MBL Covered Bond Trust

A.B.N. 90 643 622 525

Annual Report
for the financial year ended 31 March 2019

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

2019 Annual Report
Contents

The Financial Report was authorised for issue by the Board of Directors on 26 June 2019.
The Board of Directors has the power to amend and reissue the Financial Report.

Directors' Report
for the financial year ended 31 March 2019

In accordance with a resolution of the 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	-
James Angus	01 August 2013	31 May 2019
James Casey	03 March 2010	31 May 2019
Jonathan Moodie	28 February 2019	31 May 2019
Kirk Graham Kileff	31 May 2019	-

Principal activity

The principal activity of the Trust during the financial year ended 31 March 2019 ("current financial year") 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 current and previous financial years and the results herein, have been prepared in accordance with the Australian Accounting Standards (AAS).

Distributions paid or provided for

Distributions of $6,719,893 were paid or provided for during the current financial year (2018: $5,289,745).

State of affairs

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

Review of operations

The profit attributable to unitholders for the current financial year was $Nil (2018: $Nil).

Net operating income for the current financial year was $8,455,881, an increase of 49 percent from $5,658,667 in the previous financial year.

Events after the reporting date

At the date of this report, the Directors are not aware of any 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 2019 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.

Directors' Report
for the financial year ended 31 March 2019 (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 current financial year.

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

Director

Sydney
26 June 2019

Income statement
for the financial year ended 31 March 2019

	Notes	2019(1) $	2018 $
Interest and similar income	3	**77,434,594**	50,857,369
Interest expense and similar charges	3	**(66,050,198)**	(43,902,982)
Net interest Income		**11,384,396**	6,954,387
Fees and commission income		**1,274,153**	1,204,050
Fees and commission expense		**(5,012,741)**	(3,853,306)
Net fees and commission expense	3	**(3,738,588)**	(2,649,256)
Net trading income	3	**810,073**	1,353,536
Net operating income		**8,455,881**	5,658,667
Other operating (charges)/income	3	**(926,132)**	22,243
Total operating income		**7,529,749**	5,680,910
Operating profit for the financial year		**7,529,749**	5,680,910
Financing costs attributable to the unitholder			
Distributions to the unitholder		**(6,719,893)**	(5,289,745)
(Decrease) in net liabilities attributable to the unitholder of the Trust		**(809,856)**	(391,165)
Profit attributable to the unitholder of MBL Covered Bond Trust		**-**	-

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

(1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* on 1 April 2018. As permitted by AASB 9, the Trust has not restated the comparative financial reporting period. Refer to Note 2 for the impact from the initial adoption of AASB 9.

Statement of comprehensive income
for the financial year ended 31 March 2019

	Notes	2019[2] $	2018 $
Profit/(loss) for the financial year		**-**	-
Other comprehensive income/(expense)[1]:		**-**	-
Cash flow hedge	11	**(2,718,130)**	3,545,424
Increase/(Decrease) in net liabilities attributable to unitholder of the Trust		**2,718,130**	(3,545,424)
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.

(2) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* on 1 April 2018. As permitted by AASB 9, the Trust has not restated the comparative financial reporting period. Refer to Note 2 for the impact from the initial adoption of AASB 9.

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

Statement of financial position as at 31 March 2019

	Notes	2019[1] $	2018 $
Assets			
Receivable from financial institutions	4	**94,118,404**	41,291,436
Other assets	5	**654,469**	7,471,101
Derivative assets		**6,800,664**	13,700,319
Loan assets	6	**2,398,075,831**	1,040,231,884
Total assets		**2,499,649,368**	1,102,694,740
Liabilities			
Distributions payable		**6,450,883**	8,497,234
Other liabilities	8	**13,294,979**	1,060,857
Debt issued	9	**2,486,954,719**	1,097,762,134
Total liabilities (excluding net liabilities attributable to the unitholder)		**2,506,700,581**	1,107,320,225
Net liabilities- attributable to the unitholder	10	**(7,051,213)**	(4,625,485)

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

(1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* on 1 April 2018. As permitted by AASB 9, the Trust has not restated the comparative financial reporting period. Refer to Note 2 for the impact from the initial adoption of AASB 9.

Statement of changes in equity
for the financial year ended 31 March 2019

	Total equity $
Balance as at 01 Apr 2017	-
Balance as at 31 Mar 2018	-
Balance as at 31 Mar 2019	-

Under Australian Accounting Standards (AAS), net assets/(liabilities) attributable to the unitholder are classified as a financial liabilities 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 10 to the financial statements.

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

Statement of cash flows
for the financial year ended 31 March 2019

	Notes	2019[(1)] $	2018 $
Cash flows from operating activities			
Operating profit for the financial year		**7,529,749**	5,680,910
Adjustments to operating profit:			
Interest and similar income	3	**(77,434,594)**	(50,857,369)
Interest expense and similar charges	3	**66,050,198**	43,902,982
Credit impairment charges/(reversal)	3	**926,132**	(22,243)
Changes in assets and liabilities:			
Net loan assets repaid/(paid) and written off		**(1,353,876,917)**	309,964,295
Change in other assets and other liabilities		**20,195,268**	(7,232,264)
Change in derivative assets		**4,181,525**	(103,679,798)
Transition impact of AASB 9		**(517,454)**	-
Cash (used in)/generated from operating activities		**(1,332,946,093)**	197,756,513
Interest and similar income received		**72,541,432**	51,810,346
Interest expense and similar charges paid		**(66,050,198)**	(43,902,982)
Net cash (used in)/flows from operating activities		**(1,326,454,859)**	205,663,877
Cash flows from investing activities			
Net cash flows from investing activities		**-**	-
Cash flows from financing activities			
Bonds (repaid)/issued		**1,389,192,585**	(222,735,034)
Distributions paid		**(8,766,244)**	(6,203,458)
Net cash flows from/(used in) financing activities		**1,380,426,341**	(228,938,492)
Net increase/(decrease) in cash and cash equivalents		**53,971,482**	(23,274,615)
Cash and cash equivalents at the beginning of the financial year		**41,291,436**	64,566,051
Exchange gains/(losses) on cash and cash equivalents		**(1,144,514)**	-
Cash and cash equivalents at the end of the financial year	12	**94,118,404**	41,291,436

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

(1) The March 2019 financial results reflect the adoption of AASB 9 *Financial Instruments* on 1 April 2018. As permitted by AASB 9, the Trust has not restated the comparative financial reporting period. Refer to Note 2 for the impact from the initial adoption of AASB 9.

Notes to the financial statements for the financial year ended 31 March 2019

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 2019 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.

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with the AAS.

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 financial statements for current financial year has been prepared on a going concern basis despite there being an excess of liabilities over assets as at 31 March 2019 of $7,051,213 (2018: $4,625,485). 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 expected credit loss on financial assets along with 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.

Basis of measurement

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 of the Trust Manager of Trust (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:

- determining the appropriate business model for a group of financial assets and assessing whether the cash flows generated by an asset constitute solely payment of principal and interest (SPPI) (note 2(v));
- measurement of Expected Credit Loss (ECL) including the choice of inputs, estimates and assumptions relating to information about past events, current conditions and forecast of economic conditions (notes 2(ix) and 7);
- fair value of financial assets and liabilities (note 17) and;
- consideration of impairment triggers for other assets.

Further information on specific judgements and assumptions made and estimates applied, are explained within the notes to the financial statements. 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.

Notes to the financial statements for the financial year ended 31 March 2019 (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

Revised IFRS Conceptual Framework

The IASB has issued the revised IFRS Conceptual Framework ("Framework") for financial reporting. The Australian equivalent Conceptual Framework has not yet been amended.

The main purpose of the Framework is to assist the IASB in developing accounting standards and assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses a particular issue.

Amendments include the definition and recognition criteria for assets, liabilities, income and expenses, and other relevant financial reporting concepts. The Framework is mandatorily effective for Trust's annual reporting periods beginning on or after 1 April 2020. The Trust is currently assessing the impact of the Framework and timing of adoption.

New Australian Accounting Standards and amendments to Accounting Standards that are effective in the current financial year

AASB 9 *Financial Instruments*

AASB 9 replaced AASB 139 - *Financial Instruments: Recognition and Measurement* from 1 April 2018. AASB 9 resulted in changes to accounting policies covering the classification, measurement and impairment of financial assets and the application of hedge accounting. The Trust has applied the requirements of AASB 9 in the current financial year beginning 1 April 2018.

Transition

As permitted by AASB 9, the Trust has not restated its comparative financial statements and has recorded transition adjustments to its opening balance sheet and net liabilities attributable to unitholder at 1 April 2018 for the impact of the adoption of the AASB 9 requirements.

The transition adjustments had a material impact, resulting in reduction of the net liabilities attributable to unitholder by $517,454, which relates to the implementation of the impairment requirements.

Impairment allowance AASB 139 and AASB 9

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

Financial assets	Measurement Category under AASB 139	Measurement category under AASB 9	Loss allowance under AASB 139 $	Re-classification $	Re-measurement[1] $	Adjusted in fair value at transition $	ECL allowance under AASB 9 $
Receivable from financial institutions	Amortised cost	Amortised cost	-	-	13,345	-	13,345
Other assets	Amortised cost	Amortised cost	-	-	8	-	8
Loan assets	Amortised cost	Amortised cost	142,811	-	504,101	-	646,912

1) The ECL movement on loan assets of $504,101 primarily represents an increase in provisions due to a lifetime ECL allowance recognised on exposures that have experienced a significant increase in credit risk (SICR) since origination.

Notes to the financial statements
for the financial year ended 31 March 2019 (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 effective in the current financial year (continued)

AASB 15 ***Revenue from Contracts with Customers***

AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated 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.

The Trust adopted AASB 15 in the financial year beginning 1 April 2018. On conclusion of the transition project, no material adjustment to opening retained earnings was recognised, as the amendments to accounting policies did not result in significant changes to the timing or amount of revenue recognised at 31 March 2018.

Other amendments made to existing standards and interpretations that are mandatorily effective for this annual reporting period are not expected to result in a material impact to the Trust's financial report.

(ii) Foreign currency translations

Functional and presentation currency

The functional currency of the Company is determined as the currency of the primary economic environment in which the Company operates (the functional 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 gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Revenue and expense recognition

Net interest income

Interest income and expense arising from loans and deposits is recognised using the Effective Interest rate (EIR) method. The effective interest rate method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability. Originator fees charged by the Trust Manager over the life of the loan, are recognised as interest income using the EIR 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 the performance obligation is satisfied.

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.

Other operating income and charges

Other operating income and charges include credit impairment charges on financial instruments and other income.

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.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(iv) Taxation

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.

Goods and services tax (GST)

Items in the income statement are recognised net of GST except where the tax incurred is not recoverable from the taxation authority. In these circumstances, the tax is recognised as part of the expense or included in the cost of the asset. The trust also records credit for GST paid by the Manager of the trust, after excluding the non recoverable GST.

(v) Financial instruments

Recognition of financial instruments

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

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

De-recognition of financial instruments

Financial assets

Financial assets are de-recognised from the statement of financial position when:
– the rights to cash flows have expired; or
– where the Trust has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

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

Financial liabilities

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

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

Modification of financial instruments

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

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

Classification and subsequent measurement

Financial assets

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

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(v) Financial instruments (continued)

Business model assessment

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

(i) how the performance of the financial assets held within that business model is evaluated and reported to the Trust's senior management and senior executives;

(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).

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

Solely payment of principal and interest (SPPI)

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

Amortised cost

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

(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 meet the SPPI requirements; and

(iii) the financial asset has not been designated to be measured at FVTPL (DFVTPL).

Reclassification of financial instruments

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

The Trust does not reclassify financial liabilities after initial recognition.

(vi) 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), 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 for which variables include only data from observable markets. Where such evidence exists, the Trust recognises profits or loss immediately when the derivative is recognised.

Hedge accounting

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

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(vi) Derivative instruments (continued)

	Fair value hedges	Cash flow hedges
Nature of hedge	The hedge of the fair value risk of a financial liability.	The hedge of the change in cash flows of a financial liability.
Hedged risk	- Interest rate risk	- Foreign exchange risk
Hedged item	- Fixed interest rate financial liabilities	- Foreign currency denominated interest bearing financial liabilities
Hedging instruments	- Interest rate swaps	- Cross currency swaps
Designation and documentation	At inception of the hedge relationship, documentation is required of the Trust's risk management objective and strategy for the hedge, hedging instrument, hedged item, hedged risk and how the hedge relationship will meet the hedge effectiveness requirements.	
Hedge effectiveness method	All hedge relationships are required to be assessed for hedge ineffectiveness both at the inception and throughout the hedge relationship by demonstrating that: - an economic relationship exists between the hedged item and the hedging instrument; - credit risk does not dominate the changes in value of either the hedged item or the hedging instrument; and - the hedge ratio is reflective of the Trust's risk management approach. The hedge effectiveness assessment is performed by a combination of qualitative and, where applicable, quantitative assessments. Changes in the hedge ratio, or rebalancing, may be required to adjust the hedged item or the hedging instrument.	
Accounting treatment for the hedging instrument	Fair value through the income statement.	Fair value through the cash flow hedge reserve and then recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk.
Accounting treatment for the hedged item	Carrying value adjusted for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis.
Accounting treatment for hedge ineffectiveness	Recognised in the income statement to the extent that changes in fair value of the hedged item attributable to the hedged risk are not offset by changes in fair value of the hedging instrument.	Recognised in the income statement to the extent to which changes in fair value of the hedging instrument exceed, in absolute terms, the change in the fair value of the hedged item.
Accounting treatment if the hedge relationship is discontinued	Where the hedged item still exists, adjustments to the hedged item are amortised to the income statement on an effective interest rate basis.	The gain or loss remains in the cash flow hedge reserve to the extent that the hedged cash flows are still expected to take place and subsequently recognised in the income statement at the time at which the hedged item affects the income statement for the hedged risk. Where the hedged cash flows are no longer expected to take place, the gain or loss in the cash flow hedge reserve is recognised immediately in the income statement.
Other accounting policies	None	The foreign currency basis spread of financial instruments, being the liquidity charge for exchanging different currencies, is excluded from the hedge designation. This spread is deferred in the Trust's reserves and released to the income statement at the time when the hedged exposure affects the income statement.

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

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(vi) 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 initially recognised at fair value adjusted for directly attributable transaction costs on settlement date. Loan assets are subsequently measured in accordance with the Company's accounting policy for financial instruments in Note 2 (v).

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 AASB 9. 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.

(vii) Other assets

Other assets primarily includes mortgage insurance recoverables and government taxes.

(viii) Impairment

Expected credit losses

The ECL requirements apply to financial assets measured at amortised cost, amounts receivable, and amount due from related entities.

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

The calculation of ECL requires judgement and the choice of inputs, estimates and assumptions. Refer note 7 – Expected credit loss for further information. Outcomes within the next financial period that are different from management's assumptions and estimates could result in changes to the timing and amount of ECL to be recognised.

The ECL is determined with reference to the following stages:

(i) Stage 1 – 12 month ECL

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

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

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

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

Use of more alternative criteria could result in significant changes to the timing and amount of ECL to be recognised. Lifetime ECL is generally determined based upon the contractual maturity of the financial asset.

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

(iii) Stage 3 – Lifetime ECL credit-impaired

Financial assets are classified as stage 3 where they are determined to be credit impaired, which generally matches the APRA definition of default. This includes exposures that are at least 90 days past due and where the obligor is unlikely to pay without recourse against available collateral.

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

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

The loss allowance for ECL on loan assets and other assets measured at amortised cost is presented in the statement of financial position as a deduction to the gross carrying amount.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(viii) Impairment (continued)

Expected credit losses (continued)

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

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

– An impairment loss was recorded where there was objective evidence of impairment as a result of one or more events (loss event) which had an impact on the estimated future cash flows of the financial asset that could be reliably estimated.

– Where the credit risk of an exposure had deteriorated but there was no objective evidence of impairment, no credit impairment was required to be recognised.

– Forward looking or macroeconomic information was not required to be incorporated into the determination of the credit impairment loss.

– Credit impairments were only required to be recognised for on-balance sheet exposures.

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

(ix) Debt issued

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 EIR method.

(x) 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 Trust Deed.

(xi) Net assets/(liabilities) attributable to the unitholders

The unitholders are 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 unitholders are entitled to any residual. As a result, net assets/(liabilities) attributable to the unitholder are classified as financial liabilities.

Income/(expense) not distributed is included in net assets/(liabilities) attributable to the unitholders. Movements in net assets/(liabilities) attributable to the unitholders is recognised in the income statement as finance cost, except the transition impact of AASB 9.

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 expected credit loss booked on transition to AASB 9 and unrealised losses on cross currency interest rate swaps. The Trust has been structured to earn a net interest income each year. Non-cash losses are retained in the Trust and may result in a net liability position which is expected to reverse over time.

(xii) Cash and cash equivalents

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

(xiii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 2. Summary of significant accounting policies (continued)

(xiv) 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.

(xv) Comparatives

Presentation changes

Statement of financial position

On the adoption of AASB 9, as permitted by the standard the Trust has not restated its comparative financial information. In order to present items on the basis of the nature of the underlying item as opposed to measurement basis, the Trust, following the adoption of AASB 9, has made voluntary change to the presentation of 'Borrowings' to 'Debt issued' in its statement of financial position.

Income statement

The change in presentation for financial assets and financials liabilities aligns with the presentation of similar financial instruments and therefore provides more meaningful information regarding the effect of these financial instruments on the financial position and performance of the Trust. This has had no effect on the measurement of these items and therefore on retained earnings or profit for any period. Comparative information has been represented, for all these presentation changes in statement of financial position and income statement.

Accordingly, where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

	2019 $	2018 $
Note 3. Profit for the financial year		
Net interest income		
Interest and similar income	**77,434,594**	50,857,369
Interest expense and similar charges	**(66,050,198)**	(43,902,982)
Net interest income	**11,384,396**	6,954,387
Net fees and commission expense		
Fees and commission income		
Discharge and late fees	**262,885**	244,392
Account management fees	**477,046**	360,291
Other fees income	**534,222**	599,367
Fees and commission expense		
Management fees[1]	**(4,158,456)**	(2,688,102)
Trustee fees	**(254,319)**	(165,712)
Custody fees	**(64,969)**	(42,450)
Other expenses	**(534,997)**	(957,042)
Net fees and commission expense	**(3,738,588)**	(2,649,256)

[1]The management fees has been calculated as 25 basis points (2018: 25 basis points) (inclusive of GST) on the monthly average loan balance.

	2019 $	2018 $
Net trading (expense)/income		
Cross currency swaps	**810,073**	1,353,536
Net trading (expense)/income	**810,073**	1,353,536
Other operating (charges)/income		
Credit impairment (charges)/ reversal		
- Receivable from financial institutions	**(36,144)**	-
- Loan assets	**(889,184)**	22,243
- Other assets	**(804)**	-
Total other operating (charges)/income	**(926,132)**	22,243
Total operating income	**7,529,749**	5,680,910

The Trust had no employees during the current and previous financial year.

	2019 $	2018 $
Note 4. Receivable from financial institutions		
Cash at bank	**11,476,596**	7,069,090
Due from Parent	**82,641,808**	34,222,346
Total receivable from financial institutions	**94,118,404**	41,291,436

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

	2019 $	2018 $
Note 5. Other assets		
Due from parent entity	**391,276**	7,143,126
Goods and services tax receivable	**259,782**	156,664
Others	**3,411**	171,311
Total other assets	**654,469**	7,471,101

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

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

	2019	2018
	$	$
Note 6. Loan assets		
Due from parent entity[1,2]	**2,399,611,928**	1,040,374,695
Less: ECL allowance[3]	**(1,536,097)**	-
Less: Collective allowance for credit loss	**-**	(142,811)
Total loan assets	**2,398,075,831**	1,040,231,884

[1]Of the above amount, $563,297,560 (2018: $259,667,576) is expected to be recovered within twelve months of the reporting date and remaining $1,836,314,368 (2018: $780,707,119) is expected to be recovered after twelve months of the reporting date by the Trust.

[2]Mortgage loan assets have been purchased by the Trust from MBL by equitable assignment, but fail 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.

[3]The current year results reflect the adoption of AASB 9. The ECL relating to loan assets under AASB 9 are recorded under ECL allowance. As prior periods have not been restated for AASB 9, collective allowance for credit losses provided for as at March 2018 remain in accordance with AASB 139's incurred credit loss allowance requirement and are therefore not necessarily comparable to the ECL allowance recorded in the current period.

Note 7. Expected credit losses

Background

The Trust adopted AASB 9 on 1 April 2018. Whilst AASB was adopted retrospectively, the trust's comparative financial information has, as permitted by AASB 9, not been restated. Accordingly, the current years' results, which have been prepared in accordance with AASB 9's ECL requirements, and the comparative financial results, which were prepared in accordance with AASB 139, hence are not directly comparable.

The Trust is aligned to the Macquarie Group policies for determination of Expected Credit loss.

Model inputs

The Trust models the ECL for on-balance sheet financial assets measured at amortised cost such as loans and debt securities. For this purpose, the Trust split its credit portfolio among retail exposures and other balances with Maquarie group entities.

The key model inputs used in measuring the ECL include:

- *Exposure at default:* The EAD represents the estimated Exposure in the event of a default. The EAD is estimated taking into consideration a range of possible exposures including both repayments and future drawdowns of unutilised commitments up to when the Exposure is expected to default. For balances with Macquarie group entities, this is based on net balance in the books of accounts.

- *Probability of default:* The determination of PDs for retail exposures is generally performed at a facility level. Retail exposures are segmented based on product type and shared characteristics that are highly correlated to credit risk such as region, product, counterparty groupings, loan-to-value ratio (LVR) and other similar criteria. In calculating the PD, credit performance information for each portfolio is gathered and statistically analysed to determine a point in time PD. PD estimates for retail portfolios are also adjusted for FLI. For balances with Macquarie group entities, this is based on credit rating of each entity and if not rated, this is based on the lowest existing credit rating of the group. However this is assessed and potentially adjusted on a semi-annual basis.

- *LGD:* The LGD is the magnitude of the ECL in a default event. The LGD is estimated using historical loss rates considering relevant factors for individual exposures or portfolios. These factors include collateral, seniority, industry, recovery costs and the structure of the facility. For balances with Macquarie group entities, this is based on default LGD depending upon whether the counterparty is bank or non bank entity. LGD estimates are also adjusted for FLI.

Method of determining significant increase in credit risk (SICR)

The Trust periodically assesses exposures to determine whether there has been a SICR, which may be evidenced by either qualitative or quantitative factors. Quantitative factors are described below for the Trust's material retail portfolios. Qualitative factors include, but are not be limited to, whether an exposure has been identified and placed on CreditWatch. Where there is a deteriorating credit risk profile, the exposures are monitored on a monthly basis through the CreditWatch reports. The business remains responsible for management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage 2 or, if defaulted, as stage 3.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 7. Expected credit losses (continued)

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

SICR thresholds, which require judgement, are used to determine whether an exposure's credit risk has increased significantly. The SICR methodology is based on a relative credit risk approach which considers changes in an underlying exposure's credit risk since origination. This may result in exposures being classified in stage 2 that are of a higher credit quality than other exposures that are classified as stage 1. Accordingly, while increases in the quantum of stage 2 exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

Retail exposures

Exposures are assigned a behavioural score which considers the exposure's lifetime PD on initial recognition. This behavioural score is periodically assessed and updated to reflect changes in the underlying exposure's behaviour. The score includes factors such as limit utilisation, payment history (including delinquency) and product specific features.

SICR thresholds referencing the movement between origination and reporting date behavioural score movements have been established that, where exceeded, result in the exposure being categorised as stage 2. Where the behavioural score subsequently improves such that the change since origination is back within the SICR threshold, the exposure is assessed for categorisation back to stage 1. The pre-defined SICR threshold are periodically reviewed and calibrated based on historical default experience.

For retail portfolios

– The AASB 9 'low credit risk' exemption is not applied by the Trust to material portfolios of any significant duration in assessing whether there has been a SICR.

– For material retail portfolios the credit risk for an exposure or portfolio is generally deemed to have increased significantly if the exposure is more than 30 days past due, unless there are product specific characteristics that indicate that this threshold should be rebutted.

Definition of default

The Trust's definition of default determines the reference point for the calculation of the ECL components, and in particular the PD. Default is generally defined as the point when the borrower is unlikely to pay its credit obligations in full, without recourse by the Trust to the realisation of collateral; or the borrower is 90 days or more past due. The Trust periodically monitors its exposures for potential indicators of default such as significant financial difficulty of the borrower which includes breaches of lending covenants; it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Retail exposures that are identified as in default can be reclassified from stage 3 following a pre-defined period over which the exposure demonstrates that it has returned to a performing status.

Forward looking information

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

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

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

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

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 7. Expected credit losses (continued)

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

ECL on loan assets

		Lifetime ECL				
	Stage I 12 month ECL $	Stage II Not credit impaired $	Stage III Credit impaired $	Collective allowance for credit losses $	Individually assessed provisions $	Total $
Balance as at 31 March 2018	-	-	-	142,811	-	142,811
Change on initial application of AASB 9	34,074	595,788	17,051	(142,811)	-	504,102
Balance as at 1 April 2018	34,074	595,788	17,051	-	-	646,913
Transfers during the period:						
To 12 month ECL	111,369	(111,369)	-	-	-	-
To lifetime ECL not credit impaired	(8,089)	15,467	(7,378)	-	-	-
To lifetime ECL credit impaired	(118)	-	118	-	-	-
Impairment (reversal)/charge	(68,850)	904,342	53,692	-	-	889,184
Balance as at 31 March 2019	68,386	1,404,228	63,483	-	-	1,536,097

	2019 $	2018 $
Note 8. Other liabilities		
Margin placed	**8,822,892**	-
Trustee fees	**34,471**	14,827
Others[1]	**1,733,060**	208,529
Creditors	**9,552**	1,426
Due to parent entity	**2,180,619**	628,733
Due to other related entities		
Management fees	**514,385**	206,586
Others[2]	**-**	756
Total other liabilities	**13,294,979**	1,060,857

Of the above amounts, margin placed of $8m is expected to be recovered after 12 months of the reporting date and the remaining liabilities are expected to be recovered within 12 months of the reporting date by the Trust.

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

[2]The material portion of this balance represents originator fees.

Note 9. Debt issued

	2019 $	2018 $
Opening debt balance	**1,097,762,134**	1,320,497,168
Bonds issued to MBL	**3,147,862,412**	-
Bonds repaid	**(1,744,670,889)**	(332,576,661)
FX revaluation	**(13,998,938)**	109,841,627
Total debt issued[1]	**2,486,954,719**	1,097,762,134

[1]The balance represents term loan taken from MBL in EUR 501,404,125 (2018: 502,779,999) (AUD equivalent 791,943,979 (2018: 805,899,610)) and AUD 1,695,010,740 (2018: 291,862,524).

[1]Of the above balance, $581,880,287 (2018:$269,334,769) is expected to be settled within 12 months of the reporting date and remaining $1,905,074,432 (2018: $828,427,365) is expected to be recovered after 12 months of 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 (guranteed by Perpetual Limited, in its capacity as a trustee (note 15)) 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 Manager administers the cover pool of home loans.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

	2019 $	2018 $
Note 10. Net liabilities- attributable to the unitholder		
Net liabilities attributable to the unitholder is represented by:		
Opening balance	**(4,625,485)**	(8,562,074)
Net operating income	**7,529,749**	5,680,910
Payment of distribution attributable for the year	**(269,010)**	-
Distribution payable	**(6,450,883)**	(5,289,745)
Transfer from cash flow hedge reserve (note 11)	**(2,718,130)**	3,545,424
Transition impact of AASB 9[1]	**(517,454)**	-
Net liabilities- attributable to the unitholder	**(7,051,213)**	(4,625,485)

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

[1]This represents the undistributed transition impact of AASB 9.

Note 11. Reserves

Cash flow hedge reserve

	2019 $	2018 $
Revaluation movement for the financial year, net of tax	**(7,597,526)**	975,696
Transferred to income statement, net of tax	**4,879,396**	2,569,728
Transfer to unitholder	**2,718,130**	(3,545,424)
Balance at the end of the financial period	**-**	-

Net liabilities attributable to the unitholder has $(6m) (2018: $(4m)) relating to foreign currency basis spreads of financial instruments which have been excluded from the hedge designation.

Note 12. 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:

	2019 $	2018 $
Receivable from financial institutions[1] (note 4)	**94,118,404**	41,291,436
Cash and cash equivalents at the end of the financial year	**94,118,404**	41,291,436

[1] Includes cash at bank and cash equivalents due from Parent.

Note 13. 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).

Transactions with related parties During the financial year, the following transactions were made with the parent entity:	**2019 $**	2018 $
Distributions paid/payable	**(6,719,893)**	(5,289,745)
Interest and similar income (note 3)	**77,434,594**	50,857,369
Interest expense and similar charges	**(44,826,149)**	(22,486,599)

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

Other fee and commission expense		
Management fees (note 3)	**(4,158,456)**	(2,688,102)

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, 8 and 9 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.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 14. Key management personnel disclosure

Key Management Personnel

The Directors of the Trust Manager having authority and responsibility for planning, directing and controlling activities of the Trust (Key Management Personnel – KMP) during the financial years ended 31 March 2019 and 31 March 2018 unless otherwise indicated were:

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	-
Jonathan Moodie	28 February 2019	-

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.

Note 15. 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 16. Hedge accounting

Hedging strategy

The use of derivative and other hedging instruments to hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and other hedging instruments and the related exposure, namely EUR fixed interest rate liabilities. The Trust's objective is to reduce the risk of volatility in earnings. This volatility may be managed by allowing hedges to naturally offset one another or, where the earnings volatility exceeds pre-defined limits, is considered for designation in a hedge accounting relationship to reduce earnings volatility.

Hedging instruments

The following table details the hedging instruments, nature of hedged risks, as well as the notional and the carrying amount of derivative financial instruments for each type of hedge relationship. The maturity profile for the hedging instruments' notional amounts are reported at their contractual maturity. Dual designations of cross-currency swaps for interest rate risk (fair value hedge) and foreign exchange risk (cash flow hedge) are included as a single notional amount per derivative. Increases in notional profiles of hedging instruments are presented as negative figures, with decreases and maturities presented as positive figures.

			Notional					Carrying amount[1]
	Risk	Hedging instruments	Less than 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $	Total $
Hedging instruments assets								**2019**
Fair value hedges and cash flow hedges	Interest and foreign exchange	Cross currency swaps	-	-	789,952,791	-	789,952,791	6,800,664

			Notional					Carrying amount[1]
	Risk	Hedging instruments	Less than 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $	Total $
Hedging instruments assets								**2018**
Fair value hedges and cash flow hedges	Interest and foreign exchange	Cross currency swaps	-	-	801,665,904	-	801,665,904	13,700,319

[1]The carrying amounts represent balances in the statement of financial position at balance date and includes accrued interest where applicable.

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 16. Hedge accounting (continued)

Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments that have been designated in cash flow hedges that are in place at the balance date. Executed rates for fair value hedges of interest rate risk have not been shown below as these would represent the market reference rates at the time of designation which is 1month EURIBOR.

	Hedging instruments	Currency/ currency pair	2019	2018
Cash flow hedges	Cross currency swaps	AUD/EUR	0.64	0.64

Hedge relationships

Cash flow hedges

The cash flow hedge reserve, representing the effective portion of the movements in the hedging instrument, is disclosed in Note 11 Reserves. Changes in this reserve are reported in the Trust's statement of other comprehensive income.

Fair value hedges

The following table shows the carrying value of hedged items designated in fair value hedge accounting relationships and the cumulative fair value hedge accounting adjustment that has been recognised as part of that carrying value. These balances are being amortised to the income statement on an effective yield basis. As noted in the Trust's accounting policies, since the hedged item is adjusted only for the hedged risk the hedged item's carrying value disclosed in the table will not be equivalent to its fair value as disclosed in other notes to these financial statements.

	2019		2018	
	Carrying amount[1] $	**Fair value hedge adjustments $**	Carrying amount[1] $	Fair value hedge adjustments $
Debt issued	**791,943,980**	**(2,217,749)**	799,153,930	2,289,656

[1]The carrying amounts in the table above exclude accrued interest from the carrying amount of hedged items.

Hedge Ineffectiveness

Hedge ineffectiveness, in the case of a fair value hedge, is the extent to which the changes in the fair value of the hedging instrument differ to that of the hedged item, and in the case of cash flow hedge relationships, the extent to which the change in the hedging instrument exceeds that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments.

The following table contains the hedge ineffectiveness associated with cash flow hedge and fair value hedge relationships during the period, as reported in the trading income line in the income statement:

	Risk	**Hedging instruments**	**Gains/(losses) on hedging instruments**	**Gains/(losses) on hedged items attributable to the hedged risk**	**Hedge ineffectiveness recognised in the income statement**
			$	**$**	**$**
					2019
Fair value hedges and cash flow hedges	Interest and foreign exchange	Cross currency swaps	2,599,131	(1,789,275)	809,856

	Risk	**Hedging instruments**	**Gains/(losses) on hedging instruments**	**Gains/(losses) on hedged items attributable to the hedged risk**	**Hedge ineffectiveness recognised in the income statement**
			$	**$**	**$**
					2018
Fair value hedges and cash flow hedges	Interest and foreign exchange	Cross currency swaps	3,790,705	(3,399,542)	391,162

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 17. Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Macquarie Group's businesses. The main risks faced by the Trust are strategic, reputation, conduct, credit, asset, liquidity, market, compliance, operational and legal. 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 independently assesses and accepts all material risks and sets prudential limits, consistent with the Board approved Risk Appetite Statement. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

Note 17.1 Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due or changes in the creditworthiness of the counterparty. The consequent loss is either the amount of the loan or financial obligation not repaid, the change in the value of a non-traded debt instrument, 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.

Ratings and reviews

For internals balances, credit rating of each affiliate entity has been defined based on rating grades assigned internally to these counterparties for the pricing of internal funding arrangements on an arm's length basis. In case the affiliate is not rated, the same has been considered as below investment grade.

The balances disclosed in the credit risk tables below include only those financial assets and off-balance sheet items that are subject to impairment requirements of AASB 9. Comparative tables as at 31 March 2018 as published in the 2018 annual report do not reflect the adoption of AASB 9 and hence are not comparable.

Credit quality of financial assets

The table below discloses, by credit rating grades and ECL impairment stage, the gross carrying amount of assets measured at amortised cost of the Trust subject to the impairment requirements of AASB 9. The credit quality is based on the counterparty's credit rating using the Trust's credit rating system and excludes the benefit of any collateral and credit enhancements.

				As at 31 March 2019
	Stage I $	Stage II $	Stage III $	Total $
Investment grade				
Receivable from financial institutions	94,168,058	-	-	94,168,058
Other assets	655,282	-	-	655,282
Loans assets[1]	1,764,578,568	22,276,444	-	1,786,855,012
Total	**1,859,401,908**	**22,276,444**	-	**1,881,678,352**
Non-investment grade				
Loans assets[1]	230,127,667	380,494,820	-	610,622,488
Total	**230,127,667**	**380,494,820**	**-**	**610,622,488**
Default				
Loans assets[1]	-	-	2,134,429	2,134,429
Total	**-**	**-**	**2,134,429**	**2,134,429**
Financial assets by ECL stage				
Receivable from financial institutions	94,168,058	-	-	94,168,058
Other assets	655,282	-	-	655,282
Loans assets	1,994,706,235	402,771,264	2,134,429	2,399,611,928
Total[2]	**2,089,529,575**	**402,771,264**	**2,134,429**	**2,494,435,268**

[1] The current year balance has been computed based on Retail exposure look through model under AASB 9. However the prior year numbers have not been restated for the same and hence are not comparable.

[2] For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance.

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 17.1 Credit risk (continued)

Credit risk concentration

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Trust's financial assets subject to impairment requirements of AASB 9. The geographical location is determined by the country of risk or country of domicile and counterparty type is based on APRA classification.

As at 31 March 2019	Receivable from financial institutions $	Loan assets $	Other assets $	Total $
Australia				
Governments	-	-	259,782	259,782
Financial institutions	94,168,058	-	392,090	94,560,148
Other	-	2,399,611,928	3,410	2,399,615,338
Total Australia	94,168,058	2,399,611,928	655,282	2,494,435,268
Total gross credit risk[1]	94,168,058	2,399,611,928	655,282	2,494,435,268

[1] For the purposes of this disclosure gross carrying amount of financial assets measured at amortised cost represents the amortised cost before ECL allowance.

The table below details the concentration of credit risk by significant geographical locations and counterparty type of the Trust's financial assets not subject to impairment requirements of AASB 9.

As at 31 March 2019	Derivative assets $	Total $
Australia		
Financial institutions	3,456,817	3,456,817
Total Australia	3,456,817	3,456,817
Europe		
Financial institutions	3,343,847	3,343,847
Total Europe	3,343,847	3,343,847
Total gross credit risk	6,800,664	6,800,664

Maximum exposure to credit risk

For on-balance sheet instruments, the maximum exposure to credit risk is the carrying amount reported on the balance sheet. For off-balance sheet instruments, the maximum exposure to credit risk is a function of the contractual notional amount and is disclosed in Note 7 - Expected credit losses.

Prior year comparative credit risk disclosures

The below credit risk disclosures were included in the 2018 annual report and do not reflect the adoption of AASB 9. These tables are accordingly not directly comparable to that provided in terms of AASB 9.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 17.1 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 and excludes the benefit of collateral and credit enhancements except as otherwise indicated (refer to section on collateral and credit enhancements).

As at 31 March 2018	Investment Grade $	Below Investment Grade $	Past due but not individually impaired $	Total $
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

Maximum exposure to credit risk

The table below details the concentration of maximum exposure to credit risk of the Trust's financial assets 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 classification is determined by the industry type of the counterparty.

As at 31 March 2018	Receivable from financial institutions $	Derivative assets $	Loan assets $	Other assets $	Total $
Australia					
Financial institutions	41,291,436	6,776,362	-	7,143,126	55,210,924
Governments	-	-	-	156,664	156,664
Other	-	-	1,040,231,884	171,311	1,040,403,195
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 gross credit risk	41,291,436	13,700,319	1,040,231,884	7,471,101	1,102,694,740

Notes to the financial statements for the financial year ended 31 March 2019 (continued)

Note 17.2 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 and hence would vary from the carrying value as at the balance sheet date. Repayments subject to notice are treated as if notice were given immediately. However, the Trust expects that many counterparties will not request repayment on the earliest date the Trust could be required to pay.

2019	On demand $	0 to 3 months $	3 to 12 months $	1 to 5 years $	More than 5 years $	Total $
Distribution payable	-	6,450,883	-	-	-	6,450,883
Borrowings[1]	-	145,513,503	663,792,262	436,366,786	1,241,282,168	2,486,954,719
Other liabilities	1,731,444	2,740,643	-	8,822,892	-	13,294,979
Total undiscounted cash flows	1,731,444	154,705,029	663,792,262	445,189,678	1,241,282,168	2,506,700,581

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

2018	On demand $	0 to 3 months $	3 to 12 months $	1 to 5 years $	More than 5 years $	Total $
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

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

Note 17.3 Market risk

Non Traded Market Risk

The Trust has exposure to non-traded 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:** changes in the spot exchange rates;

Interest rate risk

The Trust has entered into total return swaps, where the Trust pays mortgage income to the parent trust 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 borrowings.

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

	Movement in basis points	2019 Sensitivity of profit after tax $	2018 Sensitivity of profit after tax $
Australian dollar	+50	298,534	144,520
Total[1]		298,534	144,520
Australian dollar	-50	(298,534)	(144,520)
Total[1]		(298,534)	(144,520)

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

Foreign currency risk

Trust has entered into cross currency interest rate swaps to hedge its exposure on borrowings in foreign currency, resulting in effective hedging and hence is not materially exposed to any foreign currency risk.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 18. 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 measurement.

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 which are measured at fair value:

- financial assets and liabilities, 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 $85,295,512 (2018: $41,291,436) which are classified as level 1 and Derivative assets $6,800,664 (2018: $13,700,319) which are classified as level 2.

Notes to the financial statements
for the financial year ended 31 March 2019 (continued)

Note 18. 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 2019:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Derivative assets	**-**	**6,800,664**	**-**	**6,800,664**
Total assets	**-**	**6,800,664**	**-**	**6,800,664**

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

Note 19. Audit and other services provided by PricewaterhouseCoopers

The cost of auditor's remuneration for auditing services of $23,000 (2018: $35,000) 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 20. Events after the reporting period

There were no material events subsequent to 31 March 2019 that have not been reflected in the financial statements.

Directors' Declaration

In the opinion of the Directors of the Trust Manager:

(a) the financial statements and notes set out on pages 4 to 30 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 2019 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
26 June 2019

Independent auditor's report

To the unitholders of MBL Covered Bond Trust

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of MBL Covered Bond Trust (the Trust) as at 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The financial report comprises:

- the statement of financial position as at 31 March 2019
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the income statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the 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 are responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 March 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors of the Trust Manager for the financial report

The directors of the Trust Manager 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 of the Trust Manager 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 of the Trust Manager 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 of the Trust Manager 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

R.W. McMahon

RW McMahon
Partner

Sydney
26 June 2019