.

The Consolidated Entity utilises Credit Default Swaps (CDS), Guarantees, other forms of credit enhancements or collateral in order to minimise the exposure to credit risk.

##### *Other assets*

Security settlement of \$3,108 million (2017: \$2,315 million) in the Consolidated Entity and \$2,729 million (2017: \$2,105 million), in the Company are included in Other assets, which represent amounts owed by an exchange (or a client) for equities sold (or bought on behalf of a client). Security settlements are collateralised with the underlying equity securities or cash held by the Consolidated Entity until date of settlement.

##### *Credit commitments*

Undrawn facilities and lending commitments of \$2,747 million (2017: \$2,636 million) in the Consolidated Entity and \$2,437 million (2017: \$2,350 million) in the Company are secured through collateral and credit enhancement out of total undrawn facilities and lending commitments of \$4,712 million (2017: \$4,738 million) in the Consolidated Entity and \$3,766 million (2017: \$3,777 million) in the Company.

### NOTE 36.2

#### Liquidity risk

#### *Governance and oversight*

Macquarie Group'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 Group'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 Macquarie Group, 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: 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 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 Group 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.



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## NOTE 36.2

### Liquidity risk *continued*

#### *Funding strategy*

Macquarie Group prepares a *Funding Strategy* on an annual basis and monitors progress against the strategy throughout the year. The *Funding Strategy* aims to maintain Macquarie Group'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 Group'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 Group name-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 Group name-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. Macquarie Group'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.

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 is held in a range of currencies to ensure Macquarie Group'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.



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#### NOTE 36.2

##### 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 contractual undiscounted repayment obligations. 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. Deposits are reported at their contractual maturity – the table does not reflect the expected cash flows indicated by the Consolidated Entity's deposit retention history.

Derivative liabilities (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short-term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2018						
Trading portfolio liabilities	–	7,938	–	–	–	7,938
Derivative liabilities (trading)	–	11,264	–	–	–	11,264
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	935	1,400	1,519	161	4,015
Contractual amounts receivable	–	(846)	(1,261)	(1,206)	(39)	(3,352)
Deposits	52,140	4,188	2,715	339	48	59,430
Other financial liabilities <sup>(2)</sup>	640	5,326	–	–	–	5,966
Payables to financial institutions <sup>(3)</sup>	5,754	2,202	414	1,715	1,754	11,839
Debt issued at amortised cost <sup>(4)</sup>	–	7,422	9,400	17,657	10,307	44,786
Other debt issued at fair value through profit or loss	13	63	140	233	2,479	2,928
Due to related body corporate entities	4,890	3,722	1,393	4,019	–	14,024
Loan capital <sup>(5)</sup>	–	133	275	2,961	2,301	5,670
<b>Total undiscounted cash flows</b>	<b>63,437</b>	<b>42,347</b>	<b>14,476</b>	<b>27,237</b>	<b>17,011</b>	<b>164,508</b>
Contingent liabilities	–	1,262	–	–	–	1,262
Commitments	329	79	909	1,562	1,840	4,719
<b>Total undiscounted contingent liabilities and commitments<sup>(6)</sup></b>	<b>329</b>	<b>1,341</b>	<b>909</b>	<b>1,562</b>	<b>1,840</b>	<b>5,981</b>

(1) 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.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions. This balance includes \$640 million of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.

(3) 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.

(4) Includes \$12,335 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(5) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – 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.

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**NOTE 36.2****Liquidity risk continued****Contractual undiscounted cash flows continued**

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
CONSOLIDATED 2017						
Trading portfolio liabilities	–	4,922	–	–	–	4,922
Derivative liabilities (trading)	–	10,437	–	–	–	10,437
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	3,260	1,695	4,609	1,756	11,320
Contractual amounts receivable	–	(3,115)	(1,533)	(3,859)	(1,480)	(9,987)
Deposits	50,403	4,228	2,580	460	66	57,737
Other financial liabilities <sup>(2)</sup>	714	6,077	–	–	–	6,791
Payables to financial institutions	4,999	2,423	1,724	3,863	1,854	14,863
Debt issued at amortised cost <sup>(3)</sup>	–	7,266	8,047	20,671	13,581	49,565
Other debt issued at fair value through profit or loss	–	39	95	171	2,379	2,684
Due to related body corporate entities	1,400	5,967	–	–	–	7,367
Loan capital <sup>(4)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>57,516</b>	<b>41,966</b>	<b>12,858</b>	<b>28,912</b>	<b>20,568</b>	<b>161,820</b>
Contingent liabilities	–	1,081	–	–	–	1,081
Commitments	442	594	543	2,245	1,730	5,554
<b>Total undiscounted contingent liabilities and commitments<sup>(5)</sup></b>	<b>442</b>	<b>1,675</b>	<b>543</b>	<b>2,245</b>	<b>1,730</b>	<b>6,635</b>

(1) 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.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions. This balance includes \$714 million of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.

(3) Includes \$18,192 million payable to SPE note holders disclosed on contractual maturity basis. The expected maturity of the notes and debt is dependent on the repayment of the underlying loans included in loan assets held at amortised cost.

(4) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – 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 2018

CONTINUED

#### NOTE 36.2

##### Liquidity risk *continued*

##### *Contractual undiscounted cash flows continued*

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
COMPANY 2018						
Trading portfolio liabilities	–	8,286	–	–	–	8,286
Derivative liabilities (trading)	–	9,640	–	–	–	9,640
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	210	610	697	153	1,670
Contractual amounts receivable	–	(173)	(548)	(408)	(20)	(1,149)
Deposits	50,754	4,185	2,714	292	26	57,971
Other financial liabilities <sup>(2)</sup>	–	4,135	–	–	–	4,135
Payables to financial institutions	8,385	1,726	184	844	656	11,795
Debt issued at amortised cost	–	6,966	8,036	13,843	3,510	32,355
Other debt issued at fair value through profit or loss	–	18	48	230	2,479	2,775
Due to subsidiaries	716	6,486	–	10	3,340	10,552
Due to related body corporate entities	4,890	3,716	1,378	2,613	–	12,597
Loan capital <sup>(3)</sup>	–	133	275	2,961	2,301	5,670
<b>Total undiscounted cash flows</b>	<b>64,745</b>	<b>45,328</b>	<b>12,697</b>	<b>21,082</b>	<b>12,445</b>	<b>156,297</b>
Contingent liabilities	–	2,402	–	–	–	2,402
Commitments	148	79	287	1,418	1,834	3,766
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>148</b>	<b>2,481</b>	<b>287</b>	<b>1,418</b>	<b>1,834</b>	<b>6,168</b>

(1) 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.

(2) Excludes items that are not financial instruments and non-contractual accruals and provisions.

(3) Includes securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.

(4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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**NOTE 36.2****Liquidity risk continued****Contractual undiscounted cash flows continued**

	On demand \$m	Less than 3 months \$m	3 to 12 months \$m	1 to 5 years \$m	More than 5 years \$m	Total \$m
COMPANY 2017						
Trading portfolio liabilities	–	5,143	–	–	–	5,143
Derivative liabilities (trading)	–	9,883	–	–	–	9,883
Derivative liabilities (hedging relationship) <sup>(1)</sup>						
Contractual amounts payable	–	1,324	138	1,806	1,734	5,002
Contractual amounts receivable	–	(1,265)	(192)	(1,471)	(1,423)	(4,351)
Deposits	49,096	4,225	2,579	430	22	56,352
Other financial liabilities <sup>(2)</sup>	–	4,856	–	–	–	4,856
Payables to financial institutions	4,999	1,929	1,465	2,739	239	11,371
Debt issued at amortised cost	–	6,599	5,951	14,783	4,040	31,373
Other debt issued at fair value through profit or loss	–	2,021	101	171	2,379	4,672
Due to subsidiaries	–	9,719	5	2,671	5,333	17,728
Due to related body corporate entities	1,400	4,559	–	–	–	5,959
Loan capital <sup>(3)</sup>	–	462	250	2,997	2,412	6,121
<b>Total undiscounted cash flows</b>	<b>55,495</b>	<b>49,455</b>	<b>10,297</b>	<b>24,126</b>	<b>14,736</b>	<b>154,109</b>
Contingent liabilities	–	2,271	–	–	–	2,271
Commitments	290	354	437	1,753	1,662	4,496
<b>Total undiscounted contingent liabilities and commitments<sup>(4)</sup></b>	<b>290</b>	<b>2,625</b>	<b>437</b>	<b>1,753</b>	<b>1,662</b>	<b>6,767</b>

- (1) 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.
- (2) Excludes items that are not financial instruments and non-contractual accruals and provisions.
- (3) Included in this balance are securities with conditional repayment obligations. These securities are disclosed using repricing dates instead of contractual maturity. For contractual maturity of these securities refer Note 25 – Loan capital.
- (4) Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' unless they are payable on demand or the contractual terms specify a longer dated cash flow.

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#### NOTE 36.3

##### Market risk

##### Traded market risk

Market risk is the risk of adverse changes in the value of the Consolidated Entity's trading portfolios from changes in market prices or volatility. The Consolidated Entity is exposed to the following risks in each of the major markets in which it trades:

- **foreign exchange and bullion:** changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices
- **interest rates and debt securities:** changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- **equities:** changes in the price and volatility of individual equities, equity baskets and equity indices
- **commodities and energy:** changes in the price and volatility of base metals, agricultural commodities and energy products.

The Consolidated Entity is also exposed to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. The Consolidated Entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to Senior Management on a regular basis.

RMG monitors positions within the Consolidated Entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Consolidated Entity as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **contingent loss limits:** worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied
- **position limits:** volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- **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.

##### 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.

	2018			2017		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
	CONSOLIDATED					
Equities	7.18	10.90	2.60	9.65	12.65	5.23
Interest rates	3.86	5.67	2.68	5.55	8.57	3.27
Foreign exchange and bullion	1.73	3.30	0.71	2.12	4.26	0.69
Commodities	7.78	13.73	3.47	6.78	15.70	3.78
Aggregate	10.62	14.58	7.92	11.66	19.22	6.56
	COMPANY					
	2018			2017		
	Average \$m	Maximum \$m	Minimum \$m	Average \$m	Maximum \$m	Minimum \$m
Equities	6.85	10.21	2.42	9.43	12.34	4.94
Interest rates	3.73	5.55	2.71	5.57	8.65	3.21
Foreign exchange and bullion	2.18	5.18	0.83	2.27	4.97	0.94
Commodities	8.43	15.62	5.76	8.28	11.18	5.89
Aggregate	11.34	16.49	8.61	13.74	19.90	9.23

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#### 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.

##### *Foreign currency risk*

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March. The Consolidated Entity is active in various currencies globally. Those with the most impact on the sensitivity analysis below are United States dollar, Great British pound, Euro and Canadian dollar as shown below.

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.

##### *Investments in foreign operations*

Where foreign exchange exposures arise as a result of investments in foreign operations, a key objective of the *Foreign Exchange Hedging 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 foreign exchange 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 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 set out in Note 1 (xi) and (xii).

	2018		2017	
	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	(366)	+10	(368)
Great British pound	+10	(82)	+10	(73)
Euro	+10	(38)	+10	(33)
Canadian dollar	+10	(13)	+10	(13)
<b>Total</b>		<b>(499)</b>		<b>(487)</b>
United States dollar	-10	448	-10	450
Great British pound	-10	100	-10	90
Euro	-10	16	-10	40
Canadian dollar	-10	46	-10	15
<b>Total</b>		<b>610</b>		<b>595</b>

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 36.3

##### Market risk *continued*

##### Equity price risk

The tables below indicate the equity markets to which the Consolidated Entity and the Company had significant exposure at 31 March on their non-trading investment portfolio. This excludes interests in associates and joint ventures. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement (as a result of a change in the fair value of financial assets designated at fair value) due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

Geographic Region	2018			2017		
	Movement in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m	Movement in equity price %	Sensitivity of profit after tax \$m	Sensitivity of equity after tax \$m
CONSOLIDATED						
<b>Listed</b>						
Australia	+10	–	1	+10	–	3
Americas	+10	2	–	+10	2	1
Europe, Middle East and Africa	+10	–	–	+10	1	–
<b>Unlisted</b>	+10	–	4	+10	1	41
<b>Total</b>		2	5		4	45
<b>Listed</b>						
Australia	-10	–	(1)	-10	–	(3)
Americas	-10	(2)	–	-10	(2)	(1)
Europe, Middle East and Africa	-10	–	–	-10	(1)	–
<b>Unlisted</b>	-10	–	(4)	-10	(1)	(41)
<b>Total</b>		(2)	(5)		(4)	(45)
COMPANY						
<b>Listed</b>						
Australia	+10	–	1	+10	1	3
Americas	+10	–	–	+10	–	–
Europe, Middle East and Africa	+10	–	–	+10	1	–
<b>Unlisted</b>	+10	–	2	+10	1	33
<b>Total</b>		–	3		3	36
<b>Listed</b>						
Australia	-10	–	(1)	-10	(1)	(3)
Americas	-10	–	–	-10	–	–
Europe, Middle East and Africa	-10	–	–	-10	(1)	–
<b>Unlisted</b>	-10	–	(2)	-10	(1)	(33)
<b>Total</b>		–	(3)		(3)	(36)

#### NOTE 37

##### 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 on the measurement date.

The values derived from applying these techniques are affected by the choice of valuation model used and the underlying assumptions made regarding inputs such as timing and amounts of future cash flows, discount rates, credit risk, volatility and correlation.

Financial instruments measured at fair value are categorised in their entirety, in accordance with the levels of the fair value hierarchy as outlined below:



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## NOTE 37

### Fair value of financial assets and financial liabilities *continued*

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 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 is approximately their carrying amount as they are short-term in nature or are payable on demand
- the fair values of variable rate financial instruments, including certain loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements included within receivables from financial institutions and payables to financial institutions, are approximate to their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value. Fair values of all loan assets is determined with reference to changes in credit markets as well as interest rates
- the fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the 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, and
- in the financial statements of the Consolidated Entity, the fair value of balances due from/to related body corporate entities is approximated by their carrying amount as the balances are generally receivable/payable on demand.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are measured at fair value:

- trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (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
- investment securities classified as available for sale are measured at fair value by reference to active quoted market prices when 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. Unrealised gain and loss, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of
- fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans and issued debt
- for financial assets carried at fair value, in order to measure counterparty credit risk, a Credit Valuation Adjustment (CVA) is incorporated into the valuation. The CVA is calculated at a counterparty level taking into account all exposures to that counterparty
- for financial liabilities carried at fair value, in order to measure the Consolidated Entity's own credit risk, a Debit Valuation Adjustment (DVA) is incorporated into the valuations, and
- 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.

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.



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#### NOTE 37

##### Fair value of financial assets and financial liabilities continued

The following table summarises the carrying value and fair value of financial assets and liabilities held at amortised cost of the Consolidated Entity and the Company. Fair values are calculated for disclosure purpose only.

	2018		2017	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
	CONSOLIDATED			
<b>Assets</b>				
Receivables from financial institutions	36,629	36,629	25,565	25,564
Other financial assets <sup>(1)</sup>	6,839	6,839	5,931	5,931
Loan assets held at amortised cost	80,143	80,414	75,550	75,937
Due from related body corporate entities	1,383	1,383	1,733	1,733
<b>Total assets</b>	<b>124,994</b>	<b>125,265</b>	<b>108,779</b>	<b>109,165</b>
<b>Liabilities</b>				
Deposits	59,379	59,395	57,682	57,696
Other financial liabilities <sup>(2)</sup>	5,326	5,326	6,077	6,077
Payables to financial institutions	11,653	11,687	14,236	14,293
Due to related body corporate entities	13,993	13,993	7,367	7,367
Debt issued at amortised cost	39,685	39,918	43,137	43,302
Loan capital	4,256	4,422	4,615	4,775
<b>Total liabilities</b>	<b>134,292</b>	<b>134,741</b>	<b>133,114</b>	<b>133,510</b>
	COMPANY			
<b>Assets</b>				
Receivables from financial institutions	35,085	35,085	23,907	23,907
Other financial assets <sup>(3)</sup>	4,524	4,524	4,498	4,402
Loan assets held at amortised cost	54,542	54,670	52,680	52,850
Due from related body corporate entities	1,212	1,212	1,535	1,535
Due from subsidiaries	27,841	27,841	31,071	31,071
<b>Total assets</b>	<b>123,204</b>	<b>123,332</b>	<b>113,691</b>	<b>113,765</b>
<b>Liabilities</b>				
Deposits	57,919	57,936	56,298	56,313
Other financial liabilities <sup>(4)</sup>	4,135	4,135	4,856	4,856
Payables to financial institutions	9,011	9,041	11,212	11,259
Due to related body corporate entities	11,830	11,830	5,959	5,959
Due to subsidiaries	10,549	10,549	17,480	17,480
Debt issued at amortised cost	30,674	30,914	29,691	29,882
Loan capital	4,256	4,422	4,615	4,775
<b>Total liabilities</b>	<b>128,374</b>	<b>128,827</b>	<b>130,111</b>	<b>130,524</b>

(1) Excludes other non-financial assets of \$1,800 million (2017: \$1,993 million) and Life investment linked contracts and other unitholder assets of \$648 million (2017: \$722 million) which are included in Note 9 – Other assets.

(2) Excludes other non-financial liabilities of \$2,879 million (2017: \$2,584 million) and Life investment linked contracts and other unitholder liabilities of \$640 million (2017: \$714 million) which are included in Note 20 – Other liabilities.

(3) Excludes other non-financial assets of \$1,059 million (2017: \$681 million) which are included in Note 9 – Other assets.

(4) Excludes other non-financial liabilities of \$1,577 million (2017: \$1,360 million) which are included in Note 20 – Other liabilities.

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**NOTE 37****Fair value of financial assets and financial liabilities continued**

The following table summarises the levels of the fair value hierarchy for financial assets and liabilities held at amortised cost:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2018</b>				
<b>Assets</b>				
Receivables from financial institutions	7,830	28,799	–	36,629
Other financial assets	–	6,839	–	6,839
Loan assets held at amortised cost	7,973	8,272	64,169	80,414
Due from related body corporate entities	–	1,383	–	1,383
<b>Total assets</b>	<b>15,803</b>	<b>45,293</b>	<b>64,169</b>	<b>125,265</b>
<b>Liabilities</b>				
Deposits	51,624	7,771	–	59,395
Other financial liabilities	–	5,326	–	5,326
Payables to financial institutions	2,024	7,547	2,116	11,687
Due to related body corporate entities	–	13,993	–	13,993
Debt issued at amortised cost	–	35,001	4,917	39,918
Loan capital	1,377	3,045	–	4,422
<b>Total liabilities</b>	<b>55,025</b>	<b>72,683</b>	<b>7,033</b>	<b>134,741</b>
<b>CONSOLIDATED 2017</b>				
<b>Assets</b>				
Receivables from financial institutions	7,637	17,927	–	25,564
Other financial assets	–	5,931	–	5,931
Loan assets held at amortised cost	7,268	7,035	61,634	75,937
Due from related body corporate entities	–	1,733	–	1,733
<b>Total assets</b>	<b>14,905</b>	<b>32,626</b>	<b>61,634</b>	<b>109,165</b>
<b>Liabilities</b>				
Deposits	50,552	7,144	–	57,696
Other financial liabilities	–	6,077	–	6,077
Payables to financial institutions	1,046	10,779	2,468	14,293
Due to related body corporate entities	–	7,367	–	7,367
Debt issued at amortised cost	–	37,339	5,963	43,302
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>53,341</b>	<b>71,738</b>	<b>8,431</b>	<b>133,510</b>

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 37

##### 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 2018				
<b>Assets</b>				
Receivables from financial institutions	6,626	28,459	–	35,085
Other financial assets	–	4,524	–	4,524
Loan assets held at amortised cost	4,871	3,921	45,878	54,670
Due from related body corporate entities	–	1,212	–	1,212
Due from subsidiaries	–	27,841	–	27,841
<b>Total assets</b>	<b>11,497</b>	<b>65,957</b>	<b>45,878</b>	<b>123,332</b>
<b>Liabilities</b>				
Deposits	50,174	7,762	–	57,936
Other financial liabilities	–	4,135	–	4,135
Payables to financial institutions	2,022	7,019	–	9,041
Due to related body corporate entities	–	11,830	–	11,830
Due to subsidiaries	–	10,549	–	10,549
Debt issued at amortised cost	–	30,914	–	30,914
Loan capital	1,378	3,044	–	4,422
<b>Total liabilities</b>	<b>53,574</b>	<b>75,253</b>	<b>–</b>	<b>128,827</b>
COMPANY 2017				
<b>Assets</b>				
Receivables from financial institutions	6,173	17,734	–	23,907
Other financial assets	–	4,402	–	4,402
Loan assets held at amortised cost	4,877	3,679	44,294	52,850
Due from related body corporate entities	–	1,535	–	1,535
Due from subsidiaries	–	31,071	–	31,071
<b>Total assets</b>	<b>11,050</b>	<b>58,421</b>	<b>44,294</b>	<b>113,765</b>
<b>Liabilities</b>				
Deposits	49,182	7,131	–	56,313
Other financial liabilities	–	4,856	–	4,856
Payables to financial institutions	1,046	10,213	–	11,259
Due to related body corporate entities	–	5,959	–	5,959
Due to subsidiaries	–	17,480	–	17,480
Debt issued at amortised cost	–	29,882	–	29,882
Loan capital	1,743	3,032	–	4,775
<b>Total liabilities</b>	<b>51,971</b>	<b>78,553</b>	<b>–</b>	<b>130,524</b>

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**NOTE 37****Fair value of financial assets and financial liabilities continued**

The following table summarises the levels of the fair value hierarchy for financial instruments measured at fair value:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>CONSOLIDATED 2018</b>				
<b>Assets</b>				
Trading portfolio assets	10,015	4,709	170	14,894
Derivative assets	451	11,628	616	12,695
Investment securities available for sale	3,923	1,279	120	5,322
Other financial assets at fair value through profit or loss	2	687	18	707
Other financial assets <sup>(1)</sup>	31	616	1	648
<b>Total assets</b>	<b>14,422</b>	<b>18,919</b>	<b>925</b>	<b>34,266</b>
<b>Liabilities</b>				
Trading portfolio liabilities	6,377	1,561	–	7,938
Derivative liabilities	632	10,810	346	11,788
Other debt issued at fair value through profit or loss	–	1,986	6	1,992
Other financial liabilities <sup>(2)</sup>	–	639	1	640
<b>Total liabilities</b>	<b>7,009</b>	<b>14,996</b>	<b>353</b>	<b>22,358</b>
<b>CONSOLIDATED 2017</b>				
<b>Assets</b>				
Trading portfolio assets	17,923	8,386	328	26,637
Derivative assets	770	10,949	348	12,067
Investment securities available for sale	3,176	1,628	378	5,182
Other financial assets at fair value through profit or loss	5	742	13	760
Other financial assets <sup>(1)</sup>	24	691	7	722
<b>Total assets</b>	<b>21,898</b>	<b>22,396</b>	<b>1,074</b>	<b>45,368</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,105	1,817	–	4,922
Derivative liabilities	686	10,214	201	11,101
Other debt issued at fair value through profit or loss	–	1,877	57	1,934
Other financial liabilities <sup>(2)</sup>	–	707	7	714
<b>Total liabilities</b>	<b>3,791</b>	<b>14,615</b>	<b>265</b>	<b>18,671</b>

(1) This balance represents \$648 million (2017: \$722 million) of life investment linked contracts and other unitholder assets which are included in Note 9 – Other assets.

(2) This balance represents \$640 million (2017: \$714 million) of life investment linked contracts and other unitholder liabilities which are included in Note 20 – Other liabilities.

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#### NOTE 37

##### Fair value of financial assets and financial liabilities continued

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
COMPANY 2018				
<b>Assets</b>				
Trading portfolio assets	9,175	2,518	130	11,823
Derivative assets	445	9,945	278	10,668
Investment securities available for sale	3,920	1,151	87	5,158
Other financial assets at fair value through profit or loss	2	525	15	542
<b>Total assets</b>	<b>13,542</b>	<b>14,139</b>	<b>510</b>	<b>28,191</b>
<b>Liabilities</b>				
Trading portfolio liabilities	6,703	1,583	–	8,286
Derivative liabilities	483	9,429	131	10,043
Other debt issued at fair value through profit or loss	–	1,833	6	1,839
<b>Total liabilities</b>	<b>7,186</b>	<b>12,845</b>	<b>137</b>	<b>20,168</b>
COMPANY 2017				
<b>Assets</b>				
Trading portfolio assets	14,398	5,972	239	20,609
Derivative assets	759	9,796	233	10,788
Investment securities available for sale	3,128	1,418	255	4,801
Other financial assets at fair value through profit or loss	5	579	10	594
<b>Total assets</b>	<b>18,290</b>	<b>17,765</b>	<b>737</b>	<b>36,792</b>
<b>Liabilities</b>				
Trading portfolio liabilities	3,233	1,910	–	5,143
Derivative liabilities	549	9,612	119	10,280
Other debt issued at fair value through profit or loss	–	3,865	56	3,921
<b>Total liabilities</b>	<b>3,782</b>	<b>15,387</b>	<b>175</b>	<b>19,344</b>

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**NOTE 37****Fair value of financial assets and financial liabilities continued****Reconciliation of balances in Level 3 of the fair value hierarchy**

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and for the Company for the financial years ended 31 March 2018 and 31 March 2017:

	Trading portfolio assets \$m	Investment securities available for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other debt issued at fair value through profit or loss \$m	Other financial liabilities \$m	Derivative financial instru- ments (net replace- ment values) <sup>(2)</sup> \$m	Total \$m
CONSOLIDATED 2017								
<b>Balance as at 1st April 2016</b>	759	604	18	79	(54)	(7)	201	1,600
Purchases	217	67	–	–	–	–	91	375
Sales	(488)	(21)	(5)	(72)	–	–	(124)	(710)
Settlements	–	(162)	–	–	–	–	–	(162)
Transfers into Level 3	59	–	–	–	–	–	8	67
Transfers out of Level 3	(217)	(12)	–	–	–	–	(29)	(258)
Fair value losses recognised in the income statement <sup>(1)</sup>	(2)	(11)	–	–	(3)	–	–	(16)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(87)	–	–	–	–	–	(87)
<b>Balance as at 31 March 2017</b>	328	378	13	7	(57)	(7)	147	809
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	2	–	–	–	(5)	–	(2)	(5)
CONSOLIDATED 2018								
<b>Balance as at 1st April 2017</b>	328	378	13	7	(57)	(7)	147	809
Purchases	60	11	13	–	–	–	175	259
Sales	(285)	(221)	(8)	(6)	51	6	(12)	(475)
Settlements	–	(39)	–	–	–	–	–	(39)
Transfers into Level 3	68	31	–	–	–	–	4	103
Transfers out of Level 3	(2)	(15)	–	–	–	–	(5)	(22)
Fair value gains/(losses) recognised in the income statement <sup>(1)</sup>	1	(1)	–	–	–	–	(39)	(39)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(24)	–	–	–	–	–	(24)
<b>Balance as at 31 March 2018</b>	170	120	18	1	(6)	(1)	270	572
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	1	–	10	–	–	–	(39)	(28)

(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 \$616 million (2017: \$348 million) and derivative liabilities are \$346 million (2017: \$201 million).

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#### NOTE 37

##### Fair value of financial assets and financial liabilities continued

##### Reconciliation of balances in Level 3 of the fair value hierarchy continued

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the Consolidated Entity and the Company for the financial years ended 31 March 2018 and 31 March 2017:

	Trading portfolio assets \$m	Investment securities available for sale \$m	Other financial assets at fair value through profit or loss \$m	Other financial assets \$m	Other debt issued at fair value through profit or loss \$m	Derivative financial instru- ments (net replace- ment values) <sup>(2)</sup> \$m	Total \$m
COMPANY 2017							
<b>Balance at 1st April 2016</b>	290	296	15	72	(54)	238	857
Purchases	160	67	–	–	–	73	300
Sales	(249)	(21)	(5)	(72)	3	(190)	(534)
Settlements	–	(1)	–	–	–	–	(1)
Transfers into Level 3	59	–	–	–	–	4	63
Transfers out of Level 3	(17)	(11)	–	–	–	(8)	(36)
Fair value losses recognised in the income statement <sup>(1)</sup>	(4)	(23)	–	–	(5)	(3)	(35)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(52)	–	–	–	–	(52)
<b>Balance at 31 March 2017</b>	239	255	10	–	(56)	114	562
Fair value gains/(losses) for the financial year included in the income statement for assets and liabilities held at the end of the financial year <sup>(1)</sup>	1	–	–	–	(5)	(3)	(7)
COMPANY 2018							
<b>Balance at 1st April 2017</b>	239	255	10	–	(56)	114	562
Purchases	37	10	11	–	–	101	159
Sales	(207)	(126)	(6)	–	51	(14)	(302)
Settlements	–	(39)	–	–	–	–	(39)
Transfers into Level 3	68	20	–	–	–	–	88
Transfers out of Level 3	(2)	(18)	–	–	(1)	4	(17)
Fair value losses recognised in the income statement <sup>(1)</sup>	(5)	(1)	–	–	–	(58)	(64)
Fair value losses recognised in other comprehensive income <sup>(1)</sup>	–	(14)	–	–	–	–	(14)
<b>Balance at 31 March 2018</b>	130	87	15	–	(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 <sup>(1)</sup>	(5)	–	10	–	–	(58)	(53)

- (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 \$278 million (2017: \$233 million) and derivative liabilities are \$131 million (2017: \$119 million).

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**NOTE 37****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. Transfers between levels are deemed to have occurred as of the beginning of the reporting period in which the instruments have transferred.

**Unrecognised gains**

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the Consolidated Entity and the Company recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	CONSOLIDATED		COMPANY	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Balance at the beginning of the financial year</b>	<b>185</b>	153	<b>143</b>	124
Deferral on new transactions	<b>34</b>	88	<b>24</b>	63
Amounts recognised in the income statement during the financial year	<b>(41)</b>	(56)	<b>(23)</b>	(44)
<b>Balance at the end of the financial year</b>	<b>178</b>	185	<b>144</b>	143

**Sensitivity analysis of valuations using unobservable inputs**

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques such as discounted cash flows, which are based on assumptions that have been determined by reference to historical company and industry experience.

	FAVOURABLE CHANGES		UNFAVOURABLE CHANGES	
	Profit or loss \$m	Equity \$m	Profit or loss \$m	Equity \$m
CONSOLIDATED 2018				
<b>Product type</b>				
Equity and equity linked products	<b>1</b>	<b>7</b>	<b>(1)</b>	<b>(4)</b>
Commodities and other products	<b>64</b>	–	<b>(68)</b>	–
<b>Total</b>	<b>65</b>	<b>7</b>	<b>(69)</b>	<b>(4)</b>
CONSOLIDATED 2017				
<b>Product type</b>				
Equity and equity linked products	3	16	(3)	(9)
Commodities and other products	77	–	(100)	–
<b>Total</b>	<b>80</b>	<b>16</b>	<b>(103)</b>	<b>(9)</b>
COMPANY 2018				
<b>Product type</b>				
Equity and equity linked products	–	<b>6</b>	–	<b>(2)</b>
Commodities and other products	<b>41</b>	–	<b>(47)</b>	–
<b>Total</b>	<b>41</b>	<b>6</b>	<b>(47)</b>	<b>(2)</b>
COMPANY 2017				
<b>Product type</b>				
Equity and equity linked products	2	9	(2)	(2)
Commodities and other products	41	–	(63)	–
<b>Total</b>	<b>43</b>	<b>9</b>	<b>(65)</b>	<b>(2)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 37

#### 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 value of instruments. The range of values represent the highest and lowest input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities.

					RANGE OF INPUTS	
	Assets \$m	Liabilities \$m	Valuation technique(s)	Significant unobservable inputs	Minimum value	Maximum value
	CONSOLIDATED 2018					
Equity and equity linked products	101	29	Market comparability	Price in %(1)		
Commodities and other products	824	324	Pricing model	Volatility	5.00%	106.0%
				Correlation	(40.0%)	100%
			Market comparability	Price in %(1)		
Total	925	353				
CONSOLIDATED 2017						
Equity and equity linked products	281	20	Market comparability	Price in %(1)		
Commodities and other products	793	245	Pricing model	Volatility	6.0%	108.0%
				Correlation	(40.0%)	100.0%
			Market comparability	Price in %(1)		
Total	1,074	265				

(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.

##### 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 rate and forecast earnings of the investee companies.

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## NOTE 38

### 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(xxvi) – Offsetting 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 represent the credit risk exposure of the entity, refer to Note 36.1 – Credit risk for information on credit risk management.

#### AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS

	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforce- able netting arrange- ments \$m	Statement of financial position total \$m
CONSOLIDATED 2018								
Receivables from financial institutions <sup>(1)</sup>	28,999	(1,099)	27,900	(1,664)	(25,772)	464	8,729	36,629
Derivative assets	17,811	(6,046)	11,765	(6,588)	(2,036)	3,141	930	12,695
Other assets <sup>(2)</sup>	3,780	(2,538)	1,242	(17)	–	1,225	6,245	7,487
Other financial assets at fair value through profit or loss	373	(244)	129	–	–	129	578	707
Due from related body corporate entities	11,582	(10,368)	1,214	–	–	1,214	169	1,383
<b>Total assets</b>	<b>62,545</b>	<b>(20,295)</b>	<b>42,250</b>	<b>(8,269)</b>	<b>(27,808)</b>	<b>6,173</b>	<b>16,651</b>	<b>58,901</b>
Derivative liabilities	(17,069)	6,046	(11,023)	6,588	2,156	(2,279)	(765)	(11,788)
Deposits	(273)	244	(29)	–	–	(29)	(59,350)	(59,379)
Other liabilities <sup>(3)</sup>	(3,315)	2,538	(777)	17	–	(760)	(5,189)	(5,966)
Payables to financial institutions <sup>(4)</sup>	(6,461)	1,099	(5,362)	1,664	3,382	(316)	(6,291)	(11,653)
Due to related body corporate entities	(24,274)	10,368	(13,906)	–	–	(13,906)	(87)	(13,993)
<b>Total liabilities</b>	<b>(51,392)</b>	<b>20,295</b>	<b>(31,097)</b>	<b>8,269</b>	<b>5,538</b>	<b>(17,290)</b>	<b>(71,682)</b>	<b>(102,799)</b>

(1) Includes reverse repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$1,800 million which is included in Note 9 – Other assets.

(3) Excludes other non-financial liabilities of \$2,879 million which is included in Note 20 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) 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.

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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 38

#### Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
CONSOLIDATED 2017								
Receivables from financial institutions <sup>(1)</sup>	17,464	–	17,464	(1,069)	(16,131)	264	8,101	25,565
Derivative assets	16,859	(5,339)	11,520	(6,651)	(2,754)	2,115	547	12,067
Other assets <sup>(2)</sup>	4,187	(2,328)	1,859	(29)	–	1,830	4,794	6,653
Other financial assets at fair value through profit or loss	442	(314)	128	–	–	128	632	760
Due from related body corporate entities	10,748	(9,206)	1,542	–	–	1,542	191	1,733
<b>Total assets</b>	<b>49,700</b>	<b>(17,187)</b>	<b>32,513</b>	<b>(7,749)</b>	<b>(18,885)</b>	<b>5,879</b>	<b>14,265</b>	<b>46,778</b>
Derivative liabilities	(15,334)	5,339	(9,995)	6,651	2,343	(1,001)	(1,106)	(11,101)
Deposits	(246)	219	(27)	–	–	(27)	(57,655)	(57,682)
Other liabilities <sup>(3)</sup>	(4,017)	2,328	(1,689)	29	–	(1,660)	(5,102)	(6,791)
Payables to financial institutions <sup>(4)</sup>	(6,884)	–	(6,884)	1,069	5,565	(250)	(7,352)	(14,236)
Other debt issued at fair value through profit or loss	(97)	95	(2)	–	–	(2)	(1,932)	(1,934)
Due to related body corporate entities	(16,509)	9,206	(7,303)	–	–	(7,303)	(64)	(7,367)
<b>Total liabilities</b>	<b>(43,087)</b>	<b>17,187</b>	<b>(25,900)</b>	<b>7,749</b>	<b>7,908</b>	<b>(10,243)</b>	<b>(73,211)</b>	<b>(99,111)</b>

(1) Includes reverse repurchase arrangements and other similar secured lending.

(2) Excludes other non-financial assets of \$1,993 million which is included in Note 9 – Other assets.

(3) Excludes other non-financial liabilities of \$2,584 million which is included in Note 20 – Other liabilities.

(4) Includes repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) 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.

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**NOTE 38****Offsetting financial assets and financial liabilities continued**

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							Statement of financial position total \$m
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	
	COMPANY 2018							
Receivables from financial institutions <sup>(1)</sup>	28,650	(1,099)	27,551	(1,632)	(25,455)	464	7,534	35,085
Derivative assets	15,009	(5,090)	9,919	(5,549)	(1,714)	2,656	749	10,668
Other assets <sup>(2)</sup>	3,179	(2,154)	1,025	–	–	1,025	3,499	4,524
Other financial assets at fair value through profit or loss	372	(244)	128	–	–	128	414	542
Due from related body corporate entities	10,602	(9,535)	1,067	–	–	1,067	145	1,212
Due from subsidiaries	46,475	(21,502)	24,973	–	–	24,973	2,868	27,841
<b>Total assets</b>	<b>104,287</b>	<b>(39,624)</b>	<b>64,663</b>	<b>(7,181)</b>	<b>(27,169)</b>	<b>30,313</b>	<b>15,209</b>	<b>79,872</b>
Derivative liabilities	(14,385)	5,090	(9,295)	5,549	1,815	(1,931)	(748)	(10,043)
Deposits	(273)	244	(29)	–	–	(29)	(57,890)	(57,919)
Other liabilities <sup>(3)</sup>	(2,812)	2,154	(658)	–	–	(658)	(3,477)	(4,135)
Payables to financial institutions <sup>(4)</sup>	(6,403)	1,099	(5,304)	1,632	3,356	(316)	(3,707)	(9,011)
Due to related body corporate entities	(21,294)	9,535	(11,759)	–	–	(11,759)	(71)	(11,830)
Due to subsidiaries	(27,656)	21,502	(6,154)	–	–	(6,154)	(4,395)	(10,549)
<b>Total liabilities</b>	<b>(72,823)</b>	<b>39,624</b>	<b>(33,199)</b>	<b>7,181</b>	<b>5,171</b>	<b>(20,847)</b>	<b>(70,288)</b>	<b>(103,487)</b>

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) This balance excludes other non-financial assets of \$1,059 million which is included in Note 9 – Other assets.

(3) This balance excludes other non-financial liabilities of \$1,577 million which is included in Note 20 – Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 38

#### Offsetting financial assets and financial liabilities continued

	AMOUNTS SUBJECT TO ENFORCEABLE NETTING ARRANGEMENTS							
	SUBJECT TO OFFSETTING IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET <sup>(7)</sup>				
	Gross amount \$m	Amounts offset \$m	Net amount presented \$m	Other recognised financial instruments <sup>(5)</sup> \$m	Cash and other financial collateral <sup>(6)</sup> \$m	Net amount \$m	Amounts not subject to enforceable netting arrangements \$m	Statement of financial position total \$m
COMPANY 2017								
Receivables from financial institutions <sup>(1)</sup>	17,249	–	17,249	(1,057)	(15,928)	264	6,658	23,907
Derivative assets	15,138	(4,792)	10,346	(5,972)	(2,472)	1,902	442	10,788
Other assets <sup>(2)</sup>	3,756	(2,116)	1,640	–	–	1,640	2,858	4,498
Other financial assets at fair value through profit or loss	346	(219)	127	–	–	127	467	594
Due from related body corporate entities	9,709	(8,354)	1,355	–	–	1,355	180	1,535
Due from subsidiaries	45,233	(17,222)	28,011	–	–	28,011	3,060	31,071
<b>Total assets</b>	<b>91,431</b>	<b>(32,703)</b>	<b>58,728</b>	<b>(7,029)</b>	<b>(18,400)</b>	<b>33,299</b>	<b>13,665</b>	<b>72,393</b>
Derivative liabilities	(13,721)	4,792	(8,929)	5,972	2,103	(854)	(1,351)	(10,280)
Deposits	(246)	219	(27)	–	–	(27)	(56,271)	(56,298)
Other liabilities <sup>(3)</sup>	(3,565)	2,116	(1,449)	–	–	(1,449)	(3,407)	(4,856)
Payables to financial institutions <sup>(4)</sup>	(6,831)	–	(6,831)	1,057	5,526	(248)	(4,381)	(11,212)
Due to related body corporate entities	(14,263)	8,354	(5,909)	–	–	(5,909)	(50)	(5,959)
Due to subsidiaries	(28,240)	17,222	(11,018)	–	–	(11,018)	(6,462)	(17,480)
<b>Total liabilities</b>	<b>(66,866)</b>	<b>32,703</b>	<b>(34,163)</b>	<b>7,029</b>	<b>7,629</b>	<b>(19,505)</b>	<b>(71,922)</b>	<b>(106,085)</b>

(1) Included within this balance are reverse repurchase arrangements and other similar secured lending.

(2) This balance excludes other non-financial assets of \$681 million which is included in Note 9 – Other assets.

(3) This balance excludes other non-financial liabilities of \$1,360 million which is included in Note 20 – Other liabilities.

(4) Included within this balance are repurchase arrangements and other similar secured borrowing.

(5) Financial Instruments recognised in the statement of financial position but not offset due to not meeting all the criteria for net presentation.

(6) Amounts received or pledged as collateral in relation to the gross amounts of assets and liabilities.

(7) 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.

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## NOTE 39

### 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 (ix) – Recognition and derecognition of financial assets and financial liabilities 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 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 2018 and 31 March 2017, 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 recognise financial assets only to the extent of continuing involvement in the years ending 31 March 2018 and 31 March 2017. 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, 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.

### *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.

## NOTES TO THE FINANCIAL STATEMENTS

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#### NOTE 39

#### 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 2018					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	2,690	(2,654)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	517	(485)	–	–	–
<b>Other financial assets not derecognised:</b>					
Loan assets held at amortised cost	591	(610)	595	(613)	(18)
<b>Total financial assets not derecognised</b>	<b>3,798</b>	<b>(3,749)</b>	<b>595</b>	<b>(613)</b>	<b>(18)</b>
CONSOLIDATED 2017					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	4,812	(4,930)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	509	(475)	–	–	–
<b>Other financial assets not derecognised:</b>					
Loan assets held at amortised cost	457	(457)	467	(457)	10
<b>Total financial assets not derecognised</b>	<b>5,778</b>	<b>(5,862)</b>	<b>467</b>	<b>(457)</b>	<b>10</b>

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**NOTE 39****Transfers of financial assets continued**

The following table presents information about transfers of financial assets recognised by the Company as at 31 March 2018 and 31 March 2017:

	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 2018					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	2,690	(2,654)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	517	(485)	–	–	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost	4,593	(4,593)	4,593	(4,600)	(7)
<b>Total financial assets not derecognised</b>	<b>7,800</b>	<b>(7,732)</b>	<b>4,593</b>	<b>(4,600)</b>	<b>(7)</b>
COMPANY 2017					
<b>Financial assets not derecognised due to repurchase and securities lending agreements:</b>					
Trading portfolio assets	4,812	(4,930)	–	–	–
<b>Financial assets not derecognised due to total return/asset swaps:</b>					
Investment securities available for sale	509	(475)	–	–	–
<b>Financial assets not derecognised due to other:</b>					
Loan assets held at amortised cost	241	(241)	241	(241)	–
<b>Financial assets not derecognised due to securitisation:</b>					
Loan assets held at amortised cost <sup>(1)</sup>	7,136	(7,136)	7,136	(7,112)	24
<b>Total financial assets not derecognised</b>	<b>12,698</b>	<b>(12,782)</b>	<b>7,377</b>	<b>(7,353)</b>	<b>24</b>

(1) Excludes \$15,899 million (2017: \$16,950 million) of securitised assets where the Company holds all of the notes issued from trusts.



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### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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#### NOTE 40

##### Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Consolidated Entity and the Company, PwC, and its network firms earned the following remuneration:

	CONSOLIDATED		COMPANY	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>PwC – Australia</b>				
Audit of the Group and controlled entities	<b>8,781</b>	7,659	<b>7,597</b>	6,627
Other assurance services <sup>(1)</sup>	<b>3,658</b>	2,729	<b>713</b>	1,060
Advisory services	<b>214</b>	32	–	–
Taxation	<b>11</b>	168	–	–
<b>Total non-audit services</b>	<b>3,883</b>	2,929	<b>713</b>	1,060
<b>Total remuneration paid to PwC Australia</b>	<b>12,664</b>	10,588	<b>8,310</b>	7,687
<b>Network firms of PwC Australia</b>				
Audit of the Group and controlled entities	<b>8,180</b>	9,342	<b>2,070</b>	2,364
Other assurance services <sup>(1)</sup>	<b>299</b>	161	–	–
Advisory services	<b>604</b>	268	–	–
Taxation	<b>682</b>	1,293	–	–
<b>Total non-audit services</b>	<b>1,585</b>	1,722	–	–
<b>Total remuneration paid to network firms of PwC Australia</b>	<b>9,765</b>	11,064	<b>2,070</b>	2,364
<b>Total Audit Services remuneration paid to PwC</b>	<b>16,961</b>	17,001	<b>9,667</b>	8,991
<b>Total Non-Audit Services remuneration paid to PwC</b>	<b>5,468</b>	4,651	<b>713</b>	1,060
<b>Total remuneration paid to PwC (Note 2)</b>	<b>22,429</b>	21,652	<b>10,380</b>	10,051

(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 Company's *Auditor Independence Policy*. It is the Consolidated Entity's policy to seek competitive tenders for all major advisory projects.

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## 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 financial year.

#### **Other entities or businesses acquired or consolidated due to acquisition of control:**

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.

There were no significant or other entities or businesses consolidated due to acquisition of control in the 31 March 2017 comparatives.

Aggregate details of the entities and businesses acquired or consolidated due to acquisition of control are as follows:

	2018 \$m	2017 \$m
<b>Fair value of net assets acquired</b>		
Other intangible assets	62	–
Other financial assets	85	–
Payables, provisions, borrowings and other liabilities	(2)	–
Non-controlling interests	(1)	–
<b>Total fair value of net assets acquired</b>	<b>144</b>	<b>–</b>
<b>Goodwill recognised on acquisition</b>	<b>18</b>	<b>–</b>
<b>Consideration</b>		
Cash consideration	162	–
<b>Total consideration</b>	<b>162</b>	<b>–</b>
<b>Net cash flow</b>		
Cash consideration	(162)	–
<b>Net cash outflow</b>	<b>(162)</b>	<b>–</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

CONTINUED

#### NOTE 41

##### Acquisitions and disposals of subsidiaries and businesses *continued*

##### *Significant entities or businesses disposed of or deconsolidated due to loss of control:*

There were no significant entities or businesses disposed of or deconsolidated due to loss of control during the financial year.

##### *Other entities or businesses disposed of or deconsolidated due to loss of control:*

Advantage Funding Management Co. Inc., Levantera Development Limited and Macquarie Financial Ltd.

During the financial year ended 31 March 2017, other entities or businesses disposed of or deconsolidated due to loss of control were:

Macquarie Life's risk insurance business, International Life Solutions Proprietary Limited and US Mortgages

Aggregate details of the entities or businesses disposed of or deconsolidated are as follows:

	2018 \$m	2017 \$m
<b>Carrying value of assets and liabilities disposed of or deconsolidated</b>		
Receivables from financial institutions	48	36
Property, plant and equipment	66	–
Other assets	31	131
Other financial assets	1,003	504
Payables, provisions, borrowings and other liabilities	(751)	(126)
<b>Total carrying value of net assets disposed of or deconsolidated</b>	<b>397</b>	<b>545</b>
<b>Consideration</b>		
Cash consideration (net of cost of disposal)	116	768
Consideration receivable	351	1
<b>Total consideration</b>	<b>467</b>	<b>769</b>
Direct costs relating to disposal	(2)	(21)
<b>Net cash flow</b>		
Cash consideration	116	768
Less: Cash and cash equivalents disposed of or deconsolidated	(48)	(36)
Cash outflow on direct costs related to disposal	–	(10)
<b>Net cash inflow</b>	<b>68</b>	<b>722</b>

#### NOTE 42

##### Events after the reporting date

There were no material events subsequent to 31 March 2018 that have not been reflected in the financial statements.

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## MACQUARIE BANK LIMITED

### DIRECTORS' DECLARATION

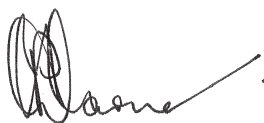
In the Directors' opinion:

- a) the financial statements and notes set out on pages 42 to 140 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 2018 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

4 May 2018



## 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 Bank) 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 Bank's and the Consolidated Entity's financial position as at 31 March 2018 and of their financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001* (Cth).

#### What we have audited

Macquarie Bank Limited financial report comprises:

- the Bank and the Consolidated Entity statements of financial position as at 31 March 2018
- the Bank and the Consolidated Entity income statements for the year then ended
- the Bank and the Consolidated Entity statements of comprehensive income for the year then ended
- the Bank and the Consolidated Entity statements of changes in equity for the year then ended
- the Bank and the Consolidated Entity statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies, and
- 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 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.

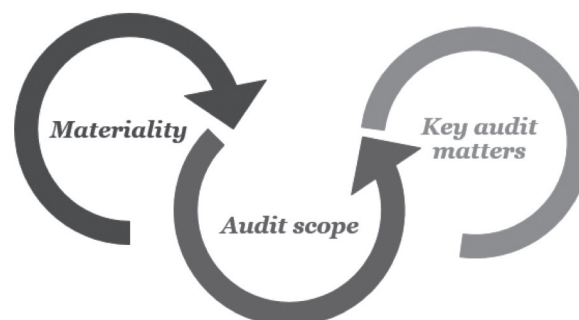
#### Our audit approach

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.

The Consolidated Entity is structured into four global 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 is a consolidation of the four global operating groups and the corporate segment.

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.



#### Consolidated Entity materiality

For the purpose of our Consolidated Entity audit we used overall materiality of \$105 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 net assets as the benchmark and, in our view, as the Consolidated Entity is a wholly owned subsidiary with listed debt, net assets represents an important benchmark against which the performance of the Consolidated Entity is measured by relevant stakeholders. We selected 1% based on our professional judgement, noting it is within the range of commonly accepted thresholds.

#### Consolidated Entity audit scope

Our overall approach to setting our audit scope was to focus our audit in areas where we identified a higher risk of material misstatement to the financial report, including areas where the directors 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 key controls.

We aligned our audit to the Consolidated Entity's structure by instructing a component audit team for each of the four global 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.

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 risk focussed 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

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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 Geneva, Gurugram, Hong Kong, Houston, Jacksonville, London, Manila, New York, San Francisco, Singapore and Tokyo.

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. We have communicated the key audit matters to the Board Audit Committee. 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. The key audit matters identified below relate to both the Bank and the Consolidated Entity audits conducted.

Key audit matter	How our audit addressed the key audit matter
<b>Provisions for loan losses</b> <b>Refer to Note 10</b>	
<p>The Consolidated Entity holds both specific and collective impairment provisions over loan assets. Specific impairment provisions are created when the impairment of an individual loan is recognised. The collective impairment provision is intended to cover losses in the existing overall loan portfolio which have not yet been individually identified.</p> <p>The identification of loans that are deteriorating and the assessment of the present value of expected future cash flows from the loans in determining specific impairment provisions are inherently uncertain, involving various assumptions and judgments.</p> <p>In estimating the collective impairment provisions, judgement is required in the design of the models used and the selection of assumptions adopted, such as the estimate of the likelihood of default and the potential loss given default. A management overlay is also included in the overall collective provision to reflect emerging trends or particular situations which are not captured by these models.</p> <p>Given the extent of judgment involved, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and operating effectiveness of certain controls relating to the timely recognition and measurement of impairments for loan losses.</p> <p>For specific loan loss provisions, we examined a sample of individual loan exposures. We applied judgment in selecting this sample, including consideration of sectors that may pose an increased risk of uncertainty and certain geographic regions of the Australian property market. We also evaluated a sample of loan assets written off or disposed of to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately estimate specific loan loss provisions.</p> <p>For the collective provisions, assisted by our experts, we tested on a sample basis:</p> <ul style="list-style-type: none"> <li>– the appropriateness of the design and use of the models used by the Consolidated Entity, and</li> <li>– the appropriateness of the assumptions adopted and data used in the models, by using our knowledge of industry developments and the actual loss experience of the Consolidated Entity.</li> </ul> <p>We also examined and assessed the analysis performed by the Consolidated Entity in determining the management overlay.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>
<b>Valuation of financial assets and liabilities held at fair value</b> <b>Refer to Note 37</b>	
<p>The Consolidated Entity exercises judgement in valuing certain assets and liabilities at fair value where there are significant unobservable inputs for the valuation of these assets and liabilities. These assets and liabilities are known as Level 3 financial instruments.</p> <p>For the Consolidated Entity, these Level 3 financial instruments predominantly consist of derivatives and unlisted equity and debt investments. Judgement is required in estimating the fair value of these financial instruments in determining appropriate models, assumptions and inputs.</p> <p>Given the extent of judgement involved in valuing these Level 3 financial instruments, we considered this to be a key audit matter.</p>	<p>Our procedures included assessing the design and testing the operating effectiveness of certain controls relating to Level 3 financial instruments, including controls over:</p> <ul style="list-style-type: none"> <li>– approval and validation of the models adopted</li> <li>– accuracy of data feeds and inputs to models</li> <li>– the Consolidated Entity's process for testing valuations, and</li> <li>– governance and review.</li> </ul> <p>For derivatives, we assessed a sample of valuations by considering the modelling approaches and inputs, assisted by PwC valuation experts. We also considered a sample of collateral disputes, gains and losses on disposals and other events to help assess the appropriateness of the valuations.</p> <p>For a sample of unlisted equity and debt investments, we assessed the appropriateness of the valuation methodologies applied, and assessed the sensitivity of the Consolidated Entity's valuations to alternative methodologies and assumptions where appropriate. We also evaluated a sample of disposals to assess, with the benefit of hindsight, the Consolidated Entity's ability to estimate fair values.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>



**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF MACQUARIE BANK LIMITED**  
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Key audit matter	How our audit addressed the key audit matter
<b>Impairment of assets</b> <b>Refer to Note 2 and 13</b>	
<p>The Consolidated Entity holds certain assets where the recoverable amount is required to be considered under AASB 136. At year end, the Consolidated Entity considered whether there were any indicators that these assets might be impaired. Where indicators existed, the Consolidated Entity then compared carrying amounts of the relevant assets to the higher of their estimated value-in-use and fair value less costs of disposal in accordance with AASB 136.</p> <p>Value-in-use is the calculation of the net present value of the cash flows expected from the Consolidated Entity's use of an asset. This calculation requires an estimation of the expected future cash flows associated with the use of an asset and the determination of certain assumptions such as discount rates and growth rates.</p> <p>In respect of its portfolio of aircraft assets, the Consolidated Entity also obtained independent valuation reports for certain aircraft from external appraisers to assist in developing their estimates of the recoverable amounts of these assets.</p> <p>Given the extent of judgement required in respect of impairment of assets we considered this to be a key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– updating our understanding of prevailing market conditions and factors that could materially affect the fair value and usage of the relevant assets, and considering whether these may represent indicators of impairment.</li> <li>– evaluating the appropriateness of the impairment assessment methodology and the assumptions applied in the value-in-use calculations, and</li> <li>– engaging PwC valuation experts where relevant.</li> </ul> <p>In respect of the aircraft assets, our procedures also included:</p> <ul style="list-style-type: none"> <li>– assessing the competency, capability and objectivity of external appraisers, as well as the appropriateness of methodologies and assumptions used by the appraisers, and</li> <li>– comparing the realised value of certain aircraft sold during the year against the carrying value to assess, with the benefit of hindsight, the Consolidated Entity's ability to accurately make estimates.</li> </ul> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>
<b>IT systems and controls over financial reporting</b>	
<p>The Consolidated Entity's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Consolidated Entity's controls over IT systems include:</p> <ul style="list-style-type: none"> <li>– the framework of governance over IT systems</li> <li>– controls over program development and changes</li> <li>– access to programs, data and IT operations, and</li> <li>– governance over generic and privileged user accounts.</li> </ul> <p>Given the reliance on the IT systems in the financial reporting process, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.</p> <p>We also carried out direct tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.</p> <p>When considered appropriate we performed alternative audit procedures on the financial information that was key to our audit testing produced by the IT systems.</p>
<b>Provisions for tax payable and deferred tax liabilities</b> <b>Refer to Note 17 and 20</b>	
<p>The Consolidated Entity is subject to taxation in a number of jurisdictions. The assessment of the amounts expected to be paid to tax authorities is considered initially by the Consolidated Entity at a local level and then reviewed centrally, with consideration given to particular tax positions in certain jurisdictions. In some cases, the treatment of tax positions requires judgement to estimate the ultimate amounts of tax that will be paid.</p> <p>Given the extent of judgement involved, we considered this to be a key audit matter.</p>	<p>Our procedures included evaluating the analysis conducted by the Consolidated Entity which sets out the basis for judgements made in respect of the ultimate amounts expected to be paid to tax authorities.</p> <p>Assisted by PwC tax experts, we read a risk focused selection of correspondence with tax authorities and external advice obtained by the Consolidated Entity and used our understanding of the business to assess and challenge the completeness and quantum of the provisions for tax. We independently considered the likelihood of additional tax exposures occurring based on our knowledge of tax legislation, applicable precedent and industry developments, noting the level of judgement involved.</p> <p>We assessed the appropriateness of the Consolidated Entity's disclosure in the financial report.</p>



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Key audit matter	How our audit addressed the key audit matter
<p><b>Disclosure of the impact of AASB 9</b>  <b>Refer to Note 1</b></p> <p>On 1 April 2018 the Consolidated Entity transitioned to financial instruments accounting standard AASB 9 which replaced AASB 139. AASB 9 relates to impairment, classification and measurement of financial instruments and hedge accounting. Disclosure has been included in these 31 March 2018 financial statements which is intended to provide users with an understanding of the estimated transition impact of the new standard. As required, further disclosure will be included in the 2019 financial statements.</p> <p>Under the new AASB 9 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 environments. The complexity involved required the Consolidated Entity to develop new models involving the use of significant judgements, post model adjustments and a large increase in the data inputs required by these models.</p> <p>Separately, the standard introduces new requirements around the classification and measurement of financial instruments, and the qualifying criteria for hedge accounting.</p> <p>Given this is a new and complex accounting standard which requires considerable judgement, we considered the transition disclosure 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 impairment transition adjustment focusing on:</p> <ul style="list-style-type: none"> <li>– model development, validation and approval to support compliance with AASB 9 requirements</li> <li>– review and approval of key assumptions, judgements and forward looking information prior to use in the models</li> <li>– the integrity of data used as input into the models including the transfer of data between source systems and the models</li> <li>– review and approval of post model adjustments, and</li> <li>– review and approval of the output of the models and related transition impacts.</li> </ul> <p>We examined and assessed the ECL models developed by the Consolidated Entity, including using PwC credit modelling experts in our assessment of judgements and assumptions supporting the ECL requirements of AASB 9. We assessed the reasonableness of forward looking information incorporated into the impairment calculations by using PwC experts to challenge the multiple economic scenarios chosen by the Consolidated Entity and the weighting applied to capture non-linear losses. We assessed the post model adjustments in the context of key model and data limitations identified by the Consolidated Entity, considered their rationale and recalculated where necessary.</p> <p>We examined and assessed the controls and judgements relating to the classification and measurement of financial instruments.</p> <p>We also examined the controls and judgements relating to the designation and documentation of the eligible hedging relationships and their prospective hedging effectiveness. We assessed the appropriateness of the Consolidated Entity's transition disclosure in the financial statements.</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 Consolidated Entity's annual report for the year ended 31 March 2018, including the Operating and Financial Review, Directors' Report, Additional Investor Information and Glossary, 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 identified above 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, 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 Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *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 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 Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

**PricewaterhouseCoopers**

**K.G. Smith**  
**Partner**

Sydney  
4 May 2018

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our audit report.

### REPORT ON THE REMUNERATION REPORT

#### Our opinion on the remuneration report

We have audited the remuneration report included in pages 24 to 40 of the Directors' Report for the year ended 31 March 2018.

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2018 complies with section 300A of the *Corporations Act 2001* (Cth).

#### Responsibilities

The directors of the Bank are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Liability limited by a scheme approved under Professional Standards Legislation.

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