MBL Covered Bond Trust

A.B.N. 90 643 622 525

Annual Report
For the financial year ended 31 March 2021

MACQUARIE

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

MBL Covered Bond Trust

2021 Annual Report
Contents

The Financial Report was authorised for issue by the Board of Directors on 28 Jun 2021.
The Board of Directors has the power to amend and reissue the Financial Report.

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Directors' Report

For the financial year ended 31 March 2021

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	-
Kirk Graham Kileff	31 May 2019	-

Principal activity

The principal activity of the Trust during the financial year ended 31 March 2021 ("current financial year") was to act as the special purpose vehicle relating to the Covered Bonds 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 and Servicer for the Covered Bond program. P.T. Limited is the Security Trustee and Perpetual Limited is the Covered Bond Guarantor. MBL is the capital and income unitholder ("unitholder") and parent of the Trust. MBL receives any residual cash from the Trust after all disbursements.

Result

The Financial Report for the current and previous financial year and the results herein, have been prepared in accordance with the Australian Accounting Standards (AAS).

Distributions paid or provided for

Distributions of $11,193,913 were paid or provided for during the current financial year (2020: $9,211,643).

State of affairs

The Covered Bonds of EUR 500m which were issued by MBL and collateralised against loan assets of MBL Covered Bond Trust were repaid on 3rd March 2021.

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 unitholder for the current financial year was $Nil (2020: $Nil).

Net operating income for the current financial year was $12,200,412, an increase of 35 percent from $9,010,439 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 2021 not otherwise disclosed in this report.

Directors' Report
For the financial year ended 31 March 2021 (continued)

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.

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

DocuSigned by:
Daniel McGrath
51FDAC180E184BC...

Director

Sydney
28 Jun 2021

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Income statement
For the financial year ended 31 March 2021

	Notes	2021 $	2020 $
Interest and similar income	3	**94,266,601**	80,814,344
Interest and similar expense	3	**(75,404,336)**	(67,684,751)
Net interest Income		**18,862,265**	13,129,593
Fees and commission income		**1,355,135**	1,227,600
Fees and commission expense		**(8,766,360)**	(5,955,181)
Net fees and commission expense	3	**(7,411,225)**	(4,727,581)
Net trading income	3	**749,372**	608,427
Net operating income		**12,200,412**	9,010,439
Other operating (charges)/income	3	**(273,615)**	816,341
Total operating income		**11,926,797**	9,826,780
Operating profit for the financial year		**11,926,797**	9,826,780
Financing costs attributable to the unitholder			
Distributions to the unitholder		**(11,193,913)**	(9,211,643)
Decrease in net liabilities attributable to the unitholder of the Trust	10	**(732,884)**	(615,137)
Profit attributable to the unitholder of MBL Covered Bond Trust		**-**	-

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

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Statement of comprehensive income
For the financial year ended 31 March 2021

	Notes	2021 $	2020 $
Profit/(loss) for the financial year		**-**	-
Other comprehensive income/(expense)[1]:		**-**	-
Cash flow hedge	11	**1,585,718**	3,600,124
Transferred to income statement on realisation, net of tax		**(1,585,718)**	-
Decrease in net liabilities attributable to unitholder of the Trust		**-**	(3,600,124)
Total comprehensive income/(expense)		**-**	-
Total comprehensive income/(expense) is attributable to:			
The unitholder of MBL Covered Bond Trust		**-**	-

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

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

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

MBL Covered Bond Trust

Statement of financial position
As at 31 March 2021

	Notes	**2021** $	2020 $
Assets			
Cash, bank and other demand deposits	4	**54,515,080**	190,175,998
Other assets	5	**1,276,941**	607,237
Derivative assets		**-**	119,616,832
Loan assets	6	**1,535,016,507**	1,878,743,420
Total assets		**1,590,808,528**	2,189,143,487
Liabilities			
Distributions payable		**-**	4,163,874
Other liabilities	8	**844,060**	137,941,990
Debt issued	9	**1,590,481,818**	2,049,873,575
Total liabilities (excluding net liabilities attributable to the unitholder)		**1,591,325,878**	2,191,979,439
Net liabilities- attributable to the unitholder	10	**(517,350)**	(2,835,952)

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

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Statement of changes in equity
For the financial year ended 31 March 2021

	Total equity $
Balance as at 01 Apr 2019	-
Balance as at 31 Mar 2020	-
Balance as at 31 Mar 2021	-

Under Australian Accounting Standards (AAS), net 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 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 2021

	Notes	2021 $	2020 $
Cash flows generated from/(utilised in) operating activities			
Operating profit for the financial year		**11,926,797**	9,826,780
Adjustments to operating profit:			
Interest and similar income	3	**(94,266,601)**	(80,814,344)
Interest and similar expenses	3	**75,404,336**	67,684,751
Credit impairment charges/(reversal)	3	**273,615**	(816,341)
Unrealised foreign exchange on assets and liabilities		**-**	4,468,429
Changes in assets and liabilities:			
Loan assets		**342,785,086**	518,152,694
Other assets and other liabilities		**(1,035,380)**	(8,413,745)
Derivative assets		**121,202,550**	(535,056)
Interest and similar income received		**95,573,544**	84,113,098
Interest and similar expenses paid		**(78,324,248)**	(68,987,447)
Net cash flows generated from operating activities		**473,539,698**	524,678,819
Cash flows generated from investing activities			
Net cash flows generated from investing activities		**-**	-
Cash flows utilised in financing activities			
Issuance of debt		**3,684,344,800**	-
Repayment of debt		**(4,141,455,382)**	(545,035,135)
Distributions paid to unitholder		**(15,357,787)**	(11,498,652)
Net cash flows utilised in financing activities		**(472,468,369)**	(556,533,787)
Net increase/(decrease) in cash and cash equivalents		**1,071,329**	(31,854,968)
Cash and cash equivalents at the beginning of the financial year		**53,443,750**	85,302,033
Effect of exchange rate movements on cash and cash equivalents		**-**	(3,315)
Cash and cash equivalents at the end of the financial year	12	**54,515,080**	53,443,750

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

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Notes to the financial statements
For the financial year ended 31 March 2021

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 2021 was to act as the special purpose vehicle for the purposes relating to the Covered Bonds 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 and Servicer for the Covered Bond program. P.T. Limited is the Security Trustee and Perpetual Limited is the Covered Bond Guarantor. MBL is the capital and income unitholder ("unitholder") and parent of the Trust. MBL receives any residual cash from the Trust after all disbursements.

Note 2. Summary of significant accounting policies

(i) Basis of preparation

This Financial Report is a General Purpose Financial Report which has been prepared in accordance with the Australian Accounting Standards (AAS).

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.

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 is compliant with IFRS.

Deficiency of net assets

The financial statements for current financial year have been prepared on a going concern basis despite there being an excess of liabilities over assets as at 31 March 2021 of $517,350 (2020: $2,835,952). The negative net assets position is largely attributable to distributions made by the Trust in the financial year ended 31 March 2019 which were calculated based on distributable taxable income and did not take into account the Expected Credit Loss (ECL) on financial assets booked on 1 April 2018 as part of the transition to AASB 9. Post transition to AASB 9, all further ECL movements are fully distributed. Accordingly, the transition impact is likely to remain until termination of the Trust. The deficits may be recovered on termination of the Trust pending actual credit losses incurred. The Trust has been structured to earn a net interest income each year and 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, except for derivatives (if any), which are required to be measured at fair value.

Critical accounting estimates and significant judgments

The preparation of this Financial Report in compliance 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:

– the validity of applying the "going concern" assumption where the Trust is in a net liability position (note 2(i));
– the choice of inputs, estimates and assumptions used in the measurement of Expected Credit Loss including the determination of significant increase in credit risk (SICR), forecast of economic conditions and the weightings assigned thereto (notes 2(ix) and 7);
– fair value of assets and liabilities; and
– the application of hedge accounting principles including the assessment that a forecast transaction is highly probable (notes 2(vi) and 16).

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

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

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(i) Basis of preparation (continued)

Coronavirus (COVID-19) impact

The Novel Coronavirus (COVID-19) continues to have an impact on global economies and financial markets. It has also led to material structural shifts in the behaviour of the economy and unprecedented actions by financial markets, governments, and regulators. The impact of COVID-19 continues to evolve and, where applicable, has been incorporated into the determination of the Trust's results of operations and measurement of its assets and liabilities at the reporting date.

The Trust's processes to determine the impact of COVID-19 for these financial statements is consistent with the processes disclosed and applied in its 31 March 2020 financial statements, wherever applicable.

As there is a higher than usual degree of uncertainty associated with these assumptions and estimates, actual outcomes may differ to those forecasted which may impact the accounting estimates included in these financial statements. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Consideration of the statements of financial position and further disclosures

Key items in the statement of financial position and the related disclosures that have been impacted by COVID-19 were as follows:

Loan assets and other assets

In response to COVID-19 the Trust undertook a review of retail credit portfolios and other financial asset exposures and the ECL for each. The review considered the macroeconomic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. The ECL methodology, SICR thresholds, and definition of default remained consistent with prior periods. The impact of COVID-19 on the credit risk management disclosures, notably in relation to credit quality and collateral and other credit enhancements was also considered. Refer Note 6 and 7.

Risk management

The robust risk management framework continues to be applied and RMG continues to monitor the impact of COVID-19 on the Trust's risk profile. Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Trust's risk management framework.. As per management's assessment, there is no material impact of COVID-19 on any other financial statement line items and disclosures of the Trust, unless otherwise specified in these financial statements.

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

(i) AASB Revised Conceptual Framework for Financial Reporting

The revised AASB Framework was effective for the Trust's annual financial reporting period beginning on 1 April 2020.

The AASB Framework provides the AASB with a base of consistent concepts upon which future accounting standards will be developed. The AASB Framework will also assist financial report preparers to develop accounting policies when there is no specific or similar standard that addresses an issue.

The AASB Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The application of the AASB Framework did not have a material impact on the Trust's financial statements.

(ii) AASB 2019-3 Interest Rate Benchmark Reform (IBOR)

IBOR reform: Transition from inter-bank offered rates (IBOR) to alternative reference rates (ARRs)

IBOR are interest rate benchmarks that are used in a wide variety of financial instruments such as derivatives and lending arrangements. Examples of IBOR include 'LIBOR' (the London Inter-bank Offered Rate), 'EURIBOR' (the Euro Inter-bank Offered Rate) and 'BBSW' (the Australian Bank Bill Swap Rate). Historically, each IBOR has been calculated and published daily based on submissions by a panel of banks. Over time, changes in inter-bank funding markets have meant that IBOR panel bank submissions have become based less on observable transactions and more on expert judgement. Financial markets' authorities reviewed what these changes meant for financial stability, culminating in recommendations to reform major interest rate benchmarks. As a result of these recommendations, many IBOR around the world are undergoing reforms.

The nature of the reforms varies across different jurisdictions. For example, in Australia the existing IBOR benchmark (BBSW) has undergone reform and is expected to continue for the foreseeable future alongside the nominated ARR for AUD which is AONIA (AUD Overnight Index Average). By contrast, due to a lack of observable transactions to support robust LIBOR reference rates, LIBOR publication is expected to cease. A transition away from LIBOR is therefore necessary. The cessation date for all tenors of GBP, CHF, EUR, JPY LIBOR and the one week and two-month tenors for USD LIBOR is 31 December 2021. The cessation date for the remaining USD LIBOR tenors is 30 June 2023.

Industry working groups have worked with authorities and consulted with market participants to develop market practices that may be used to transition existing LIBOR-linked contracts for derivatives, loans, bonds and other financial instruments that mature beyond their respective LIBOR cessation dates, to ARRs. Amongst the issues considered were the key differences between LIBOR and ARRs. LIBOR are term rates which are quoted at the beginning of that period (for example, one-, three-, six-or twelve-month periods) and include a component of bank credit risk. ARRs on the other hand are overnight rates with little or no credit risk. To facilitate the transition of contracts from LIBOR to ARRs on an economically equivalent basis, adjustments for term and credit differences will need to be applied.

Notes to the financial statements
Critical accounting estimates and significant judgments (continued)

Note 2. Summary of significant accounting policies (continued)

(i) Basis of preparation (continued)

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

(ii) AASB 2019-3 Interest Rate Benchmark Reform (IBOR) (continued)

IBOR reform: Transition from inter-bank offered rates (IBOR) to alternative reference rates (ARRs) (continued)

As a diversified financial services group with a variety of global products and services, IBOR reforms, including the transition from LIBOR to ARRs, are important changes for the Trust.

Macquarie Group's IBOR project

During 2018, Macquarie Group Limited ("MGL"), the ultimate parent of the Trust, initiated a project, which is sponsored by its Chief Financial Officer (CFO), to manage the impacts of IBOR reform on MGL and its subsidiaries (Macquarie Group), including overseeing the transition from LIBOR to ARRs. A group-wide steering committee was established with its key responsibility being the governance of the project. This committee includes senior executives from Macquarie Group's Operating Groups, Financial Management Group (FMG), Risk Management Group (RMG), Corporate Operations Group (COG) and Legal and Governance team.

The scope of the project includes:

- assessing the impacts and risks of LIBOR transition across Operating and Support Groups including legal agreements, systems, models and processes;
- assessing the impact on clients and developing plans to support their transition to ARRs;
- developing ARR products and implementing plans for operational readiness;
- monitoring market developments with respect to both LIBOR and ARRs, including any changes to accounting standards and other regulator activity;
- the identification of the impact of the reform on the separate legal entities within the Macquarie Group, including those entities that are subject to separate regulatory requirements; and
- oversight and responding to regulator and other industry bodies regarding IBOR-related requests for information.

Impacts on financial reporting

AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform, issued in October 2019, amended AASB 7 Financial Instruments: Disclosures (AASB 7) and AASB 9 Financial Instruments (AASB 9), to provide certain relief from applying specific accounting requirements to hedge accounting relationships directly affected by IBOR reform. The relief enables the continuation of hedge accounting for impacted hedge relationships during the period of uncertainty prior to IBOR transition and is mandatorily effective for annual reporting periods beginning on or after 1 January 2020.

The Trust adopted the amendments in previous financial year and there are no significant impacts on the Trust's financial statements, as all the Trust's hedge relationships involves instruments referencing BBSW. With the BBSW having been reformed, the Trust has not applied the relief to instruments within hedge relationships referencing BBSW. Note 16 provides further information about hedging relationships, which the Trust has applied.

(ii) Other amendments made to existing standards

Other amendments made to existing standards that were mandatorily effective for the annual reporting period beginning on 1 April 2020 did not result in a material impact to the Trust's financial statements.

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

Other amendments made to existing standards

Other amendments to existing standards that are not mandatorily effective for the annual reporting period beginning on 1 April 2020 and have not been early adopted, are not likely to result in a material impact on the Trust's financial statements following the adoption.

(ii) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

At initial recognition, a foreign currency transaction is translated into the Trust's functional currency using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period:
- foreign currency monetary assets and liabilities are translated using the closing exchange rate; and
- non-monetary items (including equity) measured in terms of historical cost in a foreign currency remain translated using the spot exchange rate at the date of the transaction.

Foreign exchange gains and losses arising from settlement or translation of monetary items, are recognised in other operating income and charges.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(iii) Revenue and expense recognition

Net interest income

Interest income and interest expense are recognised using the effective interest rate (EIR) method for financial assets and liabilities, carried at amortised cost. The EIR method calculates the amortised cost of a financial instrument at a rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Trail commission fees charged by the Trust Manager over the life of the loan, are netted off against interest income.

When the estimates of payments or receipts of a financial instrument are subsequently revised, the carrying amount is adjusted to reflect the actual or revised cash flows with the remeasurement recognised as part of interest income (financial assets) or interest expense (financial liabilities). The calculation of EIR does not include ECL.

Fees and commission income

Fees and commission income (includes account discharge and late fee, account management fee, penalty fee etc.) is recognised when the services are provided.

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 or equivalent and is payable in arrears on the distribution date following the end of the collection period. Fee and commission expense is recognised on an accrual basis.

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.

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.

(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 Trust Manager, after excluding the non recoverable GST.

(v) Financial instruments

(a) 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 (in the case of instruments not classified as at Fair value through profit or loss (FVTPL)) for transaction costs that are incremental and directly attributable to the acquisition or issuance of the financial instrument.

(b) 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 the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

A financial asset is transferred if, and only if, the Trust i) transfers the contractual rights to receive the cash flows of the financial asset, or ii) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where:

-The Trust is not obligated to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
-The Trust is prohibited from selling or pledging the original asset other than as security to the eventual recipients, and
-The Trust is obligated to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(v) Financial instruments (continued)

(b) De-recognition of financial instruments (continued)

Financial assets (continued)

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 arising from the derecognition of debt financial assets or financial liabilities that are subsequently measured at amortised cost are recognised in other income and charges as part of other operating income and charges.

Financial liabilities

(c) Modification of financial instruments

A financial instrument is modified when its original contractual cash flows are renegotiated or modified. A financial asset that is renegotiated is derecognised if the rights to receive cash flows from the existing agreement have expired, either through replacement by a new agreement or the existing terms are modified to that effect. A financial liability that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the existing terms are modified such that the renegotiated financial instrument is a substantially different financial instrument. Where the modification results in derecognition of the original financial instrument, the new financial instrument is recorded initially at its fair value and the resulting difference is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy.

For financial instruments measured at amortised cost, and for financial assets measured at FVOCI, when the modification does not result in derecognition, a gain or loss is recognised in the income statement in accordance with the nature of the financial instrument as described in the derecognition of financial instruments policy. The gain or loss is measured as the adjustment of the gross carrying amount to reflect the renegotiated or modified contractual cash flows discounted at the instrument's original EIR.

(d) 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.

Business model assessment

The Trust uses judgement in determining the business model at the level that reflects how groups of financial assets are managed and its intention with respect to its financial assets. 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 personnel 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).

Solely payment of principal and interest (SPPI)

The contractual cash flows of a financial asset are assessed to determine whether these represent SPPI on the principal amount outstanding. This includes an assessment of whether the cash flows primarily reflect consideration for the time value of money and the credit risk of the principal outstanding. Interest may also include consideration for other basic lending risks and costs.

Amortised cost

A financial asset is subsequently measured at amortised cost using the EIR method where:

(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 classified as designated to be measured at FVTPL (DFVTPL).

Interest income is determined in accordance with the EIR method and recognised as part of interest and similar income.

All financial assets held with Macquarie group entities are held within a business model whose objective is to hold financial assets in order to collect contractual cashflows and the contractual terms of the financial asset give rise on specified dates to cashflows that meet the SPPI requirements. Hence, these are measured at amortised cost. This category also includes Cash and bank balances, loan balances and other assets.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost. All derivative financial liabilities are designated as hedging instruments in qualifying hedge relationships.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(v) Financial instruments (continued)

(e) 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.

(f) Offsetting of financial instruments

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

(vi) Derivative instruments and hedging activities

The Trust enters into cross currency interest rate swap to manage its exposure to interest rate risk and foreign exchange rate risk.
These derivative instruments are principally used for the risk management of existing financial liabilities and forecast transactions. Derivatives are recognised in the Statement of financial position as an asset where they have a positive fair value at the reporting date or as a liability where they have a negative fair value at the reporting date. Derivative that may have both positive or negative values must meet both the asset and liability derecognition tests before it is derecognised from the Statement of financial position. Fair values are obtained from quoted prices in active markets, where available, or 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) The Trust applies hedge accounting to manage accounting mismatches arising from. The difference in measurement bases or location of the gains and losses between the exposure that is being hedged and the hedging instrument. Refer to details provided in the table that follows:

	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	Cross currency interest rate swaps	
Designation and documentation	At inception of the hedge relationship, documentation is required of the 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 assessed for prospective hedge effectiveness both at the inception of the hedge, at each reporting period and on any significant change in circumstances affecting the hedge, 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 designated quantities of either the hedged item or the hedging instrument.	

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(vi) Derivative instruments and hedging activities (continued)

Accounting treatment for the hedging instrument	Fair value through the income statement.	Fair value through the cash flow hedge reserve as part of OCI 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	Adjustments to the carrying value are recognised in the income statement for changes in fair value attributable to the hedged risk.	Accounted for on an amortised cost basis.
Accounting treatment for hedge ineffectiveness	Recognised as part of net trading income 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 as part of net trading income 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 EIR 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 cost of hedging reserves and released to the income statement at the time when the hedged exposure affects the income statement.

(vii) 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 on settlement date at fair value and adjusted for directly attributable transaction costs on settlement date. Loan assets are subsequently measured in accordance with Note 2 (v) financial instruments.

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.

(viii) Other assets

Other assets primarily includes balance due from related entities, mortgage insurance recoverables and government taxes.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(ix) 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 and macroeconomic information (FLI).

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, ECL is determined based on the probability of default (PD) over the next 12 months and the lifetime losses associated with such PD, adjusted for Forward Looking or Macro-economic Information (FLI).

(ii) Stage 2 – 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 exercises judgement in determining whether there has been a SICR since initial recognition based on qualitative, quantitative, and reasonable and supportable information that includes FLI. Detail on the Trust's process to determine whether there has been a SICR is provided in Note 7 - *Expected Credit Losses*.

Use of 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.

(iii) Stage 3 – 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 for portfolios of exposure, ECL is measured as the product of the lifetime PD, the loss given default (LGD) and the exposure at default (EAD), adjusted for FLI.

Presentation of ECL allowances

The ECL allowances for loan assets and other assets are presented as a deduction to the gross carrying amount in the Statement of financial position.

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.

(x) 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.

(xi) Other liabilities

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

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 2. Summary of significant accounting policies (continued)

(xii) Net liabilities attributable to the unitholder

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

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

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 1 April 2018 as part of the transition to AASB 9. 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.

(xiii) Cash and cash equivalents

Cash and cash equivalents comprise of cash at banks and balances with related entities.

(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

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

(xvi) Rounding of amounts

Amounts in the Directors' Report and Financial Report have been rounded off to the nearest Australian dollars unless otherwise indicated.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

	2021 $	2020 $
Note 3. Profit for the financial year		
Net interest income		
Interest and similar income	**94,266,601**	80,814,344
Interest and similar expense	**(75,404,336)**	(67,684,751)
Net interest income	**18,862,265**	13,129,593
Net fees and commission expense		
Fees and commission income		
Discharge and late fees	**793,309**	417,593
Account management fees	**525,794**	562,998
Other fees income	**36,032**	247,009
Fees and commission expense		
Management fees[1]	**(7,444,682)**	(4,840,688)
Trustee fees	**(245,890)**	(171,970)
Custody fees	**(91,710)**	(63,508)
Other expenses	**(984,078)**	(879,015)
Net fees and commission expense	**(7,411,225)**	(4,727,581)

[1]The management fees have been calculated as 25 basis points (2020: 25 basis points) (inclusive of GST) on the monthly average loan balance.

	2021 $	2020 $
Net trading income		
Cross currency swaps	**749,372**	608,427
Net trading income	**749,372**	608,427
Other operating (charges)/income		
Credit impairment reversal/(charges)		
- Cash, bank and other demand deposits	**10,980**	24,828
- Loan assets	**(308,841)**	815,307
- Other assets	**24,246**	(23,794)
Total other operating (charges)/income	**(273,615)**	816,341
Total operating income	**11,926,797**	9,826,780

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

Note 4. Cash, bank and other demand deposits

	2021 $	2020 $
Cash at bank	**23,649,686**	13,248,188
Due from Parent[1]	**30,865,394**	176,927,810
Total cash, bank and other demand deposits	**54,515,080**	190,175,998

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

[1]Of the above amounts, $Nil (2020: $136,732,248) relates to margin money received under derivative arrangement. Refer Note 12.

Note 5. Other assets

	2021 $	2020 $
Due from Parent	**1,276,273**	367,470
Goods and services tax receivable	**665**	236,356
Others	**3**	3,411
Total other assets	**1,276,941**	607,237

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 2021 (continued)

	2021 $	2020 $
Note 6. Loan assets		
Due from parent entity[1,2]	**1,536,046,140**	1,879,464,210
Less: ECL allowance	**(1,029,633)**	(720,790)
Total loan assets	**1,535,016,507**	1,878,743,420

[1]Of the above amount, $370,578,819 (2020: $459,448,526) is expected to be recovered within twelve months of the reporting date and remaining $1,165,467,321 (2020: $1,420,015,684) 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 derecognition criteria for MBL 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.

Note 7. Expected credit losses

Background

At the reporting date, the Trust has presented the ECL allowances for financial assets measured at amortised cost as a deduction against the gross carrying amount in its Statement of financial position.

Model inputs

The Trust models ECL for on-balance sheet financial assets measured at amortised cost such as loans and other assets. The Trust segments its credit portfolio among retail exposures and other balances with related Macquarie group entities and further splits these portfolios into representative groupings which are typically based on shared risk characteristics. These groupings are subject to review to ensure that the portfolios remain homogeneous. Retail portfolios are generally modelled on a collective basis.

The Trust has developed several models to predict the Expected Credit Losses (ECL). These models incorporate a range of inputs notably that of Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) ('credit inputs') as well as Forward-Looking Information (FLI).

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

The key model inputs used in measuring the ECL include:

- *Exposure at default:* The EAD represents the estimated exposure in the event of a default. The EAD is estimated taking into consideration a range of possible scenarios including both repayments and future drawdowns of unutilised commitments up to the potential date of 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 adjusted for FLI. For balances with Macquarie group entities, this is based on internally assigned rating grades of each entity and if not rated, this is based on the lowest existing rating grade. This is assessed and potentially adjusted on a semi-annual basis.

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

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, an internal credit monitoring mechanism supervised by the credit watch management committee to closely monitor exposures showing signs of stress. Where exposures' credit risk profile deteriorate, the exposures are monitored on a monthly basis through the CreditWatch reports. CreditWatch is an internal Credit Status used to signify that a counterparty has or is anticipated to experience a material deterioration in credit quality. The business remains responsible for management of the counterparty and of the risk position, but Risk Management Group (RMG) oversight is increased to ensure that positions are managed for optimal outcomes. All exposures on CreditWatch are classified as stage II or, if defaulted, as stage III.

Notes to the financial statements
For the financial year ended 31 March 2021 (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 approach which considers changes in an underlying exposures' credit risk since origination. This may result in exposures being classified in stage II that are of a higher credit quality than other exposures that are classified as stage I. Accordingly, while increases in the quantum of stage II exposures will suggest an increase in credit risk, it should not necessarily be inferred that the assets are of a lower credit quality.

In response to COVID-19 the Trust continues to review its retail credit portfolios and its related ECL. While these model inputs including were progressively revised, the ECL models, SICR thresholds, and definitions of default remain consistent with prior periods.

Retail exposures

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

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

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 is probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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 several key indicators that are used in modelling the ECL, the most significant of which are gross domestic product (GDP), the unemployment rate, the level of house prices, interest rates, equity indices and commodity prices. The predicted relationships between various market indicators and the key model inputs in measuring the ECL have been developed by analysing historical data as part of the model build, calibration and validation process. These indicators, both in terms of the magnitude and type of indicator, are reviewed throughout the financial year.

The Directors of the Trust Manager applies its professional judgement in determining whether there are any inherent risks in the models' predictive outcomes. Included in these overlays at 31 March 2021 is an emergence period-related overlay (overlay). This overlay considers the risk that losses predicted to occur at points of particular economic stress, which have since been passed, are yet to occur and that uncertainty exists as to whether enhanced levels of government and other-related support measures may cause the loss emergence profile to differ to that for which the models have been calibrated. Additional post model adjustments account for the risk that underlying credit risk events have occurred but observable modelled inputs are yet to reflect those events, as well as risks that are specific to counterparties or industries which are difficult to account for within the modelled outcomes. Overtime the credit models are recalibrated to enhance the predictive capability. These judgements are reviewed by FMG and RMG at each reporting.

RMG is responsible for the FLI including the development of scenarios and the weighting applied to those scenarios. For this purpose, three possible economic scenarios have been developed, being an upside, downside and base case scenario. In calculating the ECL, each of the scenarios are probability weighted and then applied to the exposures' PDs and LGDs. The scenarios and the assigned probabilities are updated quarterly or if a material disruption event were to occur.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 7. Expected credit losses (continued)

The table below presents the gross exposure and related ECL allowance for assets measured at amortised cost subject to impairment requirements of AASB 9.

	As at 31 March 2021		As at 31 March 2020	
	Gross exposure $	**ECL allowance $**	Gross exposure $	ECL allowance $
Cash, bank and other demand deposits	**54,526,774**	**11,694**	190,202,935	26,937
Other assets	**1,277,293**	**352**	631,882	24,645
Loan assets	**1,536,046,140**	**1,029,633**	1,879,464,210	720,790
Total	**1,591,850,207**	**1,041,679**	2,070,299,027	772,372

The tables provides a reconciliation between the opening and closing balance of the ECL allowance

	Cash, bank and other demand deposits $	**Other assets $**	**Loan assets $**	**Total $**
Balance as at 1 April 2019	49,654	813	1,536,097	1,586,564
Impairment (reversal)/charge	(24,828)	23,794	(815,307)	(816,341)
Foreign exchange, reclassification and other movements	2,111	38	-	2,149
Balance as at 31 March 2020	26,937	24,645	720,790	772,372
Impairment (reversal)/charge	(10,980)	(24,246)	308,841	273,615
Foreign exchange, reclassification and other movements	(4,263)	(47)	2	(4,308)
Balance as at 31 March 2021	11,694	352	1,029,633	1,041,679

ECL on loan assets

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

		Lifetime ECL		
	Stage I 12 month ECL $	**Stage II Not credit impaired $**	**Stage III Credit impaired $**	**Total ECL allowance $**
Balance as at 1 April 2019	68,386	1,404,228	63,483	1,536,097
Transfers during the year	630,583	(637,619)	7,036	-
ECL on exposures originated during the period	-	-	-	-
Remeasurement of existing exposures	(586,279)	77,162	11,591	(497,526)
ECL on assets derecognised or repaid during the year	(11,010)	(288,165)	(18,606)	(317,781)
Foreign exchange, reclassification and other movements	-	-	-	-
Balance as at 31 March 2020	101,680	555,606	63,504	720,790
Transfers during the year	79,735	(77,847)	(1,888)	-
ECL on exposures originated during the period	26,940	250,436	41,396	318,772
Remeasurement of existing exposures	283,517	52,488	30,716	366,721
ECL on assets derecognised or repaid during the year	(69,488)	(280,029)	(27,135)	(376,652)
Foreign exchange, reclassification and other movements	-	-	2	2
Balance as at 31 March 2021	422,384	500,654	106,595	1,029,633

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

	2021 $	2020 $
Note 8. Other liabilities		
Margin money[1]	**-**	136,782,994
Trustee fees	**15,186**	18,503
Others[2]	**316,904**	498,838
Creditors	**2,338**	3,208
Due to parent entity	**158,390**	210,253
Due to other related entities:		
Management fees	**351,242**	428,194
Total other liabilities	**844,060**	137,941,990

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

[1]The balance represents the collateral money received as part of the derivative arrangement.

[2]The majority of the balance represents trade timing difference which have been subsequently cleared.

	2021 $	2020 $
Note 9. Debt issued		
Opening debt balance	**2,049,873,575**	2,488,904,866
Debt issued to MBL	**3,684,344,800**	-
Debt repaid	**(4,141,455,382)**	(545,035,135)
FX revaluation and others[1]	**(2,281,175)**	106,003,844
Total debt issued[2]	**1,590,481,818**	2,049,873,575

[1]The movement includes foreign exchange gain of $289 (2020: loss of $107,784,714) which is being transferred to the net trading income in the income statement as part of the cash flow hedge accounting.

[2]Of the above balance $384,248,685 (2020:$1,179,006,107) is expected to be settled within 12 months of the reporting date and remaining $1,206,233,133 (2020:$870,867,468) is expected to be paid after 12 months of the reporting date.

There were Covered Bonds of EUR 500m issued by MBL, collateralised against loan assets of MBL Covered Bond Trust. These were debt obligations (guaranteed by Perpetual Limited) that benefited from dual recourse to both MBL and home loans held within the asset pool. MBL's Covered Bond programme is managed by Group Treasury of Macquarie Group and the Trust Manager administers the cover pool of home loans. These EURO bonds of 500m have been repaid on 3rd March 2021.

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

	2021 $	2020 $
Reconciliation of debt issued by major currency:		
Australian dollars	**1,590,392,120**	1,150,442,398
Euro	**89,698**	899,431,177
Total debt issued	**1,590,481,818**	2,049,873,575

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

	2021 $	2020 $
Note 10. Net liabilities- attributable to the unitholder		
Net liabilities attributable to the unitholder is represented by:		
Opening balance	**(2,835,952)**	(7,051,213)
Realisation of cash flow hedge reserves	**1,585,718**	-
Net operating income	**11,926,797**	9,826,780
Payment of distribution attributable for the year[1]	**(11,193,913)**	(5,047,769)
Distribution payable	**-**	(4,163,874)
Transfer from cash flow hedge reserve (note 11)	**-**	937,367
Transfer from cost of hedging reserve (note 11)	**-**	2,662,757
Net liabilities- attributable to the unitholder	**(517,350)**	(2,835,952)

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

[1] This balance includes realisation of cash flow hedge reserves

Note 11. Reserves

	2021 $	2020 $
Cash flow hedge reserve		
Revaluation movement for the financial year, net of tax	**1,585,718**	832,558
Change in fair value of hedging instrument recognised in OCI for the year	**(122,408,723)**	111,694,306
Transferred to income statement on realisation, net of tax	**120,823,005**	(108,926,740)
Transfer to unitholder	**-**	(3,600,124)
Balance at the end of the financial period	**-**	-

Net liabilities attributable to the unitholder has $Nil (2020: $3,002,726) 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 on the Statement of financial position as follows:

	2021 $	2020 $
Cash, bank and other demand deposits[1,2] (note 4)	**54,515,080**	53,443,750
Cash and cash equivalents at the end of the financial year	**54,515,080**	53,443,750

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

[2] The above amounts excludes $Nil (2020: $136,732,248), which relates to margin money received under derivative arrangement and has been excluded from the determination of cash and cash equivalents as these balances are not available to meet the Trust's short term cash commitments.

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	**2021**	2020
During the financial year, the following transactions were made with the parent entity:	**$**	$
Distributions paid/payable	**(11,193,913)**	(9,211,643)
Interest and similar income	**94,074,037**	80,501,209
Interest and similar expense	**(66,391,317)**	(49,953,016)

	2021 $	2020 $
During the financial year, the following transactions were made with other related entity:		
Other fee and commission expense		
Management fees (note 3)	**(7,444,682)**	(4,840,688)

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.

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

Marked for the purpose of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 14. Key Management Personnel disclosure

Key Management Personnel (KMP)

The Directors of the Trust Manager had the authority and responsibility for planning, directing and controlling activities of the Trust (Key Management Personnel – KMP) during the financial years ended 31 March 2021 and 31 March 2020 unless otherwise indicated were:

Name of Director	Appointed on	Resigned on
Andrew Hall	5 May 2014	-
Daniel McGrath	31 October 2017	-
James Casey	3 March 2010	31 May 2019
James Angus	1 August 2013	31 May 2019
Jonathan Moodie	28 February 2019	31 May 2019
Kirk Graham Kileff	31 May 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

The Trust has no contingent liabilities or commitments which are individually material or a category of contingent liabilities or commitments which are material.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 16. Hedge Accounting

Hedging strategy

The use of derivative and non-derivative instruments to economically hedge non-traded positions potentially gives rise to income statement volatility as a result of mismatches in the accounting treatment between the derivative and 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 thresholds, hedge accounting is considered.

Hedging instruments

Details on hedging instruments, the 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 based on 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 balances, with decreases and maturities presented as positive balances.

			Maturity analysis per Notional					Carrying amount[1]
2021	**Risk**	**Hedging instruments**	**Less than 3 months $**	**3 to 12 months $**	**1 to 5 years $**	**Over 5 years $**	**Total $**	**Total $**
Hedging instruments - assets								
Cash flow hedges	Foreign exchange	Cross currency interest rate swaps	-	-	-	-	-	-
Fair value hedges	Interest rate	Cross currency interest rate swaps	-	-	-	-	-	-
Total								**-**

			Maturity analysis per Notional					Carrying amount[1]
2020	**Risk**	**Hedging instruments**	**Less than 3 months $**	**3 to 12 months $**	**1 to 5 years $**	**Over 5 years $**	**Total $**	**Total $**
Hedging instruments - assets								
Cash flow hedges	Foreign exchange	Cross currency interest rate swaps	-	897,040,282	-	-	897,040,282	117,339,285
Fair value hedges	Interest rate	Cross currency interest rate swaps	-	897,040,282	-	-	897,040,282	2,277,547
Total								119,616,832

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

Hedge accounting executed rates

The following table shows the executed rates for the most significant hedging instruments designated in cash flow hedges.

	Hedging instruments	**Currency/ currency pair**	**2021**	2020
Cash flow hedges	Cross currency swaps	AUD/EUR	-	0.64

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 16. Hedge Accounting (continued)

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.

	2021		2020	
	Carrying amount[1] $	Fair value hedge adjustments $	Carrying amount[1] $	Fair value hedge adjustments $
Debt issued	-	-	899,163,907	(2,123,625)

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

Hedge Ineffectiveness

In the case of a fair value hedge, hedge ineffectiveness 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 fair value of the hedging instrument exceeds, in absolute term, that of the hedged item. Sources of hedge ineffectiveness primarily arise from basis and timing differences between the hedged items and hedging instruments. Hedge ineffectiveness is reported in Net trading income in the income statement.

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

2021	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 $
Cash flow hedge	Foreign exchange	Cross currency interest rate swaps	(121,441,924)	122,408,723	966,799
Fair value hedge	Interest rate	Cross currency interest rate swaps	(2,089,213)	2,123,625	34,412

2020	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 $
Cash flow hedge	Foreign exchange	Cross currency interest rate swaps	112,738,523	(111,694,306)	1,044,217
Fair value hedge	Interest rate	Cross currency interest rate swaps	(93,553)	94,124	571

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 17. Financial risk management

Risk Management Group (RMG)

Risk is an integral part of the Macquarie Group's businesses. The material risks faced by the Trust include asset, conduct, credit, environmental and social (including climate change), equity, financial crime, legal, liquidity, market, operational (including cyber and information security), regulatory and compliance, reputational, strategic and tax related risks.

The primary responsibility for risk management lies with the business. An important part of the role of all business managers throughout Macquarie is to ensure they manage risk appropriately.

RMG is independent of other areas of the Macquarie Group. RMG approval is required for all material risk acceptance decisions. RMG reviews and assesses risks and sets limits. Where appropriate, these limits are approved by the Executive Committee and the Board. The Head of RMG, as Macquarie's CRO, is a member of the Executive Committee of MGL and MBL and reports directly to the CEO with a secondary reporting line to the Board Risk Committee.

Note 17.1 Credit risk

Credit risk is the risk that a counterparty will fail to complete its contractual obligations when they fall due or changes in the creditworthiness of the counterparty. The consequential 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 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 classified as below investment grade on a conservative basis.

Credit quality of financial assets

The table below discloses as at 31 March 2021, 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 2021	Stage I[(3)] $	Stage II[(3)] $	Stage III[(3)] $	Total $
Investment grade				
Cash, bank and other demand deposits	54,526,774	-	-	54,526,774
Other assets	1,276,628	-	-	1,276,628
Loans assets[(2)]	639,109,024	44,352,045	-	683,461,069
Total investment grade	**694,912,426**	**44,352,045**	-	**739,264,471**
Non-investment grade				
Loans assets[(2)]	467,992,222	379,347,728	-	847,339,950
Total non-investment grade	**467,992,222**	**379,347,728**	**-**	**847,339,950**
Default				
Loans assets[(2)]	-	-	5,245,121	5,245,121
Total Default	**-**	**-**	**5,245,121**	**5,245,121**
Total	**1,162,904,648**	**423,699,773**	**5,245,121**	**1,591,849,542**
Financial assets by ECL stage				
Cash, bank and other demand deposits	54,526,774	-	-	54,526,774
Other assets[(4)]	1,276,628	-	-	1,276,628
Loans assets[(2)]	1,107,101,246	423,699,773	5,245,121	1,536,046,140
Total[(1)]	**1,162,904,648**	**423,699,773**	**5,245,121**	**1,591,849,542**

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 17.1 Credit risk (continued)

Credit quality of financial assets (continued)

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

(2) The balance represents mortgage loan assets purchased by the Trust from MBL by equitable assignment. For further details, refer Note 6.

(3) For definitions of stage I, II and III, refer to Note 2(ix) Expected credit losses. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

(4) Excludes non-financial assets of $665 which are included in Note 5 - Other assets.

The table below discloses as at 31 March 2020, 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 2020

	Stage I[(3)] $	Stage II[(3)] $	Stage III[(3)] $	Total $
Investment grade				
Cash, bank and other demand deposits	190,202,935	-	-	190,202,935
Other assets	395,526	-	-	395,526
Loans assets[(2)]	1,497,128,952	8,151,673	-	1,505,280,625
Total investment grade	**1,687,727,413**	**8,151,673**	-	**1,695,879,086**
Non-investment grade				
Loans assets[(2)]	223,383,927	147,492,988	-	370,876,915
Total non-investment grade	**223,383,927**	**147,492,988**	**-**	**370,876,915**
Default				
Loans assets[(2)]	-	-	3,306,670	3,306,670
Total Default	**-**	**-**	**3,306,670**	**3,306,670**
Total	**1,911,111,340**	**155,644,661**	**3,306,670**	**2,070,062,671**
Financial assets by ECL stage				
Cash, bank and other demand deposits	190,202,935	-	-	190,202,935
Other assets[(4)]	395,526	-	-	395,526
Loans assets[(2)]	1,720,512,879	155,644,661	3,306,670	1,879,464,210
Total financial assets by ECL stage[(1)]	**1,911,111,340**	**155,644,661**	**3,306,670**	**2,070,062,671**

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

(2) The balance represents mortgage loan assets purchased by the Trust from MBL by equitable assignment. For further details, refer Note 6.

(3) For definitions of stage I, II and III, refer to Note 2(ix) Expected credit losses. Whilst exposures may have migrated to stage II it should not be inferred that such exposures are of a lower credit quality. The ECL for the stage III assets includes the benefit of collateral and other credit enhancements.

(4) Excludes non-financial assets of $236,356 which are included in Note 5 - Other assets.

Marked for the purpose of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

Notes to the financial statements
For the financial year ended 31 March 2021 (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 measured at amortised cost 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 2021	Cash, bank and other demand deposits $	Loan assets[1] $	Other assets[3] $	Total $
Australia				
Financial institutions	54,526,774	-	1,276,625	55,803,399
Other	-	1,536,046,140	3	1,536,046,143
Total Australia	54,526,774	1,536,046,140	1,276,628	1,591,849,542
Total gross credit risk[2]	54,526,774	1,536,046,140	1,276,628	1,591,849,542

[1] The balance represents mortgage loan assets purchased by the Trust from MBL by equitable assignment. For further details, refer Note 6.

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

[3] Excludes non-financial assets of $665 which are included in Note 5 - Other assets.

As at 31 March 2021	Derivative assets $	Total $
Australia		
Financial institutions	-	-
Total Australia	-	-
Europe		
Financial institutions	-	-
Total Europe	-	-
Total gross credit risk	-	-

As at 31 March 2020	Cash, bank and other demand deposits $	Loan assets[1] $	Other assets[3] $	Total $
Australia				
Financial institutions	190,202,935	-	392,115	190,595,050
Other	-	1,879,464,210	3,411	1,879,467,621
Total Australia	190,202,935	1,879,464,210	395,526	2,070,062,671
Total gross credit risk[2]	190,202,935	1,879,464,210	395,526	2,070,062,671

[1] The balance represents mortgage loan assets purchased by the Trust from MBL by equitable assignment. For further details, refer Note 6.

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

[3] Excludes non-financial assets of $236,356 which are included in Note 5 - Other assets.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

Note 17.1 Credit risk (continued)

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 2020	Derivative assets $	Total $
Australia		
Financial institutions	58,806,774	58,806,774
Total Australia	58,806,774	58,806,774
Europe		
Financial institutions	60,810,058	60,810,058
Total Europe	60,810,058	60,810,058
Total gross credit risk	119,616,832	119,616,832

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.

Collateral and credit enhancements held

Loan assets

Mortgages are secured by fixed charges over the borrower's property. The Trust has purchased risk protection from a diversified panel of rated counterparties via an excess of loss structure.

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 following table summarises the maturity profile of the Trust's financial liabilities as at 31 March based on contractual undiscounted repayment basis and hence would vary from the carrying value at the reporting date shown in the Statement of financial position. Repayments subject to notice are treated as if notice were given immediately.

2021	On demand $	0 to 3 months $	3 to 12 months $	1 to 5 years $	More than 5 years $	Total $
Distribution payable	-	-	-	-	-	-
Debt issued[1]	-	**100,107,637**	**284,141,048**	**718,727,167**	**487,505,966**	**1,590,481,818**
Other liabilities[2]	**160**	**315,627**	-	-	-	**315,787**
Total	**160**	**100,423,264**	**284,141,048**	**718,727,167**	**487,505,966**	**1,590,797,605**

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

[2]Excludes non-financial liabilities of $528,273 which are included in Note 8 - Other liabilities.

2020	On demand $	0 to 3 months $	3 to 12 months $	1 to 5 years $	More than 5 years $	Total $
Distribution payable	-	4,163,874	-	-	-	4,163,874
Debt issued[1]	-	73,687,633	1,105,318,474	496,864,467	374,003,001	2,049,873,575
Other liabilities[2]	131,535	656,908	136,782,994	-	-	137,571,437
Total	131,535	78,508,415	1,242,101,468	496,864,467	374,003,001	2,191,608,886

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

[2]Excludes non-financial liabilities of $370,553 which are included in Note 8 - Other liabilities.

Notes to the financial statements
For the financial year ended 31 March 2021 (continued)

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 swap, where the Trust pays mortgage income to the parent in return of variable interest to meet the interest obligation for the debt issued to MBL. Also, the Trust had economically hedged its EUR 500m fixed rate liability via cross currency interest rate swap which received EUR fixed rate and paid AUD 1m BBSW. This representsed a full economic hedge of EUR interest rate risk (fair value hedge). The 1:1 hedge ratio for EUR 500m fixed rate liability was consistent with the Trust's limited appetite for interest rate risks and the Trust's risk management objectives of reducing the risk of volatility in earnings. Hence, there is no net 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	2021 Sensitivity of profit after tax $	2020 Sensitivity of profit after tax $
Australian dollar	+50	190,844	187,338
Total[1]		190,844	187,338
Australian dollar	-50	(190,844)	(187,338)
Total[1]		(190,844)	(187,338)

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

Foreign currency risk

Trust had entered into cross currency swaps to hedge its exposure on borrowings in foreign currency, which resulted in effective hedging and hence was not exposed to any foreign currency risk. The Trust had economically hedged its EUR 500m fixed rate liability via cross currency swaps. This representsed a full economic hedge of EUR to AUD foreign exchange risk (cash flow hedge). The 1:1 hedge ratio was consistent with the Trust's limited appetite for foreign exchange rate risks and the Trust's risk management objectives of reducing the risk of volatility in earnings.

Note 18. Fair value of financial assets and financial liabilities

Fair value reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

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

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

Level 1	Unadjusted quoted prices 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 fair value hierarchy 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 substantially all of the residual net exposure to market risks were closed, on a portfolio basis, using available hedging instruments.

The fair values calculated for financial instruments which are carried in the Statement of financial position at amortised cost are for disclosure purposes only.

The following methods and assumptions applied to derive these fair values can require significant judgement by management and therefore may not necessarily be comparable to other financial institutions nor may it be the price at which the asset is sold or a liability repurchased in a market-based transaction:

- the fair values of liquid assets and other instruments maturing within three months are approximate to their carrying amounts. This assumption is applied to liquid assets and short term portion 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 approximates 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 prices in active markets where available (for example listed securities). If quoted prices in active markets 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 (post the effective designated hedging relationships) 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 cash, bank and other demand deposits of $54,515,080 (2020: $190,175,998) which are classified as level 1 and Derivative assets $Nil (2020: $119,616,832) which are classified as level 2.

Notes to the financial statements for the financial year ended 31 March 2021 (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 2021:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Derivative assets	-	-	-	-
Total assets	-	-	-	-

The tables below summarise the levels of the fair value hierarchy for financial instruments measured at fair value of the Trust at 31 March 2020:

	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Derivative assets	-	119,616,832	-	119,616,832
Total assets	-	119,616,832	-	119,616,832

Note 19. Audit and other services provided by PricewaterhouseCoopers

The cost of auditor's remuneration for auditing services of $38,970 (2020: $39,200) has been borne by Macquarie Group Services Australia Pty Limited, a wholly-owned subsidiary within the MGL. The auditors received no other benefits.

Note 20. Events after the reporting period

There were no material events subsequent to 31 March 2021 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 33 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 2021 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.

DocuSigned by:
Daniel McGrath
51FDAC180E184BC...

Director

Sydney
28 June 2021

Marked for the purpose
of identification only
PRICEWATERHOUSECOOPERS
SYDNEY

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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 2(i) in the financial report, which describes the basis of accounting. The financial report has been prepared to assist the directors of the Trust Manager (the directors) to meet the financial reporting requirements of the Establishment Deed dated 5 June 2015. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Trust and its unitholders and should not be used by parties other than the Trust and its unitholders. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 March 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Trust to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Sam Hinchliffe
Partner

Sydney
28 June 2021