

MBL Covered Bond Trust

A.B.N. 90 643 622 525

Annual Report
for the financial year ended 31 March 2018



MACQUARIE

The Trust's registered office is:
Perpetual Limited
123 Pitt Street
Sydney NSW 2000
Australia

MBL Covered Bond Trust

2018 Annual Report Contents

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The Financial Report was authorised for issue by the Board of Directors on 27 June 2018.
The Board of Directors has the power to amend and reissue the Financial Report.

MBL Covered Bond Trust

Directors' Report for the financial year ended 31 March 2018

In accordance with a resolution of the Voting Directors of the Trust Manager (Directors) of MBL Covered Bond Trust (the Trust), Macquarie Securitisation Limited (the Manager), the Directors submit herewith the financial statements of the Trust and report as follows:

Directors

The following persons were the Directors of the Manager of the Trust at any time during or since the end of the financial year to the date of this report:

Name of the Director	Appointed on	Resigned on
Andrew Hall	05 May 2014	-
Daniel McGrath	31 October 2017	-
Frank Nicholas Ganis	08 August 1995	02 June 2017
James Angus	01 August 2013	-
James Casey	03 March 2010	-

Principal activity

The principal activity of the Trust during the financial year ended 31 March 2018 was to act as the guarantor for payments of interest and principal under the MBL Covered Bond Programme issued by Macquarie Bank Limited (MBL) pursuant to a guarantee which is secured over the mortgage loan rights and other assets of the Trust. Macquarie Securitisation Limited (MSL) is the Trust Manager for the Covered Bond program. Perpetual Limited is the trustee of the Trust. MBL is the capital unitholder, residual income unitholder (unitholder) and parent of the Trust.

Under the terms of the program, the Trust issued bonds based on the value of the loan portfolio being securitised. These bondholders receive interest income and principal repayments over the term of the transactions. MBL receives any residual cash from the Trust after all disbursements.

Result

The Financial Report for the financial year ended 31 March 2018 and period ended 31 March 2017, and the results herein, have been prepared in accordance with the Australian Accounting Standards.

Distributions paid or provided for

Distributions of \$5,289,745 were paid or provided for during the financial year (2017: \$11,116,942).

State of affairs

There were no significant changes in the state of the affairs of the Trust that occurred during the financial year under review not otherwise disclosed in this report.

Review of operations

The profit attributable to unitholders for the financial year ended 31 March 2018 was \$Nil (2017: \$Nil).

Net operating income for the financial year ended 31 March 2018 was \$5,658,667, a decrease of 35 percent from \$8,732,958 in the previous financial period.

Events after the reporting date

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust in the financial years subsequent to 31 March 2018 not otherwise disclosed in this report.

Likely developments, business strategies and prospects

Disclosure of information relating to developments in the operations, business strategies and prospects for future financial years of the Trust have not been included in the report as the Directors believe it may result in unreasonable prejudice to the Trust.

MBL Covered Bond Trust

Directors' Report for the financial year ended 31 March 2018 (continued)

Environmental regulations

The Trust has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory, those obligations are identified and appropriately addressed.

The Directors have determined that there has not been any material breach of those obligations during the financial year.

This report is made in accordance with a resolution of the Directors.



Director

Sydney
27 June 2018

MBL Covered Bond Trust

Income statement for the financial year ended 31 March 2018

	Notes	2018 \$	26 November 2015 to 31 March 2017 \$
Interest and similar income	3	50,857,369	105,841,989
Interest expense and similar charges	3	(43,902,982)	(92,693,433)
Net Interest Income		6,954,387	13,148,556
Fees and commission income		1,204,050	2,183,469
Fees and commission expense		(3,853,306)	(7,125,743)
Net fees and commission expense	3	(2,649,256)	(4,942,274)
Net trading income	3	1,353,536	526,676
Net operating income		5,658,667	8,732,958
Other operating income/(charges)	3	22,243	(165,054)
Total operating income		5,680,910	8,567,904
Operating profit for the financial year/period		5,680,910	8,567,904
Financing costs attributable to the unitholder			
Distributions to the unitholder		(5,289,745)	(11,116,942)
(Decrease)/increase in net liabilities attributable to the unitholder of the Trust		(391,165)	2,549,038
Profit attributable to the unitholder of MBL Covered Bond Trust		-	-

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

MBL Covered Bond Trust

Statement of comprehensive income for the financial year ended 31 March 2018

		26 November 2015 to 31 March 2017	
	Notes	2018	31 March 2017
		\$	\$
Profit/(loss) for the financial year/period		-	-
Other comprehensive income/(expense)¹:		-	-
Cash flow hedge	10	3,545,424	(6,013,136)
(Decrease)/Increase in net liabilities attributable to unitholder of the Trust		(3,545,424)	6,013,136
Total comprehensive income/(expense)		-	-
Total comprehensive income/(expense) is attributable to:			
The unitholder of MBL Covered Bond Trust		-	-

¹ All items of other comprehensive income/(expense) may be reclassified subsequently to Income statement.

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

MBL Covered Bond Trust

Statement of financial position as at 31 March 2018

	Notes	2018 \$	2017 \$
Assets			
Receivables from financial institutions	4	41,291,436	64,566,051
Other assets	5	7,471,101	236,620
Derivative assets		13,700,319	-
Loan assets	6	1,040,231,884	1,351,126,913
Total assets		1,102,694,740	1,415,929,584
Liabilities			
Distributions payable		8,497,234	9,410,947
Other liabilities	7	1,060,857	1,058,640
Derivative liabilities		-	93,524,903
Borrowings	8	1,097,762,134	1,320,497,168
Total liabilities		1,107,320,225	1,424,491,658
Net liabilities attributable to the unitholder (excluded from total assets and total liabilities)	9	(4,625,485)	(8,562,074)

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

MBL Covered Bond Trust

Statement of changes in equity for the financial year ended 31 March 2018

	Total equity \$
Balance as at 26 Nov 2015	-
Balance as at 31 Mar 2017	-
Balance as at 31 Mar 2018	-

Under AIFRS, net assets/(liabilities) attributable to the unitholder are classified as a financial (liabilities)/assets rather than equity. As a result there was no equity at the start or the end of the year. The net assets/(liabilities) attributable to the unitholder are disclosed in note 9 to the financial statements.

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

MBL Covered Bond Trust

Statement of cash flows for the financial year ended 31 March 2018

		2018	26 November 2015 to 31 March 2017
	Notes	\$	\$
Cash flows from operating activities			
Operating profit for the financial year		5,680,910	8,567,904
Adjustments to operating profit:			
Interest and similar income	3	(50,857,369)	(105,841,989)
Interest expense and similar charges	3	43,902,982	92,693,433
Collective provisions (written back)/provided for	3	(22,243)	165,054
Changes in assets and liabilities:			
Net loan assets repaid/(paid) and written off		309,964,295	(1,346,582,911)
Change in other assets and other liabilities		(7,232,264)	822,020
Change in derivative liabilities/assets		(103,679,798)	87,511,767
Bonds (redeemed)/issued		(222,735,034)	1,320,497,168
Cash (used in)/generated from operating activities		(24,978,521)	57,832,446
Interest and similar income received		51,810,346	101,132,933
Interest expense and similar charges paid		(43,902,982)	(92,693,433)
Net cash (used in)/flows from operating activities		(17,071,157)	66,271,946
Cash flows from investing activities			
Net cash flows from investing activities		-	-
Cash flows from financing activities			
Proceeds from the issue of units		-	100
Distributions paid		(6,203,458)	(1,705,995)
Net cash used in financing activities		(6,203,458)	(1,705,895)
Net (decrease)/increase in cash and cash equivalents		(23,274,615)	64,566,051
Cash and cash equivalents at the beginning of the financial year/period		64,566,051	-
Cash and cash equivalents at the end of the financial year/period	11	41,291,436	64,566,051

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

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018

Note 1. Trust information

The MBL Covered Bond Trust (Trust) is a Trust registered and domiciled in Australia. The address of the Trust's registered office is Perpetual Limited, 123 Pitt Street, Sydney NSW 2000, Australia.

The principal activity of the Trust during the financial year ended 31 March 2018 was to act as the guarantor for payments of interest and principal under the MBL Covered Bond Programme issued by Macquarie Bank Limited (MBL) pursuant to a guarantee which is secured over the mortgage loan rights and other assets of the Trust. Macquarie Securitisation Limited (MSL) is the Trust Manager for the Covered Bond program. Perpetual Limited is the trustee of the Trust. MBL is the capital unitholder, residual income unitholder (unitholder) and parent of the Trust.

Under the terms of the program, the Trust issued bonds based on the value of the loan portfolio being securitised. These bondholders receive interest income and principal repayments over the term of the transactions. MBL receives any residual cash from the Trust after all disbursements.

Note 2. 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.

The Trust in the current year, has prepared General Purpose Financial Report which is in accordance with the Australian Accounting Standards. In the previous year, the Trust has prepared Special Purpose Financial Report.

The Trust has presented its financial assets and financial liabilities on gross basis whilst the Trust has an intention to settle the same on net basis, but there is no legal right to enforce the same. As a result, the Trust has reclassified the balances as at 31 March 2017 in the income statement and statement of financial position (note 2(xviii)).

Compliance with IFRS as issued by the IASB

Compliance with the Australian Accounting Standards ensures that the Financial Report complies with the 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 the IFRS as issued by the IASB.

Deficiency of net assets

The Directors of the Trust Manager of Trust, have prepared the accounts on a going concern basis despite there being an excess of liabilities over assets at 31 March 2018 of \$4,625,485 (2017: \$8,562,074). The negative net assets position is largely attributable to distributions made by the Trust calculated based on distributable taxable income which does not take into account the unrealised losses on cross currency interest rate swaps. The Trust has been structured to earn a net interest income each year which is expected to reverse the net asset deficiency position over time. As such the financial statements have been prepared on a going concern basis.

Historical cost convention

This Financial Report has been prepared under the historical cost convention, as modified by the revaluation of derivative instruments at fair value.

Critical accounting estimates and significant judgments

The preparation of the Financial Report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires the directors to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Trust and the Financial Report such as:

- Recognition and derecognition of financial assets and financial liabilities;
- fair value of financial assets and liabilities (note 2(vii), (note 2(viii)) and note 16 and;
- Impairment of loan assets held at amortised cost (note 2(xi)).

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

The directors believe 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 the director's assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(i) Basis of preparation (continued)

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 Trust 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 statement of financial position.

Classification and Measurement:

Financial assets:

AASB 9 has three classification categories for financial assets including 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 Trust 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; and
- (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; and
- (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.

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 Macquarie irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Trust does not expect to make this election. The Trust may also irrevocably elect to designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Business model assessment:

The Trust 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 the business model and the financial assets held within that business model are evaluated and reported to the Directors;
- (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).

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(i) Basis of preparation (continued)

New Australian Accounting Standards and amendments to Accounting Standards that are not yet effective (continued)

AASB 9 *Financial Instruments* (continued)

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 Trust 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 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 is 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

An 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 the income statement as an impairment loss 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 Company'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. Macquarie Group has early adopted the hedge accounting requirements under AASB 9 prospectively for the reporting period beginning 1 April 2018. The hedge accounting requirements are not expected to have any material impact on the Trust. Enhanced disclosures as per the amendments to AASB 7 *Financial Instruments Disclosures* relating to hedge accounting may be required in the Financial Report for the financial year beginning 1 April 2018.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(i) Basis of preparation (continued)

New Australian Accounting Standards and amendments to Accounting Standards that are not yet effective (continued)

AASB 9 Financial Instruments (continued)

Transition:

The Trust will record a transition adjustment to opening statement of financial position, retained earnings and other comprehensive income as at 1 April 2018 for the impact of the adoption of the Classification and Measurement and Impairment requirements of the AASB 9.

The transition adjustment will result in reduction of the Trust's net assets attributable to unitholder by approximately \$758,539 after tax. The estimated transition adjustment relates primarily to the implementation of the impairment requirements which reduce the opening net assets by approximately \$758,539 after tax. The Trust will not restate comparatives.

The Trust 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 not result in significant measurement differences when compared to those under AASB 139.

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 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 may occur when the uncertainties around its measurement are removed.

AASB 15 also specifies the accounting treatment for costs incurred to obtain and fulfil a contract. Costs are recognised as an asset if the Trust 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 Trust 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.

Macquarie Group's assessment of revenue streams existing at the transition has been concluded. Based on this assessment, the Trust will not be materially impacted upon adoption and no transition adjustment is required. The application of the requirements of AASB 15 are broadly consistent with Macquarie Group's current accounting policies.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(iii) Foreign currency translations

Functional and presentation currency

The Trust's financial statements are presented in Australian dollars (the presentation currency), which is also the Trust's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transactions 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.

(iv) Revenue and expense recognition

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

Net interest income

Interest income and expense arising from loans and deposits is 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. Originator fees charged over the life of the loan, are recognised as interest income using the effective interest rate method.

Fees and commission income

Fees and commission income (includes account discharge and late fee, management fee, penalty fee etc.) is recognised when the fee can be reliably measured and its receipt is highly probable.

Net trading income

Net trading income comprises gains and losses related to unrealised fair value changes on derivative financial instruments except fair value changes accounted for in other comprehensive income on application of cash flow hedge accounting.

Fees and commission expense

The Trustee and the Trust Manager are entitled to a fee for performing their duties in respect of each collection period. Such fee is an amount agreed per the Establishment Deed and offer memorandum and is payable in arrears on the distribution date following the end of the collection period. Fee and commission expense is recognised on accrual basis.

(v) Distributions

In accordance with the Establishment Deed, the Trust distributes its distributable income, and any other amounts determined by the directors, to the unitholder in cash. The distributions are recognised in the income statement as finance cost attributable to the unitholder.

(vi) Income Tax

Under the current legislation, the Trust is not subject to income tax because all taxable income has been distributed in full to the unitholder.

(vii) Derivative instruments

The Trust enters into derivative financial instruments, namely total return swaps to manage its exposure to interest rate risk and cross currency swaps for managing foreign exchange markets.

These derivative instruments are principally used for the risk management of existing financial assets and financial liabilities. As the mortgage loan asset do not qualify for derecognition from the originator (MBL), in line with AASB 139, the total return swap is accounted for as part of Loan assets from MBL and recognised at amortised cost.

As per the total return swap, the Trust pays mortgage income to the parent company in return for variable payments from the parent to meet interest payments to the note-holder.

Derivatives other than total return swap are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured 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 such derivatives are recognised in the income statement in net trading income, unless the derivative meets the requirements for cash flow 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 whose variables include only data from observable markets. Where such evidence exists, the Trust recognises profits or loss immediately when the derivative is recognised.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(viii) Hedge accounting

The Trust designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the Trust documents the hedging relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The Trust 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.

Cash flow hedge

For a derivative or financial instrument designated as hedging the variability in cash flows exposure attributable to a particular risk associated with a recognised asset or liability (or a highly probable forecast transaction), the gain or loss on the derivative or financial instrument associated with the effective portion of the hedge is initially recognised in OCI in the cash flow hedge reserve and subsequently released to the income statement when the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement. Movements in cash flow hedge reserve in equity are shown in note 10. The cash flow hedge reserve is included in net assets/(liabilities) attributable to unitholder.

Cross currency swaps have been designated in a cash flow hedge relationship to hedge the currency risk associated with the foreign currency debt.

Fair value hedge

For a derivative or financial instrument designated as hedging the change in fair value of a recognised asset or liability, 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.

Cross currency swaps have been designated in a cash flow hedge relationship to hedge the currency risk associated with the foreign currency debt except for the component of the swap relating to fair value movements arising from interest rate risk, which has been designated in a fair value hedge relationship.

(ix) Loan assets

Loans assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan assets are subject to regular review and assessment for possible impairment.

The Trust purchased the legal rights to the cash flows from a portfolio of mortgages from MBL. This is accounted for as a failed sale under AASB139. Accordingly MBL has not derecognised the mortgage assets and the Trust does not recognise the mortgage assets. The total return swap is accounted for as part of Loan assets from MBL and recognised at amortised cost.

(x) Other financial assets

Other assets primarily includes mortgage insurance recoverables and government taxes.

(xi) Impairment

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 not are yet specifically identifiable.

The Directors 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. Directors 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 reporting period.

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

When the Directors 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.

Bad debts are written off in the period in which they are identified.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 2. Summary of significant accounting policies (continued)

(xii) Borrowings

Debt securities issued to MBL are secured against interests in mortgage assets that have been purchased by the Trust from MBL by equitable assignment, but fail recognition criteria, under accounting standards. These securities are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the financial period of the borrowings using the effective interest rate method.

(xiii) Other liabilities

Other liabilities includes accrued expense and liabilities owed by the Trust which are unpaid as at reporting date. The distribution amount payable to the unitholder as at the reporting date is recognised separately on the statement of financial position when the unitholder is presently entitled to the distributable income under the Establishment Deed.

(xiv) Net assets/(liabilities) attributable to the unitholder

The unitholder is entitled to the net income of the Trust following payment of Trust expenses, Trust Manager fee, payment to swap providers or liquidity facility providers and interest expenses of the Trust. This net income payment may further be subordinated to make any principal shortfalls. Following all payments being made under the cash flow waterfall, the unitholder is entitled to any residual. As a result, net assets/(liabilities) attributable to the unitholder are classified as financial assets/(liabilities).

Income/(expense) not distributed is included in net assets/(liabilities) attributable to the unitholder. Movements in net assets/(liabilities) attributable to the unitholder is recognised in the income statement as finance cost.

Where net assets/(liabilities) is largely attributable to distributions made by the Trust calculated based on distributable taxable income which does not take into account the unrealised losses on cross currency interest rate swaps. The Trust has been structured to earn a net interest income each year which is expected to reverse the net asset deficiency position over time.

(xv) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks.

(xvi) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the income statement and statement of financial position when there is an intention to settle on a net basis and a legal right of offset exists, or realise the financial asset and settle the financial liability simultaneously. There is no offsetting in the statement of financial position.

(xvii) Segment reporting

The Trust operates in only one segment that is domiciled in Australia to act as a special purpose vehicle for securitisation of MBL mortgage portfolio. The Trust has no other operating segment.

(xviii) Comparatives

Comparatives have been restated as the Trust moved to preparing GPFR. The Trust has presented the gross value of Loan assets and borrowings with MBL in the statement of financial positions, which were previously presented as net receivable from MBL. The Trust has also reclassified its financial assets and financial liabilities to present the same on gross basis. The Trust has also reclassified the total return swaps to Loan assets, since the loan assets have failed the recognition criteria (note 2(vii)).

The summary of the changes are presented in the below table.

Financial statement line items	As at 31 March 2017 (as previously reported) \$	Reclassifications	As at 31 March 2017 (Restated) \$
Statement of financial position line items			
Other financial assets	26,629,954	(26,629,954)	-
Loan assets	-	1,351,126,913	1,351,126,913
Other assets	-	236,620	236,620
Borrowings	-	(1,320,497,168)	(1,320,497,168)
Other liabilities	(402,603)	(656,037)	(1,058,640)
Derivative liabilities	(89,944,529)	(3,580,374)	(93,524,903)

No other changes in the comparative figures have been done in the current year.

MBL Covered Bond Trust

Notes to the financial statements

for the financial year ended 31 March 2018 (continued)

	2018	26 November 2015 to 31 March 2017
	\$	\$
Note 3. Profit for the financial year		
Net interest income		
Interest and similar income	50,857,369	105,841,989
Interest expense and similar charges	(43,902,982)	(92,693,433)
Net interest income	6,954,387	13,148,556
Net fees and commission expense		
Fees and commission income		
Discharge and late fees	244,392	551,141
Account management fees	360,291	726,213
Other fees income	599,367	906,115
Fees and commission expense		
Management fees ¹	(2,688,102)	(5,314,832)
Trustee fees	(165,712)	(323,101)
Custody fees	(42,450)	(100,724)
Other expenses	(957,042)	(1,387,086)
Net fees and commission expense	(2,649,256)	(4,942,274)
¹ The management fees has been calculated as 25 basis points (2017: 25 basis points) (inclusive of GST) on the monthly average bond balance.		
Net trading income		
Cross currency swaps	1,353,536	526,676
Net trading income	1,353,536	526,676
Other operating income/(charges)		
Loans and other assets written back/(provided for) during the financial year		
- Collective provision written back/(provided for)	22,243	(165,054)
Total other operating income/(charges)	22,243	(165,054)
Total operating income	5,680,910	8,567,904
The Trust has no employees.		
	2018	2017
	\$	\$
Note 4. Receivables from financial institutions		
Cash at bank	7,069,090	14,743,705
Due from Parent	34,222,346	49,822,346
Total receivables from financial institutions	41,291,436	64,566,051
The above amounts are expected to be recovered within 12 months of the reporting date by the Trust.		
Note 5. Other assets		
Due from parent entity	7,143,126	6,425
Goods and services tax receivable	156,664	214,491
Others	171,311	15,704
Total other assets	7,471,101	236,620
The above amounts are expected to be recovered within 12 months of the reporting date by the Trust.		

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

	2018 \$	2017 \$
Note 6. Loan assets		
Due from parent entity (net of provision \$142,811 (2017: 165,054))	1,040,231,884	1,351,126,913
Net loan assets^{1,2}	1,040,231,884	1,351,126,913

¹The balance represents mortgage loan assets expected to be recovered within twelve months after the balance date of \$259,524,765 (2017: \$309,247,171) and \$780,707,119 (2017: \$1,041,879,742) to be recovered more than twelve months after the reporting date.

²Mortgage loan assets have been purchased by the Trust from MBL by equitable assignment, but fall the recognition criteria under the accounting standards. As a result, MBL continues to recognise the individual assets in its statement of financial position and the Trust has recorded Loan assets, receivable from MBL.

Provision for impairment

Collective provision

Balance at the beginning of the financial year/period	(165,054)	-
Written back/(provided for) during the year/period	22,243	(165,054)
Balance at the end of the financial year/period	(142,811)	(165,054)

Note 7. Other liabilities

Trustee fees	14,827	21,754
Others ¹	208,529	93,367
Creditors	1,426	12,593
Due to parent entity	628,733	649,612
Due to other related entities		
Management fees	206,586	280,432
Others ²	756	882
Total other financial liabilities	1,060,857	1,058,640

The above amounts are expected to be recovered within 12 months of the reporting date by the Trust.

¹The material portion of this balance represents accrued facility fees, custody fees and enforcement expenses.

²The material portion of this balance represents originator fees.

Note 8. Borrowings

Bonds issued to MBL ¹	1,097,762,134	1,320,497,168
Total other financial assets	1,097,762,134	1,320,497,168

¹The balance represents term loan taken from MBL in EUR 502,779,999 (2017: 498,464,693) (AUD equivalent 805,899,610 (2017: 696,014,679)) and AUD 291,862,524 (2017: 624,482,489).

Of the above balance, \$269,334,769 (2017:\$299,622,756) is expected to be settled within 12 months of the balance date and \$828,427,365 (2017: \$1,020,874,412) to be recovered more than 12 months after the reporting date.

There are Covered Bonds of EUR 500m issued under MBL's Programme, collateralised against loan assets of MBL Covered Bond Trust. These are debt obligations (guaranteed by Perpetual Limited, in its capacity as a trustee (note 14)) that benefit from dual recourse to both MBL and the pool of home loans. MBL's Covered Bond programme is managed by Group Treasury and Trust Program Manager administers the cover pool of home loans.

Note 9. Net assets attributable to the unitholder

Net assets attributable to the unitholder is represented by:

Opening balance	(8,562,074)	-
Proceeds from the issue of units	-	100
Net operating income	5,680,910	8,567,904
Payment of distribution attributable for the year	-	(1,705,995)
Distribution payable	(5,289,745)	(9,410,947)
Transfer from cash flow hedge reserve (note 10)	3,545,424	(6,013,136)
Net assets attributable to the unitholder	(4,625,485)	(8,562,074)

Distribution payable as at 31 March 2018 includes \$5,289,745 relating to current financial year and \$3,207,489 relating to previous financial year.

The Residual Income Unitholder is entitled to the residual income of the Trust.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

	2018	2017
	\$	\$
Note 10. Reserves		
Cash flow hedge reserve		
Net revaluation movement for the financial period ¹	3,545,424	(6,013,136)
Transfer to unitholder	(3,545,424)	6,013,136
Balance at the end of the financial period	-	-

¹The net revaluation movement during the current year includes a revaluation gain which was reclassified to the Income Statement of \$103,285,132 (2017: loss \$45,640,745).

Note 11. Notes to the statement 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 statement of financial position as follows:

Receivables from financial institutions ¹ (note 4)	41,291,436	64,566,051
Cash and cash equivalents at the end of the financial year/period	41,291,436	64,566,051

¹ Includes cash at bank and due from Parent.

Note 12. Related party information

Parent

The immediate parent entity is Macquarie Bank Limited (MBL). The ultimate parent entity is Macquarie Group Limited (MGL).

Trust Manager

The Trust Manager of MBL Covered Bond Trust is Macquarie Securitisation Limited (MSL).

	2018	26 November 2015 to 31 March 2017
	\$	\$
Transactions with related parties		
During the financial year, the following transactions were made with the parent entity:		
Distributions paid/payable	(5,289,745)	(11,116,942)
Interest and similar income (note 3)	50,857,369	105,841,989
Interest expense and similar charges	(22,486,599)	(69,627,765)

During the financial year, the following transactions were made with other related entity:

Other fee and commission expense		
Management fees (note 3)	(2,688,102)	(5,314,832)

All other transactions between the Trust and MSL were made on normal commercial terms and conditions.

Amounts receivable from and payable to related entities are disclosed in note 4, 5, 6, 7 and 8 to the financial statements.

The sole residual income unitholder in the Trust is MBL.

There are derivative transactions entered for economic hedging on an arm's length basis through companies within the Macquarie Group.

All transactions with related entities were made on normal commercial terms and conditions and at market rates except where indicated.

Note 13. Key management personnel disclosure

Key Management Personnel

The Directors of the Trust Manager were having authority and responsibility for planning, directing and controlling activities of the Trust (Key Management Personnel – KMP) during the financial years ended 31 March 2018 and 31 March 2017 unless otherwise indicated:

Name of Director	Appointed on	Resigned on
Andrew Hall	5 May 2014	-
Daniel McGrath	31 October 2017	-
Frank Nicholas Ganis	8 August 1995	2 June 2017
James Angus	1 August 2013	-
James Casey	3 March 2010	-

No Directors of the Manager are Directors of the ultimate parent entity.

Remuneration to Key Management Personnel

The KMP did not receive any other benefits or consideration in connection with the management of the Trust. All other benefits that were received by KMP were solely related to other services performed with respect to their employment within the Macquarie Group Limited.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 14. Contingent liabilities and commitments

Perpetual Limited (the Trustee) in its capacity as trustee of the MBL Covered Bond Trust has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loan and the other assets of the Trust. The Trust has no other contingent liabilities or commitments which are individually material or a category of contingent liabilities or commitments which are material.

Note 15. Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Macquarie Group's businesses. The main risks faced by the Group are credit, liquidity, market, equity, conduct, regulatory and compliance, reputation, operational, legal, tax, model, cyber, environmental and social risk. 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 risk appropriately.

RMG is independent of all other areas of the Macquarie Group. 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 Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Chief Executive Officer with a secondary reporting line to the Board Risk Committee.

Note 15.1 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.

Credit risk within the Trust is managed on a group basis by the RMG at MGL.

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, interest in associates and other financial assets at fair value through profit or loss.

Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Trust's financial assets, commitments and contingent liabilities by significant geographical locations and counterparty type. The maximum credit exposure is to each counterparty. The geographical location is determined by the domicile and classification is determined by the industry type of the counterparty.

	Receivables from financial institutions	Derivative assets	Loan assets	Other assets	Total
2018	\$	\$	\$	\$	\$
Australia					
Financial institutions	41,291,436	6,776,362	1,040,231,884	7,143,126	1,095,442,808
Governments	-	-	-	156,664	156,664
Other	-	-	-	171,311	171,311
Total Australia	41,291,436	6,776,362	1,040,231,884	7,471,101	1,095,770,783
Europe					
Financial institutions	-	6,923,957	-	-	6,923,957
Total Europe	-	6,923,957	-	-	6,923,957
Total	41,291,436	13,700,319	1,040,231,884	7,471,101	1,102,694,740
Total gross credit risk					1,102,694,740

	Receivables from financial institutions	Derivative assets	Loan assets	Other assets	Total
2017	\$	\$	\$	\$	\$
Australia					
Financial institutions	64,566,051	-	1,351,126,913	22,129	1,415,715,093
Governments	-	-	-	214,491	214,491
Total Australia	64,566,051	-	1,351,126,913	236,620	1,415,929,584
Total	64,566,051	-	1,351,126,913	236,620	1,415,929,584
Total gross credit risk					1,415,929,584

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 15.1 Credit risk (continued)

Credit quality of financial assets

The table below details the credit quality of the Trust's financial assets for the maximum exposure to credit risk. The credit quality is based on the individual counterparty's credit rating and classification is determined by the industry type using the Trust's credit rating system.

	Investment Grade	Below Investment Grade	Past due but not individually impaired	Total
2018	\$	\$	\$	\$
Receivables from financial institutions				
Financial institutions	41,291,436	-	-	41,291,436
Derivative assets				
Financial institutions	13,700,319	-	-	13,700,319
Loan assets				
Financial institutions	1,040,231,884	-	-	1,040,231,884
Other assets				
Financial institutions	7,143,126	-	-	7,143,126
Governments	156,664	-	-	156,664
Other	-	171,311	-	171,311
Total	1,102,523,429	171,311	-	1,102,694,740

	Investment Grade	Below Investment Grade	Past due but not individually impaired	Total
2017	\$	\$	\$	\$
Receivables from financial institutions				
Financial institutions	64,566,051	-	-	64,566,051
Loan assets				
Financial institutions	1,351,126,913	-	-	1,351,126,913
Other financial assets				
Financial institutions	22,129	-	-	22,129
Governments	214,491	-	-	214,491
Total	1,415,929,584	-	-	1,415,929,584

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 15.2 Liquidity risk

Liquidity risk is the risk of an entity encountering difficulty in meeting obligations with financial liabilities.

Contractual undiscounted cash flows

The table below summarises the maturity profile of the Trust's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately.

Derivatives designated in a hedging relationship are disclosed to according to their contractual maturity.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2018	\$	\$	\$	\$	\$	\$
Distribution payable	-	8,497,234	-	-	-	8,497,234
Borrowings ¹	-	80,005,044	207,728,150	587,640,509	294,638,573	1,170,012,275
Other liabilities	203,278	857,579	-	-	-	1,060,857
Total undiscounted cash flows	203,278	89,359,857	207,728,150	587,640,509	294,638,573	1,179,570,366

¹The maturity of borrowings are dependent on the repayments of the underlying mortgage assets, which is on expected maturity.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
2017	\$	\$	\$	\$	\$	\$
Distribution payable	-	9,410,947	-	-	-	9,410,947
Derivative liabilities	-	28,295,925	16,919,887	48,309,091	-	93,524,903
Borrowings ¹	-	96,238,001	249,876,021	706,872,284	354,420,497	1,407,406,804
Other liabilities	75,956	982,684	-	-	-	1,058,640
Total undiscounted cash flows	75,956	134,927,557	266,795,908	755,181,376	354,420,497	1,511,401,294

¹The maturity of borrowings are dependent on the repayments of the underlying mortgage assets, which is on expected maturity.

Note 15.3 Market risk

Market risk is the risk of adverse changes in the value of Trust's financial assets and liabilities from changes in market prices or volatility. The Trust has exposure to market risks arising from transactions entered into during its normal course of business. These risks include:

- **interest rates:** changes in the level, shape and volatility of yield curves; and
- **foreign exchange:** due to changes in spot exchange rates;

Interest rate risk

The Trust has taken total return swap, where the Trust pays mortgage income to the parent company in return of variable payments from the parent to meet the interest payments to the note-holders. Hence there is no material interest rate risk on loan assets and

The table below indicates the Company's exposure to movements in interest rates as at 31 March.

	Movement in basis points	2018 Sensitivity of profit after tax	2017 Sensitivity of profit after tax
		\$	\$
Australian dollar	+50	144,520	225,981
Total¹		144,520	225,981
Australian dollar	-50	(144,520)	(225,981)
Total¹		(144,520)	(225,981)

¹Sensitivity of profit after tax has been calculated on the balances receivable from financial institutions.

Foreign currency risk

Trust has taken cross currency interest rate swap to hedge its exposure on borrowings in foreign currency and hence is not materially exposed to any foreign currency risk.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 16. Fair values 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:

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

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

AASB 13 *Fair Value Measurement* 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 substantial 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 of all other financial assets and financial liabilities;
- the fair values of variable rate financial instruments, including certain loan assets and borrowings carried at amortised cost are approximated by their carrying amounts; and
- the fair values of balances due from/to related entities are approximated by their carrying amount as the balances are generally short term in nature.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- financial assets 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;
- 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.

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, 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 of the loan assets and borrowings are primarily at variable rate and hence approximates their carrying value.

The fair value of all financial assets and liabilities approximates their carrying value at statement of financial position date and are predominantly classified as level 3 in the fair value hierarchy except for receivable from financial institutions of \$41,291,436 (2017: \$64,566,051) which are classified as level 1 and Derivative assets \$13,700,319 (2017: Derivative liabilities \$93,524,903) which are classified as level 2.

MBL Covered Bond Trust

Notes to the financial statements for the financial year ended 31 March 2018 (continued)

Note 16. Fair values of financial assets and financial liabilities (continued)

The tables below summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Trust at 31 March 2018:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Derivative assets	-	13,700,319	-	13,700,319
Total assets	-	13,700,319	-	13,700,319

The tables below summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Trust at 31 March 2017:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Liabilities				
Derivative liabilities	-	93,524,903	-	93,524,903
Total liabilities	-	93,524,903	-	93,524,903

Note 17. Audit and other services provided by PricewaterhouseCoopers

The cost of auditor's remuneration for auditing services of \$35,000 (2017: \$14,000) has been borne by Macquarie Group Services Australia Pty Limited, a wholly-owned subsidiary within the Macquarie Group. The auditors received no other benefits.

Note 18. Events after the reporting period

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

MBL Covered Bond Trust

Directors' Declaration

In the opinion of the Directors of the Trust Manager:

- (a) the financial statements and notes set out on pages 4 to 23 are in accordance with the Establishment Deed dated 5 June 2015, as amended, including:
 - (i) complying with the Australian Accounting Standards and regulations; and
 - (ii) giving a true and fair view of the MBL Covered Bond Trust's financial position as at 31 March 2018 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that MBL Covered Bond Trust will be able to pay its debts as and when they become due and payable; and
- (c) the Financial Report also complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.



Director

Sydney
27 June 2018



Independent auditor's report

To the unitholders of MBL Covered Bond Trust

Our opinion

In our opinion the accompanying financial report give a true and fair view of the financial position of MBL Covered Bond Trust (the Trust) as at 31 March 2017 and 31 March 2018 and of its financial performance and its cash flows for the period ended 31 March 2017 and year ended 31 March 2018 in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the statement of financial position as at 31 March 2017 and 31 March 2018
- the income statement for the period ended 31 March 2017 and year ended 31 March 2018
- the statement of comprehensive income for the period ended 31 March 2017 and year ended 31 March 2018
- the statement of changes in equity for the period ended 31 March 2017 and year ended 31 March 2018
- the statement of cash flows for the period ended 31 March 2017 and year ended 31 March 2018
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Trust in accordance with 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.

Other information

The directors of the Trust Manager (the directors) are responsible for the other information. The other information comprises the information included in the Trust's Annual Report for the period ended 31 March 2017 and year ended 31 March 2018, including the Directors' Report, but does not include the financial report and our auditor's report thereon.

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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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Trust 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 Trust or to cease operations, or have no realistic alternative but to do so.

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: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'R.W. McMahon', written in a cursive style.

RW McMahon
Partner

Sydney
27 June 2018

