MACQUARIE BANK
2009 ANNUAL REPORT

MACQUARIE
BANK

MACQUARIE BANK LIMITED ACN 008 583 542

Macquarie Bank Limited is a subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an Authorised Deposit-taking Institution (ADI). Macquarie Group Limited is regulated by APRA as a non-operating holding company of an ADI.

2009 Annual General Meeting
Macquarie Bank's 2009 Annual General Meeting will be held on Wednesday, 29 July 2009 in the Macquarie Auditorium, Level 3, No.1 Martin Place, Sydney NSW after the Macquarie Group Limited Annual General Meeting but not earlier than 2:00 pm.

Details of the business of the meeting will be contained in the separate Notice of Annual General Meeting to be sent to securityholders.

Cover image: Constellation Energy
Constellation Energy is one of the largest marketers of natural gas in North America, providing physical natural gas to distribution companies, power generators, retail aggregators and large end-users in the United States and Canada.

The acquisition and integration of the Constellation downstream gas trading portfolio makes Macquarie Group's North American gas trading business, Macquarie Cook Energy, a leading participant in this key wholesale gas market.

Cover photograph Dan Tobin Smith/Gallery Stock

Macquarie Bank Limited
2009 Annual Report

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Directors' Report
for the financial year ended 31 March 2009

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL Macquarie Bank), the Directors submit herewith the income statements and the cash flow statements for the year ended 31 March 2009 and the balance sheets as at 31 March 2009 of the Company and its subsidiaries at the end of, and during, the financial year ended on that date and report as follows:

Directors

At the date of this report, the Directors of Macquarie Bank are:

Non-Executive Director
D.S. Clarke, AO, Chairman[1]

Executive Directors
W.R. Sheppard, Managing Director and Chief Executive Officer
N.W. Moore[2]
L.G. Cox, AO

Independent Directors
P.M. Kirby
C.B. Livingstone, AO
H.K. McCann, AM[3]
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

(1) Due to illness, Mr Clarke sought and was granted leave of absence from 27 November 2008.

(2) Mr Moore joined the Board on 24 May 2008.

(3) Mr McCann was appointed Acting Chairman on 27 November 2008 and has served in this capacity since this time.

Mr A.E. Moss was a Director from the beginning of the financial year until his retirement on 24 May 2008.

The Directors listed above each held office as a Director of Macquarie Bank throughout the financial year ended 31 March 2009. Those Directors listed as Independent Directors have been independent throughout the period of their appointment.

Details of the qualifications, experience and special responsibilities of the Directors and qualifications and experience of the Company Secretaries at the date of this report are set out in Schedule 1 at the end of this report.

Directors' meetings

The number of meetings of the Board of Directors (the Board) and meetings of Committees of the Board, and the number of meetings attended by each of the Directors of Macquarie Bank during the financial year is summarised in the tables below:

Board meetings

	Monthly Board meetings (12)		Special Board meetings (3)	
	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke[(1)]	12	7	3	1
W.R. Sheppard	12	11	3	3
N.W. Moore[(2)]	11	11	2	2
L.G. Cox	12	12	3	2
P.M. Kirby	12	11	3	3
C.B. Livingstone	12	11	3	3
H.K. McCann	12	11	3	3
J.R. Niland	12	12	3	2
H.M. Nugent	12	11	3	3
P.H Warne	12	12	3	3
A.E. Moss[(3)]	1	1	1	1

(1) Mr Clarke was granted leave of absence from 27 November 2008 due to illness.

(2) Mr Moore joined the Board as a Director on 24 May 2008.

(3) Mr Moss retired as a Director on 24 May 2008.

Board committee meetings

	Board Audit and Compliance Committee meetings (8)[(1)]	
	Eligible to attend	Attended
D.S. Clarke	-	-
W.R. Sheppard	-	-
N.W. Moore	-	-
L.G. Cox	-	-
P.M. Kirby	8	8
C.B. Livingstone	8	8
H.K. McCann	8	7
J.R. Niland	-	-
H.M. Nugent	-	-
P.H Warne	8	8

(1) These are meetings held by the Macquarie Group Limited (Macquarie) Board Audit and Compliance Committee (BACC). The Macquarie BACC assists the Boards of Voting Directors of Macquarie and Macquarie Bank in fulfilling the responsibility for oversight of the quality and integrity of the accounting, financial reporting and compliance practices of Macquarie Group.

Directors' Report
for the financial year ended 31 March 2009 continued

Principal activities

The principal activity of the Bank during the financial year ended 31 March 2009 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit-taking institution (ADI). In the opinion of the Directors, there were no significant changes to the principal activities of the Company and its subsidiaries during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2009 and 31 March 2008, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2009 was $576 million (2008: $666 million after adjusting for discontinued operations).

Dividends and distributions

MBL paid dividends and paid or provided distributions during the financial year as set out in the table below

Security	Payment date	Payment type	$	In respect of financial year ended/period	
Ordinary shares	4 July 2008	Final	700,000,000	31 March 2008	Paid
Macquarie Income Securities(1)	15 April 2008	Periodic	8,825,753	15 January 2008 to 14 April 2008	Paid
	15 July 2008	Periodic	9,563,728	15 April 2008 to 14 July 2008	Paid
	15 October 2008	Periodic	9,608,327	15 July 2008 to 14 October 2008	Paid
	15 January 2009	Periodic	7,833,864	15 October 2008 to 14 January 2009	Paid
	15 April 2009	Periodic	4,680,767	15 January 2009 to 31 March 2009	Provided
Macquarie Income Preferred Securities(2)	15 April 2008	Periodic	22,938,084	15 October 2007 to 14 April 2008	Paid
	15 October 2008	Periodic	27,775,868	15 April 2008 to 14 October 2008	Paid
	15 April 2009	Periodic	20,579,791	15 October 2008 to 31 March 2009	Provided

(1) Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note) and a preference share in Macquarie Bank. The MIS are quoted on Australian Securities Exchange (ASX). The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see notes 34 and 35 to the financial report for further information on the MIS and MIS distributions.

(2) Macquarie Income Preferred Securities (MIPS) are limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, that are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) which are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see notes 34 and 35 to the financial report for further information on the MIPS and MIPS distributions.

No other dividends or distributions were declared or paid during the financial year.

State of affairs

Extremely challenging market conditions were experienced during the year. On 12 October 2008, the Australian Government announced guarantee arrangements for deposits in eligible authorised deposit-taking institutions (ADIs) for a period of three years from 12 October 2008. The deposit guarantee applies to deposits held in eligible ADIs by all types of legal entities, regardless of where the depositor resides. For deposits of or under $1 million, the deposit guarantee is free. Eligible ADIs can obtain coverage under the deposit guarantee for amounts over $1 million for a fee.

The Australian Government also announced that it will guarantee the wholesale term and short-term funding of eligible ADIs that meet certain criteria, in return for the payment of a guarantee fee. The facility will be withdrawn by the Australian Government once market conditions have normalised.

As at 31 March 2009, the consolidated entity has obtained Government Guarantees on deposits of $14,119 million and debt issued at amortised cost of $17,566 million.

Review of operations and financial result

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders of the consolidated entity for the year ended 31 March 2009 was $576 million, a decrease of 14 per cent on the prior year after adjusting for discontinued operations. This result was achieved despite the extremely challenging global markets and economic environment.

Net operating income for the year ended 31 March 2009 was $3,069 million, a decrease of 26 per cent on the prior year.

An increased contribution from energy markets, particularly US gas and electricity trading, was offset by a reduction in income from other trading areas as a result of challenging market conditions.

Included within operating income is an amount recognised as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value of $274 million. In addition, Macquarie's financing of the acquisition of GBP150 million of MIPS contributed $197 million to operating income.

During the year Macquarie Bank sold the majority of its Italian Mortgages portfolio, recognising a loss on the sale of $189 million in addition to operating losses and restructuring and redundancy costs for the business. Macquarie Bank also recognised other significant impairment charges against other loans and investments totalling $821 million.

Operating expenses were down 27 per cent on the prior year to $2,444 million. Employment expenses, the largest contributor to operating expenses, were down 56 per cent on the prior corresponding period to $887 million. The decrease in employment expenses was primarily driven by lower performance-related profit share.

Return on equity for the year to 31 March 2009 was 11.3 per cent.

Additional information relating to each of MBL's operating segments is set out in the Financial Report on page 77-80.

Financial Position

Macquarie Bank's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. Cash and liquid assets increased from $19 billion at 31 March 2008 to $26 billion at 31 March 2009. Cash and liquid asset holdings now represent over 40 per cent of Macquarie's net funded assets.

Macquarie Bank's capital management policy is to be conservatively capitalised and to maintain diversified funding sources in order to support business initiatives, particularly specialised funds and offshore expansion, whilst maintaining counterparty and client confidence.

Macquarie Bank is subject to minimum capital requirements externally imposed by APRA. Macquarie Bank has received APRA accreditation to adopt Foundation Internal Ratings Based Approach for the calculation of credit risk capital and the Advanced Measurement Approach for operational risk, under the Basel II regulatory capital framework. In addition, the Macquarie Bank received APRA accreditation to use an internal model to calculate Interest Rate Risk in the Banking Book.

Macquarie has met its externally imposed capital requirements throughout the year. The consolidated entity is well capitalised, and as at 31 March 2009, it had a Tier 1 capital ratio of 11.4 per cent and a total capital ratio of 14.4 per cent.

Events subsequent to balance date

Subsequent to balance date, on 1 April 2009 Macquarie Bank issued 10,920,790 shares to its immediate parent, Macquarie B.H. Pty Limited at $18.33 per share ($200 million in aggregate).

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 2009 not otherwise disclosed in this report.

Likely developments in operations and expected outcomes

Market conditions are likely to remain challenging making short-term forecasting extremely difficult. We continue to maintain a cautious stance with a conservative approach to both funding and capital.

We believe we are well place to achieve growth as a result of our strong balance sheet and strong team and we believe market conditions will provide opportunities for medium-term growth.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009

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Introduction

Macquarie's remuneration strategy is designed to ensure its people are focused on generating outstanding shareholder value and are rewarded in line with the outcomes they achieve. This broad strategy has been in place since the inception of Macquarie, evolving over time to ensure the system continues to meet its overriding objectives.

Macquarie Bank Limited (Macquarie Bank) is a wholly owned subsidiary of Macquarie Group Limited (Macquarie). Whilst subject to the remuneration framework determined by Macquarie, Macquarie Bank Limited's Board considers remuneration recommendations relating to the senior executives of Macquarie Bank. Throughout this Report, for consistency, references are made to Macquarie's remuneration arrangements rather than Macquarie Bank's remuneration arrangements.

Macquarie Group Limited's Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of the Non-Executive Voting Directors. The Boards of Macquarie Group Limited and Macquarie Bank Limited have established a Board Remuneration Committee (BRC) which annually reviews the remuneration strategy to ensure it delivers the best outcomes for Macquarie and its shareholders.

The Macquarie Group Limited Board of Directors proposes changes to its remuneration approach, subject to shareholder approval. The changes reflect global remuneration trends and are consistent with Macquarie's existing remuneration framework.

1. While overall performance declined as a result of the global financial crisis, the remuneration approach has contributed to Macquarie Bank Limited reporting a profitable result for the financial year.
2. Macquarie intends proactively to respond to the emerging global remuneration trends to ensure ongoing long-term alignment with shareholder interests and to retain staff.
3. Subject to shareholder approval, Macquarie will modify its remuneration arrangements to meet the challenges posed by the current environment.

These points are discussed in detail in sections one to three of this Report.

This Remuneration Report has been prepared in accordance with the *Corporations Act 2001* (Cth) (the Act). The Report contains disclosures as required by Accounting Standard AASB 124: *Related Party Disclosures* as permitted by Corporations Regulation 2M.6.04.

Financial information is used extensively in this Report. Some long-term trend information is presented, although accounting standards and practices have changed over time. In particular, throughout this Remuneration Report:

– financial information for Macquarie Bank relating to the years ended 31 March 2006, 31 March 2007, 31 March 2008 and 31 March 2009 has been presented in accordance with Australian Accounting Standards equivalent to International Financial Reporting Standards (AIFRS)
– financial information for Macquarie Bank relating to the year ended 31 March 2005 has been restated in accordance with AIFRS, with the exception of AASB 132: *Financial Instruments: Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*, which became effective from 1 April 2005
– financial information for Macquarie Bank relating to earlier periods has not been restated in accordance with AIFRS, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

1 Overall performance has declined but Macquarie Bank is reporting a profitable result

The overarching goal of the remuneration framework is to drive superior shareholder returns over the long-term.

Even though overall performance has declined as a result of the global financial crisis, Macquarie's remuneration approach has contributed to Macquarie Bank reporting a profitable result for the financial year.

Performance over past five years 2004-2009

	$	2004	2005	2006	2007	2008	**2009**
Net profit after tax attributable to ordinary equityholders (NPAT)	millions	494	812	916	1,463	15,696*	**576**
Return on average ordinary shareholders' funds		22.3%	29.8%	26.0%	28.1%	23.8%**	**11.3%**

* NPAT from continuing operations for the 12 months to 31 March 2008 was $750m (2007: $657m).

** After adjusting for discontinued operations.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

2 Response to emerging global remuneration trends

While Macquarie's remuneration approach has contributed to it reporting a profitable result for the year, it recognises the need proactively to respond to emerging global remuneration trends to ensure ongoing long-term alignment with shareholder interests and also to retain staff.

The global financial crisis has resulted in remuneration practices, particularly in the financial services industry, coming under closer scrutiny from governance groups, regulators, governments, politicians and the broader community.

As a result of the current environment, many major financial organisations have made changes to their remuneration policy for the 2009 financial year.

Macquarie proposes to adapt its remuneration approach consistent with emerging global trends.

This section discusses current global trends, how Macquarie's remuneration arrangements compare with these trends, and where modifications are proposed to strengthen those arrangements. Section three of this Report details these proposals.

Trend: Bonuses should be based on profits not revenue, and on risk-adjusted capital

As a consequence of some international financial institutions incurring significant losses while senior management received large bonuses, financial institutions that base their remuneration model on revenues rather than profits and those who do not appropriately factor in use of risk-adjusted capital have been criticised.

Macquarie's profit share pool is determined annually by reference to Macquarie Group Limited's after-tax profits and its earnings over and above its cost of capital. A portion of group profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The methodology and the outcome are reviewed annually by the BRC and the Non-Executive Directors of the Macquarie Board.

Allocations to businesses and, in turn, to individuals are based on performance, primarily but not exclusively, reflecting relative contributions to profits (not revenue), while taking into account capital usage. An individual's performance is linked where possible to outcomes that contribute directly to net profit after tax (NPAT) and excess return on ordinary equity (ROE). Performance also takes into consideration how business is done. To qualify for superior performance, Macquarie looks at a range of indicators for executives which goes beyond financial performance. These include risk management, governance and compliance, people leadership and upholding Macquarie's Goals and Values.

Trend: There should be a substantial deferral of a large share of bonus

Recent examples of excessive risk taking have occurred across financial institutions, where there was no adequate penalty for when an individual acted in a way that damaged the company. To encourage a longer-term focus and commitment to the company, shareholders, governance groups and regulators are calling for a substantial deferral of a larger proportion of bonus.

Macquarie's profit share pool is deployed to encourage a longer-term perspective and alignment with Macquarie's shareholders' interests.

The following retention mechanisms are in place to encourage a long-term commitment to Macquarie:

– 20 per cent of all Executive Director annual profit share is withheld and vests equally between five and ten years of service as an Executive Director
– as agreed in 2008, from 2009, for Executive Committee members, 20 per cent (35 per cent for the Macquarie Group Limited Managing Director and Chief Executive Officer) was to be allocated into fully paid ordinary Macquarie shares (Macquarie ordinary shares) which would vest after three years
– for other staff, annual profit share amounts above certain thresholds are retained.

Proposed changes (if adopted by shareholders) will promote an even stronger focus by increasing the portion being deferred for Executive Directors.

Trend: There should be a greater proportion of bonus delivered in equity

One of the criticisms of global remuneration arrangements in the financial services sector is that too great a proportion of total compensation has been delivered in cash as opposed to equity-based pay.

A key principle of Macquarie's remuneration arrangements has been to use equity to provide rewards to create identification with shareholder interests. For Executive Directors, equity alignment is achieved by:

– retaining 20 per cent of each annual profit share allocation mostly into Macquarie-managed fund equity for 10 years, subject to forfeiture if a disqualifying event occurs
– imposing an aggregate minimum shareholding requirement proportionate to an individual's profit share history
– granting options over Macquarie ordinary shares which vest in three tranches over two, three and four years and are subject to a performance hurdle based on Macquarie's relative return on ordinary equity performance
– for Executive Committee members, requiring that an additional portion of each annual profit share allocation be invested in Macquarie ordinary shares for three years.

For Associate Directors and Division Directors, options may be granted over Macquarie ordinary shares which vest in three tranches over two, three and four years.

To further enhance alignment with Macquarie's shareholders, changes are proposed whereby retained profit share will be invested in Macquarie ordinary shares and for Executive Directors in a combination of Macquarie ordinary shares and Macquarie-managed fund equity reflecting an individual's role and responsibility.

Trend: The deferred element should be linked to future performance

There is a developing view that insufficient clawbacks exist if financial results, when incentive payments were calculated, were misstated or inaccurate.

Macquarie has not in the past had an explicit "clawback" mechanism. However, the deferred element is linked to the future performance of the company in the following ways:

- Executive Director options are subject to a specific performance hurdle
- when the total amount deferred vests (including Directors' Profit Share (DPS) Plan retention, options, shares held under the Executive Committee Share Plan and the minimum shareholding requirement), the total will vary depending on the sharemarket performance of Macquarie and its funds
- an Executive Director will not be entitled to any of their retained DPS (or any future notional income or capital growth on their retained DPS) at the end of a six month period after employment ceases, if the Macquarie Bank Board or the Executive Committee, in its absolute discretion, determines that the Executive has:
  - committed an act of dishonesty, or
  - committed a significant and wilful breach of duty that causes significant damage to Macquarie, or
  - left employment with Macquarie to join a competitor of Macquarie, or
  - taken a team of staff to a competitor or been instrumental in causing a team to go to a competitor.

To strengthen clawback arrangements, a new disqualifying event will be introduced for the last two bonus allocations whereby retained profit share for Executive Directors will be subject to forfeiture on termination if it is found that an individual has acted in a way that damages Macquarie, including but not limited to acts that lead to a material financial restatement, significant financial loss or significant reputational harm.

Trend: Options have often been replaced by equity in the form of restricted stock units

The use of options in executive remuneration has been common market practice in global investment banking. Macquarie has used options as a form of senior executive remuneration to ensure a strong motivation exists to increase the Macquarie Group Limited share price. Options have, in the past, been an effective retention mechanism for staff and have provided long-term alignment with shareholders. However, following the rapid fall in the share price in the last two years, the majority of options are out-of-the-money and are regarded by staff as being of no present value.

Macquarie currently allocates options to Director level staff at promotion and annually in recognition of performance. Newly hired Directors also receive an option allocation.

While options currently have no retention value for Macquarie, Macquarie Group Limited was required to record an accounting expense of $128 million for the 12 months to 31 March 2009 in respect of previously granted share options. In addition, potential option dilution continues to increase, which has previously been of concern to some Macquarie Group Limited investors. The Board believes that there is a more effective method of delivering equity.

To address these issues, only Executive Committee will receive options going forward. Other Director level staff will no longer be eligible for options.

Trend: Increased focus on governance and risk management

Shareholders, governance groups and regulators are seeking a greater focus on all types of risk. The Financial Stability Forum recently released the FSF Principles for Sound Compensation Practices aimed at ensuring effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation.

Macquarie has always exercised strong governance and oversight of the remuneration framework and approach. Macquarie's remuneration governance framework ensures that remuneration recommendations relating to staff are approved at an appropriate level of authority. Processes and procedures for setting remuneration by the BRC are clear and well documented.

To enhance the transparency around governance and risk, a new section has been included within the Governance section of the Remuneration Report at section 3.3.2.

The Chief Risk Officer will also report to the BRC on capital allocation in respect of risks assumed and its impact on the overall profit share pool, and the profit share allocated to individual Operating Groups.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

3 Evolving the remuneration approach to ensure continued focus on shareholder value

Macquarie is committed proactively to responding to global remuneration trends to ensure ongoing long-term alignment with shareholders and staff retention. Subject to Macquarie Group Limited shareholder approval, Macquarie will modify its remuneration approach to meet the challenges posed by the current financial environment and the issues outlined in the previous section. These changes and Macquarie's overall remuneration framework and approach are discussed in the remainder of this section. Specifically Macquarie will:

– retain its overall remuneration framework which focuses on the key objective of delivering shareholder value (refer section 3.1)
– make changes to the remuneration structure and approach to provide even closer alignment with shareholder interests, while ensuring Macquarie retains high quality people (refer section 3.2)
– continue to provide strong governance structures and processes with a greater focus on managing risk (refer section 3.3)
– continue to recognise Non-Executive Directors for their role (refer section 3.4).

Each is discussed in turn in the remainder of section three.

3.1 Remain focused on delivering shareholder value as the key objective

Macquarie has had an overall remuneration framework in place that guides its approach to remuneration. Macquarie remains committed to this overall framework, while recognising that changes in approach are necessary to address the issues outlined in the previous section. The framework is summarised below:

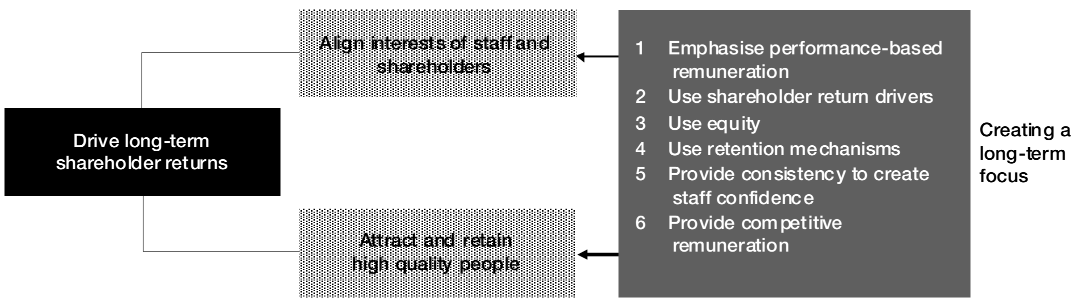
The overall objective is to deliver long-term shareholder value for Macquarie Group Limited. This is delivered through two key drivers. The first is to attract and retain high quality people by offering a competitive performance driven remuneration package that encourages both long-term commitment and superior performance. The second key driver is to use remuneration to align the interests of staff and shareholders by motivating staff through its remuneration policy to increase Macquarie's NPAT and sustain a high relative ROE.

This approach is underpinned by a clear set of principles that govern the way remuneration is designed and delivered. These are:

– emphasising performance-based remuneration (refer section 3.2.1)
– linking rewards to Macquarie shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 3.2.2)
– using equity to provide rewards mostly in the form of shares and to some extent options to create alignment with shareholder interests (refer section 3.2.3)
– designing retention mechanisms to encourage long-term commitment to Macquarie and hence to shareholders (refer section 3.2.3)
– using broadly consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 3.2.3)
– ensuring arrangements are competitive on a global basis with Macquarie's international peers.

The Macquarie Board and the Macquarie Bank Board consider this framework and the principles that underpin it are robust, but that changes are needed in approach. The key changes are described in detail in the next section 3.2.

Key elements of remuneration framework



3.2 Structuring remuneration to provide even closer alignment with shareholder interests while ensuring Macquarie retains high quality people

Macquarie's overall remuneration approach is underpinned by a robust remuneration structure to ensure that all employees are working in the best interests of the organisation and shareholders over the longer term, and are rewarded for what they achieve.

To ensure that the remuneration approach continues to deliver against its overarching objective, subject to shareholder approval at the 2009 Macquarie Group Limited Annual General Meeting (AGM), Macquarie is proposing to introduce seven changes to its remuneration approach for 2009. These changes are designed to enhance alignment between staff and Macquarie shareholders, encourage staff retention, and reflect global remuneration trends and emerging regulatory proposals. They are subject to approval by shareholders at the 2009 Macquarie AGM.

The proposed changes are discussed in detail in the following section. At a high level, Macquarie proposes:

- profit share paid out in cash reduces while the per centage of retained profit share increases
- for Executive Directors, retained profit share is fully invested in a combination of Macquarie ordinary shares and Macquarie-managed fund equity
- the vesting and payout schedule for retained profit share changes
- a departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement and is subject to forfeiture provisions. The current six-month period after which a departing Executive Director's retained profit share is paid out is lengthened
- transitional arrangements align the old and new schemes
- for other staff, retained profit share is delivered in Macquarie ordinary shares. There are no changes to the vesting or retention arrangements for these staff
- overall, new options granted are substantially reduced.

Details of the proposed changes are summarised below and are described in full in the following sections. Full details will be available in the Notice of Meeting for the 2009 Macquarie AGM. The following sets out the proposed changes by comparing the 2009 current remuneration arrangements with the 2009 proposed arrangements.

	Current arrangements	Proposed arrangements
Macquarie Group Limited Managing Director and Chief Executive Officer	– Profit Share: 55 per cent is retained. – 35 per cent of retained profit share vests in year three and is retained in the form of Macquarie ordinary shares. – 20 per cent of retained profit share vests from five to ten years and is notionally invested in Macquarie-managed fund equity under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a ten year period.	– Profit Share: 55 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests – Investment mix may include Macquarie ordinary shares as well as Macquarie-managed fund equity.
	– Minimum Shareholding: satisfied through the equity retention arrangements.	– Minimum Shareholding: satisfied through the new equity retention arrangements.
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.
Executive Committee members	– Profit Share: 40 per cent is retained. – 20 per cent of retained profit share vests in year three and is retained in the form of Macquarie ordinary shares. – 20 per cent of retained profit share vests from five to ten years and notionally invested, to varying degrees, depending on role, in Macquarie-managed fund equity and cash under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a 10 year period.	– Profit Share: 50 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests. – Investment mix may include Macquarie ordinary shares as well as Macquarie-managed fund equity.
	– Minimum Shareholding: satisfied through the equity retention arrangements.	– Minimum Shareholding: satisfied through the new equity retention arrangements.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

	Current arrangements	Proposed arrangements
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.
Executive Directors	– Profit Share: 20 per cent is retained. – 20 per cent of retained vests from five to ten years and notionally invested, to varying degrees, depending on role, in Macquarie-managed fund equity and cash under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a 10 year period.	– Profit Share: 50 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests. – Investment mix may include Macquarie ordinary shares* as well as Macquarie-managed fund equity.
	– Minimum Shareholding: Required to hold shares to the value of at least five per cent of total profit share over the last five years.	– Minimum Shareholding: satisfied through the new equity retention arrangements.
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– No options: 50 per cent of profit share will be retained in the form of Macquarie ordinary shares* and Macquarie-managed fund equity.
Division Directors/ Associate Directors	– Retention of 25 per cent of annual profit share amounts above certain thresholds. Vests and is released in years two, three and four.	– Retention of 25 per cent of annual profit share above certain thresholds delivered via Macquarie ordinary shares*. No change to thresholds, vesting period or time of release.
	– Eligible for options for promotion and performance.	– No options: Up to 25 per cent of profit share will be retained in the form of Macquarie ordinary shares*. – Replace with Macquarie ordinary shares* for promotion and new hires.
Non-Director Staff	– Retention of 25 per cent of annual profit share amounts above certain thresholds. Vests and is released in years two, three and four.	– Retention of 25 per cent of annual profit share above certain thresholds delivered via Macquarie ordinary shares*. No change to thresholds, vesting period or time of release.

* How Macquarie ordinary shares are delivered may differ from country to country depending on legal requirements.

The remuneration framework and principles are unchanged. It is the way in which remuneration is delivered that is changing.

The primary focus of section 3.2 is on Executive Director remuneration, in particular Executive Committee members. However, comments are made in relation to other staff where relevant.

Macquarie Bank's Executive Committee has responsibility for the management of Macquarie Bank as delegated by the Macquarie Bank Limited Board, and is made up of a central group comprising the Macquarie Group Limited Managing Director and Chief Executive Officer, the Managing Director of Macquarie Bank Limited, the Head of Risk Management, the Chief Financial Officer and the heads of Macquarie's major Operating Groups. The current members of the Executive Committee are identified in Appendix 1.

Section 3.2 discusses the remuneration structure and its individual components in greater detail. Specifically, it describes how the remuneration system:

– emphasises performance-based remuneration (refer section 3.2.1)

– links the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 3.2.2)

– delivers remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests (refer section 3.2.3).

The following table shows how the current remuneration approach meets the guiding principles and describes how the proposed changes to Macquarie's remuneration arrangements relate to Macquarie's remuneration principles.

Link between the remuneration principles and the remuneration arrangements

Principle		Features of the current remuneration system	Proposed changes
1	There is an emphasis on performance-based remuneration (Refer discussion in section 3.2.1)	– Levels of fixed remuneration are relatively low. – Profit share allocations and option grants provide substantial incentives for superior performance, but low or no participation for less satisfactory performance. – Profit share allocations are highly variable. – Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance.	– Emphasis on performance-based remuneration remains: No change with the exception that options will only be allocated to Executive Committee members.
2	Rewards are linked to shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 3.2.2)	– The overall Macquarie profit share pool is determined as a function of Macquarie net profit after tax and excess return on ordinary equity. – The allocation of the pool to individual businesses is based primarily, but not exclusively, on relative contribution to profits, taking into account capital usage. – Allocation to an individual is determined by individual performance and contribution over the year, based primarily on outcomes contributing to net profit after tax and return on ordinary equity. – Return on ordinary equity is used as a performance hurdle for Executive Director options.	– To complement the existing approach and methodology, the Chief Risk Officer will report to the BRC on capital allocation in respect of risks assumed and its impact on the overall profit share pool, and the profit share allocated to individual Operating Groups.
3	Equity is used to provide rewards partly in the form of shares and options to create identification with shareholder interests (Refer discussion in section 3.2.3)	– Macquarie option allocations to Director level staff occur at promotion and annually (with performance hurdles for Executive Directors).	– Macquarie options allocated only to Executive Committee with performance hurdles. – Macquarie ordinary shares issued for promotion and new hires.
		– Executive Directors retained profit share is notionally invested in specialist funds managed by Macquarie.	– For Executive Directors 50 per cent (55 per cent for the Macquarie Group Limited Managing Director and Chief Executive Officer) of profit share will be retained in the form of Macquarie ordinary shares and Macquarie-managed fund equity. The investment mix will depend on the nature of an individual's role and responsibility.
		– Executive Directors are required to acquire and hold a minimum number of Macquarie Group ordinary shares calculated based on their profit share history (five per cent of total profit share over the last 10 years for Executive Committee members and five per cent of total profit share over the last five years for all other Executive Directors).	– Minimum Shareholding: will be satisfied through the new equity retention arrangements.

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Principle		Features of the current remuneration system	Changes
continued		– For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in Macquarie ordinary shares. – Staff share plans are available to encourage broader staff equity participation.	– Discontinued. Replaced with arrangements outlined above. – No changes.
4	Retention mechanisms encourage a long-term commitment to Macquarie and hence to shareholders (Refer discussion in section 3.2.3)	– 20 per cent of Executive Director annual profit share is withheld and vests equally between five and ten years of service as an Executive Director. – For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in Macquarie ordinary shares. – Time based vesting rules with hurdles apply to Executive Director options	– 50 per cent (55 per cent for Macquarie Group Limited Managing Director and Chief Executive Officer) of Executive Director annual profit share is withheld and vests from years three to seven. – Time based vesting rules with hurdles apply to Executive Committee options.
5	Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded (Refer discussion in section 3.2.3)	– Macquarie's remuneration approach has been in place since it was founded with incremental changes over time as appropriate.	– Incremental changes.
6	Arrangements are competitive on a global basis with international peers	– Board reviews remuneration arrangements at least annually to ensure that they are equitable and competitive with peers. – Compensation ratio is used as a general guide to consideration of the overall competitiveness of remuneration levels, but is not the basis on which the profit share pool is created.	– Review was undertaken to determine the proposed changes. – No change.

In each of the following sections the current approach and proposed changes are described.

3.2.1 Emphasising performance-based remuneration

The foundation of Macquarie's remuneration structure is the emphasis on performance-based remuneration.

Fixed remuneration can be relatively low or modest compared with similar roles in non-investment banking organisations, particularly for Executive Directors. Fixed remuneration generally includes cash salary as well as non-cash benefits, primarily superannuation and nominated benefits, including those provided on a salary sacrifice basis. (Salary sacrifice is calculated on a total cost basis and includes any fringe benefit tax charges related to employee benefits).

With the introduction of the proposed new arrangements in 2009, and taking into account options, the long-term and deferred elements total over 55 per cent of the Macquarie Group Limited Managing Director and Chief Executive Officer's annual total compensation, and over 45 per cent of annual total compensation for other Executive Committee members for 2009.

3.2.2 Linking remuneration to the drivers of shareholder returns

For most Executive Directors, the largest component of their remuneration is delivered as an annual profit share allocation, based on their performance over the year. Macquarie's approach to measuring performance for the purpose of determining annual profit share is to utilise Macquarie Group Limited financial performance measures which are known to be drivers of long-term shareholder returns. They are NPAT and ROE. Executives have greater "line of sight" over these measures. In the short term, share price fluctuations can be driven by a variety of factors, including market sentiment over which executives may have very little control. Therefore, Total Shareholder Return (TSR), whether absolute or relative, is not regarded as a satisfactory measure in assessing performance over just one year. Globally, regulators are increasingly recognising this.

Macquarie's NPAT and ROE were selected as the most appropriate performance measures for the following reasons:

– they are correlated over time with total shareholder returns
– they provide an appropriate incentive because they are elements of performance over which the executives can exercise considerable control
– TSR, on the other hand, is influenced by many external factors over which executives have limited control
– both measures can be substantiated using information that is disclosed in audited financial accounts, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.

These two drivers motivate staff to expand existing businesses and establish promising new activities. The use of ROE to measure excess returns, i.e. ROE relative to the cost of equity capital, creates a particularly strong incentive for staff to ensure that capital is used efficiently, while having regard to risk. Therefore, the use of these two measures in combination results in appropriate outcomes for the Group's shareholders.

ROE is also the measure enshrined in the performance hurdle applicable to Executive Committee members options (refer section 3.2.3.2.3).

Notwithstanding these factors, other qualitative measures are also used in assessing performance.

Overview of profit share arrangements

The profit share arrangements are designed to encourage superior performance by motivating executives to focus on maximising earnings and return on ordinary equity, while having appropriate regard for risk, thereby driving long-term Macquarie shareholder returns. A Macquarie-wide profit sharing pool is created at the Macquarie Group Limited level. Substantial incentives are offered in relation to superior profitability, but low or no participation for less satisfactory performance.

Determination of the profit share pool

The size of the Macquarie profit share pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital. A portion of Macquarie's profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The proportion of after-tax profit and the proportion of earnings in excess of Macquarie's cost of equity capital used to calculate the pool are reviewed at least annually. The cost of equity capital is also reviewed annually and has been increased for 2009. Changes to the methodology are reviewed by the BRC and the Non-Executive Directors of the Macquarie Group Limited Board.

The Non-Executive Directors of the Macquarie Board have discretions:

– to change the quantum of the pool to reflect internal or external factors if deemed in Macquarie's and shareholders' interests
– to defer the payment of profit share amounts to a subsequent year at a Macquarie business or individual level where it is in the interests of Macquarie and its shareholders to do so.

The Non-Executive Directors of the Macquarie Board have exercised their discretion in relation to such deferrals.

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Allocation of the profit share pool

Allocation of the pool to businesses is based on performance, primarily, but not exclusively reflecting relative contributions to profits (not revenue) while taking into account capital usage which factors in risk.

An individual's profit share allocation is based on performance, measured primarily through the performance appraisal process that requires all staff to have at least one formal appraisal session with their manager each year.

Performance criteria vary according to an individual's role. Performance is linked where possible to outcomes that contribute directly to NPAT and excess ROE. Capital usage is important as it factors in the level of risk associated with the income derived.

Performance also takes into consideration how business is done. Superior performance looks at a range of indicators that go beyond financial performance and include risk management, governance and compliance, people leadership and upholding Macquarie's Goals and Values.

The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Macquarie Board, the Macquarie Bank Board and management seek to ensure that remuneration for staff in prudential roles, including the Chief Risk Officer, is determined in a way that preserves the independence of the function and maintains Macquarie's robust risk management framework.

Arrangements are also in place to ensure that performance-based remuneration is appropriately allocated to the individuals who contributed to particular transactions. Therefore, businesses may further recognise cross-divisional contributions by allocating part of their profit share pool to individuals in other areas of Macquarie who have contributed strongly to their success.

In summary, profit share allocations to each individual generally reflect:

– Macquarie-wide performance – which determines the size of the overall profit share pool
– the performance of their business – which determines the profit share pool allocated to that business
– their individual performance – which determines their own share of the profit share pool for that business.

Profit share allocations to individuals are subject to retention arrangements as discussed in section 3.2.3.

3.2.3 Emphasis on direct long-term alignment with shareholder interests

The remuneration arrangements are also structured to deliver remuneration in a manner which ensures that Macquarie employees have a direct long-term alignment with Macquarie shareholder interests through:

– retention arrangements which encourage long-term commitment to Macquarie, and therefore, to shareholders
– the use of equity-based remuneration.

Subject to shareholder approval at the 2009 Macquarie AGM, some structural changes will be introduced for the 2009 year that will provide an even closer alignment of staff and Macquarie shareholder interests. The changes are being proposed after careful consideration of the global remuneration and regulatory trends after a six month review. These changes are explained in more detail within this section.

A tailored approach is adopted to ensure that retention arrangements and equity-based remuneration is appropriate given the seniority of the individual and their ability to influence results.

In 2009, subject to shareholder approval, at the most senior level (the Executive Committee members), direct alignment with long-term shareholder interest will be achieved by:

– retaining 50 per cent (55 per cent for the Macquarie Group Limited Managing Director and Chief Executive Officer) of each annual profit share allocation into an investment mix of Macquarie ordinary shares as well as Macquarie-managed fund equity, vesting from three to seven years, subject to forfeiture if a disqualifying event occurs
– imposing an aggregate minimum shareholding requirement proportionate to an individual's 10 year profit share history (which will be satisfied through the new equity arrangements)
– granting options over Macquarie ordinary shares which vest in three tranches over two, three and four years and are subject to a performance hurdle based on Macquarie's relative ROE performance.

Executive Committee members may also voluntarily elect to have a greater portion of their profit share allocated into Macquarie ordinary shares under the staff share plans.

Under the existing structure, from a retention perspective, these various arrangements are designed to interact with one another. For example options vest over two to four years, retained amounts under the Directors' Profit Share (DPS) Plan vest over five to ten years and the Executive Committee's Share Acquisition Plan vests at year three.

For Executive Committee members, the *current vesting continuum* is represented as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Options granted to Executive Committee		One-third vests* ↓	One-third vests* ↓	One-third vests* ↓	Option expiry** ↓					
Executive Committee's profit share entitlement					One-sixth vests but not paid out ↓	One-sixth vests but not paid out ↓	One-sixth vests but not paid out ↓	One-sixth vests but not paid out ↓	One-sixth vests but not paid out ↓	One-sixth vests and retained amount paid out *** ↓
Executive Committee Share Acquisition Plan			Full amount vests ↓							

* Vesting of options is also subject to satisfaction of the relevant performance hurdle.

** Options expire five years after grant if not exercised earlier.

*** If an Executive Director leaves prior to the end of the 10 year period then any vested retained amounts may be paid out earlier subject to a determination as to whether any disqualifying events have occurred (refer section 3.2.3.1.1).

Under the proposed arrangements, the average vesting schedule is maintained for the members of the Executive Committee.

For Executive Committee members, the *proposed vesting continuum* is represented as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Options granted to Executive Committee		One-third vests* ↓	One-third vests* ↓	One-third vests* ↓	Option expiry** ↓		
Executive Committee's profit share entitlement***			One-fifth vests ↓	One-fifth vests ↓	One-fifth vests ↓	One-fifth vests ↓	One-fifth vests ↓

* Vesting of options is also subject to satisfaction of the relevant performance hurdle.

** Options expire five years after grant if not exercised earlier.

*** If an Executive Director leaves, then any unvested retained amounts will only be paid out in the case of genuine retirement and will be subject to forfeiture provisions.

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Under the *current arrangements*, the vesting continuum for a new Executive Director is represented as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Options granted on promotion to Executive Director		One-third vests*	One-third vests*	One-third vests*	Option expiry**					
Director's profit share entitlement					One-sixth vests but not paid out	One-sixth vests but not paid out	One-sixth vests but not paid out	One-sixth vests but not paid out	One-sixth vests but not paid out	One-sixth vests and retained amount paid out ***

* Vesting of options is also subject to satisfaction of the relevant performance hurdle.

** Options expire five years after grant if not exercised earlier.

*** If an Executive Director leaves prior to the end of the 10 year period then any vested retained amounts may be paid out earlier subject to a determination as to whether any disqualifying events have occurred (refer section 3.2.3.1.1).

Under the *proposed new arrangements*, the vesting continuum for a new Executive Director is represented as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Equity granted on promotion to Executive Director		One-third vests	One-third vests	One-third vests			
Director's profit share entitlement			One-fifth vests	One-fifth vests	One-fifth vests	One-fifth vests	One-fifth vests

* If an Executive Director leaves, then any unvested retained amounts will only be paid out in the case of genuine retirement and will be subject to forfeiture provisions.

The vesting and payout schedules are aligned under the proposed new arrangements.

There are some overarching rules applicable to equity-based remuneration:

- the following cannot be hedged:
  - Macquarie ordinary shares held to satisfy the minimum shareholding requirement
  - Macquarie ordinary shares held under the Executive Committee Share Acquisition Plan
  - unvested options.
- all shares and options must be dealt with in accordance with Macquarie's Trading Policy, which is available on Macquarie's website, including that trading must be conducted within designated windows.
- Macquarie ordinary shares to be delivered under the proposed new remuneration arrangements also cannot be hedged.
- All Executive Committee members and Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to the Chairman via the Company Secretary.

More generally, long-term alignment is encouraged through the emphasis on a degree of consistency over time in remuneration arrangements. Many initiatives on which staff work can take a long time, sometimes years, to come to fruition. Because the remuneration system is outcomes driven, profit share allocations for transactions and business development activities that are "in progress" are low.

Staff must, therefore, have confidence that when a transaction is completed potentially some years later, the remuneration system will recognise successful outcomes in the way the staff member anticipated at the outset of the transaction. This requires broad consistency over time.

3.2.3.1 Profit share arrangements – delivery of profit share

3.2.3.1.1 Directors' Profit Share retention arrangements

Current arrangements

Under the existing remuneration arrangements, 20 per cent of each Executive Director's annual gross profit share allocation is withheld and is subject to restrictions through the DPS Plan. The DPS Plan is a fundamental tool in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements.

The amounts retained under the DPS Plan begin to vest after five years of service as an Executive Director and fully vest after ten years. Vested amounts are then released to an Executive Director at the earliest of the Executive Director's ceasing employment or at the end of a ten year period.

Assuming continued employment with Macquarie, a rolling 10 year retention period always exists, for example, amounts retained in year one will be released in year 11, amounts retained in year two will be released in year 12, and so on.

Proposed arrangements

DPS retention arrangements will continue to operate should the proposed remuneration changes be approved at the 2009 Macquarie AGM.

Under the proposed arrangements, 50 per cent (55 per cent for the Macquarie Group Limited Managing Director and Chief Executive Officer) of each Executive Director's annual gross profit share allocation will be withheld and subject to restrictions. Retained amounts will vest equally over years three to seven. The retained amounts will be held in the following two ways:

a) a notional investment in Macquarie-managed fund equity through the DPS Plan.

b) a physical investment in Macquarie ordinary shares under the Macquarie Group Employee Retained Equity Plan (Equity Plan).

Forfeiture rules

Under the current arrangements, the retained amounts are subject to forfeiture should a disqualifying event occur. An Executive Director will not be entitled to any of their retained DPS (or any future notional income or capital growth on their retained DPS) at the end of a six month period after employment ceases, if the Macquarie Bank Board or the Macquarie Bank Executive Committee, in its absolute discretion, determines that the Executive has:

– committed an act of dishonesty, or
– committed a significant and wilful breach of duty that causes significant damage to Macquarie, or
– left employment with Macquarie to join a competitor of Macquarie, or
– taken a team of staff to a competitor or been instrumental in causing a team to go to a competitor.

Under the proposed changes, a departing Executive Director's retained profit share will only be paid out in the case of genuine retirement, subject to forfeiture provisions. The current six month period after which a departing Executive Director's retained profit share is paid out will lengthen. The payment of the last two years of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to acts that lead to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses. This is summarised in the following table:

Retention Released		**Disqualifying Events**	
Timeframe	**Year of allocation**	**Period**	**Category**
Six months	Retained DPS (for allocations not in the last two years)	Six months	Existing disqualifying events
One year	Retained DPS on 2nd to last profit share allocation	Seven months to one year	Non-solicitation, dishonesty and breach of duty clause and material financial restatement, significant financial loss or significant reputational harm
Two years	Retained DPS on last profit share allocation	One year to two years	Dishonesty and breach of duty clause and material financial restatement, significant financial loss or significant reputational harm

A similar effect can be achieved while the Executive Director is employed by Macquarie. Where it becomes apparent that an existing Executive Director has acted in a way that damages Macquarie, including but not limited to acts that led to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses, then in practice, this may cause termination of employment such that the same forfeiture provisions would apply. In other situations where the Executive Director remains employed, then in practice, the same economic effect can be achieved by reducing or eliminating discretionary profit share allocations.

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Investment of retained profit share - current arrangements

The retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as "notional" because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

The BRC makes an annual determination as to how each Executive Director's retained DPS for that year should be notionally invested by Macquarie. The following general principles are used in making this decision:

- retained DPS for Executive Directors who are involved in the management of a particular fund (e.g. the Chief Executive Officer of a fund), will be notionally invested in the fund
- retained DPS for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Operating Group Heads, will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS for other Executive Committee members will be notionally invested in a general portfolio of specialist funds managed by Macquarie
- retained DPS for Executive Directors who provide other services to particular funds businesses (e.g. advisory services), will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS for all other Executive Directors will be notionally invested in a general portfolio comprising a mix of cash and equity investments in various funds managed by Macquarie.

Notional returns on these amounts may be paid annually to Executive Directors, and these amounts are required to be disclosed as remuneration for Key Management Personnel. If the notional investment of retained DPS results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

Investment of retained profit share – proposed arrangements

Under the proposed remuneration changes, Executive Directors' retained DPS will be fully invested in a combination of Macquarie ordinary shares, which will be a physical investment through the Equity Plan, and Macquarie-managed fund equity which will be a notional investment through the DPS Plan. The investment mix will vary across the Executive Director group and reflect an individual executive's responsibilities. This will strengthen shareholder alignment for Macquarie and the Macquarie-managed funds.

The BRC will apply the same broad criteria as is currently the case in determining how each Executive Director's retained DPS for that year should be invested by Macquarie.

Former Directors' Profit Share arrangements

The DPS Plan replaced the DPS Trust Scheme which operated from 1998 to 2004. Under the former DPS Trust Scheme, the retention arrangements operated on a post-tax basis and Executive Directors were required to hold Macquarie ordinary shares within the Scheme. All balances held under the former DPS Trust Scheme are being transitioned to the DPS Plan under transitional arrangements which ensure the required balances are retained.

3.2.3.1.2 Executive Committee Share Acquisition Plan

Remuneration arrangements for Executive Committee members were changed in 2008 to reflect a larger portion of the annual profit share being allocated to an investment in Macquarie ordinary shares for at least three years, rather than being otherwise available.

For Executive Committee members this element comprised 10 per cent pre-tax of annual profit share for 2008. In 2009, this was to be increased to 35 per cent pre-tax for the Macquarie Group Limited Managing Director and Chief Executive Officer and 20 per cent pre-tax for other Executive Committee members.

The shares are acquired under, or issued via, a dedicated sub-plan of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) at prevailing market prices. The MGSSAP is discussed in section 3.2.3.1.4.

The shares are held in the plan for three years although the executive may elect to leave the shares in the plan for up to 10 years. Executive Committee members are not permitted to hedge their interests in these shares before they have vested.

This additional profit share component was to relate to services already performed by the individuals, and would otherwise have been paid out as cash, hence no additional performance conditions have been imposed. However, the individuals will be at full risk on the value of the shares granted and the shares will be subject to forfeiture in circumstances including dismissal with cause, theft, fraud or defalcation, or bringing any Macquarie entity into disrepute.

Under the proposed arrangements, the Executive Committee Share Acquisition Plan will no longer operate. However shares currently retained in the plan will remain subject to the plan rules and current release schedule. All profit share retention will be under the DPS retention arrangements discussed under section 3.2.3.1.1.

3.2.3.1.3 Minimum shareholding requirement for Executive Directors

The DPS Plan also imposes on Executive Directors a requirement to hold Macquarie ordinary shares equivalent to the aggregate of five per cent (being the deemed after-tax equivalent of ten per cent) of their annual gross DPS allocation for the past five years (for the wider Executive Director population) or ten years (for Executive Committee members).

These shares cannot be hedged.

For Executive Committee members, Macquarie ordinary shares delivered through the profit share arrangements described in section 3.2.3.1.2 above are eligible to meet this requirement.

Under the proposed changes, this requirement remains but is satisfied through the new equity retention arrangements.

3.2.3.1.4 Staff share plans: encouraging broader staff equity participation

In addition to the arrangements already outlined, Macquarie has a number of employee share plans that encourage share ownership by employees under the plans.

Staff share acquisition plan

Under the MGSSAP, eligible employees in Australia are given the opportunity to nominate an amount of their pre-tax available profit share to acquire Macquarie ordinary shares. The MGSSAP was adopted by Macquarie on the corporate restructure in November 2007 and substantially replicates the terms of the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) which was approved by Macquarie Bank Limited shareholders in 1999. The MGSSAP was modified in 2008 to include the ability to issue new shares as an alternative to acquiring existing shares on-market, at the option of Macquarie. In 2009, most participation will be in the form of newly issued shares as this mechanism can provide better price certainty for staff and, hence, improve the level of staff participation and engagement. Any applicable brokerage, workers' compensation premiums and payroll tax are to the employee's account.

Shares held in the MGSSAP will be withdrawn on the earlier of:

- an employee's resignation from Macquarie or a related company
- a request by the employee (after the expiration of the non-disposal period)
- 10 years from the date that the shares are registered in an employee's name.

Shares held via the MGSSAP may be forfeited if an employee is dismissed for cause, commits fraud or theft or otherwise brings Macquarie into disrepute.

In all other respects, shares rank equally with all other fully paid ordinary shares then on issue.

In 2008, 697 (2007: 852) eligible Australian employees elected to participate in the MGSSAP using their 2008 profit share allocations. 474,409 (2007: 313,615) shares were allotted in July 2008.

Employee share plan

The Macquarie Group Employee Share Plan (ESP) substantially replicates the terms of the Macquarie Bank Employee Share Plan which was approved by the Bank's shareholders in 1997. Eligible employees in Australia are offered up to $1,000 worth of Macquarie ordinary shares funded from pre-tax available profit share.

Shares issued under the ESP cannot be sold until the earlier of three years after issue or the time when the participant is no longer employed by Macquarie or a subsidiary of Macquarie. In all other respects, shares issued rank equally with all other fully paid ordinary shares then on issue.

The number of shares each participant receives is $1,000 divided by the weighted average price at which Macquarie's shares are traded on the ASX on the seven days up to and including the date of allotment, rounded down to the nearest whole share.

In 2009, 1,422 eligible Australian employees elected to participate in the ESP (2008: 1,735).

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3.2.3.2 Options

The use of options has long been common market practice in investment banking to ensure a strong motivation exists to increase the share price, although Macquarie has offered options to a much wider group than is typically the case with peer organisations. Options have, in the past, been an effective retention mechanism for staff and have provided long-term alignment with shareholders. However, as a result of the rapid fall in the Macquarie share price, the majority of the employee options are out-of-the-money and are of no present value to staff; and hence are not an effective retention mechanism. For Macquarie's long-term growth it is just as important to retain senior staff in these times as it is to retain staff in favourable markets.

With this in mind, it is proposed that going forward, the number of options granted will be substantially reduced, with Executive Committee members being the only group of staff eligible to receive options.

Other Directors including promoted or newly hired Directors, will receive Macquarie ordinary shares rather than options.

This section explains the options arrangements in place for the current year, as well as noting any proposed changes for 2009.

Macquarie currently allocates options to Director level staff at promotion and annually in recognition of performance. Newly hired Directors also receive an option allocation. Annual allocations to staff have ensured that Directors generally have a number of unvested options at a point in time.

The options are five year options issued for no consideration with an exercise price set at the prevailing market price on grant, and can be exercised after two, three and four years.

Options granted to Executive Directors are subject to a performance condition which must be satisfied for the options to be exercised. In contrast to this approach, most of Macquarie's international competitors do not have performance hurdles attached to their long-term incentive plans, including their option schemes.

As has been the case for several years, the performance hurdle requires that Macquarie's three year average return on ordinary equity exceeds the three year average return on ordinary equity at a certain percentile level of a reference group of companies. This hurdle operates in addition to both the time vesting rules and the embedded share price hurdle.

As explained further below, Macquarie considers that its overall performance should be judged against other major ASX-listed companies. Hence it uses the constituents of a relevant S&P/ASX index as the reference group for the performance hurdle, as explained in section 3.2.3.2.3.

Executive Directors are forbidden from hedging unvested options.

3.2.3.2.1 Determination and allocation of the options pool

The Macquarie Board approves the annual maximum number of options to be allocated each year as part of the annual remuneration review process. This determination has regard to the limits on the number of options that may be on issue at any point in time and the overall remuneration policies.

The majority of these options are allocated to individual executives in broadly the same manner as annual profit share allocations (refer section 3.2.2), i.e. it is performance based.

3.2.3.2.2 General terms of option arrangements

The Plan

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	Macquarie has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time. The MGESOP was established by Macquarie Group Limited with substantially the same terms as the predecessor plan, the Macquarie Bank Employee Share Option Plan, administered by Macquarie Bank Limited
Eligible staff	Associate Director, Division Director and Executive Director *Under proposed new arrangements, only Executive Committee members will be eligible.*
Number of participants	3,052 as at 31 March 2009 (2008: 2,595)

Key Option Terms

Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest progressively over time, with similar rules applying to new starters and existing employees as follows: – for new starters, options vest in three tranches as to one-third of each grant after the second, third and fourth anniversaries of the date of commencement of employment – for existing employees, options vest in three tranches as to one-third of each grant on 1 July two, three and four years after the allocation of the options. In other words, the average option vesting period is three years However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied (refer section 3.2.3.2.3)
Hedging	Executive Directors are not permitted to hedge unvested options. Executive Directors are permitted to hedge options which have previously vested because the minimum service period and relevant performance hurdles, as described in this section have been satisfied

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for the financial year ended 31 March 2009 continued

3.2.3.2.3 Performance Hurdles for Executive Director Options

Description of performance hurdles for Executive Director options

Applicability	Performance conditions are imposed as summarised below on options granted to Executive Directors
Description of performance hurdle	The performance hurdle requires that Macquarie's three year average return on ordinary equity exceeds the three year average ROE of a reference group of companies at a certain percentile level. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Basis of hurdle	Macquarie's three year average ROE versus companies in a Reference Index Rationale: Refer to section 3.2.2 for the rationale behind the use of return on ordinary equity as a critical shareholder return driver
Reference index	S&P/ASX Index (note that the S&P/ASX 300 Industrials was used for options granted prior to June 2006) Rationale: – The S&P/ASX 300 Industrials Index was initially chosen in 2002 since Macquarie has few, if any, direct comparables and the S&P/ASX 300 Industrials Index is a widely recognised index of Australia's larger listed companies – The change to a narrower group of companies, the S&P/ASX 100 Index, in 2006, was in recognition of the increase in Macquarie's market capitalisation – The choice of this reference index reflects investor feedback and recognises that Macquarie is an Australian company and its performance should be judged against other major listed Australian companies – This index is appropriate as Macquarie primarily competes for shareholders with other Australian listed companies – On this basis, the independent remuneration consultant concluded that the reference index was appropriate – If Macquarie wished to benchmark against a peer group, it would be difficult to compile a comparator group of meaningful size of individually listed organisations with a sufficiently similar business mix – Such an index would likely comprise fewer than 10 peers given that few, if any, organisations provide a close comparable to Macquarie in terms of important factors such as business mix – The independent remuneration consultant noted similar drawbacks to such an approach – The ASX Indices represent a well-known and third party produced index, and therefore comprise a more objective measure than would be the case for any subjectively compiled peer group – Macquarie's performance against both these ASX Indices and other major international investment banks has been strong (refer table below)
Performance level required to meet hurdle	For Executive Committee members, above the 65th percentile was chosen as it was considered a challenging medium to long-term target, noting that if the hurdle is not met, none of the relevant options can be exercised Rationale: – Being a three year average ROE measure, Macquarie's performance hurdle rewards sustained strong performance and is relatively well insulated from short-term fluctuations. Macquarie, therefore, believes that it is appropriate for 100 per cent of the relevant options award to vest on satisfaction of the hurdle – The conditions imposed on options issued to Executive Directors who are not members of Macquarie's Executive Committee or the Board are identical to those summarised in the table above, with the exception that the hurdle is the 50th percentile rather than the 65th percentile. This reflects the fact that these Executive Directors have less capacity to influence Macquarie's overall results and, individually, have less influence over the level of Macquarie's capital – Note that from mid-2002 to November 2004, the performance level required to satisfy the hurdle for Executive Committee members was "at or above the 65th percentile" rather than "above the 65th percentile"

Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting). Prior to June 2006, the performance hurdle was retested on a quarterly basis until expiry.
Calculation methodology	In assessing whether Macquarie's performance is above these hurdles, Macquarie obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of Macquarie based on the three year average annual ROE against all companies in the applicable reference index is then determined quarterly. This method of assessment was selected because the data is readily available and easily computed.

This hurdle is challenging. The hurdle is tougher when the reference group is the ASX 100 companies rather than using an international peer group. However, historically Macquarie's performance has been strong against both the relevant ASX indices and the international investment banking competitors. This shows that, of the international investment banking peers:

– only one of the international competitors have a three year average ROE higher than Macquarie
– none of the international competitors would have met the performance hurdle that applies to the options over unissued Macquarie ordinary shares held by Macquarie's Executive Committee members

Macquarie's performance against options hurdles reference groups and peer group

	Three year average return on ordinary equity as at 31 March 2009 %
Macquarie Group Limited	20.6*
S&P/ASX 100 Index – 65th percentile (current hurdle)	22.6
S&P/ASX 300 Industrials Index – 65th percentile (previous hurdle)	20.5
International investment banking peers – 65th percentile	0.00
International investment banking peers – average	(23.6)

* This three year average is based on Macquarie's 2007, 2008 and 2009 results. The performance hurdle test is actually applied as at the end of each calendar quarter in relation to the upcoming quarter. As at the last measurement date, 31 March 2009, Macquarie's most recent three year ROE data was in relation to its 2006, 2007 and 2008 results (an average of 25.9 per cent) and this data was used in determining whether the performance hurdle had been satisfied in relation to Executive Director options due to vest in the period 1 April 2009 to 30 June 2009 inclusive.

In 2009 it is expected that some prior year option grants to Executive Committee members will not vest. It is expected that the first tranche of the 2007 options grant and the second tranche of the 2006 options grant will not vest on 1 July 2009 as a result of the performance hurdle not being met. For accounting purposes any prior year options expense in relation to these tranches (and corresponding income to the Key Management Personnel) has been reversed.

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for the financial year ended 31 March 2009 continued

3.2.4 No special contractual termination payments

The following table summarises key features of the employment contracts for Executive Committee members and Executive Voting Directors:

Length of contract	Permanent open ended
Remuneration review period	1 April–31 March annually
Directors' profit share participation	All Executive Directors are eligible to participate in the DPS Plan, referred to in section 3.2.3.1.1 above, which ensures that a large part of their remuneration is "at risk". The Rules of the DPS Plan are set out in the internal Macquarie Group Limited Executive Directors' Remuneration Booklets (also known as the Grey Book). Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Plan provided it is determined that no disqualifying events have occurred
Option participation	All Executive Directors are eligible to participate in five year options over ordinary unissued Macquarie Group Limited shares, under the terms described in section 3.2.3.2. Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, Executive Directors are entitled to retain those options which have vested at the termination date
Termination of employment	Termination of employment by Macquarie or the executive requires four weeks notice*

* Subject to compliance with local regulatory requirements. In Australia, executives given notice by Macquarie may receive an additional week's notice where they are over 45 years of age and have more than two years' continuous service.

Subject to minor variations arising from local employment and other laws in the jurisdictions in which Macquarie operates, the same contractual arrangements generally apply to all executives at Executive Director level.

Contractually, Executive Directors who leave Macquarie are eligible to receive vested retained profit share (subject to there being no disqualifying event in the period of up to six months following the departure) and may retain any vested but unexercised options (which will lapse if they are not exercised in the six months following departure). Depending on the jurisdiction, they may also receive a payment in lieu of any accrued but untaken leave and entitlements. Aside from notice (for which a payment or part payment may be made in lieu of being required to work the notice), no other contractual termination entitlements exist.

Under the proposed changes the key features may be summarised as follows:

Length of contract	*Permanent open ended*
Remuneration review period	*1 April–31 March annually*
Directors' profit share participation	*All Executive Directors are eligible to be considered for a DPS allocation, referred to in section 3.2.3.1.1 above, which ensures that a large part of their remuneration is "at risk". The DPS Terms are set out in the Macquarie Group Executive Directors' Remuneration Booklet (also known as the Grey Book). A departing Executive Director's retained DPS will only be released early on a discretionary basis in the case of genuine retirement and will be subject to forfeiture provisions. Transitional rules will apply to align the old and the new schemes and upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the old scheme provided that it is determined that no disqualifying events have occurred*
Option participation	*Executive Committee members remain eligible to participate in five year options over ordinary unissued Macquarie Group Limited shares, under the terms described in section 3.2.3.2 (other Executive Directors are no longer eligible for options allocations). Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, all Executive Directors continue to remain entitled to retain options which are vested at the termination date*
Termination of employment	*Termination of employment by Macquarie or the Executive Director requires four weeks notice**

* Subject to compliance with local regulatory requirements. In Australia, executives given notice by Macquarie may receive an additional week's notice where they are over 45 years of age and have more than two years' continuous service.

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for the financial year ended 31 March 2009 continued

3.3 Continuing to provide strong governance structures and processes with a greater focus on managing risk

Effective governance is central to Macquarie's remuneration strategy and approach. A stronger focus on governance and risk management are two global trends that are emerging. The Macquarie Board and the Macquarie Bank Board consider that strategies are in place to provide even stronger governance of Macquarie's remuneration approach. The Board aims to ensure that Macquarie's remuneration system is sound in the following ways:

– strong Board oversight
– assessment of risk as part of the profit share allocation process
– independent remuneration review.

These key elements of Macquarie's approach are described below.

3.3.1 Strong Board oversight to ensure sound overall remuneration governance

The Macquarie Board of Directors has oversight of Macquarie's remuneration arrangements and has established a Board Remuneration Committee (BRC or Committee) whose objective is to assist the Macquarie Board and the Macquarie Bank Board, a key operating subsidiary, with Macquarie's remuneration policies and practices. Whilst subject to the remuneration framework determined by Macquarie Group Limited, the Macquarie Bank Limited Board considers remuneration recommendations relating to senior executives of Macquarie Bank.

The Committee currently comprises four Non-Executive Directors, a majority of whom are Independent, including the Committee Chairman:

Helen Nugent	Committee Chairman	Non-Executive Director
David Clarke*	Committee Member	Non-Executive Chairman
John Niland	Committee Member	Non-Executive Director
Peter Warne	Committee Member	Non-Executive Director
Kevin McCann**	Committee Member from 27 November 2008	Non-Executive Acting Chairman from 27 November 2008

* Due to illness, Mr Clarke sought and was granted leave of absence on 27 November 2008.

** Mr McCann was appointed Acting Chairman of Macquarie Group Limited and a Committee member on 27 November 2008 for the duration of Mr Clarke's absence and has served in this capacity since this time.

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system. All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Acting Chairman of that Committee in Mr Clarke's absence. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the Remuneration Committees of other Boards.

The Committee has a regular meeting cycle and holds additional meetings as needed. The Committee met eight times over the last financial year.

The Boards pay serious, sustained attention to the design and the operation of remuneration practices for all of Macquarie, not just for the most senior executives.

The responsibilities of the Committee are set out in a formal charter which is available on Macquarie's website. Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

The Non-Executive Directors of the Boards of Macquarie Group Limited and Macquarie Bank Limited, as appropriate, approve the following on the recommendation of the BRC:

– changes to the design of the remuneration approach for the whole of Macquarie (not just for the Executive Committee)
– material changes to the recruitment, retention and termination policies and procedures for Macquarie's senior management team (Executive Committee and other Operating Group Heads)
– all individual remuneration/profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Managing Director)
– all individual performance option grants to members of the respective Executive Committees, with the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting
– other remuneration recommendations relating to individuals or groups of individuals which are disclosed or are significant because of their sensitivity or precedent implications
– the continued application of the profit share methodology and any adjustments.

Subject to the appropriate management of conflict of interest issues, the Macquarie Group Limited Board of Directors approves the following on the recommendation of the BRC:

- recommendations relating to the remuneration framework for Macquarie, including in relation to the Non-Executive Directors of Macquarie and Macquarie Bank
- appropriate levels of delegated responsibility from Macquarie's Board to management for remuneration-related policy and practice decisions
- remuneration recommendations relating to Non-Executive Directors of Macquarie and Macquarie Bank
- other material changes to remuneration policies
- determination of the total option pool available for annual performance/promotion grants to staff.

The BRC approves the following matters on behalf of the Macquarie Board:

- changes to the recruitment, retention and termination policies and procedures for Macquarie's senior management team (Executive Committee and other Operating Group Heads) not requiring Macquarie Board approval
- material changes to superannuation/pension arrangements
- other changes to remuneration policies not requiring Macquarie Board approval.

The BRC approves the following matters on behalf of both the Macquarie Board and Macquarie Bank Board:

- all individual remuneration/profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of Macquarie and Macquarie Bank as noted above
- remuneration recommendations made outside of policy relating to individuals or groups of individuals (unless required to be approved by the Board)
- all individual promotion/performance options grants to staff other than those designated above
- the specific notional portfolio allocations of retained Directors' Profit Share amounts for individual Executive Directors.

The BRC also has the authority to monitor the implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements.

The Board has adopted internal guidelines on declaring and dealing with conflicts of interest. These are rigidly followed by the Committee.

This remuneration governance framework ensures that remuneration recommendations relating to staff at various levels of seniority must be approved at an appropriate level of authority.

3.3.2 Profit share allocation process and assessment of risk

The Macquarie Board considers that the effective alignment of remuneration with prudent risk taking to be a fundamental criteria for any successful remuneration system.

The approach to risk is to make risk decisions at multiple levels.

The Macquarie Board has always used both executive judgement and quantitative risk measures to determine the quantum of variable remuneration allocations. The quantitative measures are as follows:

- the profit share pool is determined by reference to both profit (not revenue) and earnings over and above the estimated cost of capital
- ROE is taken into account at a Macquarie-wide level and economic and prudential capital usage at a business group level for profit share pool allocation
- performance hurdle for existing Executive Director options to vest is linked to return on equity, not TSR or EPS
- the performance hurdle for existing Executive Director options looks at Macquarie's three year average ROE.

The Macquarie Board acknowledges that quantitative risk measures have limitations and, therefore, overlays these measures with executive judgement. Just as judgement is required in managing Macquarie's risk profile, significant judgement is exercised when risk-adjusting profit share allocations. When assessing the performance of businesses and individuals, management and the BRC look at a range of factors including risk management, governance and compliance, people leadership and upholding Macquarie's Goals and Values.

In addition to this, the Non-Executive Directors of the Macquarie Board have discretions to change the quantum of the profit share pool to reflect internal or external factors if deemed in Macquarie's and shareholders' interests, and/or to defer the payment of profit share amounts to a subsequent year at a company-wide, business or individual level where it is in the interests of Macquarie and shareholders to do so.

To strengthen Macquarie's arrangements in this area, the Chief Risk Officer will report to the BRC on capital allocation in respect of risks assumed and its impact on the overall profit share pool, and the profit share allocated to individual Operating Groups.

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The Macquarie Board seeks to ensure that remuneration is sensitive to risk outcomes in the following three ways:

– Remuneration outcomes must be symmetric to risk outcomes.

Profit share allocations are truly variable. The profit share component is variable upward and downward in response to good and poor performance. The fact that the profit share pool at a company-wide level is determined by reference to both profit and earnings over and above the estimated cost of capital ensures that there is no available profit share in the event of a loss at a Macquarie level.

– Remuneration payout schedules must be sensitive to the time horizon of risks.

Under the proposed changes to remuneration arrangements, the proportion of an Executive Director's profit share allocation that is deferred and subject to the time horizon of risk will increase from 20 per cent to 50 per cent and for Executive Committee members from 40 per cent to 50 per cent (55 per cent for the Macquarie Managing Director and Chief Executive Officer).

Under the proposed changes, a departing Executive Director's retained profit share will only be paid out in the case of genuine retirement, subject to forfeiture provisions. The current six month period after which a departing Executive Director's vested retained profit share is paid out will lengthen. The payment of the last two years of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to acts that lead to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

Consistent with existing arrangements, there are no "golden handshake" payments.

– The mix of cash, equity and other forms of remuneration should be consistent with risk alignment.

Macquarie adopts a tailored approach to ensure that the retention levels and equity-based remuneration is appropriate given the seniority of the individual and their ability to influence results.

3.3.3 Independent Remuneration Review

The BRC has access to senior management of Macquarie and obtains the advice of external consultants on the appropriateness of remuneration packages and other employment conditions as required.

Starting in October 2008 for the 2008/2009 financial year, the BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of the global remuneration consultants, Towers Perrin. The review considered the overall approach to remuneration, the extent of alignment with Macquarie Group Limited shareholder interests and a comparison of individual remuneration for senior executives where relevant competitor information was available.

As a result of the review, and after critically evaluating the analyses and conclusions, the Non-Executive Directors of the Macquarie Board were satisfied that:

– Macquarie's remuneration system has assisted Macquarie's strong shareholder returns, superior ROE results and earnings growth over the past decade
– has helped ensure that pay and performance are linked tightly
– has several means to align executive reward and shareholder value creation.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2009 from Guerdon Associates (refer section 3.4.2 for details).

3.4 Continuing to recognise Non-Executive Directors for their role

Finally, Macquarie's remuneration approach ensures that the Non-Executive Directors are appropriately recognised. Reflecting this different focus, the remuneration arrangements applicable to Non-Executive Directors, as outlined in this section, are different from the arrangements applicable to executives.

3.4.1 Non-Executive Director remuneration policy

Macquarie's Non-Executive Director remuneration policy is focused on the overall objective of ensuring that Non-Executive Directors are remunerated appropriately. This objective is achieved by:

- setting Board and Committee fees at a level to ensure that Non-Executive Directors are remunerated in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved
- delivering these fees in a form that is not contingent on Macquarie's performance
- not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

Thus, Macquarie's Non-Executive Director remuneration arrangements are structured quite differently from the executive remuneration arrangements. Executive Directors are not remunerated for acting as Voting Directors.

All Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to the Chairman via the Company Secretary.

All Non-Executive Directors of Macquarie are also Non-Executive Directors of Macquarie Bank, a key operating subsidiary. This policy governs the Non-Executive Directors of both Macquarie and Macquarie Bank in aggregate.

3.4.2 Board and Committee fees

Non-Executive Directors are remunerated via Board and Committee fees in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved. These fees are reviewed annually on the basis of a comparison to market rates. An external review is conducted periodically both as verification of the market comparison and also to provide observations concerning the continuing validity of the methodology.

Such an external review was commissioned and conducted in early 2009 to ensure that the Non-Executive Directors' remuneration was in line with the relevant benchmark organisations and to ensure that the methodology and framework employed was appropriate. The review was conducted by Guerdon Associates. The Board of Directors critically evaluated the analyses and the conclusions reached.

Macquarie's Non-Executive Directors are remunerated for their services from the maximum aggregate amount approved by shareholders for that purpose. The maximum aggregate amount of $3,000,000 was approved by Macquarie Bank Limited shareholders at Macquarie Bank's 2007 AGM. This same amount has been set in place for Macquarie Group Limited and applies on a consolidated basis.

Although fees have been split between Macquarie Bank Limited and Macquarie Group Limited, the Board ensures that Non-Executive Director remuneration for Macquarie Bank Limited and Macquarie Group Limited taken together does not exceed this shareholder-approved maximum aggregate amount.

As a result of the review undertaken this year, no change has been made to the per annum rates for Non-Executive Directors of Macquarie Bank Limited. The per annum rates are set out in the table as follows:

Macquarie Bank Limited Fees	**1 July 2006 – 30 June 2007**		**1 July 2007 – 12 November 2007**		**13 November 2007 onwards**	
	Chairman	Member	Chairman	Member	Chairman	Member
Board	$680,000	$190,000	$755,000	$205,000	$240,000	$65,000
Board Risk Committee	N/A*	$16,500	N/A*	$18,000	N/A**	N/A**
Board Audit and Compliance Committee	$60,000	$30,000	$60,000	$30,000	N/A**	N/A**
Board Remuneration Committee	$40,000	$20,000	$50,000	$25,000	N/A**	N/A**
Board Corporate Governance Committee	$28,000	$14,000	$36,000	$18,000	N/A**	N/A**
Board Nominating Committee	N/A*	$4,500	N/A*	$8,000	N/A**	N/A**

* These roles were filled by the Non-Executive Chairman who was not separately remunerated for Committee responsibilities.

** Macquarie Bank Limited does not have separate Committees, although Macquarie Group Limited's Audit and Compliance Committee (Fees per annum for Chairman and Member are $70,000 and $30,000 respectively) and Remuneration Committee (Fees per annum for Chairman and Member are $70,000 and $25,000 respectively) support both Boards.

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These fees are paid quarterly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions and by way of Macquarie ordinary shares issued via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional Macquarie ordinary shares. The terms of the NEDSAP substantially replicate the terms of an equivalent plan that was operated by Macquarie Bank Limited, as approved at Macquarie Bank Limited's 1999 Annual General Meeting. Shares under the NEDSAP are acquired on-market at prevailing market prices.

Information on the frequency of Board meetings is included on page 3 of the Directors' Report.

There are no termination payments to Non-Executive Directors on their retirement from office (and there never were in the case of both Macquarie Group Limited and Macquarie Bank Limited) other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

3.4.3 Minimum shareholding requirement for Non-Executive Directors

To encourage long-term commitment and to more closely align the interests of the Macquarie Bank Board with Macquarie shareholders, the Macquarie Bank Board has a minimum shareholding requirement for Non-Executive Directors. Non-Executive Directors are required to have a meaningful direct shareholding in Macquarie. A share plan is available to Non-Executive Directors to allocate a portion of their Board and Committee fees to acquire Macquarie equity.

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they maintain a holding of 6,000 Macquarie ordinary shares. These minimum holdings may be contributed via participation in the NEDSAP.

Under Macquarie's Trading Policy, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement. Actual shareholdings are set out in Appendix 3 below.

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

The disclosures set out in these Appendices reflect Key Management Personnel's services to Macquarie Bank.

The following persons were Voting Directors of Macquarie Bank Limited during the financial years ended 31 March 2009 and 31 March 2008, unless otherwise indicated:

Directors:		**Changes during 2008 & 2009 (except as noted below)**
Executive		
N.W. Moore*	Macquarie Group Limited Managing Director and Chief Executive Officer	Ceased being a Key Management Person on 12 November 2007. Appointed to the Macquarie Bank Limited Board on 24 May 2008
A.E. Moss, AO		Retired 24 May 2008
L.G. Cox, AO		
W.R. Sheppard*	Managing Director and Chief Executive Officer	
Non-Executive		
J.G. Allpass		Retired 19 July 2007
D.S. Clarke, AO	Non-Executive Chairman	On leave of absence from 27 November 2008
M.R.G. Johnson		Retired 19 July 2007
P.M. Kirby		
C.B. Livingstone, AO		
H.K. McCann, AM		Acting Chairman in D.S. Clarke's absence
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		Appointed 1 July 2007

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of Macquarie Bank and its controlled entities during the financial years ended 31 March 2009 and 31 March 2008, unless otherwise indicated:

Executives:	
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired 26 February 2009)
M. Carapiet	Group Head, Macquarie Capital (ceased being a Key Management Person on 12 November 2007)
A.J. Downe*	Group Head, Treasury and Commodities Group
R.S. Laidlaw*	Group Head, Macquarie Securities Group (appointed 11 March 2009)
P.J. Maher*	Group Head, Banking and Financial Services Group
N.R. Minogue*	Group Head, Risk Management Group
G.C. Ward*	Chief Financial Officer
S. Wikramanayake*	Group Head, Macquarie Funds Group (appointed 1 August 2008)

* Member of Macquarie Bank's Executive Committee as at 30 April 2009.

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in compliance with AASB 124: *Related Party Disclosures*.

For the purpose of these disclosures, all the individuals listed above have been determined to be Key Management Personnel, as defined by the Accounting Standard. Macquarie's Non-Executive Directors are specifically required by the Accounting Standard to be included as Key Management Personnel. However, the Non-Executive Directors do not consider that they are part of 'management'.

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Appendix 2: Remuneration disclosures

Executive remuneration

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 3.2 above.

The individuals identified above as Key Management Personnel include the five highest remunerated Macquarie Bank Limited Executives and Relevant Group Executives.

In accordance with the requirements of AASB 124: *Related Party Disclosures*, the remuneration disclosures in the remuneration tables for the year ended 31 March 2009 and the year ended 31 March 2008, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

Executive remuneration disclosure

		Short-Term Employee Benefits		
		Salary (including superannuation	Performance related remuneration (a)	Total short-term employee benefits
		$	$	$
Executive Directors				
L.G. Cox	**2009**	**201,954**	**116,257**	**318,211**
	2008	304,817	769,918	1,074,735
N.W. Moore (f)	**2009**	**335,977**	**1,376,414**	**1,712,391**
	2008	398,126	14,405,056	14,803,182
W.R. Sheppard	**2009**	**464,958**	**253,990**	**718,948**
	2008	481,847	3,131,170	3,613,017
Other Executives				
A.J. Downe	**2009**	**440,954**	**3,642,070**	**4,083,024**
	2008	469,889	11,509,756	11,979,645
R.S. Laidlaw (g)	**2009**	**7,311**	**32,345**	**39,656**
	2008	–	–	–
P.J. Maher	**2009**	**431,585**	**911,272**	**1,342,857**
	2008	451,120	3,267,300	3,718,420
N.R. Minogue	**2009**	**329,447**	**1,187,771**	**1,517,218**
	2008	362,174	2,907,263	3,269,437
G.C. Ward	**2009**	**329,447**	**1,511,709**	**1,841,156**
	2008	362,174	2,962,639	3,324,813
S. Wikramanayake (g)	**2009**	**169,698**	**375,394**	**545,092**
	2008	–	–	–
Former Executive Directors and Executives				
J.K. Burke (h)	**2009**	**112,085**	**–**	**112,085**
	2008	335,475	10,675,604	11,011,079
M. Carapiet (i)	**2009**	**–**	**–**	**–**
	2008	294,908	10,145,585	10,440,493
A.E. Moss (j)	**2009**	**76,949**	**1,157,863**	**1,234,812**
	2008	563,381	22,859,946	23,423,327
Total Remuneration – Executive Key Management Personnel	**2009**	**2,900,365**	**10,565,085**	**13,465,450**
	2008	4,023,911	82,634,237	86,658,148

Long-Term Employee Benefits			Share Based Payments				
Restricted profit share (b) $	Earnings on prior year restricted profit share $	Total long-term employee benefits $	Shares (c) $	Options (d), (e) $	Total share-based payments $	Total remuneration $	Percentage of remuneration that consists of options %
29,064	**(101,894)**	**(72,830)**	**–**	**7,075**	**7,075**	**252,456**	**2.80**
192,480	(41,613)	150,867	–	65,686	65,686	1,291,288	5.09
611,740	**(3,110,901)**	**(2,499,161)**	**1,070,545**	**584,665**	**1,655,210**	**868,440**	**67.32**
4,115,730	(1,688,430)	2,427,300	2,057,865	1,289,653	3,347,518	20,578,000	6.27
84,663	**(1,655,184)**	**(1,570,521)**	**84,663**	**157,415**	**242,078**	**(609,495)**	**(25.83)**
894,620	(1,509,805)	(615,185)	447,310	454,706	902,016	3,899,848	11.66
1,214,023	**(3,403,223)**	**(2,189,200)**	**1,214,023**	**307,384**	**1,521,407**	**3,415,232**	**9.00**
3,288,502	(3,140,783)	147,719	1,644,251	785,510	2,429,761	14,557,125	5.40
10,782	**(43,168)**	**(32,386)**	**10,782**	**18,522**	**29,304**	**36,574**	**0.51**
–	–	–	–	–	–	–	–
303,757	**(841,014)**	**(537,257)**	**303,757**	**163,884**	**467,641**	**1,273,240**	**12.87**
933,514	(722,400)	211,114	466,757	297,975	764,732	4,694,266	6.35
395,924	**(840,269)**	**(444,345)**	**395,924**	**101,993**	**497,917**	**1,570,790**	**6.49**
830,647	(783,392)	47,255	415,323	310,945	726,268	4,042,960	7.69
503,903	**(607,005)**	**(103,102)**	**503,903**	**143,256**	**647,159**	**2,385,213**	**6.01**
846,468	(568,563)	277,905	423,234	268,971	692,205	4,294,923	6.26
125,131	**(381,421)**	**(256,290)**	**125,131**	**228,688**	**353,819**	**642,621**	**35.59**
–	–	–	–	–	–	–	–
–	**(160,663)**	**(160,663)**	**–**	**(121,657)**	**(121,657)**	**(170,235)**	**71.46**
3,050,173	256,332	3,306,505	1,525,086	529,498	2,054,584	16,372,168	3.23
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2,898,738	(1,114,754)	1,783,984	1,449,369	1,054,788	2,504,157	14,728,634	7.16
–	**(3,629,506)**	**(3,629,506)**	**–**	**42,840**	**42,840**	**(2,351,854)**	**(1.82)**
–	(4,095,950)	(4,095,950)	–	1,459,881	1,459,881	20,787,258	7.02
3,278,987	**(14,774,249)**	**(11,495,262)**	**3,708,728**	**1,634,065**	**5,342,793**	**7,312,981**	
17,050,872	(13,409,358)	3,641,514	8,429,195	6,517,613	14,946,808	105,246,470	

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for the financial year ended 31 March 2009 continued

Notes on elements of executive remuneration

(a) Performance related remuneration represents the current portion of each individual's profit share allocation in relation to the reporting period. For 2009 and 2008, in the case of Mr A.E. Moss, the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which was paid within twelve months of the end of the reporting period, in accordance with the requirements of AASB 124: *Related Party Disclosures*.

(b) This is the retained amount relating to current year profit share allocations, which is deferred to future periods as described in section 3.2.3.1.1 above. For 2009 and 2008, in the case of Mr A.E. Moss (because he retired), the retained amount is included within "Performance related remuneration" as it was paid within twelve months of the end of the reporting period.

(c) This is the amount of the current year profit share allocation, which is allocated to invest in Macquarie ordinary shares as described in 3.2.3.1.2 above.

(d) This amount has been calculated on the basis as described in Note 2 xxi) Share based payments to the 2009 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted. Therefore, the amounts included in this table are not able to be derived directly from the disclosures in Appendix 3 below. If an option lapses in a reporting period, amounts previously recognised as remuneration in relation to the lapsed options are deducted from remuneration in the reporting period. In the case of Mr Burke, 108,334 unvested options lapsed when he retired from executive responsibilities on 26 February 2009. The reversal of the amounts previously recognised in relation to these options exceeded the amounts recognised in relation to his options which vested during the year, resulting in a negative balance in the table above for 2009.

(e) Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon vesting only when Macquarie's average annual return on ordinary equity for the three previous financial years is above the 65^{th} percentile, as further discussed in section 3.2.3.2.3. Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 are not expected to be achieved and therefore the options are not expected to vest. The related expense previously recognised for these option grants has been reversed in the current financial year and results in a reduction in total 2009 remuneration for the impacted individuals.

Notes on individuals

(f) Mr N.W. Moore ceased to be a Key Management Personnel on 12 November 2007 as a result of the corporate restructure. Subsequent to that, he was appointed to the Board of Directors of Macquarie Bank Limited and as Macquarie Group Limited Chief Executive Officer and Managing Director on 24 May 2008.

(g) Mr R.S. Laidlaw and Ms S. Wikramanayake were appointed to the Executive Committee on 11 March 2009 and 1 August 2008, respectively.

(h) Mr J.K. Burke retired on 26 February 2009.

(i) Mr M. Carapiet ceased to be Key Management Personnel on 12 November 2007 as a result of the corporate restructure. He is therefore shown as a "Former Executive" of Macquarie Bank.

(j) Mr A.E. Moss retired on 24 May 2008. On 24 November 2008 he became entitled to his vested profit share from Macquarie Group Limited of $24,752,508 which included notional earnings increment or decrement up until payment date once the Macquarie Group Limited Board determined that a disqualifying event had not occurred. This vested profit share amount comprises the retained portion of his profit share allocations from 1998 to 2007 as well as the retained portion of the profit share allocations for the years ended 31 March 2009 and 31 March 2008 (which are included within the "Performance related remuneration" disclosed in the table above). Mr Moss's total remuneration for 2009 included a final profit share allocation for the period 1 April 2008 up to the date of his retirement on 24 May 2008, which was paid in November 2008.

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 3.4 above. These Non-Executive Director remuneration arrangements have applied to Mr Clarke and Mr Johnson from 1 April 2007 onwards.

		Directors Fees $	Other Benefits (a) $	Total Compensation $
D.S. Clarke (b)	**2009**	**180,208**	**10,487**	**190,695**
	2008	537,273	29,190	566,463
J.G. Allpass (c)	**2009**	**–**	**–**	**–**
	2008	77,727	27,218	104,945
M.R.G. Johnson (d)	**2009**	**–**	**–**	**–**
	2008	66,818	60,606	127,424
P.M. Kirby	**2009**	**65,000**	**–**	**65,000**
	2008	178,367	–	178,367
C.B. Livingstone	**2009**	**65,000**	**–**	**65,000**
	2008	198,682	38,250	236,932
H.K. McCann (e)	**2009**	**122,792**	**–**	**122,792**
	2008	196,330	26,700	223,030
J.R. Niland	**2009**	**65,000**	**–**	**65,000**
	2008	184,883	–	184,883
H.M. Nugent	**2009**	**65,000**	**–**	**65,000**
	2008	190,045	–	190,045
P.H. Warne (f)	**2009**	**65,000**	**–**	**65,000**
	2008	124,121	–	124,121
Total Remuneration – Non-Executive Key Management Personnel	**2009**	**628,000**	**10,487**	**638,487**
	2008	1,754,246	181,964	1,936,210

(a) Other benefits for Non-Executive Directors include due diligence committee fees paid to Ms Livingstone of $32,100 in 2008, Mr McCann of $26,700 in 2008 and Mr Allpass of $7,000 in 2008; fees paid to Mr Allpass and Mr Johnson for Compliance Committee duties for certain related entities in 2008 (Macquarie Infrastructure Group, Macquarie Infrastructure Group International Limited, Macquarie Infrastructure Investment Management Limited, Macquarie Investment Management Limited, Macquarie Investment Services Limited and Macquarie Private Portfolio Management Limited), and fees paid to Mr Allpass and Ms Livingstone in 2008 for work performed in relation to the Basel II Board Sub-Committee.

For the period that Mr Clarke was Non-Executive Chairman, Mr Clarke was entitled to the use of an office and administrative support. Included above is a notional estimate of the portion of the cost of these services which may have been used by the Chairman for other purposes.

(b) Mr Clarke is currently on leave of absence (commenced on 27 November 2008).

(c) Mr Allpass retired from the Board of Directors on 19 July 2007.

(d) Mr. Johnson retired from the Board of Directors on 19 July 2007.

(e) Mr McCann is currently Acting Chairman in Mr Clarke's absence (since 27 November 2008).

(f) Mr Warne was appointed to the Board of Directors on 1 July 2007 and was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence on 27 November 2008.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

Appendix 3: Share and Option disclosures

Shares

Shareholding of Key Management Personnel and their related parties

The following table sets out details of fully paid ordinary shares of the Macquarie Bank held during the year by the Key Management Personnel including their related parties. Shareholders of Macquarie Bank obtained one Macquarie ordinary share for each ordinary share they held in Macquarie Bank prior to implementation of the Macquarie Group restructure.

For the year ended 31 March 2008

Name and position	Number of shares held at 1 April 2007	Shares issued on exercise of options	Other changes (a)	Shares cancelled on Restructure	Number of shares held at 31 March 2008
Executive Directors					
L.G. Cox	269,812	-	-	(269,812)	-
A.E. Moss	404,336	-	(100)	(404,236)	-
W.R. Sheppard	259,271	-	2,000	(261,271)	-
Non-Executive Directors					
J.G. Allpass (b)	18,513	-	-	(18,513)	-
D.S. Clarke (c)	651,113	53,734	10	(704,857)	-
M.R.G. Johnson (d)	293,803	-	-	(293,803)	-
P.M. Kirby	9,772	-	-	(9,772)	-
C.B. Livingstone	7,550	-	882	(8,432)	-
H.K. McCann	11,359	-	-	(11,359)	-
J.R. Niland	5,959	-	2,000	(7,959)	-
H.M. Nugent	19,762	-	851	(20,613)	-
P.H. Warne (e)	8,790	-	287	(9,077)	-
Executives					
J.K. Burke	25,000	6,657	-	(31,657)	-
M. Carapiet (f)	525,934	99,771	(94,431)	(531,274)	-
A.J. Downe	121,035	-	-	(121,035)	-
P.J. Maher	60,153	56,666	171	(116,990)	-
N.R. Minogue	110,811	21,500	-	(132,311)	-
N.W. Moore (f)	843,113	216,001	(50,000)	(1,009,114)	-
G.C. Ward	29,211	27,409	-	(56,620)	-

(a) Includes on-market acquisitions and disposals.

(b) Mr Allpass retired from the Board of Directors on 19 July 2007. Shares cancelled on restructure represent the balance held at date of retirement.

(c) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

(d) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. Shares cancelled on restructure represent the balance held at date of retirement.

(e) Mr Warne was appointed to the Board of Directors on 1 July 2007. The opening balance on 1 April 2007 represents holdings as at the date of appointment.

(f) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed 24 May 2008.

Options

Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the year for the key management personnel including their related parties in 2008. The options are over fully paid unissued ordinary shares of the Macquarie Bank Limited. As a result of the corporate restructure that took effect on 13 November 2007, option holders of Macquarie Bank Limited obtained one option over unissued Macquarie ordinary shares for each option they held in Macquarie Bank Limited prior to implementation of the restructure. Following the restructure, there were no options issued over Macquarie Bank Limited shares.

For the year ended 31 March 2008

Name and position	Number of options held at 1 April 2007	Options granted during the financial year	Options exercised during the financial year	Other changes (a)	Options cancelled on restructure	Number of options held at 31 March 2008 (b)	Number of options vested during the financial year	Number of options vested at 31 March 2008 (b)	Value of options granted as part of remuneration and that are exercised or sold during the financial year $ (c)
Executive Directors									
L.G. Cox	23,265	9,000	-	-	(32,265)	-	4,673	-	-
A.E. Moss	511,000	159,400	-	-	(670,400)	-	115,200	-	-
W.R. Sheppard	148,334	45,000	-	-	(193,334)	-	53,332	-	-
Non-Executive Directors									
J.G. Allpass (d)	-	-	-	-	-	-	-	-	-
D.S. Clarke (e)	53,734	-	(53,734)	-	-	-	-	-	2,125,687
M.R.G. Johnson (f)	84,795	-	-	-	(84,795)	-	36,366	-	-
P.M. Kirby	-	-	-	-	-	-	-	-	-
C.B. Livingstone	-	-	-	-	-	-	-	-	-
H.K. McCann	-	-	-	-	-	-	-	-	-
J.R. Niland	-	-	-	-	-	-	-	-	-
H.M. Nugent	-	-	-	-	-	-	-	-	-
P.H. Warne (g)	-	-	-	-	-	-	-	-	-
Executives									
J.K. Burke	181,335	50,000	(6,657)	-	(224,678)	-	53,001	-	275,961
M. Carapiet (h)	356,838	126,000	(99,771)	-	(383,067)	-	99,771	-	2,238,423
A.J. Downe	218,335	85,000	-	-	(303,335)	-	71,667	-	-
P.J. Maher	125,000	25,000	(56,666)	-	(93,334)	-	31,666	-	2,719,641
N.R. Minogue	129,835	35,000	(21,500)	-	(143,335)	-	36,667	-	928,585
N.W. Moore (h)	594,335	154,400	(216,001)	-	(532,734)	-	138,333	-	9,604,962
G.C. Ward	100,743	30,000	(27,409)	-	(103,334)	-	31,667	-	1,473,361

(a) Vested options sold under facility provided by an external party unless otherwise noted.

(b) Or date of retirement if earlier.

(c) Includes options that were granted as part of remuneration in prior years.

(d) Mr Allpass retired from the Board of Directors on 19 July 2007.

(e) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

(f) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. Balance cancelled on restructure represents the balance held at date of retirement.

(g) Mr Warne was appointed to the Board of Directors on 1 July 2007.

(h) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

No options granted as part of remuneration lapsed during the financial year.

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for the financial year ended 31 March 2009 continued

Details of options granted and their fair value at grant date

For the year ended 31 March 2008

Name and position	Date options granted	Number of options granted	Option exercise price $	Fair value at grant date* $	Value of options granted as part of remuneration during the year $	Date first tranche can be exercised	Expiry date
Executive Directors							
L.G. Cox	15 August 2007	9,000	71.41	11.16	100,440	1 July 2009	15 August 2012
A.E. Moss	15 August 2007	159,400	71.41	11.16	1,778,904	1 July 2009	15 August 2012
W.R. Sheppard	15 August 2007	45,000	71.41	11.16	502,200	1 July 2009	15 August 2012
Executives							
J.K. Burke	15 August 2007	50,000	71.41	11.16	558,000	1 July 2009	15 August 2012
M. Carapiet	15 August 2007	126,000	71.41	11.16	1,406,160	1 July 2009	15 August 2012
A.J. Downe	15 August 2007	85,000	71.41	11.16	948,600	1 July 2009	15 August 2012
P.J. Maher	15 August 2007	25,000	71.41	11.16	279,000	1 July 2009	15 August 2012
N.R. Minogue	15 August 2007	35,000	71.41	11.16	390,600	1 July 2009	15 August 2012
N.W. Moore	15 August 2007	154,400	71.41	11.16	1,723,104	1 July 2009	15 August 2012
G.C. Ward	15 August 2007	30,000	71.41	11.16	334,800	1 July 2009	15 August 2012

* Refer to notes on fair value below.

Macquarie has adopted the fair value measurement provisions of AASB 2: *Share-Based Payment* for all options granted to Key Management Personnel. The fair value of such grants is being amortised and disclosed as part of each Key Management Person's remuneration on a straight-line basis over the vesting period.

Performance hurdles attached to the options issued to the Key Management Personnel are not taken into account when determining the fair value of the option at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest. For the purpose of calculating the options-related compensation in Appendix 2 above, Macquarie Bank has assumed that all options will vest, except where it is known that an option lapsed during the period.

Options granted during the financial year were issued subject to the exercise conditions noted above and are only exercisable in three equal tranches on or after 1 July 2009, 1 July 2010 and 1 July 2011. Allocations of these options were in respect of performance for Macquarie Bank's 2007 financial year.

The fair value of each option is estimated on the date of grant using a trinomial option pricing framework. The following key assumptions have been adopted for grants made in the financial year ended 31 March 2008:

– risk free interest rate: 7.04 per cent (weighted average)
– expected life of options: four years
– volatility of share price: 20 per cent per annum
– dividend yield: 3.43 per cent per annum

The exercise price of the options granted to Executive Directors and Executives in the current financial year was based on the weighted average market price of Macquarie's ordinary shares traded on ASX during the one week up to and including 15 August 2007 (adjusted for special trades and any cum-dividend trading).

There were no options issued to Non-Executive Directors during the financial year.

Ordinary shares issued as a result of the exercise of options by Key Management Personnel during the year

For the year ended 31 March 2008

Name and position	**Number of options exercised during the financial year (a)**	**Number of shares issued on exercise of options**	**Exercise price paid in full per share $**
Executives			
J.K. Burke	4,668	4,668	28.74
	1,989	1,989	33.11
M. Carapiet (b)	26,668	26,668	28.74
	32,500	32,500	33.11
	40,603	40,603	63.34
P.J. Maher	30,000	30,000	28.74
	26,666	26,666	35.28
N.R. Minogue	21,500	21,500	30.51
N.W. Moore (b)	52,668	52,668	30.51
	66,667	66,667	28.74
	96,666	96,666	32.26
G.C. Ward	14,076	14,076	28.74
	13,333	13,333	33.11

(a) Or the period until date of retirement if earlier than 31 March 2008.

(b) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

No shares were issued on exercise of options by Key Management Personnel during 2009.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

Appendix 4: Loan disclosures

Loans to Key Management Personnel

Details of loans provided by Macquarie to Key Management Personnel and their related parties are disclosed in the following tables:

		Opening balance at 1 April $'000	Interest charged (a) $'000	Write-down $'000	Closing balance at 31 March $'000	Number in group 31 March $'000
Total for Key Management Personnel and their related parties	**2009**	**57,176**	**4,501**	**–**	**42,861**	**10**
	2008	57,545	4,370	–	57,199	14
Total for Key Management Personnel	**2009**	39,164	2,493	–	22,729	5
	2008	41,862	2,897	–	39,187	9

Loans and other financial instrument transactions are made by Macquarie in the ordinary course of business with related parties.

Certain loans are provided under zero cost collars secured over Macquarie ordinary shares under normal terms and conditions consistent with other customers and employees.

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year:

For the year ended 31 March 2009

Name and position	Balance at 1 April 2008 $'000	Interest charged (a) $'000	Write-down $'000	Balance at 31 March 2009 (b) $'000	Highest in period $'000
Executive Directors					
L.G. Cox	–	–	–	–	–
N.M. Moore (c)	6,985	376	–	5,313	12,570
Non-Executive Directors					
D.S. Clarke (d)	34,826	3,352	–	37,290	37,798
Executives					
A.J. Downe	1,847	105	–	–	1,847
R.S. Laidlaw (e)	238	–	–	238	238
P.J. Maher	4,878	499	–	20	5,572
N.R. Minogue	4,234	42	–	–	4,339
G.C. Ward	4,406	127	–	–	4,406

(a) All loans provided by Macquarie to Directors and Executives are made in the ordinary course of business on an arm's-length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(b) Or date of retirement if earlier.

(c) Mr Moore ceased being a member of Executive Committee on 12 November 2007. He was reappointed on 24 May 2008.

(d) Mr Clarke is currently on leave of absence (commenced 27 November 2008).

(e) Mr Laidlaw was appointed to the Executive Committee on 11 March 2009. The balance at 1 April 2008 represents holdings at date of appointment.

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year (continued)

For the year ended 31 March 2008

Name and position	Balance at 1 April 2007	Interest charged (a)	Write-down	Balance at 31 March 2008 (b)	Highest in period
	$'000	$'000	$'000	$'000	$'000
Executive Directors					
L.G. Cox	200	7	–	–	765
N.M. Moore (c)	12,891	504	–	6,985	12,891
Non-Executive Directors					
D.S. Clarke (d)	29,937	2,606	–	34,826	35,050
Executives					
M. Carapiet (c)	5,286	136	–	–	5,286
A.J. Downe	–	49	–	1,847	1,847
P.J. Maher	2,866	416	–	4,878	5,769
N.R. Minogue	4,618	340	–	4,234	4,939
G.C. Ward	1,727	311	–	4,406	4,561

(a) All loans provided by Macquarie to Directors and Executives are made in the ordinary course of business on an arm's-length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(b) Or date of retirement if earlier.

(c) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

(d) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman and is currently on leave of absence (commenced 27 November 2008).

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Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 continued

Appendix 5: Other disclosures

Other transactions and balances of Key Management Personnel and their related parties

The following Key Management Personnel have acquired Infrastructure Bonds and similar products from controlled entities within Macquarie which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to a legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the economic entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2009 $'000	Consolidated 2008 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**10,823**	13,481

The annual contributions in respect of Infrastructure Bonds and similar products relate to the following Key Management Personnel:

Executive Directors
L.G. Cox, N.W. Moore and W.R. Sheppard

Non-Executive Directors
D.S. Clarke, P.M. Kirby

Executives
M. Carapiet (2008 only), A.J. Downe, R. Laidlaw (2009 only), P.J. Maher, N.R. Minogue and G.C. Ward

Former
J.K. Burke

The following Key Management Personnel (including related parties) have entered into zero cost collar transactions with Macquarie Bank and other non-related entities in respect of Macquarie ordinary shares. This has the effect of acquiring cash-settled put options against movements in the Macquarie share price below current levels and disposing of the benefit of any share price movement above the nominated level. These are not related to any shares required to be held as part of the Executive Committee equity alignment and minimum shareholding arrangements as outlined in section 3.3.

Name and position	**Description**	**Number of shares 2009 $'000**	Number of shares 2008 $'000
Non-Executive Directors			
D.S. Clarke	Maturing May 2008	**–**	260,379
	Maturing June 2008	**–**	100,784
	Maturing May 2009	**361,163**	–
	Maturing August 2009	**25,196**	25,196
	Maturing June 2010	**213,517**	213,517
M.R.G. Johnson (a)	Maturing July 2008	**–**	25,000
Executives			
A.J. Downe	Maturing August 2008	**–**	36,382
	Maturing December 2008	**–**	55,001
G.C. Ward	Maturing July 2008	**–**	40,373
	Maturing July 2008	**–**	5,742

(a) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. Balance at 31 March 2008 represents holdings at date of retirement.

All other transactions with Key Management Personnel (including their personally related parties) were conducted on an arm's-length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

This is the end of the Remuneration Report

Directors' equity participation

At 30 April 2009, none of the Directors held any relevant interests, as notified by the Directors to the ASX in accordance with the Corporations Act 2001 (Cth), in shares or share options of Macquarie Bank.

Directors' and officers' indemnification and insurance

Under Macquarie Bank's Constitution, Macquarie Bank indemnifies all past and present Directors and Secretaries of Macquarie Bank (including at this time the Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against every liability incurred by them in, and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved because of their respective capacities unless:

- the liability is owed to Macquarie Bank or to a related body corporate;
- the liability did not arise out of conduct in good faith;
- the liability is for a pecuniary penalty order or a compensation order under the *Corporations Act 2001*;
- in the case of legal costs, the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission (ASIC) or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs incurred in relation to proceedings for relief to the person under the *Corporations Act 2001* in which the court denies relief;
- Macquarie Bank is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by Macquarie Bank of the person against the liability or legal costs would, if given, be made void by statute.

Following approval by shareholders at the 1998 Annual General Meeting, Macquarie Bank entered into a Deed of Access, Indemnity and Insurance dated 4 August 1998 (Deed), which protects Directors acting as Directors during their term of office and after their resignation (except where an individual engages in conduct involving a lack of good faith). Under the Deed, Macquarie Bank agrees to:

- indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of Macquarie Bank under its Constitution in force from time to time;
- take out and maintain a company reimbursement insurance policy and make available to Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Bank's position) for seven years after the Director ceases to be a Director of Macquarie Bank;
- loan funds to a Director to cover the Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by Macquarie Bank to the Director under the indemnity); and
- grant access to Directors to all Board papers for at least seven years after the Director ceases to be a Director of Macquarie Bank, and access to other documents if the documents were in Macquarie Bank's possession at the time the Director was a Director and where it is not contrary to Macquarie Bank's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 Annual General Meeting, Macquarie Bank made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). The benefit of the undertakings made by Macquarie Bank under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie Bank, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of Macquarie Bank or a wholly-owned subsidiary of Macquarie Bank. The Deed Poll provides for the same indemnity and insurance arrangements for those persons with the benefit of the Deed Poll as for the Deed of Indemnity, Access and Insurance described above. However, the Deed Poll does not provide for access to documents of Macquarie Bank.

Following the approval of shareholders at the 2000 Annual General Meeting, both the Deed and the Deed Poll were amended in a minor way to clarify the operation of the deeds with respect to the provision of loans to indemnified persons for legal costs and the requirement to repay such loans. From November 2005, each Director, each Secretary and other officers having the benefit of the indemnity provisions under Macquarie Bank 's Constitution, the Deed and the Deed Poll was asked to agree that those indemnities would not apply to the extent to which an indemnity for any liability or legal costs is forbidden by Australian statute or would, if given, be made void by Australian statute. These limitations on the indemnities were subsequently adopted into the indemnity provisions of Macquarie Bank's Constitution with the approval of shareholders at the 2006 Annual General Meeting with the effect that this limitation now applies directly to the terms of the Deed and the Deed Poll.

Certain Directors or Secretaries have executed the Macquarie Indemnity & Insurance Deed Poll under which Macquarie indemnifies them against every liability incurred by them, including all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which they become involved, because of their respective capacities.

This indemnity does not apply to the extent that:

- Macquarie is forbidden by law to indemnify the person against the liability or legal costs; or
- An indemnity by Macquarie of the person against the liability or legal costs, if given would be void by law.

Directors' Report
for the financial year ended 31 March 2009 continued

A Directors' and Officers' insurance policy, taken out by Macquarie, is in place that provides cover for each person in favour of whom such insurance is required to be taken out under the Deed and the Deed Poll and for Macquarie Bank in indemnifying such persons pursuant to the Deed and the Deed Poll. Relevant individuals pay the premium attributable to the direct coverage under the policy and Macquarie Bank pays the premium attributable to the company reimbursement coverage under the policy. The Directors' and Officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Directors' interests and benefits

A number of Directors have given written notices stating that they hold office in specified companies and accordingly are regarded as having a relevant interest in any contract or proposed contract that may be made between Macquarie Bank and any of these companies. Transactions between Macquarie Bank and any of these companies are on normal commercial terms and conditions.

Other than any benefit that may have been derived from loans and other financial instrument transactions provided by and to Macquarie Bank or a related entity and any amounts received in respect of previously accrued remuneration, no Director has, during the financial year and the period to the date of this report, become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in this report, or the fixed salary of a full-time employee of Macquarie Bank or of a related entity) by reason of a contract made by Macquarie Bank or a related entity with the Director, or with a firm of which he/she is a member, or with an entity in which he/she has a substantial financial interest.

Share options

Information on Macquarie's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 39 - Employee equity participation, in the financial report.

No unissued shares in Macquarie Bank are under option as at the date of this report.

Directors' relevant interests

The relevant interests of Directors as at 30 April 2009 in managed investment schemes made available by related bodies corporate of Macquarie Bank and other disclosable relevant interests are listed in the table below:

Name and position	Direct interests	Indirect interests
Executive Directors		
W.R. Sheppard	– 23,126 Macquarie ordinary shares – 128,334 Macquarie share options – 595,251 Macquarie Airports stapled securities – 239,431 Macquarie Infrastructure Group stapled securities – 328,760 Macquarie Leisure Trust stapled securities – 75,000 Macquarie Media Group stapled securities – 80,306 Macquarie Wrap Cash Account units	– 244,664 Macquarie ordinary shares – 96,000 Macquarie share options – 1,884 Macquarie Airports Reset Exchange Securities Trust units – 316,342 Macquarie Airports stapled securities – 222,837 Macquarie Communications Infrastructure Group stapled securities – 132,933 Macquarie Australian Small Companies Fund units – 6,000 Macquarie Convertible Preference Securities – 609,004 Macquarie CountryWide Trust units – 1,802,420 Macquarie Office Trust units – 150,000 Macquarie Technology Fund units – 206,000 Macquarie Martin Place Trust units – 98,044 Macquarie Global Infrastructure Fund (A) shares – 2,156 Macquarie Global Infrastructure Fund (B) shares – 350,378 Macquarie Master Australian Enhanced Equities Fund units – 90,736 Macquarie Cash Management Trust units
N.W. Moore	– 810,365 Macquarie ordinary shares – 776,634 Macquarie share options – 710,838 Macquarie Airports stapled securities – 483,674 Macquarie Global Infrastructure Fund (B) units – 2,531,935 Macquarie Media Group stapled securities – 5,000,000 Macquarie Reflexion Trusts June 2006 units – 50,000 Macquarie Nine Film & Television Investment Fund ordinary shares – 50 Macquarie Timber Land Trust 2004 units – 75 Macquarie Timber Land Trust 2006 units	– 387,046 Macquarie ordinary shares – 957,382 Macquarie Infrastructure Group stapled securities – 200,000 Macquarie Technology Fund - 1A ordinary shares – 293,455 Macquarie Communications Infrastructure Group stapled securities – 64,177 Macquarie Global Infrastructure Fund (B) units – 3,586,365 Macquarie Airports stapled securities – 623,565 Macquarie Media Group stapled securities – 2,000,000 Macquarie Global Infrastructure Fund III (B) units
L.G. Cox	– 51,763 Macquarie ordinary shares – 32,265 Macquarie share options – 1,047 Macquarie Cash Management Trust units	– 218,049 Macquarie ordinary shares – 189,236 Macquarie Airports stapled securities – 70 Macquarie Cash Management Trust units
Non-Executive Directors		
D.S. Clarke	– 381,213 Macquarie ordinary shares – 285,575 Zero Cost Collars[2]	– 323,150 Macquarie ordinary shares – 397,734 Macquarie Balanced Growth Fund units – 5,000 Macquarie Office Trust units – 213,517 Cash Settled Put Options[1] – 100,784 Zero Cost Collars[3]

Directors' Report
for the financial year ended 31 March 2009 continued

Name and position	Direct interests	Indirect interests
Independent Directors		
P.M. Kirby	– 18,996 Macquarie ordinary shares – 170,562 ConnectEast Group stapled securities – 121,563 Macquarie Infrastructure Group stapled securities – 30,000 Macquarie Media Group stapled securities	– 42,800 Macquarie Infrastructure Group stapled securities – 61,400 Macquarie Airports stapled securities – 215,369 Macquarie Cash Management Trust units – 500 Macquarie Airports Reset Exchange Securities Trust units
C.B. Livingstone	– 646 Macquarie ordinary shares	– 8,334 Macquarie ordinary shares – 18,813 Macquarie CountryWide Trust units – 23,485 Macquarie Cash Management Trust units
H.K. McCann	– 11,359 Macquarie ordinary shares	– 103,000 Macquarie Martin Place Trust units – 50,819 Macquarie Communications Infrastructure Group stapled securities – 112,415 Macquarie CountryWide Trust units – 1,500 Macquarie Airports Reset Exchange Securities Trust units
J.R. Niland	– 2,309 Macquarie ordinary shares	– 7,250 Macquarie ordinary shares – 20,291 Macquarie Infrastructure Group Stapled Securities – 101,750 Macquarie Office Trust units – 7,500 Macquarie Airports stapled securities
H.M. Nugent	– 3,945 Macquarie ordinary shares	– 8,498 Macquarie ordinary shares – 28,611 Macquarie Airports stapled securities
P.H Warne	– 2,744 Macquarie ordinary shares	– 13,077 Macquarie ordinary shares – 3,175 Macquarie Airports stapled securities – 218,884 Macquarie Infrastructure Group stapled securities – 106,557 Macquarie Office Trust units – 70,418 Macquarie CountryWide Trust units – 1,333 Macquarie Airports Reset Exchange Securities Trust units

(1) A company in which Mr Clarke has a relevant interest entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect of 213,517 Macquarie ordinary shares, which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price over the period from 15 June 2005 for the period to 14 June 2010 in respect of those shares.

(2) Mr Clarke entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect of 153,296 Macquarie ordinary shares, which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 16 May 2003 to 8 May 2009, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect of 107,083 Macquarie ordinary shares which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 20 May 2003 to 8 May 2009, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect of 25,196 Macquarie ordinary shares, which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price, and disposing of the benefit of any share price movements above a nominated level over the period from 19 August 2004 to 18 August 2009, in respect of those shares.

(3) A company in which Mr Clarke has a relevant interest entered into a Zero Cost Collar transaction with Macquarie Bank Limited in respect off 100,784 Macquarie ordinary shares, which had the effect of acquiring cash-settled put options against movements in the Macquarie ordinary share price below the then current share price and disposing of the benefit of any share price movements above a nominated level over the period from 16 May 2003 to 8 May 2009, in respect of those shares.

(4) The transactions in 1 to 3 above do not relate to Macquarie ordinary shares in respect of which the relevant persons are not permitted by Macquarie policy to minimise their equity risk.

Environmental regulations

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

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

Non-audit services

Details of the amounts paid or payable to the auditor of MBL, PricewaterhouseCoopers (PwC), and its related practices for non-audit services provided during the year is disclosed in note 47 to the financial report – Audit and other services provided by PwC.

Macquarie Bank's external auditor policy, which is discussed in the Macquarie Corporate Governance Statement contained in the 2009 Macquarie Annual Report, states that the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for Macquarie Bank, or audits its own professional expertise. The policy also provides that significant permissible non-audit assignments awarded to external auditors must be approved in advance by the BACC or the Committee Chairman, as appropriate.

The BACC Committee has reviewed a summary of non-audit services provided during the year by PwC and its related practices, and has confirmed that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Act. This has been formally advised to the Board of Directors. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the Act.

Auditors' independence declaration

A copy of the auditors' independence declaration, as required under section 307C of the Act, is set out in the Directors' Report Schedule 2 following this report.

Rounding of amounts

In accordance with ASIC Class Order 98/0100 (as amended), amounts in the Annual Report have been rounded off to the nearest million dollars unless otherwise indicated.

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

H Kevin McCann
Non Executive Director and Acting Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
30 April 2009

Directors' Report Schedule 1
for the financial year ended 31 March 2009

Directors' experience and special responsibilities

David S Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 67)

Non-Executive Chairman (Chairman of Macquarie Bank since its inception in February 1985) (Currently on Leave of Absence)

David Clarke has been Non-Executive Chairman of Macquarie Bank since 1 April 2007 and Non-Executive Chairman of Macquarie Group Limited since August 2007. He was Executive Chairman of Macquarie Bank from its formation in 1985 until 31 March 2007, when he ceased executive duties. From 1971 to 1977, he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank), from 1977 to 1984 Managing Director and from 1984, Executive Chairman. Currently, he is Chairman of Australian Vintage Limited (since November 1991) and Goodman Group (since October 2000). He is an associate of ASX Limited and a member of the Investment Advisory Committee of the Australian Olympic Foundation, the Seoul International Business Advisory Council, the Board of the Centre for the Mind and the Bloomberg Asia Pacific Advisory Board. He is also a member of Council of the Royal Agricultural Society of NSW and the Corporate Governance Committee of the Australian Institute of Company Directors and an honorary life member of the Financial Markets Foundation for Children. He was previously Chairman of the management companies of Macquarie ProLogis Trust (from June 1987 until March 2007), Macquarie Office Trust (from June 1987 until March 2007) and Macquarie CountryWide Trust (from June 1995 until March 2007). Mr Clarke is a resident of New South Wales.

W Richard Sheppard, BEc (Hons) (Syd) (age 60)

Managing Director and Chief Executive Officer since November 2007

Executive Voting Director – joined the Board in November 2007

Richard Sheppard joined Macquarie Bank's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. He was Head of Macquarie Bank's Melbourne Office from 1986 until 1988 and became Head of the Corporate Banking Group in 1988. He has been a member of the Group Executive Committee since 1986 and was appointed as Deputy Managing Director of Macquarie Bank in 1996. Following the restructure of Macquarie Group in November 2007, he was appointed Managing Director and Chief Executive Officer of Macquarie Bank and Deputy Managing Director of Macquarie Group Limited. He is a past Chairman of several of Macquarie Bank's associates including Hills Motorway Trust (from December 2002 to April 2006), Macquarie Airports (from December 2002 to April 2006) and Macquarie Private Capital Group (Director from August 2004 and Chairman from October 2005 until June 2008) and is currently Chairman of Macquarie CountryWide Trust (since March 2007) and Macquarie DDR Trust (since October 2003). He is a member of the Government's Financial Sector Advisory Council and the Australian Financial Markets Association. He is also a member of a number of other boards including Cure Cancer Australia Foundation, Quest for Life Foundation, the Bradman Foundation and the Sydney Cricket Club. Mr Sheppard is a resident of NSW.

Nicholas W Moore, BCom LLB (UNSW), FCA (age 50)

Executive Voting Director – joined the Board in May 2008

Nicholas Moore joined the Board of Macquarie Bank as an Executive Director in May 2008. Mr Moore is Managing Director and Chief Executive Officer of Macquarie Group Limited. He has been an Executive Voting Director of Macquarie Group Limited since February 2008. He joined the Corporate Services Division of Macquarie Bank in 1986. He led a range of transactions, including Hills Motorway, which led the development of Macquarie's infrastructure business. In 1996, Mr Moore was appointed Head of the Project and Structured Finance Division. In 1998 he was appointed Head of the Asset and Infrastructure Group and then Head of the Investment Banking Group (predecessor to Macquarie Capital) on its inception in 2001. In this role, he oversaw significant growth in Macquarie Capital's net income through the global growth of the advisory, fund management, financing and securities businesses. Currently, he is Chairman of Police and Community Youth Clubs NSW Ltd, a Director of the Centre for Independent Studies and a member of the University of NSW Business School Advisory Council and Foundation. He was a Director of Macquarie Infrastructure Group (from January 1996 until April 2008), Macquarie Capital Alliance Group (from August 2003 until April 2008) and Macquarie Media Group (from September 2005 until April 2008). Mr Moore is a resident of New South Wales.

Laurence G Cox, AO, BCom (Melb), FCPA, SF Fin (age 70)

Voting Director – joined the Board in January 1996

Executive Voting Director since March 2004

Laurie Cox joined the Board of Macquarie Bank as a Non-Executive Director and also became Joint Chairman of Macquarie Corporate Finance Limited in January 1996. He was appointed an Executive Director of Macquarie Bank in March 2004 and became a member of the Board of Macquarie Group Limited in August 2007. He was previously Executive Chairman of the Potter Warburg Group of Companies and a Director of S G Warburg Securities of London. Mr Cox was a Director of Australian Stock Exchange (now ASX Limited) from its inception in 1987 and Chairman from 1989 to 1994. He was also a Director of Securities Exchanges Guarantee Corporation from 1987 to 1995 and a member of the Executive Committee of the Internationale Bourses des Valeurs from 1990 to 1992. He is a former member of the International Markets Advisory Board of NASD, the regulator of the NASDAQ Stock Market (USA) and a former Chairman of Transurban Group (from February 1996 to February 2007). Currently, he is Chairman of SMS Management and Technology Limited (since May 2001) and the Murdoch Childrens Research Institute and an associate of ASX Limited. He is a Director of OneSteel Limited (since 17 September 2007) and was a Director of Smorgon Steel Group Limited from September 1998 until it merged with OneSteel in September 2007. Mr Cox is a resident of Victoria.

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 61)

Independent Voting Director – joined the Board in June 2003

Member of the Board Audit and Compliance Committee

Peter Kirby joined the Board of Macquarie Bank as an Independent Voting Director in June 2003 and became a member of the Board of Macquarie Group Limited in August 2007. Mr Kirby was the Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was also a member of the Board of the Business Council of Australia from 2001 to 2003. Mr Kirby received the Centenary Medal in 2003. Prior to joining CSR, he was with the Imperial Chemical Industries PLC group (ICI) for 25 years in a variety of senior management positions around the world, including Chairman/CEO of ICI Paints, responsible for the group's coatings businesses worldwide, and a member of the Executive Board of ICI PLC, with responsibility for ICI Americas and the western hemisphere. Mr Kirby is a Director of Orica Limited (since July 2003) and the Beacon Foundation. He is a former Chairman and Director of Medibank Private Limited. Mr Kirby is a resident of Victoria.

Catherine B Livingstone, AO, BA (Hons) (Macquarie), FCA, FTSE (age 53)

Independent Voting Director – joined the Board in November 2003

Chairman of the Board Audit and Compliance Committee

Catherine Livingstone joined the Board of Macquarie Bank as an Independent Voting Director in November 2003 and became a member of the Board of Macquarie Group Limited in August 2007. Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was also previously Chairman of the CSIRO and a Director of Goodman Fielder Limited and Rural Press Limited. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002. She is a Director of Telstra Corporation Limited (since November 2000), WorleyParsons Limited (since June 2007) and Future Directions International Pty Limited and is a member of the New South Wales Innovation Council. Ms Livingstone is a resident of New South Wales.

H Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 68)

Independent Voting Director – joined the Board in December 1996 (Acting Chairman since 27 November 2008)

Lead Independent Voting Director

Member of the Board Audit and Compliance Committee

Kevin McCann joined the Board of Macquarie Bank as an Independent Voting Director in December 1996 and became a member of the Board of Macquarie Group Limited in August 2007. Currently, he is Chairman of Origin Energy Limited (since February 2000) and the Sydney Harbour Federation Trust, a Director of BlueScope Steel Limited (since May 2002), member of the Takeovers Panel and the Council of the National Library of Australia and a NSW Councillor of the Australian Institute of Company Directors. Mr McCann was Partner (from 1970 to 2004) and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He was also Chairman of Triako Resources Limited (from April 1999 to September 2006) and Healthscope Limited (from March 1994 until October 2008. Mr McCann is a resident of New South Wales.

John R Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 68)

Independent Voting Director – joined the Board in February 2003

John Niland joined the Board of Macquarie Bank as an Independent Voting Director in February 2003 and became a member of the Board of Macquarie Group Limited in August 2007. Dr Niland is a Professor Emeritus of the University of New South Wales (UNSW) and was Vice-Chancellor and President of UNSW from 1992 to 2002. Before that he was the Dean of the Faculty of Commerce and Economics. Dr Niland is a former Chief Executive of the State Pollution Control Commission and Executive Chairman of the Environment Protection Authority. He has served on the Australian Universities Council, the Prime Minister's Science, Engineering and Innovation Council, and the Boards of realestate.com.au Limited, St Vincent's Hospital, the Sydney Symphony Orchestra Foundation and the Sydney Olympic bid's Building Commission. He is a former President of the National Trust of Australia (NSW). He is currently Chairman of the Centennial Park and Moore Park Trust and of Campus Living Funds Management Limited. He is also a member of the University Grants Committee of Hong Kong and Deputy Chairman of the Board of Trustees of Singapore Management University. Dr Niland is a resident of New South Wales.

Directors' Report Schedule 1
for the financial year ended 31 March 2009 continued

Helen M Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv) (age 60)
Independent Voting Director – joined the Board in June 1999

Helen Nugent joined the Board of Macquarie Bank as an Independent Voting Director in June 1999 and became a member of the Board of Macquarie Group Limited in August 2007. Currently, she is Chairman of Funds SA and Swiss Re Life and Health (Australia) Limited. She is also a Director of Origin Energy Limited (since March 2003) and Freehills. Previously, she was involved in the financial services sector as Director of Strategy at Westpac Banking Corporation (1994 to 1999) and a Non-Executive Director of the State Bank of New South Wales (1993 to 1994) and Mercantile Mutual (1992 to 1994). In addition, she was previously Chairman of Hudson (Australia and New Zealand) and a Director of UNiTAB (July 1999 to October 2006), Carter Holt Harvey (May 2003 to June 2006) and Australia Post. She has also been a Partner at McKinsey and Company. She has been actively involved in the arts and education. In the arts, she was formerly Deputy Chairman of the Australia Council, Chairman of the Major Performing Arts Board of the Australia Council, Chairman of the Ministerial Inquiry into the Major Performing Arts and Deputy Chairman of Opera Australia. In education, she was a member of the Bradley Review into Higher Education and was Professor in Management and Director of the MBA Program at the Australian Graduate School of Management. She will become Chancellor of Bond University on 22 May 2009. Dr Nugent is a resident of New South Wales.

Peter H Warne BA (Macquarie) (age 53)
Independent Voting Director – joined the Board in July 2007
Member of the Board Audit and Compliance Committee

Peter Warne joined the Board of Macquarie Bank as an Independent Voting Director in July 2007 and became a member of the Board of Macquarie Group Limited in August 2007. He was Head of Bankers Trust Australia Limited's (BTAL) Financial Markets Group from 1988 to 1999. Prior to this he held a number of roles at BTAL. He was a Director and Deputy Chairman of the Sydney Futures Exchange (SFE) from 1995 to 1999 and a Director from 2000 to 2006. When the SFE merged with ASX in July 2006, he became a Director of ASX Limited. Currently, Mr Warne is on the Board of other listed entities as Chairman of ALE Property Group (since September 2003) and TEYS Limited (Non-Executive Director since October 2007 and Chairman since July 2008) and a Director of WHK Group Limited (since May 2007). He is also Deputy Chairman of Capital Markets CRC Limited and Director of Next Financial Limited. Mr Warne is a Director of Securities Research Centre of Asia Pacific Limited and a member of the Advisory Board of the Australian Office of Financial Management. He is a former Director of Macquarie Capital Alliance Group (from February 2005 until June 2007). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FCIS
Company Secretary since 25 October 1993

Dennis Leong is an Executive Director of Macquarie and Head of the Group's Company Secretarial and Investor Relations Division, which is responsible for Macquarie's company secretarial requirements, professional risks insurances, employee equity plans and investor relations. He has had over 15 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Amelia Cho, BCom LLB (UNSW)
Assistant Company Secretary since 29 March 2001

Amelia Cho is an Associate Director of Macquarie. Ms Cho has had 13 years experience in the Company Secretarial and Investor Relations Division at Macquarie. She was previously an Associate Lawyer in the Commercial Division of Dunhill Madden Butler (now known as PricewaterhouseCoopers Legal). She holds a current practising certificate with the Law Society of NSW.

Paula Walsh, ACIS
Assistant Company Secretary since 29 May 2008

Paula Walsh is a Division Director of Macquarie. She has over 20 years company secretarial experience, with 24 years service with British Telecommunications PLC where, amongst other roles, she was most recently Head of Corporate Governance, Asia Pacific, until joining Macquarie in May 2007.

Nigel Donnelly BEc LLB (Hons) (Macquarie)
Assistant Company Secretary since 30 October 2008

Nigel Donnelly is an Associate Director of Macquarie and has over 10 years experience as a solicitor. Nigel joined Macquarie in April 2006, and was previously a Senior Associate at Mallesons Stephen Jaques with a general corporate advisory and corporate governance focus.

Directors' Report Schedule 2
Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Bank Limited and the entities it controlled during the year.

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
30 April 2009

Liability is limited by a scheme approved under Professional Standards Legislation

Macquarie Bank Limited 2009 Financial Report

Contents

The Financial Report was authorised for issue by the Directors on 30 April 2009.
The consolidated entity has the power to amend and reissue the Financial Report

Income statements
for the financial year ended 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Interest and similar income		**6,267**	6,647	**4,551**	5,081
Interest expense and similar charges		**(5,302)**	(5,794)	**(4,148)**	(4,682)
Total net interest income	3	**965**	853	**403**	399
Fee and commission income	3	**995**	1,092	**139**	170
Net trading income	3	**1,545**	2,023	**1,438**	1,631
Share of net profits of associates and joint ventures using the equity method	3	**98**	160	**(1)**	(3)
Other operating income and charges	3	**(534)**	17	**514**	1,980
Net operating income		**3,069**	4,145	**2,493**	4,177
Employment expenses	3	**(887)**	(2,028)	**(799)**	(1,085)
Brokerage and commission expenses	3	**(509)**	(570)	**(383)**	(458)
Occupancy expenses	3	**(101)**	(67)	**(77)**	(89)
Non-salary technology expenses	3	**(75)**	(64)	**(55)**	(70)
Other operating expenses	3	**(872)**	(606)	**(645)**	(256)
Total operating expenses		**(2,444)**	(3,335)	**(1,959)**	(1,958)
Operating profit before income tax		**625**	810	**534**	2,219
Income tax benefit/(expense)	6	**32**	(60)	**86**	(164)
Profit from ordinary activities after income tax		**657**	750	**620**	2,055
Profit from discontinued operations (net of income tax)	7	**-**	15,030	**-**	14,960
Profit from ordinary activities and discontinued operations after income tax		**657**	15,780	**620**	17,015
Distributions paid or provided on:					
Macquarie Income Preferred Securities	8	**(45)**	(50)	**-**	-
Other minority interests		**(3)**	-	**-**	-
Profit attributable to minority interests		**(48)**	(50)	**-**	-
Profit attributable to equity holders of Macquarie Bank Limited		**609**	15,730	**620**	17,015
Distributions paid or provided on:					
Macquarie Income Securities	8	**(33)**	(34)	**-**	-
Convertible debentures	8	**-**	-	**(47)**	(50)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**576**	15,696	**573**	16,965

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

Balance sheets
as at 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Assets					
Cash and balances with central banks		**141**	7	**141**	7
Due from banks	9	**10,169**	7,169	**9,032**	6,054
Cash collateral on securities borrowed and reverse repurchase agreements	10	**4,534**	21,278	**4,534**	21,151
Trading portfolio assets	11	**8,772**	15,225	**8,494**	14,282
Loan assets held at amortised cost	12	**43,922**	46,848	**15,238**	20,233
Other financial assets at fair value through profit or loss	14	**5,541**	3,635	**5,201**	3,571
Derivative financial instruments – positive values	43	**27,335**	20,952	**21,418**	19,138
Other assets	15	**4,341**	3,925	**1,825**	2,450
Investment securities available for sale	16	**14,544**	14,736	**13,411**	12,929
Intangible assets	17	**337**	133	**15**	-
Life investment contracts and other unit holder investment assets	18	**4,314**	5,705	**-**	-
Due from related body corporate entities		**4,647**	10,568	**4,588**	10,749
Due from subsidiaries	37	**-**	-	**15,045**	9,372
Interests in associates and joint ventures using the equity method	19	**1,571**	1,956	**499**	503
Property, plant and equipment	20	**88**	44	**31**	29
Investments in subsidiaries	21	**-**	-	**3,959**	2,304
Deferred income tax assets	23	**93**	78	**11**	25
Non-current assets classified as held for sale	24	**56**	35	**-**	-
Total assets		**130,405**	152,294	**103,442**	122,797
Liabilities					
Due to banks	25	**3,264**	3,749	**2,009**	2,521
Cash collateral on securities lent and repurchase agreements	26	**3,881**	13,469	**3,881**	13,469
Trading portfolio liabilities	27	**1,980**	10,716	**1,977**	10,431
Derivative financial instruments – negative values	43	**27,273**	21,154	**23,906**	18,970
Deposits		**21,603**	15,565	**21,270**	15,458
Debt issued at amortised cost	28	**48,270**	54,763	**23,776**	26,581
Other financial liabilities at fair value through profit or loss	29	**3,878**	6,271	**3,276**	4,325
Other liabilities	30	**4,001**	4,120	**2,444**	2,632
Current tax liabilities		**111**	27	**33**	9
Life investment contracts and other unit holder liabilities		**4,312**	5,689	**-**	-
Due to related body corporate entities	37	**3,332**	7,769	**2,876**	7,718
Due to subsidiaries	37	**-**	-	**8,849**	11,965
Provisions	31	**76**	87	**71**	77
Deferred income tax liabilities	23	**72**	193	**246**	156
Total liabilities excluding loan capital		**122,053**	143,572	**94,614**	114,312
Loan capital					
Subordinated debt at amortised cost		**1,491**	1,691	**1,488**	1,691
Subordinated debt at fair value through profit or loss		**451**	646	**451**	646
Total loan capital	33	**1,942**	2,337	**1,939**	2,337
Total liabilities		**123,995**	145,909	**96,553**	116,649
Net assets		**6,410**	6,385	**6,889**	6,148

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Equity					
Contributed equity					
Ordinary share capital	34	**4,503**	3,586	**4,503**	3,586
Equity contribution from ultimate parent entity	34	**57**	18	**44**	12
Macquarie Income Securities	34	**391**	391	**391**	391
Convertible debentures	34	**-**	-	**884**	884
Reserves	35	**(201)**	182	**(32)**	49
Retained earnings	35	**1,250**	1,374	**1,099**	1,226
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**6,000**	5,551	**6,889**	6,148
Minority interests	35	**410**	834	**-**	-
Total equity		**6,410**	6,385	**6,889**	6,148

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity
for the financial year ended 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Total equity at the beginning of the financial year		**6,385**	7,519	**6,148**	5,968
Available for sale investments, net of tax	35	**(52)**	(20)	**(9)**	(62)
Cash flow hedges, net of tax	35	**(177)**	21	**(39)**	12
Share of reserves of associates and joint ventures	35	**36**	(3)	**-**	-
Exchange differences on translation of foreign operations		**39**	(110)	**(33)**	(94)
Net expense recognised directly in equity		**(154)**	(112)	**(81)**	(144)
Profit from ordinary activities after income tax for the financial year		**657**	15,780	**620**	17,015
Total recognised income and expense for the financial year		**503**	15,668	**539**	16,871
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	34	**917**	3,454	**917**	3,454
Reduction of capital	34	**-**	(3,000)	**-**	(3,000)
Contribution from ultimate parent entity in relation to share based payments	34	**39**	18	**32**	12
Dividends and distributions paid or provided	8	**(733)**	(17,151)	**(700)**	(17,117)
Distributions arising from acquisition of entities of the Non-Banking Group	35	**(201)**	-	**-**	-
Distribution arising from Macquarie Group restructure	35	**-**	(65)	**-**	(61)
Minority interests:					
(Decrease)/increase in equity	35	**(70)**	66	**-**	-
Financing of Macquarie Income Preferred Securities	35	**(382)**	-	**-**	-
Distributions paid or provided		**(48)**	(50)	**-**	-
Convertible debentures:					
Distributions paid or provided		**-**	-	**(47)**	(50)
Other equity movements:					
Share based payments		**-**	71	**-**	71
Net sale of treasury shares		**-**	7	**-**	-
Net movement of available for sale reserve arising from Macquarie Group restructure	35	**-**	(152)	**-**	-
Total equity at the end of the financial year		**6,410**	6,385	**6,889**	6,148
Total recognised income and expense for the year is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**394**	15,673	**492**	16,821
Macquarie Income Securities holders		**33**	34	**-**	-
Convertible debentures holders		**-**	-	**47**	50
Minority interests		**76**	(39)	**-**	-
Total recognised income and expense for the financial year		**503**	15,668	**539**	16,871

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

Cash flow statements
for the financial year ended 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Cash flows from operating activities					
Interest received		**5,808**	6,053	**3,867**	4,360
Interest and other costs of finance paid		**(5,312)**	(5,888)	**(4,113)**	(4,614)
Dividends and distributions received		**260**	298	**457**	2,490
Fees and other non-interest income received		**1,145**	4,157	**514**	1,389
Fees and commissions paid		**(515)**	(751)	**(385)**	(518)
Net receipts from trading portfolio assets and other financial assets/liabilities		**5,681**	9,289	**8,364**	8,319
Payments to suppliers		**(1,778)**	(1,309)	**(510)**	(928)
Employment expenses paid		**(1,082)**	(5,812)	**(862)**	(4,487)
Income tax (paid)/received		**(34)**	(207)	**31**	(139)
Life investment contract income		**265**	376	**-**	-
Life investment contract premiums received and other unit holder contributions		**3,745**	3,225	**-**	-
Life investment contract payments		**(4,201)**	(2,773)	**-**	-
Non-current assets and disposal groups classified as held for sale – net receipts from operations		**53**	269	**23**	23
Net loan assets (granted)/repaid		**(565)**	7,061	**(11,269)**	13,545
Loan facility repaid by/(provided to) ultimate parent entity	37	**5,000**	(8,800)	**5,000**	(8,800)
Recovery of loans previously written off		**7**	5	**2**	-
Net (decrease)/increase in amounts due to other financial institutions, deposits and other borrowings		**(7,713)**	11,526	**1,347**	3,235
Net cash flows from operating activities	36	**764**	16,719	**2,466**	13,875
Cash flows from investing activities					
Net payments for financial assets available for sale and at fair value through profit or loss		**(2,134)**	(2,654)	**(2,289)**	(2,915)
Payments for interests in associates		**(235)**	(2,089)	**(179)**	(192)
Proceeds from the disposal of associates		**187**	558	**141**	167
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**(48)**	(325)	**(47)**	(8)
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		**563**	1,266	**354**	199
Payments for the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		**(236)**	(157)	**(2,033)**	(617)
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**3,407**	14,018	**3,861**	15,722
Payments for life investment contracts and other unit holder investment assets		**(6,942)**	(7,031)	**-**	-
Proceeds from the disposal of life investment contracts and other unit holder investment assets		**7,208**	6,037	**-**	-
Payments for property, plant and equipment		**(47)**	(71)	**(16)**	(64)
Net cash flows from/(used in) investing activities		**1,723**	9,552	**(208)**	12,292

Cash flow statements

for the financial year ended 31 March 2009 continued

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**917**	3,269	**917**	3,269
(Payments to)/proceeds from minority interests		**(201)**	72	**-**	-
Repayment of subordinated debt		**(235)**	(225)	**(235)**	(225)
Dividends and distributions paid		**(791)**	(17,018)	**(748)**	(16,984)
Return of capital to ultimate parent entity	1	**-**	(3,000)	**-**	(3,000)
Net cash flows used in financing activities		**(310)**	(16,902)	**(66)**	(16,940)
Net increase in cash and cash equivalents		**2,177**	9,369	**2,192**	9,227
Cash and cash equivalents at the beginning of the financial year		**17,695**	8,326	**16,580**	7,353
Cash and cash equivalents at the end of the financial year	36	**19,872**	17,695	**18,772**	16,580

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

Note 1. Macquarie Group Restructure

In the preceding financial year, the Macquarie Group restructured into a non-operating holding company structure. This followed receipt of the requisite approvals by Macquarie Bank Limited (MBL) shareholders and option holders, as well as the Federal Treasurer, Australian Prudential Regulation Authority (APRA) and the Federal Court of Australia. This restructure resulted in Macquarie Group Limited (MGL) being established as the ultimate parent of MBL and the Macquarie Group. The Macquarie Group comprises two separate sub-groups, a Banking Group and a Non-Banking Group.

On restructure, ordinary shareholders and option holders of MBL obtained one MGL ordinary share/option for each ordinary share/option they held in MBL prior to implementation of the restructure.

The restructure was accounted for as a reverse acquisition in MGL's 31 March 2008 consolidated financial statements, with MBL identified as the acquirer in accordance with AASB 3 *Business Combinations*.

Under the restructure, following MBL becoming a legal subsidiary of MGL, MBL sold certain subsidiaries and assets to the Non-Banking Group for fair value at the restructure date. The majority of MBL's profits on sale of these subsidiaries was distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by $3,000 million. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and assisted in financing the acquisition of the subsidiaries and assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of $2,250 million and MGL simultaneously subscribed the same amount to MBL as a capital injection. These transactions occurred on 16 November 2007. On 19 November 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL.

Refer to note 2(i) for the effect of the early adoption of AASB 7 2008-7 on the Company's accounting policy applied to group reorganisations where a new parent is established as part of the organisation.

Note 2. Summary of significant accounting policies

i) Basis of preparation

The principal accounting policies adopted in the preparation of this financial report and that of the previous financial year are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (which includes Australian Interpretations by virtue of AASB 1048), the Corporations Act 2001 and the Banking Act 1959.

Compliance with IFRS as issued by the IASB

Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has also been prepared in accordance with and complies with IFRS as issued by the IASB.

Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of investment securities available for sale and certain other assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates and significant judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Bank and its subsidiaries (consolidated entity) and the consolidated financial report such as:

- fair value of financial instruments (note 46);
- impairment of loan assets held at amortised cost, investment securities available for sale, associates and joint ventures and held for sale investments (notes 2(xiii), 2(xiv), 13 and 44.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 2(ii), 2(xiii), 19, 21 and 24);
- determination of control of special purpose entities (notes 2(ii), 12 and 28); and
- recoverability of deferred tax assets (notes 2(vii), 6 and 23).

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

i) Basis of preparation continued

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes with in the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

Early adoption of amendments to Accounting Standards

The Bank and the consolidated entity have elected to apply AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* to the financial year beginning 1 April 2008.

Prior to the adoption of AASB 2008-7, distributions received from the pre-acquisition retained earnings of a subsidiary, associate or joint venture were recognised as a reduction in the cost of the investment. With the adoption of AASB 2008-7, all dividends are recognised in the income statement. This change in accounting policy is applied prospectively from 1 April 2007.

AASB 2008-7 also amends the Bank's and consolidated entity's accounting policy applied to group reorganisations where a new parent is established as part of the reorganisation. Consistent with the policy applied by the ultimate parent entity, MGL, this change in accounting policy is accounted for retrospectively.

There is no impact on the Bank's and consolidated entity's financial report as at 31 March 2008 and 31 March 2009 from the application of AASB 2008-7.

New Accounting Standards, amendments to Accounting Standards and Interpretations that are not yet effective

Certain new Accounting Standards, amendments to Accounting Standards and Interpretations have been published that are mandatory for the Bank and the consolidated entity for financial years beginning on or after 1 April 2009.

When a new accounting standard is first adopted, any change in accounting policy is accounted for in accordance with the specific transitional provisions (if any), otherwise retrospectively.

The Bank's and the consolidated entity's assessment of the impact of the key new Accounting Standards, amendments to Accounting Standards and Interpretations is set out below:

- AASB 101: *Presentation of Financial Statements* and AASB 2007-08*: Amendments to Australian Accounting Standards* arising from AASB 101 (effective from 1 January 2009). A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period.
- AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards* arising from AASB 3 and AASB 127 were issued in March 2008 and are applicable for annual reporting periods beginning on or after 1 July 2009. These Standards amend the accounting for certain aspects of business combinations and changes in ownership interests in subsidiaries. Consequential amendments have been made to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*. The key changes arising from these Standards are as follows:
  - transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;
  - contingent obligations are measured at fair value at the acquisition date (allowing for a 12 month period post-acquisition to affirm fair values) without regard to the probability of having to make a future payment, and all subsequent changes in fair value are recognised in profit;
  - changes in control are considered significant economic events, thereby requiring ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit or loss) when control of a subsidiary is gained or lost;
  - changes in a parent's ownership interest in a subsidiary that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity.

  These Standards will be initially applied in the financial year beginning 1 April 2010 on a prospective basis. As such, the impact that initial application of these Standards is expected to have on the consolidated entity's financial report is not known or reasonably estimable at this time.
- Interpretation 16 *Hedges of a Net Investment in a Foreign Operation* was issued in August 2008 and is mandatory from 1 April 2009. Interpretation 16 provides guidance on net investment hedging, and its application is not expected to have any material impact. AASB 2008-5 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (mandatorily applicable from 1 January 2009) and AASB 2008-6 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Process (mandatorily applicable from 1 July 2009) were issued in July 2008.

These Standards make a number of amendments, the more relevant ones for the consolidated entity being:

- clarifying under AASB 5 *Non-current assets held-for-sale and discontinued operations* that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control
- clarifying under AASB 128 *Investments in associates* that an investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.
- amending AASB 139 *Financial instruments: Recognition and measurement* to clarify that it is possible for there to be reclassifications into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

Most of the amendments are consistent with the consolidated entity's existing policies. None of the amendments are expected to have an impact upon adoption. The consolidated entity will apply these amendments for the first time from 1 April 2009 and 1 April 2010 respectively.

ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Bank and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) over which the Bank has the power to govern directly or indirectly decision-making in relation to financial and operating policies, so as to require that entity to conform with the Bank's objectives. The effects of all transactions between entities in the consolidated entity are eliminated in full. Minority interests in the results and equity of subsidiaries, where the Bank owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement and balance sheet, respectively.

Where control of an entity was obtained during the financial year, its results have been included in the consolidated income statement from the date on which control commenced. Where control of an entity ceased during the financial year, its results are included for that part of the financial year during which control existed.

The Bank and consolidated entity determine the dates of obtaining control (i.e. acquisition date) and losing control (i.e. disposal date) of another entity based on an assessment of all pertinent facts and circumstances that affect the ability to govern the financial and operating policies of that entity. Facts and circumstances that have the most impact include the contractual arrangements agreed with the counterparty, the manner in which those arrangements are expected to operate in practice and whether regulatory approval is required to complete. The acquisition/disposal date does not necessarily occur when the transaction is closed or finalised at law.

Subsidiaries held by the Bank are carried in its separate financial statements at cost in accordance with AASB 127 *Consolidated and Separate Financial Statements (as amended)*.

Impairment of subsidiaries

Investments in subsidiaries are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each balance sheet date, the investments in subsidiaries that have been impaired are reviewed for possible reversal of the impairment.

Securitisations

Securitised positions are held through a number of Special Purpose Entities (SPEs). These are generally categorised as Mortgage SPEs and Other SPEs, and include certain managed funds and repackaging vehicles. As the consolidated entity is exposed to the majority of the residual risk associated with these SPEs, their underlying assets, liabilities, revenues and expenses are reported in the consolidated entity's consolidated balance sheet and income statement.

When assessing whether the consolidated entity controls (and therefore consolidates) an SPE, judgement is required about risks and rewards as well as the consolidated entity's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control include whether:

- the majority of the benefits of an SPEs activities are obtained;
- the majority of the residual ownership risks related to the SPEs assets are obtained;
- the decision-making powers of the SPE vest with the consolidated entity; and
- the SPEs activities are being conducted on behalf of the consolidated entity and according to its specific business needs.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

ii) Principles of consolidation continued

Interests in associates and joint ventures using the equity method

Associates and joint ventures are entities, over which the consolidated entity has significant influence or joint control, but not control, and are accounted for under the equity method except for those which are classified as held for sale (see note 2(xiii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the consolidated entity's share of its associates' and joint ventures' post-acquisition profits or losses in the income statement, and its share of post-acquisition movements in reserves.

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

Associates and joint ventures held by the Bank are carried in its separate financial statements at cost in accordance with AASB 127 *Consolidated and Separate Financial Statements.*

iii) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control. Cost is measured as the aggregate of the fair values (at the date of exchange) of assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus any costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity, and those arising on borrowings are capitalised and included in interest expense on an effective yield basis.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the business acquired, the difference is recognised directly in the income statement, but only after a reassessment is performed of the identification and measurement of the net assets acquired.

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

iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management about components of the consolidated entity that are regularly reviewed by senior management in order to allocate resources to the segment and to assess its performance. Information reported to senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered, comprising seven reportable segments as disclosed in note 5. Information about products and services and geographical segments are based on the financial information used to produce the consolidated entity's financial statements.

v) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of foreign operations are measured using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The Bank and consolidated entity's financial statements are presented in Australian dollars (presentation currency), which is the Bank's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 2(xii)).

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items (such as equities) classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see note 2(xii)).

Subsidiaries and other entities

The results and financial position of all foreign operations that have a functional currency other than Australian dollars (the presentation currency) are translated into Australian dollars as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- income and expenses for each income statement are translated at actual exchange rates at the date of the transactions; and
- all resulting exchange differences are recognised in a separate component of equity - the foreign currency translation reserve.

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

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

vi) Revenue recognition

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

Interest income

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

Fee and commission income

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

Other fees and commission income, including fees from funds management, brokerage, accounting servicing, corporate advisory, underwriting and securitisation arrangements, are recognised as the related services are performed. Where commissions and fees are subject to claw back or meeting certain performance hurdles, they are recognised as income at the point when those conditions can no longer affect the outcome.

Fees charged for performing a significant act in relation to funds managed by the consolidated entity are recognised as revenue when that act has been completed.

Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, dividends and foreign exchange differences.

Dividends and distributions

Dividends and distributions are recognised as income upon declaration. Dividends from subsidiaries, associates and joint ventures are recognised in profit or loss when the Bank’s right to receive the dividend is established.

vii) Income tax

The income tax expense for the year is the tax payable on the current period’s taxable income based on the national income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities and unused tax losses.

Deferred tax assets are recognised when temporary differences arise between the tax base of assets and liabilities and their respective carrying amounts which give rise to a future tax benefit, or where a benefit arises due to unused tax losses. In both cases, deferred tax assets are recognised only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences or tax losses. Deferred tax liabilities are recognised when such temporary differences will give rise to taxable amounts being payable in future periods. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities are settled.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

vii) Income tax continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when the consolidated entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Bank and consolidated entity exercise judgement in determining whether deferred tax assets, particularly in relation to tax losses, are probable of recovery. Factors considered include the ability to offset tax losses within the group in the relevant jurisdiction, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

Tax consolidation

All eligible Australian resident wholly-owned subsidiaries of the Macquarie Group represent a tax consolidated group, with MGL as the head entity. As a consequence, the Bank and the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or deferred tax assets arising from unused tax losses in its own financial statements. Under the terms and conditions of a tax funding agreement, MGL charges each subsidiary for all current tax liabilities incurred in respect of their activities and reimburses each subsidiary for any tax assets arising from unused tax losses.

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

As part of its trading activities, the Bank borrows and lends securities on a collateralised basis. The securities subject to the borrowing/lending are not derecognised from the balance sheets of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing.

Reverse repurchase transactions, where the Bank purchases securities under an agreement to resell, and repurchase transactions, where the Bank sells securities under an agreement to repurchase, are also conducted on a collateralised basis. The securities subject to the reverse repurchase/repurchase agreements are not derecognised from the balance sheets of the relevant parties, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on the reverse repurchase agreement is recorded as a receivable, while cash received from third parties on the repurchase agreement is recorded as a borrowing.

Fees and interest relating to securities borrowing/lending and reverse repurchase/repurchase agreements are recognised in the income statement using the effective interest method, over the expected life of the agreements.

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

ix) Discontinued operations

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period. The results of the discontinued operations are presented separately on the face of the income statements.

x) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 46). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

The Bank and consolidated entity use trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the Bank and consolidated entity recognise the resulting financial asset or liability and any subsequent unrealised profits or losses arising from revaluing that contract to fair value in the income statement. When the Bank and consolidated entity become party to a sale contract of a financial asset, the asset is derecognised and a trade receivable is recognised until settlement date.

xi) Derivative instruments

Derivative instruments entered into by the Bank and consolidated entity include futures, forwards and forward rate agreements, swaps and options in the interest rate, foreign exchange, commodity and equity markets. These derivative instruments are principally used for the risk management of existing financial assets and financial liabilities.

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

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

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

xii) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 43. Movements in the cash flow hedging reserve in equity are shown in note 35.

xiii) Investments and other financial assets

With the exception of trading portfolio assets, derivatives and investments in associates and joint ventures which are classified separately in the balance sheet, the remaining investments in financial assets are classified into the following categories: loans and receivables (loan assets held at amortised cost, amounts due from related body corporate entities and amounts due from subsidiaries), other financial assets at fair value through profit or loss, investment securities available for sale and non-current assets and assets of disposal groups classified as held for sale. The classification depends on the purpose for which the financial asset was acquired, which is determined at initial recognition and, except for fair value through profit or loss, is re-evaluated at each reporting date.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

xiii) Investments and other financial assets continued

Loans and receivables

Loan assets held at amortised cost, amounts due from related body corporate entities and amounts due from subsidiaries are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial asset as such if the asset contains embedded derivatives which must otherwise be separated and carried at fair value; if it is part of a group of financial assets managed and evaluated on a fair value basis; or if by doing so eliminates or significantly reduces, a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 2(vi).

Investment securities available for sale

Investment securities available for sale comprise securities that are not actively traded and are intended to be held for an indefinite period. Such securities are available for sale and may be sold should the need arise, including purposes of liquidity, or due to the impacts of changes in interest rates, foreign exchange rates or equity prices.

Investment securities available for sale are initially carried at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly in the available for sale reserve in equity until the asset is derecognised or impaired, at which time the cumulative gain or loss is recognised in the income statement. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (or the securities are unlisted), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 2(vi).

Non-current assets and disposal groups classified as held for sale

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

Non-current assets and disposal groups classified as held for sale are presented separately on the face of the balance sheet. Revenue and expenses from disposal groups are presented as a single amount on the face of the income statement. Financial instruments that are part of disposal groups within the scope of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are not subject to the disclosure requirements of AASB 7 *Financial Instruments: Disclosures*.

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

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell, limited by the cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of sale is recognised at the date of sale.

xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

For equity securities classified as available for sale, the main indicators of impairment are: significant changes in the market/economic or legal environment; and a significant or prolonged decline in fair value below cost.

In making this judgement, the consolidated entity evaluates among other factors, the normal volatility in share price and the period of time for which fair value has been below cost.

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

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

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

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

Interests in associates and joint ventures

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

If there is an indication that an investment in an associate or joint venture may be impaired, then the entire carrying amount of the investment in the associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Impairment losses recognised in the income statement for investments in associates and joint ventures are subsequently reversed through the income statement if the recoverable amount increases and the increase can be objectively related to an event after the impairment loss was recognised in the income statement.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

xv) Life insurance business

The life insurance business is comprised of insurance contracts and investment contracts as defined in AASB 4 *Insurance Contracts*. The following are key accounting policies in relation to the life insurance business:

Disclosure

The consolidated financial statements include the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Bank in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* which apply to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

Investment assets are carried at fair value through profit or loss. Fair values of quoted investments in active markets are based on current bid prices. If the relevant market is not considered active (and for unlisted securities), fair value is established by using valuation techniques, including recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Changes in fair values are recognised in the income statement in the financial period in which the changes occur.

Restriction on assets

Investments held in the Life Funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of the fund, acquire investments to further the business of the fund or pay distributions when solvency and capital adequacy requirements allow. Shareholders can only receive a distribution when the capital adequacy requirements of the Life Insurance Act 1995 are met.

Policy liabilities

Life insurance liabilities are measured as the accumulated benefits to policyholders in accordance with AASB 139 and AASB 1038, which apply to investment contracts and assets backing insurance liabilities, respectively.

xvi) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Property, plant and equipment are reviewed for impairment annually. Historical cost includes expenditure directly attributable to the acquisition of the asset.

Depreciation on assets is calculated on a straight-line basis to allocate the difference between cost and residual values over their estimated useful lives, at the following rates:

Furniture and fittings	10 to 20 per cent
Leasehold improvements[1]	20 per cent
Computer equipment	33 to 50 per cent
Plant and equipment	20 to 33 per cent

(1) Where remaining lease terms are less than five years, leasehold improvements are depreciated over the remaining lease term.

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

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are included in the income statement. When revalued assets are sold it is the consolidated entity's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

xvii) Goodwill and other identifiable intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill arising from business combinations is included in intangible assets on the face of the balance sheet. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates.

Other identifiable intangible assets

Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not amortised because they are considered to have an indefinite useful life.

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

Customer relationships acquired as part of a business combination are initially measured at fair value at the date of acquisition and subsequently measured at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives.

Software

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

Impairment

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

xviii) Financial liabilities

The consolidated entity has on issue debt securities and instruments which 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 period of the borrowings using the effective interest method.

On 12 October 2008, the Australian Government announced guarantee arrangements for deposits in eligible authorised deposit-taking institutions (ADIs) for a period of three years from 12 October 2008. The deposit guarantee applies to deposits held in eligible ADIs by all types of legal entities, regardless of where the depositor resides. For deposits of or under $1 million, the deposit guarantee is free. Eligible ADIs can obtain coverage under the deposit guarantee for amounts over $1 million for a fee.

The Australian Government also announced that it will guarantee the wholesale term and short term funding of eligible ADIs that meet certain criteria, in return for the payment of a guarantee fee. The facility will be withdrawn by the Australian Government once market conditions have normalised.

As at 31 March 2009, the consolidated entity has obtained Government Guarantees on deposits of $14,119 million and debt issued at amortised cost of $17,566 million.

Other financial liabilities at fair value through profit or loss

This category includes only those financial liabilities which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial liability as such if: the liability contains embedded derivatives which must otherwise be separated and carried at fair value; the liability is part of a group of financial assets and financial liabilities managed and evaluated on a fair value basis; or if by doing so eliminates (or significantly reduces) a measurement or recognition inconsistency that would otherwise arise. Interest expense on such items is recognised in the income statement in interest expense.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 2. Summary of significant accounting policies continued

xix) Provisions

Employee benefits

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

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made. In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using discount rates on high quality corporate bonds, except where there is no deep market, in which case rates on Commonwealth Government securities are used. Such discount rates have terms that match as closely as possible the expected future cash flows.

Provisions for unpaid employee benefits are derecognised when the benefit is settled, or it is transferred to another entity and the Bank and consolidated entity are legally released from the obligation and do not retain a constructive obligation.

Dividends

Provisions for dividends to be paid by the Bank are recognised on the balance sheet as a liability and a reduction in retained earnings when the dividend has been declared.

xx) Funds under management

Within the consolidated entity, certain subsidiaries, jointly controlled entities and associates act as a custodian and/or a single responsible entity for a number of investment funds and trusts. As at 31 March 2009, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the consolidated entity (measured based on the gross assets of the individual funds) is $83.4 billion (31 March 2008: $83.9 billion). Other investment funds and trusts have not been consolidated in the financial report because individual entities within the consolidated entity do not have control of the funds and trusts.

xxi) Performance based remuneration

Share based payments

In November 1995, MBL introduced an Employee Option Plan, as a replacement for its now closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). The share-based compensation plans include options granted to employees and shares granted to employees under share acquisition plans. The shares and options are measured at the grant dates based on their fair value and in the case of options, using the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

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

The fair value of each option is estimated on the date of grant using standard option pricing technology based on the Black-Scholes theory. The following key assumptions have been adopted for grants made in the current financial year:

- risk free interest rate: 6.77 per cent (weighted average) (2008: 7.04 per cent);
- expected life of options: four years (2008: four years);
- volatility of share price: 24 per cent (2008: 20 per cent) and;
- dividend yield: 3.47 per cent per annum (2008: 3.43 per cent per annum).

Options that are issued by the ultimate parent entity MGL, to employees of the Bank and consolidated entity for which MGL is not subsequently reimbursed, are recognised as an expense and an equity contribution from MGL.

The consolidated entity annually revises its estimates of the number of options that are expected to become exercisable. Where appropriate, the impact of revised estimates are reflected in the income statement over the remaining vesting period, with a corresponding adjustment to the equity contribution balance.

xxii) Cash and cash equivalents

Cash and cash equivalents include cash and balances with central banks, short-term amounts included in due from banks and bank accepted bills and negotiable certificates of deposits issued by a bank with an original maturity of less than three months which are included in trading portfolio assets and investment securities available for sale.

xxiii) Leases

Where finance leases are granted to third parties, the present value of the lease payments is recognised as a receivable and included in loan assets held at amortised cost. The difference between the gross receivable and the present value of the receivable is recognised as unearned interest income. Lease income is recognised over the term of the lease using the effective interest method, which reflects a constant rate of return.

Leases entered into by the Bank and consolidated entity as lessee are primarily operating leases. The total payments made under operating leases is charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the Bank and consolidated entity are the lessor under operating leases, are carried at cost and depreciated over their useful lives which vary depending on each class of asset and range from 3 to 40 years (2008: 3 to 40 years). Assets under operating leases are included in other assets.

xxiv) Offsetting financial instruments

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

xxv) Loan capital

Loan capital is debt issued by the consolidated entity with terms and conditions that qualify for inclusion as capital under APRA Prudential Standards. Loan capital debt issues are initially recorded at fair value plus directly attributable transaction costs and thereafter at either amortised cost using the effective interest method or at fair value through profit or loss.

xxvi) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

xxvii) Transactions with minorities

Transactions with minorities are recognised in the consolidated entity's financial statements using the parent-entity approach. For securities held by minority interests that are purchased by the consolidated entity at a price less than the securities' carrying amount, then the difference is recognised as a gain in the income statement.

xxviii) Comparatives

Comparative amounts have been reclassified where necessary to conform with changes in presentation of certain items in the financial report.

xxix) Rounding of amounts

The Bank is of a kind referred to in ASIC Class Order 98/0100 (as amended), relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 3. Profit for the financial year				
Net interest income				
Interest and similar income received/receivable:				
Other entities	**5,660**	6,340	**3,437**	4,090
Subsidiaries (note 37)	**-**	-	**529**	694
Related body corporate entities (note 37)	**607**	307	**585**	297
Interest expense and similar charges paid/payable:				
Other entities	**(4,777)**	(5,553)	**(2,891)**	(3,632)
Subsidiaries (note 37)	**-**	-	**(785)**	(814)
Related body corporate entities (note 37)	**(525)**	(241)	**(472)**	(236)
Total net interest income	**965**	853	**403**	399
Fee and commission income				
Fee and commission income	**936**	1,062	**137**	170
Income from life investment contracts and other unit holder investment assets (note 18)	**59**	30	**2**	-
Total fee and commission income	**995**	1,092	**139**	170
Net trading income[1]				
Equities	**430**	1,375	**421**	1,249
Commodities	**574**	417	**128**	193
Foreign exchange products	**241**	182	**500**	84
Interest rate products	**300**	49	**389**	105
Total net trading income	**1,545**	2,023	**1,438**	1,631
Share of net profits of associates and joint ventures using the equity method	**98**	160	**(1)**	(3)

(1) Included in the net trading income are fair value changes of $177 million income for the year ending 31 March 2009 (31 March 2008: $5 million income) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $274 million (2008: $72 million) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met - refer to note 2(xii).

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 3. Profit for the financial year continued				
Other operating income and charges				
Net (losses)/gains on sale of investment securities available for sale	**(6)**	107	**1**	86
Impairment charge on investment securities available for sale	**(240)**	(84)	**(109)**	(19)
Net gains on sale of associates (including associates held for sale) and joint ventures	**29**	94	**124**	21
Impairment charge on investment in associates (including associates held for sale) and joint ventures	**(102)**	(280)	**(5)**	(2)
Net expense from non-current assets held for sale	**(3)**	(16)	**(30)**	-
Impairment charge on disposal groups held for sale	**(192)**	-	**(189)**	-
Gain/(loss) on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**298**	99	**402**	(5)
Impairment charge on subsidiaries	**-**	-	**(205)**	-
Impairment charge on non-financial assets	**(45)**	-	**-**	-
Dividends/distributions received/receivable:				
Equity investments and investment securities available for sale	**19**	59	**87**	68
Subsidiaries (note 37)	**-**	-	**325**	1,466
Management fees, group service charges and cost recoveries – subsidiaries	**(21)**	-	**520**	353
Collective allowance for credit losses during the financial year (note12)	**(91)**	(32)	**(73)**	(29)
Specific provisions:				
Loan assets provided for during the financial year (note12)	**(325)**	(71)	**(294)**	(32)
Other receivables provided during the financial year	**(18)**	-	**(10)**	-
Recovery of loans previously provided for (note12)	**17**	34	**17**	31
Loan losses written-off	**(40)**	(20)	**(12)**	(2)
Recovery of loans previously written-off	**7**	5	**2**	-
Other income[(1)]	**179**	122	**(37)**	44
Total other operating income and charges	**(534)**	17	**514**	1,980
Net operating income	**3,069**	4,145	**2,493**	4,177

(1) Included within other income is rental income of $140 million (2008: $138 million) less depreciation of $85 million (2008: $83 million) in relation to operating leases where the consolidated entity is the lessor.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 3. Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(853)**	(1,962)	**(774)**	(1,046)
Share based payments	**(32)**	(51)	**(25)**	(33)
Provision for annual leave	**(2)**	(9)	**-**	(3)
Provision for long service leave	**-**	(6)	**-**	(3)
Total employment expenses	**(887)**	(2,028)	**(799)**	(1,085)
Brokerage and commission expenses				
Brokerage expenses	**(380)**	(471)	**(308)**	(399)
Other fee and commission expenses	**(129)**	(99)	**(75)**	(59)
Total brokerage and commission expenses	**(509)**	(570)	**(383)**	(458)
Occupancy expenses				
Operating lease rental	**(58)**	(46)	**(43)**	(57)
Depreciation: furniture, fittings and leasehold improvements (note 20)	**(17)**	(12)	**(11)**	(15)
Other occupancy expenses	**(26)**	(9)	**(23)**	(17)
Total occupancy expenses	**(101)**	(67)	**(77)**	(89)
Non-salary technology expenses				
Information services	**(42)**	(18)	**(35)**	(23)
Depreciation: computer equipment (note 20)	**(14)**	(20)	**(9)**	(18)
Other non-salary technology expenses	**(19)**	(26)	**(11)**	(29)
Total non-salary technology expenses	**(75)**	(64)	**(55)**	(70)
Other operating expenses				
Professional fees	**(120)**	(86)	**(81)**	(37)
Auditor's remuneration (note 47)	**(11)**	(10)	**(5)**	(3)
Travel and entertainment expenses	**(57)**	(95)	**(39)**	(52)
Advertising and promotional expenses	**(30)**	(27)	**(20)**	(18)
Communication expenses	**(15)**	(19)	**(7)**	(10)
Depreciation: communication equipment (note 20)	**-**	(3)	**-**	(2)
Other expenses[1]	**(639)**	(366)	**(493)**	(134)
Total other operating expenses	**(872)**	(606)	**(645)**	(256)
Total operating expenses	**(2,444)**	(3,335)	**(1,959)**	(1,958)

(1) Other expenses includes recharges from Macquarie Group Services Australia Pty Limited (MGSA) which provides administration and central support functions.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 4. Revenue from operating activities				
Interest and similar income	**6,267**	6,647	**4,551**	5,081
Fee and commission income	**936**	1,062	**137**	170
Premium income, investment revenue and management fees from life investment contracts and other unit holder investment assets (note 18)	**346**	205	**2**	-
Net trading income	**1,545**	2,023	**1,438**	1,631
Profit on the disposal of investment securities available for sale and associates and joint ventures	**23**	201	**125**	107
Other income (excluding net gains on the sale of investment securities available for sale, associates and joint ventures)	**570**	424	**1,266**	1,923
Total revenue from operating activities	**9,687**	10,562	**7,519**	8,912

Note 5. Segment reporting

(i) Operating segments

For internal reporting and risk management purposes, the consolidated entity is divided into five operating groups, two operating divisions and a corporate group. These segments have been set up based on the differences in core products and services offered:

Macquarie Funds Group is a full service fund manager offering a diverse range of products including managed funds across a wide range of asset classes, funds-based structured products, funds of funds and responsible entity and back-office services.

Banking and Financial Services Group is the primary relationship manager for Macquarie's retail client base. The Group brings together Macquarie's retail banking and financial services businesses, providing a diverse range of wealth management products and services to financial advisers, stockbrokers, mortgage brokers, professional service industries and the end consumer.

Real Estate Banking Division encompasses listed and unlisted real estate funds management, asset management, real estate investment, advisory, development and real estate project and development financing.

Corporate and Asset Finance provides innovative and traditional capital, finance and related services to its clients through tailored debt and finance solutions. It offers corporate debt finance, specialised equipment leasing, asset lifecycle services and equipment trading and remarketing services in Australia and selected international markets.

Treasury and Commodities Group conducts trading, financing and related activities in a broad range of financial and commodity markets with a focus of client service provision. Underlying services encompass foreign exchange, debt and futures, as well as dealing in agriculture, environmental, freight, energy and metals markets.

Macquarie Securities Group includes equity-linked investments, trading products, risk management services, equity finance, arbitrage trading and synthetic products as well as a full service institutional cash equities broker in the Asia-Pacific region and specialised in the rest of the world. It provides an Equity Capital Markets service through a joint venture with Macquarie Capital Advisers.

Macquarie Capital includes Macquarie Group's corporate advisory, equity underwriting and specialised funds management businesses (including infrastructure and real estate funds).

Corporate includes the Group Treasury division, head office and central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, non-trading derivative volatility, income tax expense and expenses attributable to minority interests. Corporate is not considered an operating Group.

Any transfers between segments are determined on an arm's length basis and eliminate on consolidation.

Segment information has been prepared in conformity with the consolidated entity's segment accounting policy as set out in note 2(iv) - Summary of significant accounting policies. The composition of the consolidated entity's operating segments was changed during the financial year following changes in the structure of its internal organisation. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect the change in reportable segments.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Macquarie Funds Group $m	Banking and Financial Services $m	Real Estate Banking Division $m	Corporate and Asset Finance $m	Treasury and Commodities Group $m
Note 5. Segment reporting continued					
Revenues from external customers	**718**	**3,439**	**284**	**397**	**1,877**
Inter-segmental (expense)/ revenue[1]	**(36)**	**(420)**	**(192)**	**(94)**	**(98)**
Interest revenue	**194**	**2,691**	**173**	**365**	**761**
Interest expense	**(37)**	**(1,902)**	**(6)**	**(129)**	**(538)**
Depreciation and amortisation	**(2)**	**(16)**	**(2)**	**(80)**	**(8)**
Share of net (losses)/profits of associates and joint ventures using the equity method	**(1)**	**(6)**	**5**	**(1)**	**69**
Net operating expense from non-current assets held for sale	**-**	**-**	**-**	**-**	**(3)**
Reportable segment profit/(loss)	**93**	**(104)**	**(350)**	**84**	**553**
Reportable segment assets	**8,491**	**32,103**	**3,040**	**8,368**	**45,810**
Revenues from external customers	741	3,599	346	356	1,979
Inter-segmental (expense)/ revenue [1]	(64)	(529)	(169)	(130)	(230)
Interest revenue	107	2,634	141	293	803
Interest expense	(8)	(1,891)	(15)	(92)	(696)
Depreciation and amortisation	(1)	(20)	(1)	(61)	(8)
Share of net profits/(losses) of associates and joint ventures using the equity method	2	(8)	107	-	30
Net operating expense from non-current assets held for sale	-	-	-	-	-
Reportable segment profit/(loss)	277	238	(129)	67	610
Reportable segment assets	9,186	41,199	3,688	1,655	38,567

(1) Internal reporting systems do not enable the separation of inter-segmental revenues and expenses. The net position is disclosed above. The key inter-segmental item is internal interest and funding costs charged to businesses for funding of their business net assets.

Macquarie Securities Group $m	Macquarie Capital $m	Corporate $m	Continuing Operations $m	Discontinued Operations $m	Total $m
					Consolidated 2009
675	**92**	**2,110**	**9,592**	**-**	**9,592**
(31)	**136**	**735**	**-**	**-**	**-**
304	**(14)**	**1,793**	**6,267**	**-**	**6,267**
(176)	**(6)**	**(2,508)**	**(5,302)**	**-**	**(5,302)**
(1)	**(7)**	**-**	**(116)**	**-**	**(116)**
-	**32**	**-**	**98**	**-**	**98**
-	**-**	**-**	**(3)**	**-**	**(3)**
78	**128**	**94**	**576**	**-**	**576**
9,842	**737**	**22,014**	**130,405**	**-**	**130,405**
					Consolidated 2008
2,032	244	896	10,193	3,125	13,318
(332)	114	1,565	225	(225)	-
1,066	69	1,534	6,647	87	6,734
(637)	(69)	(2,386)	(5,794)	(169)	(5,963)
(3)	(1)	(36)	(131)	(33)	(164)
4	36	(11)	160	3	163
-	(16)	-	(16)	3	(13)
602	86	(1,085)	666	15,030	15,696
30,489	3,100	24,410	152,294	-	152,294

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 5. Segment reporting continued

ii) Products and services

For the purposes of preparing a segment report based on products and services, the activities of the consolidated entity have been divided into four areas:

Asset and Wealth Management: distribution and manufacture of funds management products;

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

Capital Markets: corporate and structured finance, advisory, underwriting, facilitation, broking and real estate/property development; and

Lending: banking activities, mortgages, margin lending and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Continuing operations $m	Discontinued operations $m	Total $m
							Consolidated 2009
Revenues from external customers	**2,332**	**3,697**	**171**	**3,392**	**9,592**	**-**	**9,592**
							Consolidated 2008
Revenues from external customers	1,875	4,681	427	3,210	10,193	3,125	13,318

(iii) Geographical areas

Geographical segments have been determined based upon where the transactions have been booked. The operations of the consolidated entity are headquartered in Australia.

	Revenues $m	Non-current assets[1] $m
		Consolidated 2009
Australia	**6,870**	**152**
Asia Pacific	**547**	**21**
Europe, Middle East and Africa	**1,311**	**44**
North America	**864**	**208**
Total	**9,592**	**425**
		Consolidated 2008
Australia	8,113	80
Asia Pacific	577	25
Europe, Middle East and Africa	1,440	10
North America	63	62
Continuing operations	10,193	177
Discontinued operations	3,125	-
Total	13,318	177

(1) Non-current assets consist of intangible assets and property, plant and equipment.

(iv) Major customers

The consolidated entity does not rely on any major customer.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 6. Income tax benefit/(expense)				
(a) Income tax benefit/(expense)				
Current tax (expense)/benefit	**(17)**	(554)	**213**	(187)
Deferred tax benefit/(expense)	**49**	316	**(127)**	224
Total income tax benefit/(expense)	**32**	(238)	**86**	37
Income tax benefit/(expense) is attributable to:				
Loss/(profit) from continuing operations	**32**	(60)	**86**	(164)
(Profit)/loss from discontinued operations	**-**	(178)	**-**	201
Total income tax benefit/(expense)	**32**	(238)	**86**	37
Deferred income tax revenue/(expense) included in income tax benefit/(expense) comprises:				
(Decrease)/increase in deferred tax assets	**(72)**	431	**(36)**	354
Decrease/(increase) in deferred tax liabilities	**121**	(115)	**(91)**	(130)
Total deferred income tax revenue/(expense)	**49**	316	**(127)**	224
(b) Reconciliation of prima facie tax payable to income tax benefit/(expense)				
Prima facie income tax (expense)/benefit on operating profit[1]	**(187)**	(4,805)	**(160)**	(5,093)
Tax effect of amounts which are (non-deductible)/ non-assessable in calculating taxable income:				
Rate differential on offshore income	**154**	258	**111**	76
Distribution provided on Macquarie Income Preferred Securities and similar distributions	**13**	15	**14**	15
Non-deductible share based payments expense	**(10)**	(25)	**(8)**	(21)
Intra-group dividends	**-**	-	**98**	709
Other items	**62**	70	**31**	12
Gain on sale of discontinued operations	**-**	4,249	**-**	4,339
Total income tax benefit/(expense)	**32**	(238)	**86**	37
(c) Amounts recognised directly in equity				
Aggregate deferred tax arising in the financial year and not recognised in the income statement but recognised directly in equity:				
Net deferred tax – credited directly to equity	**(87)**	(1)	**(22)**	(15)
Total	**(87)**	(1)	**(22)**	(15)

(1) Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2008: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

In preparing this financial report, the Bank has considered the information currently available and where considered necessary has taken legal advice as to the consolidated entity's tax liability and in accordance with this, believes that provisions made are adequate.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 7. Discontinued operations

(a) Description

On 13 November 2007, the consolidated entity implemented a restructure of the Macquarie Group under which a new listed non-operating holding company named MGL was established as the ultimate parent entity of the Macquarie Group. The Macquarie Group comprises two separate sub-groups, a Banking Group and a Non-Banking Group.

The Non-Banking group was sold by MBL to Macquarie Financial Holdings Limited at fair value and reported in the financial report as a discontinued operation.

Further information on the restructure can be found in note 1. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the period ended 13 November 2007.

	Consolidated 2009 $m	Consolidated 2008 $m	**Bank 2009 $m**	Bank 2008 $m
Operating income	-	2,708	-	1,568
Operating expenses	-	(1,663)	-	(1,274)
Profit before income tax	-	1,045	-	294
Income tax (expense)/benefit	-	(178)	-	201
Profit after income tax of discontinued operations	-	867	-	495
Gain on sale of the discontinued operations before income tax	-	14,163	-	14,465
Income tax expense	-	-	-	-
Gain on sale of the discontinued operations after income tax	-	14,163	-	14,465
Profit from discontinued operations	-	15,030	-	14,960
Net cash inflow/(outflow) from operating activities	-	1,478	-	(407)
Net cash inflow from investing activities	-	16,329	-	17,002
(2008 includes an inflow of $16,131 million from the sale of the discontinued operations)				
Net cash (outflow)/inflow from financing activities	-	(335)	-	628
Net increase in cash generated by the discontinued operations	-	17,472	-	17,223

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 7. Discontinued operations continued				
Assets				
Due from banks	-	2,058	-	286
Cash collateral on securities borrowed and reverse repurchase agreements	-	1,445	-	-
Trading portfolio assets	-	457	-	-
Loan assets held at amortised cost	-	3,590	-	241
Other financial assets at fair value through profit or loss	-	575	-	87
Derivative financial instruments – positive values	-	208	-	117
Other assets	-	6,507	-	33
Investment securities available for sale	-	1,315	-	190
Intangible assets	-	12	-	-
Interest in associates and joint ventures using the equity method	-	3,276	-	180
Property, plant and equipment	-	218	-	116
Investments in subsidiaries	-	-	-	2,411
Deferred income tax assets	-	898	-	631
Non-current assets and assets of disposal groups classified as held for sale	-	653	-	95
Total assets	-	21,212	-	4,387
Liabilities				
Due to banks	-	1,322	-	-
Cash collateral on securities lent and repurchase agreements	-	75	-	-
Trading portfolio liabilities	-	1,055	-	-
Debt issued at amortised cost	-	2,100	-	-
Other financial liabilities at fair value through profit or loss	-	19	-	-
Other financial liabilities	-	7,926	-	2,220
Current tax liabilities	-	201	-	-
Due from/(to) subsidiaries	-	6,209	-	(370)
Provisions	-	24	-	-
Deferred income tax liabilities	-	46	-	-
Liabilities of disposal groups classified as held for sale	-	267	-	-
Total liabilities	-	19,244	-	1,850
Net assets	-	1,968	-	2,537
(c) Details of the sale of the discontinued operations				
Total disposal consideration	-	16,131	-	17,002
Carrying amount of net assets sold	-	(1,968)	-	(2,537)
Gain on sale before income tax	-	14,163	-	14,465
Income tax expense	-	-	-	-
Gain on sale after income tax	-	14,163	-	14,465

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 8. Dividends paid and distributions paid or provided				
i) Dividends paid				
Ordinary share capital				
2008 Special dividend paid ($46.55 per share)[1]	-	13,990	-	13,990
2008 Special dividend paid ($7.49 per share)[1]	-	2,250	-	2,250
Interim dividend paid (2008: $1.45[2] per share)	-	395	-	395
2008 Final dividend paid ($2.33 (2007: $1.90[2]) per share)	700	482	700	482
Total dividends paid	700	17,117	700	17,117

(1) Following the Macquarie Group restructure on 13 November 2007 (refer to note 1 for further details), the Bank paid two special dividends to MGL, the ultimate parent entity.

(2) These dividends were 100 per cent franked at the 30 per cent corporate tax rate, with the exception of the 2008 final dividend paid which was not franked.

The Bank's Dividend Reinvestment Plan (DRP) ceased to operate following the implementation of the Macquarie Group restructure on 13 November 2007 (refer to note 1 for further details on the Macquarie Group restructure).

ii) Dividends not recognised at the end of the financial year

Since the end of the financial year the Directors have recommended the payment of a dividend. The aggregate amount of the proposed dividend expected to be paid on 3 July 2009 from retained profits at 31 March 2009, but not recognised as a liability at the end of the financial year, is $345 million (2008: $700 million).

iii) Distributions paid or provided

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	33	28	-	-
Distributions provided	12	22	-	-
Total distributions paid or provided	45	50	-	-

The Macquarie Income Preferred Securities (MIPS) represent the minority interest of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIPS are recorded as movements in minority interest, as disclosed in note 35 – Reserves, retained earnings and minority interests. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 Bank preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 34 - Contributed equity, for further details on these instruments.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	28	27	-	-
Distributions provided	5	7	-	-
Total distributions paid or provided	33	34	-	-

The Macquarie Income Securities (MIS) is a stapled arrangement, which includes a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to Directors' discretion. The distributions paid/provided in respect of the MIS are recognised directly in equity in accordance with AASB 132: *Financial Instruments: Presentation.* Refer to note 34 – Contributed equity for further details on these instruments.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 8. Dividends paid and distributions paid or provided continued				
iii) Distributions paid or provided continued				
Convertible Debentures				
Distributions paid (net of distributions previously provided)	**-**	-	**26**	28
Distributions provided	**-**	-	**21**	22
Total distributions paid or provided	**-**	-	**47**	50
Note 9. Due from banks				
Cash at bank[1]	**1,857**	1,256	**869**	325
Overnight cash at bank	**5,578**	2,572	**5,577**	2,572
Other loans to banks	**2,566**	2,843	**2,418**	2,709
Due from clearing houses	**168**	498	**168**	448
Total due from banks	**10,169**	7,169	**9,032**	6,054

[1] Included within this balance is $1 million (2008: $15 million) provided as security over payables to other financial institutions.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 10. Cash collateral on securities borrowed and reverse repurchase agreements				
Central banks	**13**	14	**13**	14
Governments[1]	**709**	226	**709**	226
Financial institutions	**3,520**	20,986	**3,520**	20,860
Other	**292**	52	**292**	51
Total cash collateral on securities borrowed and reverse repurchase agreements	**4,534**	21,278	**4,534**	21,151

[1] Governments include federal, state and local governments and related enterprises.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 11. Trading portfolio assets				
Trading securities				
Equities[1]				
Listed	**2,843**	8,141	**2,836**	8,128
Unlisted	**43**	3,379	**7**	2,874
Commonwealth government bonds[1]	**3,017**	807	**3,017**	807
Corporate bonds	**1,117**	734	**1,070**	667
Other government securities	**995**	259	**995**	259
Foreign government bonds[1]	**511**	256	**479**	2
Certificates of deposit	**66**	198	**66**	198
Bank bills	**9**	45	**9**	44
Promissory notes	**-**	1,302	**-**	1,303
Total trading securities	**8,601**	15,121	**8,479**	14,282
Other trading assets				
Commodities	**171**	104	**15**	-
Total other trading assets	**171**	104	**15**	-
Total trading portfolio assets	**8,772**	15,225	**8,494**	14,282

[1] Included within these balances are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $nil (2008: $1,348 million).

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 12. Loan assets held at amortised cost				
Due from clearing houses	**1,310**	1,502	**742**	1,339
Due from governments	**111**	102	**9**	88
Due from other entities				
Other loans and advances	**39,574**	44,778	**14,986**	18,956
Less specific provisions for impairment	**(396)**	(100)	**(326)**	(60)
	39,178	44,678	**14,660**	18,896
Lease receivables	**3,556**	678	**7**	16
Less specific provisions for impairment	**(14)**	-	**-**	-
Total due from other entities	**42,720**	45,356	**14,667**	18,912
Total gross loan assets	**44,141**	46,960	**15,418**	20,339
Less collective allowance for credit losses	**(219)**	(112)	**(180)**	(106)
Total loan assets held at amortised cost[1][2]	**43,922**	46,848	**15,238**	20,233

(1) Included within this balance are loans of $20,390 million (2008: $21,710 million) held by consolidated SPEs which are available as security to note holders and debt providers.

(2) Included within this balance are loans of $830 million (2008: $nil) provided as security over issued notes and payables to other external investors and financial institutions.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Specific provisions for impairment				
Balance at the beginning of the financial year	**100**	71	**60**	69
Provided for during the financial year[1] (note 3)	**325**	78	**294**	32
Loan assets written-off, previously provided for	**(24)**	(9)	**(16)**	(9)
Recovery of loans previously provided for[1] (note 3)	**(17)**	(35)	**(17)**	(31)
Transfer from/(to) related body corporate entities	**7**	(4)	**-**	-
Attributable to foreign currency translation	**19**	(1)	**5**	(1)
Balance at the end of the financial year	**410**	100	**326**	60
Specific provisions as a per centage of total gross loan assets	**0.93%**	0.21%	**2.11%**	0.29%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**112**	91	**106**	89
Transfer from/(to) related body corporate entities	**10**	(11)	**-**	(11)
Provided for during the financial year[1] (note 3)	**91**	32	**73**	28
Attributable to acquisitions during the financial year	**6**	-	**1**	-
Balance at the end of the financial year	**219**	112	**180**	106

(1) Included within these balances in 2008 were amounts relating to both continuing and discontinued operations as a result of the Macquarie Group restructure.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 13. Impaired financial assets				
Impaired debt investment securities available for sale before impairment charge	**188**	264	**-**	-
Less impairment charge	**(137)**	(56)	**-**	-
Debt investment securities available for sale after impairment charge	**51**	208	**-**	-
Impaired loan assets and other financial assets with specific provisions for impairment	**1,340**	244	**1,195**	185
Less specific provisions for impairment	**(423)**	(105)	**(341)**	(64)
Loan assets and other financial assets after specific provisions for impairment	**917**	139	**854**	121
Total net impaired assets	**968**	347	**854**	121

Impaired assets have been reported in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and include loan assets (netted with certain derivative liabilities of $85 million).

Note 14. Other financial assets at fair value through profit or loss

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Investment securities	**3,065**	499	**2,725**	436
Loan assets	**2,476**	3,136	**2,476**	3,135
Total other financial assets at fair value through profit or loss[1]	**5,541**	3,635	**5,201**	3,571

(1) Included within this balance is $670 million (2008: $nil) provided as security over payables to other financial institutions.

Note 15. Other assets

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Debtors and prepayments	**2,931**	2,891	**1,820**	2,229
Assets under operating leases[1]	**926**	359	**1**	-
Property held for sale and development[2]	**298**	229	**1**	2
Security settlements[3]	**156**	437	**-**	219
Other	**30**	9	**3**	-
Total other assets	**4,341**	3,925	**1,825**	2,450

(1) Assets under operating lease are stated net of accumulated depreciation of $411 million (2008: $43 million). Included within this balance is $571 million (2008: $365 million) provided as security over payables to other financial institutions.

(2) Included within this balance is $83 million (2008: $86 million) of property held for sale and development which is provided as security over amounts payable to other financial institutions.

(3) Security settlements are receivable within three working days of the relevant trade date.

Note 16. Investment securities available for sale

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Equity securities				
Listed[1]	**140**	327	**121**	254
Unlisted	**271**	202	**67**	48
Debt securities[2]	**14,133**	14,207	**13,223**	12,627
Total investment securities available for sale	**14,544**	14,736	**13,411**	12,929

(1) Included within this balance is $1 million (2008: $23 million) provided as security over payables to other financial institutions.

(2) Includes $6,217 million (2008: $9,370 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $238 million (2008: $368 million) of bank bills.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 17. Intangible assets				
Goodwill	**189**	70	**-**	-
Other identifiable intangible assets	**132**	63	**-**	-
Software	**16**	-	**15**	-
Total intangible assets	**337**	133	**15**	-

Reconciliation of the consolidated entity's movement in intangible assets:

	Goodwill $m	Other identifiable intangible assets $m	Software $m	Total $m
Balance at the beginning of the financial year	70	63	-	133
Acquisitions during the financial year	19	38	36	93
Transfer as part of restructure[1]	53	23	-	76
Adjustments to purchase consideration	28	3	-	31
Disposals during the financial year	-	-	-	-
Impairment during the financial year	(3)	(2)	-	(5)
Amortisation expense for the financial year	-	(7)	(16)	(23)
Currency translation difference arising during the financial year	22	14	(4)	32
Balance at the end of the financial year	**189**	**132**	**16**	**337**

[1] This represents the balance of goodwill and other identifiable assets transferred from the Non-Banking Group to the Banking Group during the financial year ended 31 March 2009 as part of the restructure of the Macquarie Capital Finance division.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 18. Life investment contracts and other unit holder investment assets				
Life investment contracts and other unit holder investment assets				
Cash and due from banks	**106**	81	**-**	-
Debt securities	**714**	787	**-**	-
Units in unit trusts	**3,372**	4,646	**-**	-
Equity securities	**122**	191	**-**	-
Total life investment contracts and other unit holder investment assets	**4,314**	5,705	**-**	-

Investment assets are held to satisfy policy and unit holder liabilities, which are investment linked.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Income from life investment contracts and other unit holder investment assets				
Premium income, investment revenue and management fees (note 4)	**346**	205	**2**	-
Life investment contract claims, reinsurance and changes in policy liabilities	**(266)**	(166)	**-**	-
Direct fees	**(21)**	(9)	**-**	-
Total income from life investment contracts and other unit holder investment assets (note 3)	**59**	30	**2**	-

Solvency requirements for the life investment contracts business have been met at all times during the financial year.

As at 31 March 2009, the life investment contracts business had investment assets in excess of policy holder liabilities of $2 million (2008: $16 million).

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 19. Interest in associates and joint ventures using the equity method				
Loans and investments without provisions for impairment	**1,064**	1,513	**375**	412
Loans and investments with provisions for impairment	**926**	738	**128**	93
Less provision for impairment	**(419)**	(295)	**(4)**	(2)
Loans and investments at recoverable amount	**507**	443	**124**	91
Total interests in associates and joint ventures using the equity method	**1,571**	1,956	**499**	503

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Bank (refer to note 2(ii) - Summary of significant accounting policies).

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, is below their carrying value by $249 million (2008: exceeded their carrying value by $3 million).

	Consolidated 2009 $m	Consolidated 2008 $m
(a) Reconciliation of movement in the consolidated entity's interests in associates and joint ventures using the equity method:		
Balance at the beginning of the financial year	**1,956**	4,071
Transfer as part of restructure[1]	**2**	(3,063)
Associates acquired/equity contributed	**268**	2,203
Share of pre-tax profits of associates and joint ventures	**139**	230
Share of tax expense of associates and joint ventures	**(41)**	(70)
Dividends received/receivable from associates	**(200)**	(202)
Associates disposed of	**(195)**	(500)
Investments in associates provided for/written-off	**(102)**	(280)
Foreign exchange and other adjustments	**186**	(125)
Transferred to other asset categories	**(442)**	(308)
Balance at the end of the financial year	**1,571**	1,956

[1] During the year a number of entities were transferred between the Banking and Non-Banking Group. The 2008 balance relates to the Macquarie Group restructure (refer note 1).

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 19. Interests in associates and joint ventures using the equity method continued

(b) Summarised information of interests in material associates and joint ventures is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest 2009 %	Ownership interest 2008 %
Diversified CMBS Investments Inc[c] [1]	USA	31 March	**57**	57
Macquarie Countrywide Trust[b] [2]	Australia	30 June	**11**	10
Macquarie Diversified Treasury (AA) Fund[c] [2]	Australia	30 June	**-**	19
Macquarie Goodman Japan Limited[b] [4]	Singapore	31 March	**50**	50
Macquarie MEAG Prime REIT[b]	Singapore	31 December	**-**	26
Macquarie Office Trust[b] [2]	Australia	30 June	**14**	7
MGPA Limited[b] [3]	Bermuda	30 June	**56**	49

(1) Voting rights for this investment are not proportional to the ownership interest. The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

(2) The consolidated entity has significant influence due to its fiduciary relationship as manager of these entities.

(3) The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

(4) The reporting date of Macquarie Goodman Japan Limited has been changed from 30 June to 31 March effective 14 May 2008.

(a) Infrastructure

(b) Property development/management entity

(c) Funds management and investing

(d) Directories business

(e) Media, television, gaming and internet investments

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
(c) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**2**	1	**-**	-
For which the consolidated entity is severally liable	**1**	-	**-**	-
(d) Financial information of interests in associates and joint ventures are as follows:				
Consolidated entity's share of:				
Assets	**4,466**	3,057	**961**	276
Liabilities	**2,322**	1,215	**592**	122
Revenues	**911**	509	**223**	102
Profit after tax	**98**	163	**-**	-

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 20. Property, plant and equipment				
Furniture, fittings and leasehold improvements				
Cost	**124**	66	**55**	47
Less accumulated depreciation	**(50)**	(37)	**(34)**	(28)
Total furniture, fittings and leasehold improvements	**74**	29	**21**	19
Communication equipment				
Cost	**9**	10	**6**	8
Less accumulated depreciation	**(8)**	(9)	**(6)**	(8)
Total communication equipment	**1**	1	**-**	-
Computer equipment				
Cost	**70**	56	**48**	40
Less accumulated depreciation	**(57)**	(42)	**(38)**	(30)
Total computer equipment	**13**	14	**10**	10
Total property, plant and equipment	**88**	44	**31**	29

Reconciliation of the movement in the consolidated entity's property, plant and equipment at their written-down value:

	Furniture, fittings and leasehold improvements $m	Communication equipment $m	Computer equipment $m	Total $m
Balance at the beginning of the financial year	**29**	**1**	**14**	**44**
Acquisitions	**37**	**-**	**10**	**47**
Disposals	**(3)**	**-**	**(8)**	**(11)**
Transfer as part of restructure[(1)]	**27**	**-**	**10**	**37**
Foreign exchange movements	**1**	**-**	**1**	**2**
Depreciation expense	**(17)**	**-**	**(14)**	**(31)**
Balance at the end of the financial year	74	1	13	88

(1) During the year a number of entities transferred from the Non-Banking Group to the Banking Group. As part of these entity restructures $37 million of property, plant and equipment was transferred into the Banking Group.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 21. Investments in subsidiaries				
Investments at cost without provisions for impairment	-	-	3,921	2,281
Investments at cost with provisions for impairment	-	-	252	46
Less provisions for impairment	-	-	(214)	(23)
Investments at recoverable amount	-	-	38	23
Total investments in subsidiaries	-	-	3,959	2,304

The material subsidiaries of the Bank, based on contribution to the consolidated entity's profit from ordinary activities, the size of the investment made by the Bank or the nature of the activities conducted by the subsidiary, are:

- Diversified CMBS Australia Holdings Pty Limited
- Macquarie Alternative Assets Management Limited
- Macquarie Americas Corp (United States)
- Macquarie Americas Holdings Pty Limited
- Macquarie Australia Securities Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Capital Funding L.P. (Jersey)
- Macquarie CLO Investments No. 1 Pty Limited
- Macquarie Commercial Real Estate Debt Fund GP Limited (Cayman Islands)
- Macquarie Commodities Finance (UK) Limited (United Kingdom)
- Macquarie Cook Energy, LLC (United States)
- Macquarie Corporate & Asset Finance Limited
- Macquarie Countrywide Management Limited
- Macquarie Dynamic Management Pty Limited
- Macquarie Equipment Finance, LLC (United States)
- Macquarie Financial Products Management Limited
- Macquarie Funding Holdings Inc (United States)
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Global Debt Investment No.1 Pty Limited
- Macquarie Global Investments (UK) Limited (United Kingdom)
- Macquarie Hong Kong Finance Limited (Cayman Islands)[1]
- Macquarie Inc (United States)
- Macquarie International Finance Limited
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leisure Developments Limited
- Macquarie Life Limited
- Macquarie Pastoral Management Limited
- Macquarie Property Investment Management Holdings Limited
- Macquarie Real Estate Korea Limited
- Macquarie Securitisation Limited
- Pacific Rim Operations Limited

Note: All entities are incorporated in Australia unless otherwise stated.

Overseas subsidiaries carry on business predominantly in their place of incorporation unless otherwise stated.

Beneficial interest in all entities is 100 per cent.

All entities have a 31 March reporting date.

(1) Incorporated in the Cayman Islands with business carried on predominantly in Hong Kong.

Note 22. Deed of cross guarantee

On 26 March 2009 Macquarie Bank Ltd, Macquarie Americas Holdings Pty Ltd, Macquarie Corporate & Asset Finance Ltd, Macquarie Leisure Developments Ltd, Macquarie Property Investment Management Holdings Ltd and Pacific Rim Operations Ltd entered into a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission.

- Consolidated income statement and a summary of movements in consolidated retained earnings

Macquarie Bank Ltd, Macquarie Americas Holdings Pty Ltd, Macquarie Corporate & Asset Finance Ltd, Macquarie Leisure Developments Ltd, Macquarie Property Investment Management Holdings Ltd and Pacific Rim Operations Ltd represent a 'Closed Group' (the Closed Group) for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by MBL they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the financial year ended 31 March 2009 of the Closed Group.

Consolidated income statement for the financial year ended 31 March 2009

	2009 $m
Interest and similar income	4,571
Interest expense and similar charges	(4,149)
Total net interest income	422
Fee and commission income	139
Net trading income	1,436
Share of net profits of associates and joint ventures using the equity method	86
Other operating income and charges	441
Total net operating income	2,524
Employment expenses	(799)
Brokerage and commission expenses	(381)
Occupancy expenses	(77)
Non-salary technology expenses	(55)
Other operating expenses	(627)
Total operating expenses	(1,939)
Operating profit before income tax	585
Income tax benefit	83
Profit attributable to equity holders of the Closed Group	668
Summary of movements in consolidated retained earnings	
Retained earnings at the beginning of the financial year	1,183
Profit for the year	668
Dividends paid or provided	(747)
Retained earnings at the end of the financial year	1,104

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 22. Deed of cross guarantee continued

- Balance sheet
Set out below is a consolidated balance sheet as at 31 March 2009 of the Closed Group.

Consolidated balance sheet as at 31 March 2009

	2009 $m
Assets	
Cash and balances with central banks	141
Due from banks	9,032
Cash collateral on securities borrowed and reverse repurchase agreements	4,534
Trading portfolio assets	8,494
Loan assets held at amortised cost	15,238
Other financial assets at fair value through profit or loss	5,222
Derivative financial instruments – positive values	21,418
Other assets	1,827
Investment securities available for sale	13,430
Intangible assets	15
Due from related body corporate entities	4,588
Due from subsidiaries	14,076
Interest in associates and joint ventures using the equity method	736
Property, plant and equipment	31
Investments in subsidiaries	4,547
Deferred income tax assets	6
Total assets	103,335
Liabilities	
Due to banks	2,009
Cash collateral on securities lent and repurchase agreements	3,881
Trading portfolio liabilities	1,977
Derivative financial instruments – negative values	23,906
Deposits	21,267
Debt issued at amortised cost	23,776
Other financial liabilities at fair value through profit or loss	3,276
Other liabilities	2,445
Current tax liabilities	33
Due to related body corporate entities	2,847
Due to subsidiaries	8,763
Provisions	71
Deferred income tax liabilities	301
Total liabilities excluding loan capital	94,552
Subordinated debt at amortised cost	1,488
Subordinated debt at fair value through profit or loss	451
Total liabilities	96,491
Net assets	6,844
Equity	
Contributed equity	
Ordinary share capital	4,547
Macquarie Income Securities	391
Convertible debentures	884
Reserves	(82)
Retained earnings	1,104
Total equity	6,844

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 23. Deferred income tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Provisions and accrued expenses	**367**	(35)	**(4)**	(152)
Tax losses	**49**	32	**-**	13
Fixed assets	**33**	30	**33**	32
Investments in subsidiaries, associates and joint ventures	**39**	(19)	**-**	-
Tax effect of reserves	**41**	(46)	**(3)**	(25)
Set-off of deferred tax liabilities	**(436)**	116	**(15)**	157
Total deferred income tax assets	**93**	78	**11**	25
Financial instruments	**(508)**	(77)	**(261)**	1
Set-off of deferred tax assets	**436**	(116)	**15**	(157)
Total deferred income tax liabilities	**(72)**	(193)	**(246)**	(156)
Net deferred income tax assets/(liabilities)	**21**	(115)	**(235)**	(131)

Potential tax assets of approximately $29 million (2008: $13 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the consolidated entity as the Directors do not believe the realisation of the tax assets is probable.

The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current period's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses. Deductible temporary differences and tax losses give rise to deferred tax assets. Deferred tax assets are not recognised unless the benefit is probable of realisation.

The deferred tax assets have been applied against deferred tax liabilities to the extent that they are expected to be realised in the same period and within the same tax paying entity.

Note 24. Non-current assets classified as held for sale

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Non-current assets	**56**	35	**-**	-
Total non-current assets classified as held for sale[1]	**56**	35	**-**	-

(1) Included within this balance are assets with a carrying value of $10 million (2008: $nil) provided as security over payables to other financial institutions.

All of the above non-current assets classified as held for sale are expected to be disposed of by way of trade sale, sale to a Macquarie Managed Fund or sale to other investors within twelve months of being classified as held for sale, unless events or circumstances occur that are beyond the consolidated entity’s control and the consolidated entity remains committed to its plan to sell the asset.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 25. Due to banks				
OECD banks	**1,030**	2,666	**448**	1,781
OECD central banks	**-**	131	**-**	131
Clearing houses[1]	**26**	291	**26**	291
Other	**2,208**	661	**1,535**	318
Total due to banks	**3,264**	3,749	**2,009**	2,521

(1) Amounts due to clearing houses are settled on the next business day.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 26. Cash collateral on securities lent and repurchase agreements				
Central banks	**729**	317	**729**	317
Governments	**101**	69	**101**	69
Financial institutions	**3,044**	12,084	**3,044**	12,084
Other	**7**	999	**7**	999
Total cash collateral on securities lent and repurchase agreements	**3,881**	13,469	**3,881**	13,469
Note 27. Trading portfolio liabilities				
Listed equity securities	**1,878**	6,495	**1,875**	6,210
Commonwealth government securities	**78**	4,053	**78**	4,053
Other government securities	**12**	154	**12**	154
Corporate securities	**12**	14	**12**	14
Total trading portfolio liabilities	**1,980**	10,716	**1,977**	10,431
Note 28. Debt issued at amortised cost				
Debt issued at amortised cost[1]	**48,270**	54,763	**23,776**	26,581
Total debt issued at amortised cost	**48,270**	54,763	**23,776**	26,581

(1) Included within this balance are amounts payable to SPE note holders of $20,131 million (2008: $21,564 million).

The consolidated entity has not had any defaults of principal, interest or other breaches with respect to its debt during the periods reported.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 29. Other financial liabilities at fair value through profit or loss				
Equity linked notes	**3,702**	6,017	**3,107**	4,089
Debt issued at fair value	**176**	254	**169**	236
Total other financial liabilities at fair value through profit or loss	**3,878**	6,271	**3,276**	4,325
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:				
Australian dollars	**25,259**	39,791	**8,658**	14,023
United States dollars	**16,320**	7,730	**14,302**	7,672
Euro	**4,081**	5,170	**2,378**	5,170
Canadian dollars	**3,607**	2,547	**7**	651
Great British pounds	**905**	2,133	**183**	247
Japanese yen	**683**	1,624	**683**	1,624
Hong Kong dollars	**626**	896	**626**	815
Singapore dollar	**492**	621	**40**	180
Other currencies	**175**	522	**175**	524
Total by currency	**52,148**	61,034	**27,052**	30,906

The consolidated entity's primary sources for domestic and international debt funding is its multi-currency, multi-jurisdictional Debt Instrument Program and domestic NCD issuance. Securities can be issued for terms varying from 1 day to 30 years.

Note 30. Other liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Creditors	**2,388**	2,334	**1,360**	1,449
Due to brokers and customers[1]	**958**	904	**676**	633
Accrued charges and sundry provisions	**534**	808	**374**	521
Other	**121**	74	**34**	29
Total other liabilities	**4,001**	4,120	**2,444**	2,632

[1] Amounts due to brokers and customers are payable within three working days of the relevant trade date.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 31. Provisions				
Provision for annual leave	**30**	26	**22**	25
Provision for long service leave	**25**	31	**25**	30
Provision for other employee entitlements	**4**	1	**3**	-
Provision for dividends	**17**	29	**21**	22
Total provisions	**76**	87	**71**	77

Note 32. Capital management strategy

The Bank and consolidated entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources, whilst also providing the flexibility to take advantage of opportunities as they may arise.

The consolidated entity's capital management objectives are to:

- Continue to support the consolidated entity's credit rating;
- Ensure sufficient capital resource to support the consolidated entity's business and operational requirements;
- Maintain sufficient capital to exceed externally imposed capital requirements; and
- Safeguard the consolidated entity's ability to continue as a going concern.

The consolidated entity's capital management strategy uses both internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify the consolidated entity's aggregate level of risk. The ECM is used in the cash flow to support business decision making, including deciding the required level of capital, the setting of risk appetite and as a risk adjusted performance measure.

The consolidated entity is subject to minimum capital requirements externally imposed by APRA, following the guidelines developed by the Basel Committee on Banking Supervision. The Bank reports to APRA under Basel II capital requirements effective from 1 January 2008. The Bank has been granted accreditation by APRA to adopt the Basel II Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. Prior to 1 January 2008, the consolidated entity reported to APRA under the prudential requirements referred to as Basel I.

Regulatory capital requirements are measured for the Bank and certain subsidiaries which meet the definition of extended licensed entities ("Level 1" reporting), and for the Banking group ("Level 2" reporting). "Level 2" consists of MBL, its subsidiaries and its immediate parent less certain subsidiaries of MBL which are deconsolidated for APRA reporting purposes. These include entities conducting insurance, funds management, non-financial operations and special purpose vehicles. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. The Macquarie Group internal capital policy set by the Board requires capital floors above this regulatory required level.

MBL's Tier 1 capital consists of share capital, retained earnings, certain reserves, Macquarie Income Securities and convertible debentures. Deductions from Tier 1 capital are made for intangibles, certain capitalised expenses, deferred tax assets, and equity investments over prescribed limits. In addition Basel II requires that investments in subsidiaries that are fund management entities, special purpose securitisation vehicles and non-commercial entities are deducted 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital. MBL's Tier 2 capital includes term subordinated debt and certain reserves. Deductions from Tier 2 capital include certain reserves and 50 per cent of investments in subsidiaries as noted above.

The Bank and consolidated entity have complied with all internal and external capital management requirements throughout the year.

Note 33. Loan capital

Subordinated debt

Agreements between the consolidated entity and the lenders provide that, in the event of liquidation, entitlement of such lenders to repayment of the principal sum and interest thereon is and shall at all times be and remain subordinated to the rights of all other present and future creditors of the consolidated entity.

The dates upon which the consolidated entity has committed to repay the principal sum to the lenders are as follows:

	Consolidated 2009 $m	Consolidated 2008 $m	**Bank 2009 $m**	Bank 2008 $m
At call				
30 September 2009	**3**	-	**-**	-
2 May 2013	**-**	25	**-**	25
20 June 2013	**-**	346	**-**	346
15 September 2014	**301**	301	**301**	301
18 September 2015	**489**	383	**489**	383
19 September 2016	**176**	372	**176**	372
6 December 2016	**668**	605	**668**	605
31 May 2017	**305**	305	**305**	305
Total subordinated debt	**1,942**	2,337	**1,939**	2,337
Reconciliation of subordinated debt by major currency:				
Euro	**669**	951	**669**	951
Australian dollars	**368**	569	**368**	569
Great British pounds	**413**	434	**413**	434
United States dollars	**492**	383	**489**	383
Total subordinated debt by currency	**1,942**	2,337	**1,939**	2,337

The consolidated entity has not had any defaults of principal, interest or other breaches with respect to its loan capital during the periods reported.

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2009 was $236 million lower than the contractual amount at maturity as credit risk was factored into the determination of fair value.

In accordance with APRA guidelines, the consolidated entity includes the applicable portion of its loan capital principal as Tier 2 capital.

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for the financial year ended 31 March 2009 continued

	Consolidated and Bank 2009 Number of Shares	Consolidated and Bank 2008 Number of Shares	Consolidated and Bank 2009 $m	Consolidated and Bank 2008 $m
Note 34. Contributed equity				
Ordinary share capital				
Opening balance of fully paid ordinary shares	**300,536,918**	253,941,205	**3,586**	3,103
Issue of 8,620,690 ordinary shares on 21 May 2007 at $87.00	**-**	8,620,690	**-**	745
On-market purchase of shares pursuant to the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) and Non-Executive Directors Share Acquisition Plan (NEDSAP) at $88.67 per share	**-**	(313,615)	**-**	(28)
Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at $88.67 per share	**-**	313,615	**-**	28
Issue of shares on exercise of options	**-**	5,466,294	**-**	195
Issue of shares on 25 June 2007 pursuant to the Share Purchase Plan at $87.00 per share	**-**	912,076	**-**	79
Issue of shares on 4 July 2007 pursuant to the DRP at $86.44 per share	**-**	2,146,392	**-**	185
Issue of shares to Macquarie Group Limited on 13 November 2007 (note 1)	**-**	31,501,643	**-**	2,250
Capital reduction on 13 November 2007 (note 1)	**-**	(2,051,382)	**-**	(3,000)
Issue of 3,926,700 shares to Macquarie B.H. Pty Ltd on 4 July 2008 at $76.40 per share	**3,926,700**	-	**300**	-
Issue of 2,341,926 shares to Macquarie B.H. Pty Ltd on 1 November 2008 at $19.87 per share	**2,341,926**	-	**47**	-
Issue of 31,096,564 shares to Macquarie B.H. Pty Ltd on 30 March 2009 at $18.33 per share	**31,096,564**	-	**570**	-
Transfer from share based payments reserve for expensed options that have been exercised (note 35)	**-**	-	**-**	29
Closing balance of fully paid ordinary shares	**337,902,108**	300,536,918	**4,503**	3,586

Subsequent to balance date the Bank issued 10,920,790 shares to its immediate parent, Macquarie B.H. Pty Limited on 1 April 2009 at $18.33 per share ($200 million in aggregate).

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**18**	-	**12**	-
Additional paid up capital	**39**	18	**32**	12
Balance at the end of the financial year	**57**	18	**44**	12

In November 1995, the Bank introduced an Employee Option Plan, as a replacement for the Bank's then closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). Staff eligible to participate are those of Associate Director level and above and consultants to the consolidated entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods. Since 13 November 2007 the equity provided has been treated as an equity contribution from MGL. For the year ended 31 March 2009, compensation expense relating to MGESOP which has been treated as additional paid up capital in the consolidated entity totalled $31,885,238 (2008: $18,087,467) and in the Bank $25,386,197 (2008: $12,179,396). In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, compensation expense relating to these plans was recognised as additional paid up capital during the financial year, totalling $7,174,013 (Bank: $6,999,693). Disclosures on the MGESOP, MGSSAP and ESP are disclosed in note 39 - Employee equity participation.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 34. Contributed equity continued				
Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

The Macquarie Income Securities are classified as equity in accordance with AASB 132: *Financial Instruments: Presentation.* Interest is paid quarterly at a floating rate of Bank Bill Swap Rate (BBSW) plus 1.7 per cent p.a. Payment of interest to holders is subject to certain conditions, including the profitability of the Bank. They are a perpetual instrument with no conversion rights. They were listed for trading on the Australian Stock Exchange (now known as Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at the Bank's discretion on 19 November 2004.

Convertible debentures				
7,000 convertible debentures of £50,000 each	**-**	-	**884**	884
Total convertible debentures	**-**	-	**884**	884

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 35 – Reserves, retained earnings and minority interests) the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2008: 6.177 per cent) semi-annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35 per cent (2008: 2.35 per cent) per annum above the then prevailing five year benchmark sterling gilt rate.

The distribution policies for these instruments are included in note 8 – Dividends paid and distributions paid or provided.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 35. Reserves, retained earnings and minority interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(20)**	1	**(134)**	(40)
Currency translation differences arising during the financial year, net of hedge	**11**	(21)	**(33)**	(94)
Balance at the end of the financial year	**(9)**	(20)	**(167)**	(134)
Available for sale reserve				
Balance at the beginning of the financial year	**56**	228	**46**	108
Revaluation movement for the financial year, net of tax	**(134)**	4	**(57)**	(46)
Transfer to income statement for impairment	**92**	-	**57**	-
Transfer to profit on realisation	**(10)**	(24)	**(9)**	(16)
Transfer to profit on sale arising from Macquarie Group restructure	**-**	(152)	**-**	-
Balance at the end of the financial year	**4**	56	**37**	46
Share-based payments reserve				
Balance at the beginning of the financial year	**186**	144	**186**	144
Options expense for the financial year[1]	**-**	71	**-**	58
Options issued to subsidiary employees	**-**	-	**-**	13
Transfer to share capital on exercise of expensed options	**-**	(29)	**-**	(29)
Balance at the end of the financial year	**186**	186	**186**	186
Cash flow hedging reserve				
Balance at the beginning of the financial year	**31**	10	**12**	-
Revaluation movement for the financial year, net of tax	**(177)**	21	**(39)**	12
Balance at the end of the financial year	**(146)**	31	**(27)**	12
Share of reserves of associates and joint ventures using the equity method				
Balance at the beginning of the financial year	**(6)**	(3)	**-**	-
Share of reserves during the financial year	**36**	(3)	**-**	-
Balance at the end of the financial year	**30**	(6)	**-**	-
Distribution to the ultimate parent entity				
Balance at the beginning of the financial year	**(65)**	-	**(61)**	-
Arising from acquisition of entities of the Non-Banking Group (note 48)	**(201)**	-	**-**	-
Arising from Macquarie Group restructure	**-**	(65)	**-**	(61)
Balance at the end of the financial year	**(266)**	(65)	**(61)**	(61)
Total reserves at the end of the financial year	**(201)**	182	**(32)**	49
Retained earnings				
Balance at the beginning of the financial year	**1,374**	2,795	**1,226**	1,378
Profit attributable to equity holders of Macquarie Bank Limited	**609**	15,730	**620**	17,015
Distributions paid or provided on Macquarie Income Securities (note 8)	**(33)**	(34)	**-**	-
Distributions paid or provided on convertible debentures (note 8)	**-**	-	**(47)**	(50)
Dividends paid on ordinary share capital (note 8)	**(700)**	(17,117)	**(700)**	(17,117)
Balance at the end of the financial year	**1,250**	1,374	**1,099**	1,226

(1) Included in this expense are amounts relating to both continuing and discontinued operations as a result of the Macquarie Group restructure.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m

Note 35. Reserves, retained earnings and minority interests continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Minority interests				
Macquarie Income Preferred Securities[2]				
Proceeds on issue of Macquarie Income Preferred Securities	**894**	894	**-**	-
Less issue costs	**(10)**	(10)	**-**	-
	884	884	**-**	-
Less securities financed[3]	**(382)**	-	**-**	-
	502	884	**-**	-
Current year profit	**45**	50	**-**	-
Distribution provided on Macquarie Income Preferred Securities	**(45)**	(50)	**-**	-
Foreign currency translation reserve	**(104)**	(132)	**-**	-
Total Macquarie Income Preferred Securities	**398**	752	**-**	-
Other minority interests				
Ordinary share capital	**6**	83	**-**	-
Accumulated gains/(losses)	**6**	(1)	**-**	-
Total other minority interests	**12**	82	**-**	-
Total minority interests	**410**	834	**-**	-

(2) On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion.

The instruments are reflected in the consolidated entity's financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

(3) On 10 February 2009, Macquarie Hong Kong Finance Limited (MHKFL), a subsidiary of the Bank, financed Macquarie Capital Finance (Dubai) Limited to acquire a portion of the Securities. MHKFL recognise the Securities, as a result of the financing arrangement which meets the pass through test of AASB 139: *Financial Instruments: Recognition and Measurement*. The consolidated entity accounts for the financing arrangement as a reduction of minority interest equity.

Note 36. Notes to the cash flow statements

Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statements are reconciled to related items in the balance sheet as follows:

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Cash and balances with central banks	**141**	7	**141**	7
Due from other financial institutions				
Due from banks[1]	**10,127**	7,169	**9,026**	6,054
Trading securities[2]	**9,604**	10,519	**9,605**	10,519
Cash and cash equivalents at the end of the financial year	**19,872**	17,695	**18,772**	16,580

(1) Includes cash at bank, overnight cash at bank, other loans to bank and amounts due from clearing houses as per note 2(xxii) - Summary of significant accounting policies.

(2) Includes certificates of deposit, bank bills and other short-term debt securities as per note 2(xxii) - Summary of significant accounting policies.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 36. Notes to the cash flow statements continued				
Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities				
Profit from ordinary activities and discontinued activities after income tax	**657**	15,780	**620**	17,015
Adjustments to profit from ordinary activities				
Accretion of interest on available for sale financial assets	**(651)**	(539)	**(821)**	(530)
Amortisation of other identifiable intangible assets	**23**	7	**-**	-
Depreciation on assets under operating leases	**85**	83	**-**	-
Depreciation on property, plant and equipment	**31**	85	**20**	50
Dividends received from associates	**200**	202	**-**	-
Fair value changes on available for sale financial assets transferred to income statement on realisation	**(10)**	(24)	**(9)**	(16)
Fair value changes on financial assets and liabilities at fair value through profit or loss	**(92)**	17	**(131)**	(5)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**(298)**	(14,368)	**(402)**	(14,518)
Impairment charge on disposal group held for sale	**192**	-	**189**	-
Impairment charge on associates and joint ventures	**102**	290	**5**	2
Impairment charge on investment securities available for sale	**240**	84	**109**	19
Impairment charge on subsidiaries	**-**	-	**205**	-
Impairment charge on non-financial assets	**45**	-	**-**	-
Loss on disposal of property, plant and equipment	**11**	28	**-**	19
Net gains on sale of associates (including associates held for sale) and joint ventures	**(29)**	(756)	**(124)**	(57)
Net losses/(gains) on sale of investment securities available for sale	**6**	(130)	**(1)**	(96)
Provision for impairment on loan assets and other receivables	**457**	119	**372**	34
Share based payment expense (note 34)	**39**	89	**32**	70
Share of net profits of associates and joint ventures using the equity method	**(98)**	(160)	**1**	-
Changes in assets and liabilities				
Decrease in dividends receivable	**41**	23	**45**	56
(Increase)/decrease in fees and commissions receivable	**(32)**	876	**(108)**	215
Decrease in fees and commissions payable	**(6)**	(101)	**(2)**	(61)
Decrease in current tax receivables	**-**	-	**13**	22
Increase/(decrease) in current tax liabilities	**67**	389	**(189)**	(109)
Decrease/(increase) in deferred tax assets	**116**	(519)	**30**	(204)
(Decrease)/increase in deferred tax liabilities	**(249)**	161	**90**	115
Decrease/(increase) in interest receivable	**193**	(142)	**136**	(118)
(Decrease)/increase in interest payable	**(10)**	75	**36**	60
Decrease in provisions for employee entitlements	**(14)**	(40)	**(7)**	(43)
(Decrease)/increase in loan assets granted	**(565)**	7,061	**(11,269)**	13,545
Decrease/(increase) in loan receivable from ultimate parent entity	**5,000**	(8,800)	**5,000**	(8,800)
(Increase)/decrease in debtors, prepayments, accrued charges and creditors	**(1,246)**	(2,550)	**101**	(2,703)
Decrease in financial instruments, foreign exchange and commodities	**4,526**	7,158	**7,178**	6,678
(Decrease)/Increase in amounts due to other financial institutions, deposits and other borrowings	**(7,713)**	11,526	**1,347**	3,235
(Increase)/decrease in life investment contract receivables	**(254)**	795	**-**	-
Net cash flows from operating activities	**764**	16,719	**2,466**	13,875

Note 37. Related party information

Ultimate and immediate parent entities

During the previous financial year, the consolidated entity was restructured which resulted in MGL being established as the ultimate parent entity of the Macquarie Group.

The Bank's immediate parent entity is Macquarie B.H. Pty Ltd. Both MGL and Macquarie B.H. Pty Ltd are incorporated in Australia. MGL produces financial statements that are available for public use.

In the previous financial year the Bank provided a $10.1 billion loan to MGL of which $3,800 million (2008: $8,800 million) remained outstanding at the balance sheet date. This facility, which at 31 March 2009 is an unsecured amortising two year committed term loan, provides funding to MGL whilst MGL establishes its profile in the term funding markets.

Subsequent to the Macquarie Group restructure, MGL as the ultimate parent entity of the Macquarie Group became the head entity of the tax consolidated group. The terms and conditions of the revised tax funding agreement are set out in note 2 (vii) – Summary of significant accounting policies. As at 31 March 2009, the amount receivable by the consolidated entity and the Bank from MGL as the head entity under the revised tax funding agreement is $201 million and $435 million, respectively (2008: $140 million payable and $122 million payable). This balance is included in "Due from related body corporate entities" in the balance sheet.

The following balances with the ultimate parent entity were outstanding as at the financial year-end:

	Consolidated 2009 $m	Consolidated 2008 $m	**Bank 2009 $m**	Bank 2008 $m
Amounts receivable	**3,797**	8,614	**3,801**	8,803

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the balance sheet of the Bank except when offsetting reflects the substance of the transaction or event.

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

The Bank has entered into derivative transactions with its subsidiaries to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its subsidiaries at 31 March 2009 are $860 million positive value (2008: $728 million) and $445 million negative value (2008: $75 million).

A list of material subsidiaries is set out in note 21 – Investments in subsidiaries.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 37. Related party information continued

Subsidiaries continued

During the financial year, the following transactions occurred with subsidiaries:

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Interest income received/receivable (note 3)	-	-	529	1,215
Interest expense paid/payable (note 3)	-	-	(785)	(1,430)
Fee and commission income	-	-	57	107
Other operating income	-	-	9	-
Dividends and distributions received/receivable (note 3)	-	-	325	1,466
Management fees, group service charges and cost recoveries	-	-	525	402
Options issued to employees of subsidiaries (note 35)	-	-	-	(13)
The following balances with subsidiaries were outstanding at the year end:				
Amounts receivable	-	-	15,045	9,372
Amounts payable	-	-	(8,849)	(11,965)

Outstanding balances are unsecured and are repayable in cash. The maturities and weighted average interest rate charged on outstanding balances receivable/payable are disclosed in note 45 – Maturity analysis of monetary assets and liabilities.

Other related body corporate entities

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

As part of the Macquarie Group restructure described above, the Bank sold certain Non-Banking Group subsidiaries to a related body corporate entity for fair value at the restructure date. Certain employees of the Bank were transferred to Non-Bank subsidiaries and their employment liabilities were defeased to these entities. In addition, the Bank has defeased part of its own employment liability obligation to a Non-Bank subsidiary. Details of this transaction are disclosed in note 7 - Discontinued operations.

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

During the financial year, the following transactions occurred with other related body corporate entities:

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Interest income received/receivable (note 3)	607	275	585	219
Interest expense paid/payable (note 3)	(525)	(237)	(472)	(63)
Other operating income	(2)	22	(1)	22
Dividends and distributions received/receivable	-	42	-	898
Management fees, group service charges and cost recoveries	(37)	(185)	(13)	(47)
Fee and commission expense	(205)	-	(185)	-
Other operating expenses	(32)	-	(32)	-
Brokerage and commission expense	-	(184)	-	(132)
The following balances with other related body corporate entities were outstanding at the year-end:				
Amounts receivable	850	1,954	787	1,946
Amounts payable	(3,332)	(7,769)	(2,876)	(7,718)

For the financial year end 31 March 2008 related party transactions as presented in this note represents related party transactions from ordinary activities and the discontinued operations as disclosed in note 7 – Discontinued operations.

Note 37. Related party information continued

Associates and joint ventures

Transactions between the consolidated entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the consolidated entity, in the consolidated income statement.

During the financial year, the following transactions occurred with associates and joint ventures:

	Consolidated 2009 $m	Consolidated 2008 $m	**Bank 2009 $m**	Bank 2008 $m
Interest income received/receivable	**19**	22	**16**	20
Fee and commission income[(1)]	**104**	1,037	**17**	313
Other income	**6**	4	**6**	2
Gains on sale of securities[(2)]	**2**	37	**1**	40
Dividends and distributions[(3)]	**200**	202	**8**	33
Brokerage and commission expense	**(12)**	(17)	**(12)**	-

(1) Fee and commission income includes all fees charged to associates.

(2) Gains on sale of securities are shown after elimination of unrealised profits/losses calculated by reference to the consolidated entity's ownership interest in the associate.

(3) Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the consolidated entity's net investment in associates, disclosed in note 19):

	Consolidated 2009 $m	Consolidated 2008 $m	**Bank 2009 $m**	Bank 2008 $m
Amounts receivable	**635**	472	**545**	376
Amounts payable	**(650)**	(4)	**(650)**	(4)

Balances arising from lending and borrowing activities between the consolidated entity and its associates and joint ventures are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Note 38. Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MBL during the financial years ended 31 March 2009 and 31 March 2008, unless indicated:

Executive Directors

L.G. Cox, AO	
N.W. Moore[(1)]	(Ceased to be a Key Management Person on 12 November 2007, reappointed 24 May 2008)
A.E. Moss, AO	(retired 24 May 2008)
W.R. Sheppard[(1)]	Managing Director and Chief Executive Officer

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 38. Key Management Personnel disclosure continued

Non-Executive Directors

J.G. Allpass	(retired 19 July 2007)
D.S. Clarke, AO[2]	Non-Executive Chairman
M.R.G. Johnson	(retired 19 July 2007)
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM	Acting chairman in Mr Clarke's absence since 27 November 2008
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne	(appointed 1 July 2007)

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity during the past two financial years ended 31 March 2009 and 31 March 2008, unless otherwise indicated.

Executives

J.K. Burke	(retired 26 February 2009)
M. Carapiet[1]	Group Head, Macquarie Capital (ceased to be a Key Management Person on 12 November 2007)
A.J. Downe[1]	Group Head, Treasury and Commodities Group
R. Laidlaw [1]	Group Head, Macquarie Securities Group (appointed 11 March 2009)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
N.R. Minogue[1]	Group Head, Risk Management Group
G.C. Ward[1]	Chief Financial Officer
S Wikramanayake[1]	Group Head, Macquarie Funds Group (appointed 1 August 2008)

(1) Members of the Bank's Executive Committee as at 30 April 2009.

(2) Due to illness Mr Clarke sought and was granted leave of absence from 27 November 2008.

It is important to note that the Bank's Non-Executive Directors are specifically required to be categorised as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non-Executive Directors do not consider that they are part of 'management'.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report pages 6 to 44.

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel.

				Short-term employee benefits	Long-term[1] employee benefits	Share based payments	
	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Total short-term employee benefits $	Restricted profit share $	Shares/ Options $	Total remuneration $
Executive Remuneration							
2009	**2,900,365**	**10,565,085**	**-**	**13,465,450**	**(11,495,262)**	**5,342,793**	**7,312,981**
2008	4,023,911	82,634,237	-	86,658,148	3,641,514	14,946,808	105,246,470
Non-Executive Remuneration							
2009	**628,000**	**-**	**10,487**	**638,487**	**-**	**-**	**638,487**
2008	1,754,246	-	181,964	1,936,210	-	-	1,936,210

(1) Includes earnings or losses on restricted profit share.

Note 38. Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the financial year for the Key Management Personnel including their related parties. The options were over fully paid unissued ordinary shares of the Bank. As detailed in note 1, option holders of MBL obtained one MGL ordinary option for each ordinary option they held in MBL prior to implementation of the Macquarie Group Restructure. Following the restructure, there were no options issued over MBL shares. Further details in relation to the Option Plan are disclosed in note 39 – Employee equity participation.

For the financial year ended 31 March 2008

Name and position	Number of options held at 1 April 2007[b]	Options granted during the financial year	Options exercised during the financial year	Other changes[a]	Options cancelled on restructure	Number of options held at 31 March 2008[b]	Number of options vested during the financial year	Number of options vested at 31 March 2008[b]
Executive Directors								
L.G. Cox	23,265	9,000	-	-	(32,265)	-	4,673	-
A.E. Moss	511,000	159,400	-	-	(670,400)	-	115,200	-
W.R. Sheppard	148,334	45,000	-	-	(193,334)	-	53,332	-
Non-Executive Directors								
J.G. Allpass[c]	-	-	-	-	-	-	-	-
D.S. Clarke[d]	53,734	-	(53,734)	-	-	-	-	-
M.R.G. Johnson[e]	84,795	-	-	-	(84,795)	-	36,366	-
P.M. Kirby	-	-	-	-	-	-	-	-
C.B. Livingstone	-	-	-	-	-	-	-	-
H.K. McCann	-	-	-	-	-	-	-	-
J.R. Niland	-	-	-	-	-	-	-	-
H.M. Nugent	-	-	-	-	-	-	-	-
P.H. Warne[f]	-	-	-	-	-	-	-	-
Executives								
J.K. Burke	181,335	50,000	(6,657)	-	(224,678)	-	53,001	-
M. Carapiet[g]	356,838	126,000	(99,771)	-	(383,067)	-	99,771	-
A.J. Downe	218,335	85,000	-	-	(303,335)	-	71,667	-
P.J. Maher	125,000	25,000	(56,666)	-	(93,334)	-	31,666	-
N.R. Minogue	129,835	35,000	(21,500)	-	(143,335)	-	36,667	-
N.W. Moore[g]	594,335	154,400	(216,001)	-	(532,734)	-	138,333	-
G.C. Ward	100,743	30,000	(27,409)	-	(103,334)	-	31,667	-

(a) Vested options sold under facility provided by an external party unless otherwise noted.

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Allpass retired on 19 July 2007, his balance at 31 March 2008 represents holdings at date of retirement.

(d) Mr Clarke retired as Executive Chairman on 31 March 2007, he continues as Non-Executive Chairman.

(e) Mr Johnson retired from the Executive Committee on 31 March 2007, he continued as a Non-Executive Director until he retired on 19 July 2007. The options cancelled on restructure represents the balance held at date of retirement.

(f) Mr Warne was appointed to the Board of Directors on 1 July 2007.

(g) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed 24 May 2008.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 38. Key Management Personnel disclosure continued

Shareholding of Key Management Personnel and their related parties

The following table sets out details of fully paid ordinary shares of the Bank held during the financial year by Key Management Personnel including their related parties. As detailed in note 1, shareholders of MBL obtained one MGL ordinary share for each ordinary share they held in MBL prior to implementation of the Macquarie Group Restructure.

For the financial year ended 31 March 2008

Name and position	Number of shares held at 1 April 2007[b]	Shares received on exercise of options	Other changes[a]	Shares cancelled on Restructure	Number of shares held at 31 March 2008[b]
Executive Directors					
L.G. Cox	269,812	-	-	(269,812)	-
A.E. Moss	404,336	-	(100)	(404,236)	-
W.R. Sheppard	259,271	-	2,000	(261,271)	-
Non-Executive Directors					
J.G. Allpass[c]	18,513	-	-	(18,513)	-
D.S. Clarke[d]	651,113	53,734	10	(704,857)	-
M.R.G. Johnson[e]	293,803	-	-	(293,803)	-
P.M. Kirby	9,772	-	-	(9,772)	-
C.B. Livingstone	7,550	-	882	(8,432)	-
H.K. McCann	11,359	-	-	(11,359)	-
J.R. Niland	5,959	-	2,000	(7,959)	-
H.M. Nugent	19,762	-	851	(20,613)	-
P.H. Warne[f]	8,790	-	287	(9,077)	-
Executives					
J.K. Burke	25,000	6,657	-	(31,657)	-
M. Carapiet[g]	525,934	99,771	(94,431)	(531,274)	-
A.J. Downe	121,035	-	-	(121,035)	-
P.J. Maher	60,153	56,666	171	(116,990)	-
N.R. Minogue	110,811	21,500	-	(132,311)	-
N.W. Moore[g]	843,113	216,001	(50,000)	(1,009,114)	-
G.C. Ward	29,211	27,409	-	(56,620)	-

(a) Includes on-market acquisitions and disposals

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Allpass retired on 19 July 2007. Shares cancelled on restructure represent the balance held at date of retirement.

(d) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

(e) Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007.The shares cancelled on restructure represent his holdings at date of retirement.

(f) Mr Warne was appointed to the Board of Directors on 1 July 2007. The opening balance on 1 April 2007 represents his holdings on the date of his appointment as Director at 1 July 2007.

(g) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed 24 May 2008.

Note 38. Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

Details of loans provided by the consolidated entity to Key Management Personnel and their related parties are disclosed in the following tables:

		Opening balance at 1 April $'000	Interest charged $'000	Write-down $'000	Closing balance at 31 March $'000	Number in consolidated entity 31 March
Total for Key Management Personnel and their related parties	**2009**	**57,176**	**4,501**	**-**	**42,861**	**10**
	2008	57,545	4,370	-	57,199	14
Total for Key Management Personnel	**2009**	**39,164**	**2,493**	**-**	**22,729**	**5**
	2008	41,862	2,897	-	39,187	9

Loans and other financial instrument transactions are made by the consolidated entity in the ordinary course of business with related parties.

Certain loans are provided under zero cost collars and secured over MGL shares under normal terms and conditions consistent with other customers and employees.

Key Management Personnel including their related parties with loans above $100,000 at any time during the financial year are as follows:

For the financial year ended 31 March 2009

Name and position	Balance at 1 April 2008 $'000[(b)]	Interest charged[(a)] $'000	Write-down $'000	Balance at 31 March 2009[(b)] $'000	Highest balance during financial year $'000
Executive Directors					
N. W. Moore[(c)]	**6,985**	**376**	**-**	**5,313**	**12,570**
Non-Executive Directors					
D.S. Clarke	**34,826**	**3,352**	**-**	**37,290**	**37,798**
Executives					
A.J. Downe	**1,847**	**105**	**-**	**-**	**1,847**
R. Laidlaw	**238**	**-**	**-**	**238**	**238**
P.J. Maher	**4,878**	**499**	**-**	**20**	**5,572**
N.R. Minogue	**4,234**	**42**	**-**	**-**	**4,339**
G.C. Ward	**4,406**	**127**	**-**	**-**	**4,406**

(a) All loans provided by the consolidated entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Moore ceased being a member of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 38. Key Management Personnel disclosure continued

For the financial year ended 31 March 2008

Name and position	Balance at 1 April 2007 $'000	Interest charged (a) $'000	Write-down $'000	Balance at 31 March 2008 (b) $'000	Highest balance during financial year $'000
Executive Directors					
L.G. Cox	200	7	-	-	765
Non-Executive Directors					
D.S. Clarke[c]	29,937	2,606	-	34,826	35,050
Executives					
M. Carapiet[d]	5,286	136	-	-	5,286
A.J. Downe	-	49	-	1,847	1,847
P.J. Maher	2,866	416	-	4,878	5,769
N.R. Minogue	4,618	340	-	4,234	4,939
N.W. Moore[d]	12,891	504	-	6,985	12,891
G.C. Ward	1,727	311	-	4,406	4,561

(a) All loans provided by the consolidated entity to Directors and Executives are made in the ordinary course of business on an arm's length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

(b) Or date of retirement if earlier.

(c) Mr Clarke retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman.

(d) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

Other transactions and balances of Key Management Personnel and their related parties:

The following Key Management Personnel have acquired Infrastructure Bonds and similar products from subsidiaries within the Bank which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the consolidated entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2009 $'000	Consolidated 2008 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**10,823**	13,481

The annual contributions in respect of Infrastructure Bonds and similar products relate to the following Key Management Personnel:

Executive Directors

L.G. Cox, N.W. Moore and W.R. Sheppard.

Non-Executive Directors

D.S. Clarke (2008 only) and P.M. Kirby.

Executives

J.K. Burke (retired 26 February 2009), M. Carapiet, A.J. Downe, R. Laidlaw (2009 only), P.J. Maher, N.R. Minogue and G.C. Ward.

Note 38. Key Management Personnel disclosure continued

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the Bank and other non-related entities in respect of fully paid ordinary MGL shares. This has the effect of acquiring cash-settled put options against movements in the MGL share price below current levels and disposing of the benefit of any share price movement above the nominated level.

Transactions with the consolidated entity

Name and position	Description	Number of shares 2009	Number of shares 2008
Non-Executive Directors			
D.S. Clarke	Maturing May 2008	-	260,379
	Maturing June 2008	-	100,784
	Maturing May 2009	**361,163**	-
	Maturing August 2009	**25,196**	25,196
	Maturing June 2010	**213,517**	213,517
M.R.G Johnson[(1)]	Maturing July 2008	-	25,000
Executives			
A.J. Downe	Maturing August 2008	-	36,382
	Maturing December 2008	-	55,001
G.C. Ward	Maturing July 2008	-	5,742
	Maturing July 2008	-	40,373

(1) Mr Johnson retired as a Non-Executive Director on 19 July 2007.

All other transactions with Key Management Personnel (including their personally related parties) were conducted on an arm's length basis in the ordinary course of business and under normal terms and conditions for customers and employees. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

Note 39. Employee equity participation

Option Plan

Prior to the Macquarie Group Restructure, MBL operated an Employee Share Option Plan where options over MBL shares were granted to employees. This plan ceased on restructure date as detailed in note 1, options on MBL shares were exchanged for options on MGL shares.

The ultimate parent entity, MGL, now operates the Macquarie Group Employee Share Option Plan (MGESOP), which includes granting options to employees of MBL and its subsidiaries. Staff eligible to participate are those of Associate Director level and above and certain consultants to the consolidated entity. At March 31 2009 there were 988 (2008: 901) employees of the consolidated entity who were participants in the MGESOP. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods and the equity provided is treated as a capital contribution. For the year ended 31 March 2009, compensation expense relating to MGESOP totalled $32 million (2008: $85 million).

Performance hurdles attached to the options issued to the Executive Officers are not taken into account when determining the fair value of the option at grant date. Instead, these vesting conditions are taken into account by adjusting the number of equity instruments expected to vest.

The fair value of each option is estimated on the date of grant using standard option pricing technology based on the Black-Scholes theory. The following key assumptions have been adopted for grants made in the current financial year:

- risk free interest rate: 6.77 per cent (weighted average) (2008: 7.04 per cent);
- expected life of options: four years (2008: four years);
- volatility of share price: 24 per cent (2008: 20 per cent); and
- dividend yield: 3.47 per cent per annum (2008: 3.43 per cent per annum).

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 39. Employee equity participation continued

Option Plan continued

The options are issued for no consideration and are granted at prevailing market prices. Prior to 21 November 2003, the exercise price of new options granted was generally based on the weighted average market price during the month prior to acceptance of employment for new employees or during the calendar month of June in respect of options granted as a result of annual promotions and compensation reviews. From 21 November 2003 until 25 November 2004, the exercise price of new options granted was generally based on the weighted average market price during the one week period prior to the date of grant of the options. From 26 November 2004, the exercise price of new options granted is generally based on the weighted average market price during the one week up to and including the date of grant of the options.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2009	**Weighted average exercise price 2009 $**	Number of options 2008	Weighted average exercise price 2008 $
Outstanding at the beginning of the financial year	**11,654,102**	**60.50**	34,358,273	51.63
Granted during the financial year	**4,939,313**	**52.99**	12,590,539	72.53
Forfeited during the financial year	**(1,273,535)**	**65.18**	(1,442,347)	61.23
Exercised during the financial year	**(872,179)**	**30.48**	(6,577,026)	36.11
Transfers to related entities	**(429,008)**	**76.08**	(27,275,337)	60.99
Lapsed during the year	**(131,522)**	**56.92**	-	-
Outstanding at the end of the financial year	**13,887,171**	**59.01**	11,654,102	60.50
Exercisable at the end of the financial year	**3,734,170**	**54.51**	1,899,445	43.53

For options exercised during the financial year the weighted average share price at the date of exercise was $50.52 (2008: $82.38).

The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $94.48 (2008: $25.23 to $94.48).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2009 is 2.96 years (2008: 3.06 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	**Number of options 2009**	**Remaining life (years) 2009**	Number of options 2008	Remaining life (years) 2008
10 – 20	**18,000**	**4.94**	-	-
20 – 30	**27,500**	**4.79**	559,036	0.42
30 – 40	**1,160,332**	**0.89**	1,376,550	1.37
40 – 50	**236,054**	**2.17**	161,839	2.12
50 – 60	**4,587,876**	**4.35**	74,168	4.07
60 – 70	**5,021,098**	**1.97**	5,849,289	2.93
70 – 80	**2,586,808**	**3.34**	3,352,020	4.35
80 – 90	**167,368**	**3.20**	204,200	4.18
90-100	**82,135**	**3.25**	77,000	4.25
	13,887,171	**2.96**	11,654,102	3.06

The weighted average fair value of options granted during the financial year was $10.64 (2008: $11.92).

The market value of shares issued during the year as a result of the exercise of these options was $44 million (2008: $542 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2009 was $383 million (2008: $616 million). No unissued shares, other than those referred to above, are under option as at the date of this report.

Note 39. Employee equity participation continued

Option Plan continued

Options granted vest as to one third of each tranche after the second, third and fourth anniversaries of the date of commencement of employment for new starters and, for existing employees, on 1 July two, three and four years after the allocation of the options. Subject to the Option Plan Rules and Macquarie Group's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the consolidated entity's agreement towards the end of a vesting period, the Bank's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

The MGESOP Rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options does not exceed 20 per cent of the number of MGL's then issued ordinary shares plus the number of shares which MGL would have to issue if all rights to require MGL to issue shares, which MGL has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has a second limitation on the number of options being effectively the same calculation as in the Plan Rules except that any exercised options granted less than five years ago, where the Executive is still with MGL, will be treated as still being unexercised.

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees are offered up to $1,000 worth of fully paid ordinary Bank shares for no cash payment. MGL has since introduced the Macquarie Group Employee Share Plan (ESP) on the same terms. No further issues will be made under the Macquarie Bank Employee Share Plan.

The consolidated entity's staff profit sharing pools and for certain staff, future commissions, are adjusted downwards by the aggregate market value of the shares issued under the ESP.

Shares issued under the ESP cannot be sold until the earlier of three years after issue or the time when the participant is no longer employed by the Bank or a subsidiary of the Bank. In all other respects, shares issued rank equally with all other fully paid ordinary shares then on issue.

Staff Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL introduced the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) whereby each financial year, Australian based eligible employees are given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Company shares. MGL has since introduced the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms. No further acquisitions will be made under the MBSSAP.

MGL shares are acquired at prevailing market prices. Any applicable brokerage expenses, workers' compensation premiums and payroll tax charges are applied to the employee's account. In all other respects, shares rank equally with all other fully paid ordinary shares then on issue.

The Macquarie Bank Executive Director Share Acquisition Plan (MBEDSAP) was a sub plan of the MBSSAP which was created in 2003 and was open to eligible Executive Directors. The disposal and forfeiture restrictions in the MBEDSAP differ to those in the MBSSAP. No further offers under the MBEDSAP are currently proposed. MGL has since introduced a Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms.

Non-Executive Director Share Acquisition Plan

Following shareholder approval at the 1999 Annual General Meeting, MBL also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan whereby each financial year Australian based Non-Executive Directors (NEDs) of the Macquarie Group of companies were given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Group to acquire MBL shares. MGL has since introduced a Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms.

Offers under the NEDSAP were made during May 2008. A total of three NEDs participated in the NEDSAP. In July 2008, 4,028 MGL shares were acquired on-market and in December 2008, 6,874 MGL shares were acquired on-market.

Notes to financial statements
for the financial year ended 31 March 2009 continued

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Note 40. Contingent liabilities and commitments				
The following details of contingent liabilities and assets exclude derivatives.				
Contingent liabilities exist in respect of:				
Guarantees	**858**	281	**1,125**	391
Indemnities	**8**	78	**77**	83
Letters of credit	**166**	178	**536**	570
Performance related contingents	**101**	88	**101**	89
Total contingent liabilities[1]	**1,133**	625	**1,839**	1,133
Commitments exist in respect of:				
Undrawn credit facilities	**2,759**	4,048	**2,150**	3,635
Undrawn credit facilities – revocable at any time	**509**	1,502	**509**	1,502
Total commitments[2]	**3,268**	5,550	**2,659**	5,137
Total contingent liabilities and commitments	**4,401**	6,175	**4,498**	6,270

[1] Contingent liabilities exist in respect of claims and potential claims against the consolidated entity. Where necessary, appropriate provisions have been made in the financial statements. The Directors do not consider that the outcome of any such claims known to exist at the date of this financial report, either individually or in aggregate, are likely to have a material effect on the results of its operations or its financial position.

[2] Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Note 41. Capital and other expenditure commitments

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Not later than one year	**6**	128	**4**	3
Later than one year and not later than five years	**18**	33	**9**	11
Later than five years	**9**	12	**2**	4
Total capital and other expenditure commitments	**33**	173	**15**	18

Note 42. Lease commitments

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Non-cancellable operating leases expiring:				
Not later than one year	**72**	113	**-**	109
Later than one year and not later than five years	**205**	452	**1**	444
Later than five years	**71**	130	**-**	129
Total operating lease commitments	**348**	695	**1**	682

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

Note 43. Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

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

The consolidated entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 2(xii) - Summary of significant accounting policies:

Cash flow hedges

The consolidated entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross-currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2009, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $165 million negative value (2008: $135 million positive value).

In 2009, the consolidated entity recognised a $5 million loss (2008: $2 million profit) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as cash flow hedges was $75 million negative value (2008: $699 million negative value).

Fair value hedge

The consolidated entity's fair value hedges consist of:

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

As at 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as fair value hedges was $100 million negative value (2008: $82 million positive value).

During the period fair value losses on the hedging instruments of $212 million have been recognised, offset by $196 million (2008: $nil) of gains on the hedged item.

Net investment in foreign operations hedges

The consolidated entity has applied net investment hedging for foreign exchange risk arising from foreign operations.

At 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as net investment in foreign operations hedges was $24 million positive value (2008: $1 million positive value). In 2009, the consolidated entity recognised $nil (2008: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 43. Derivative financial instruments continued

Objectives of holding and issuing derivative financial instruments continued

The types of contracts which the consolidated entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 43. Derivative financial instruments continued

The following table provides details of the consolidated entity's outstanding derivatives used for trading and in some cases for hedging purposes as at 31 March.

	Consolidated 2009				Consolidated 2008			
	Notional amount $m	**Asset revaluations $m**	**Liability revaluations $m**	**Net fair value $m**	Notional amount $m	Asset revaluations $m	Liability revaluations $m	Net fair value $m
Interest rate contracts								
Exchange traded	**28,427**	**126**	**141**	**(15)**	16,934	186	153	33
Forwards	**19,678**	**8**	**8**	**-**	16,366	26	13	13
Swaps	**172,050**	**4,781**	**4,271**	**510**	138,596	1,879	1,598	281
Options	**321**	**6**	**-**	**6**	2,812	16	10	6
Total interest rate contracts	**220,476**	**4,921**	**4,420**	**501**	174,708	2,107	1,774	333
Foreign exchange contracts								
Forwards	**78,023**	**2,084**	**1,969**	**115**	48,016	2,550	1,739	811
Swaps	**16,601**	**539**	**957**	**(418)**	110,949	2,047	2,399	(352)
Options	**2,600**	**773**	**759**	**14**	103,852	884	678	206
Total foreign exchange contracts	**97,224**	**3,396**	**3,685**	**(289)**	262,817	5,481	4,816	665
Equity contracts								
Exchange traded	**17,196**	**354**	**145**	**209**	110,552	253	358	(105)
Swaps	**1,780**	**294**	**1,292**	**(998)**	348	98	1,711	(1,613)
Options	**8,540**	**686**	**1,173**	**(487)**	35,143	2,078	1,616	462
Other	**3,020**	**25**	**51**	**(26)**	3,337	54	65	(11)
Total equity contracts	**30,536**	**1,359**	**2,661**	**(1,302)**	149,380	2,483	3,750	(1,267)
Commodity contracts								
Exchange traded	**55,902**	**3,361**	**3,469**	**(108)**	48,019	3,095	4,136	(1,041)
Forwards	**44,396**	**4,234**	**3,384**	**850**	26,828	3,098	1,594	1,504
Swaps	**39,692**	**5,625**	**4,828**	**797**	17,996	2,084	2,092	(8)
Options	**70,912**	**4,439**	**4,826**	**(387)**	207,183	2,604	2,992	(388)
Total commodity contracts	**210,902**	**17,659**	**16,507**	**1,152**	300,026	10,881	10,814	67
Total derivatives contracts outstanding	**559,138**	**27,335**	**27,273**	**62**	886,931	20,952	21,154	(202)

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 43. Derivative financial instruments continued

The following table provides details of the Bank's outstanding derivatives used for trading and in some cases for hedging purposes as at 31 March.

	Bank 2009				Bank 2008			
	Notional amount $m	Asset revaluations $m	Liability revaluations $m	Net fair value $m	Notional amount $m	Asset revaluations $m	Liability revaluations $m	Net fair value $m
Interest rate contracts								
Exchange traded	26,837	100	141	(41)	10,872	36	48	(12)
Forwards	19,678	8	8	-	15,597	26	13	13
Swaps	167,807	4,479	4,162	317	123,837	1,585	1,559	26
Options	321	6	-	6	2,812	16	10	6
Total interest rate contracts	214,643	4,593	4,311	282	153,118	1,663	1,630	33
Foreign exchange contracts								
Forwards	77,655	2,082	1,969	113	47,777	2,544	1,739	805
Swaps	15,914	421	956	(535)	99,093	2,046	1,624	422
Options	2,600	773	759	14	103,852	884	678	206
Total foreign exchange contracts	96,169	3,276	3,684	(408)	250,722	5,474	4,041	1,433
Equity contracts								
Exchange traded	17,196	354	145	209	110,552	253	358	(105)
Swaps	1,777	295	1,291	(996)	348	98	1,711	(1,613)
Options	8,536	686	1,173	(487)	32,618	1,934	1,502	432
Other	3,020	25	-	25	3,337	54	65	(11)
Total equity contracts	30,529	1,360	2,609	(1,249)	146,855	2,339	3,636	(1,297)
Commodity contracts								
Exchange traded	43,290	2,216	3,329	(1,113)	30,627	1,931	2,958	(1,027)
Forwards	41,106	3,700	3,211	489	26,384	3,083	1,593	1,490
Swaps	20,986	2,728	2,122	606	13,700	2,079	2,092	(13)
Options	63,222	3,545	4,640	(1,095)	207,180	2,569	3,020	(451)
Total commodity contracts	168,604	12,189	13,302	(1,113)	277,891	9,662	9,663	(1)
Total derivatives contracts outstanding	509,945	21,418	23,906	(2,488)	828,586	19,138	18,970	168

Note 44. Financial risk management

Risk Management Group

Risk is an integral part of the consolidated entity's businesses. The main risks faced by the consolidated entity are market risk, equity risk, credit risk, liquidity risk, operation risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG) to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of MBL and MGL reporting directly to the Managing Director. The Head of RMG is a member of the Executive Committee of MGL and MBL. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 44.1. Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract at any stage. The resultant credit exposure is a function of the movement of prices over the term of the underlying contract and systems for the assessment of potential credit exposures exist for each of the consolidated entity's trading activities.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG.

All counterparties are rated on the Macquarie Group rating scale which is similar to that used by public ratings agencies. Each rating is associated with a Probability of Default and an assessment is also made of the Loss Given Default. This classification enables effective application of resources to the management, pricing and monitoring of credit exposures.

No material credit exposures are assumed without appropriate analysis. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through the duration of the transaction are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

All counterparties with credit exposures are regularly monitored to ensure any deterioration is identified and reflected in an adjustment to their rating. Where counterparties are under stress they are monitored on a more frequent basis and counterparties with a deteriorating credit risk profile are monitored formally on a monthly basis through Credit Watch and Irregulars reporting. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

To mitigate credit risk, the consolidated entity makes increasing use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

The consolidated entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The consolidated entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

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

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposure of the consolidated entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the consolidated entity's assets.

Consolidated 2009	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements(1) $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	-	1,433	4,001	74	-
Financial institutions	2,437	587	666	2,735	560
Other	-	-	137	27,794	2,525
Total Australia	2,437	2,020	4,804	30,603	3,085
New Zealand					
Governments	-	-	-	4	-
Financial institutions	47	5	2	11	-
Other	-	-	-	74	-
Total New Zealand	47	5	2	89	-
Europe					
Governments	-	2	462	1	-
Financial institutions	5,064	1,900	-	2,325	369
Other	-	219	-	1,116	-
Total Europe	5,064	2,121	462	3,442	369
North America					
Governments	-	17	-	25	-
Financial institutions	1,887	32	317	1,647	-
Other	-	-	-	7,631	-
Total North America	1,887	49	317	9,303	-
Asia					
Governments	-	-	-	-	-
Financial institutions	730	49	30	108	-
Other	-	-	31	91	1
Total Asia	730	49	61	199	1
Other					
Governments	-	265	14	-	-
Financial institutions	4	4	42	15	-
Other	-	21	13	271	-
Total Other	4	290	69	286	-
Total	10,169	4,534	5,715	43,922	3,455
Total gross credit risk					

(1) Classified based on the exposure to the underlying security borrowed.

(2) Included in Australia – Governments are holdings of $1.4 billion debt investment securities issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[(2)] $m	Due from related body corporate entities $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
411	99	2,060	-	-	8	8,086
4,718	6	8,334	-	739	408	21,190
651	1,144	114	4,090	81	1,446	37,982
5,780	1,249	10,508	4,090	820	1,862	67,258
-	1	-	-	-	-	5
3	-	-	-	-	-	68
-	6	-	11	-	2	93
3	7	-	11	-	2	166
-	220	-	-	-	-	685
6,626	-	2,305	-	-	136	18,725
1,733	1,122	93	18	-	285	4,586
8,359	1,342	2,398	18	-	421	23,996
18	55	-	-	-	-	115
3,480	23	802	-	-	165	8,353
8,414	200	425	517	-	1,095	18,282
11,912	278	1,227	517	-	1,260	26,750
53	2	-	-	-	-	55
375	-	-	-	-	-	1,292
229	21	-	10	-	102	485
657	23	-	10	-	102	1,832
-	-	-	-	-	-	279
299	-	-	-	-	89	453
325	17	-	1	-	665	1,313
624	17	-	1	-	754	2,045
27,335	2,916	14,133	4,647	820	4,401	122,047
						122,047

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Maximum exposure to credit risk continued

Consolidated 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements [(1)] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	-	5,852	890	92	52
Financial institutions	798	1,635	1,959	2,244	220
Other	-	18	236	39,359	3,180
Total Australia	798	7,505	3,085	41,695	3,452
New Zealand					
Governments	-	11	-	-	-
Financial institutions	67	8	3	31	-
Other	-	-	-	84	-
Total New Zealand	67	19	3	115	-
Europe					
Governments	-	-	-	10	-
Financial institutions	5,053	13,106	66	574	116
Other	-	167	-	838	-
Total Europe	5,053	13,273	66	1,422	116
North America					
Governments	-	166	-	-	-
Financial institutions	922	87	99	1,578	-
Other	-	-	3	1,465	-
Total North America	922	253	102	3,043	-
Asia					
Governments	-	-	254	-	-
Financial institutions	312	-	29	66	-
Other	-	-	-	30	-
Total Asia	312	-	283	96	-
Other					
Governments	-	73	2	-	-
Financial institutions	17	145	43	21	-
Other	-	10	17	456	3
Total Other	17	228	62	477	3
Total	7,169	21,278	3,601	46,848	3,571
Total gross credit risk					

(1) Classified based on the exposure to the underlying security borrowed.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Due from related body corporate entities $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
76	125	-	-	-	31	7,118
2,542	-	8,253	-	608	1,192	19,451
8,128	1,870	300	9,077	260	2,757	65,185
10,746	1,995	8,553	9,077	868	3,980	91,754
-	1	-	-	-	-	12
-	-	-	-	-	-	109
-	9	-	14	-	19	126
-	10	-	14	-	19	247
-	155	175	-	-	-	340
2,192	-	3,380	-	-	63	24,550
5,465	948	-	36	-	450	7,904
7,657	1,103	3,555	36	-	513	32,794
9	31	-	-	-	-	206
796	-	1,232	-	-	8	4,722
809	89	-	1,314	-	1,468	5,148
1,614	120	1,232	1,314	-	1,476	10,076
-	-	-	-	-	-	254
542	-	214	-	-	-	1,163
255	18	-	69	-	42	414
797	18	214	69	-	42	1,831
-	-	-	-	-	-	75
94	-	653	-	-	92	1,065
44	8	-	58	-	53	649
138	8	653	58	-	145	1,789
20,952	3,254	14,207	10,568	868	6,175	138,491
						138,491

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Maximum exposure to credit risk continued

The tables below detail the concentration of credit exposures of the Bank's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Bank's assets.

Bank 2009	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements [1] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	-	1,433	4,000	2	-
Financial institutions	1,737	587	664	3,876	560
Other	-	-	137	5,190	2,525
Total Australia	1,737	2,020	4,801	9,068	3,085
New Zealand					
Governments	-	-	-	-	-
Financial institutions	20	5	-	-	-
Other	-	-	-	67	-
Total New Zealand	20	5	-	67	-
Europe					
Governments	-	2	462	-	-
Financial institutions	4,911	1,900	-	2,155	369
Other	-	219	-	1,024	-
Total Europe	4,911	2,121	462	3,179	369
North America					
Governments	-	17	-	-	-
Financial institutions	1,722	32	314	937	-
Other	-	-	-	1,626	-
Total North America	1,722	49	314	2,563	-
Asia					
Governments	-	-	-	-	-
Financial institutions	638	49	30	108	-
Other	-	-	-	32	1
Total Asia	638	49	30	140	1
Other					
Governments	-	265	14	-	-
Financial institutions	4	4	3	1	-
Other	-	21	12	220	-
Total Other	4	290	29	221	-
Total	9,032	4,534	5,636	15,238	3,455
Total gross credit risk					

(1) Classified based on the exposure to the underlying security borrowed.

(2) Included in Australia – Governments are holdings of $1.4 billion debt investment securities issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the Bank:

The Bank enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the Bank with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale(2) $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
411	58	2,060	-	-	-	7,964
4,540	5	7,764	-	-	408	20,141
651	1,243	64	4,065	7,498	1,594	22,967
5,602	1,306	9,888	4,065	7,498	2,002	51,072
-	-	-	-	-	-	-
3	-	-	-	-	-	28
-	-	-	2	73	7	149
3	-	-	2	73	7	177
-	27	-	-	-	-	491
6,478	-	2,433	-	-	136	18,382
1,442	463	-	19	3,982	372	7,521
7,920	490	2,433	19	3,982	508	26,394
13	9	-	-	-	-	39
3,218	-	802	-	-	103	7,128
3,442	5	100	492	2,766	986	9,417
6,673	14	902	492	2,766	1,089	16,584
53	-	-	-	-	-	53
375	-	-	-	-	-	1,200
229	-	-	8	697	138	1,105
657	-	-	8	697	138	2,358
-	-	-	-	-	-	279
299	-	-	-	-	89	400
264	-	-	2	29	665	1,213
563	-	-	2	29	754	1,892
21,418	1,810	13,223	4,588	15,045	4,498	98,477
						98,477

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Maximum exposure to credit risk continued

Bank 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements [1] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	-	5,852	890	78	52
Financial institutions	282	1,635	1,944	2,234	220
Other	-	18	235	13,164	3,180
Total Australia	282	7,505	3,069	15,476	3,452
New Zealand					
Governments	-	11	-	-	-
Financial institutions	19	8	-	27	-
Other	-	-	-	84	-
Total New Zealand	19	19	-	111	-
Europe					
Governments	-	-	-	10	-
Financial institutions	4,773	13,105	58	574	116
Other	-	167	-	838	-
Total Europe	4,773	13,272	58	1,422	116
North America					
Governments	-	166	-	-	-
Financial institutions	790	87	96	1,257	-
Other	-	-	1	1,427	-
Total North America	790	253	97	2,684	-
Asia					
Financial institutions	177	-	29	53	-
Other	-	-	-	30	-
Total Asia	177	-	29	83	-
Other					
Governments	-	73	2	-	-
Financial institutions	13	19	25	21	-
Other	-	10	-	436	3
Total Other	13	102	27	457	3
Total	6,054	21,151	3,280	20,233	3,571
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

The following provides detail around the active management of credit risk by the Bank:

The Bank enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the Bank with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
76	107	-	-	-	31	7,086
2,542	-	8,134	-	-	989	17,980
7,926	1,830	77	9,248	3,360	3,387	42,425
10,544	1,937	8,211	9,248	3,360	4,407	67,491
-	-	-	-	-	-	11
-	-	-	-	-	-	54
-	-	-	4	69	24	181
-	-	-	4	69	24	246
-	34	-	-	-	-	44
2,002	-	3,309	-	-	63	24,000
4,988	415	-	39	3,211	450	10,108
6,990	449	3,309	39	3,211	513	34,152
-	-	-	-	-	-	166
426	-	893	-	-	-	3,549
249	14	-	1,311	1,550	1,103	5,655
675	14	893	1,311	1,550	1,103	9,370
542	-	214	-	-	-	1,015
249	4	-	69	1,182	78	1,612
791	4	214	69	1,182	78	2,627
-	-	-	-	-	-	75
94	-	-	-	-	92	264
44	-	-	78	-	53	624
138	-	-	78	-	145	963
19,138	2,404	12,627	10,749	9,372	6,270	114,849
						114,849

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Credit quality of financial assets

The tables below show the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the consolidated entity's credit rating system.

Credit Quality – Consolidated 2009

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	10,161	8	-	-	-	10,169
Cash collateral on securities borrowed and reverse repurchase agreements						4,534
Governments	1,522	195	-	-	-	1,717
Financial institutions	2,492	85	-	-	-	2,577
Other	221	19	-	-	-	240
Trading portfolio assets						5,715
Governments	4,477	-	-	-	-	4,477
Financial institutions	1,018	39	-	-	-	1,057
Other	82	99	-	-	-	181
Loan assets held at amortised cost						43,922
Governments	50	-	-	-	54	104
Financial institutions	5,047	1,651	36	-	107	6,841
Other	23,951	9,654	864	-	2,508	36,977
Other financial assets at fair value through profit or loss						3,455
Governments	-	-	-	-	-	-
Financial institutions	929	-	-	-	-	929
Other	1,898	568	-	-	60	2,526
Derivative financial instruments – positive values						27,335
Governments	478	4	-	-	-	482
Financial institutions	14,801	700	-	-	-	15,501
Other	9,295	2,057	-	-	-	11,352
Other assets						2,916
Governments	377	-	-	-	-	377
Financial institutions	-	-	24	-	5	29
Other	1,505	912	11	25	57	2,510
Debt investment securities available for sale						14,133
Governments	2,060	-	-	-	-	2,060
Financial institutions	11,407	34	-	-	-	11,441
Other	430	151	-	-	51	632
Due from related body corporate entities						4,647
Other	3,797	-	-	850	-	4,647
Life investment contracts and other unit holder investment assets						820
Financial institutions	739	-	-	-	-	739
Other	81	-	-	-	-	81
Total						117,646

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 44.1 Credit risk continued

Credit quality of financial assets continued

Credit Quality – Consolidated 2008

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	7,127	42	-	-	-	7,169
Cash collateral on securities borrowed and reverse repurchase agreements						21,278
Governments	6,030	72	-	-	-	6,102
Financial institutions	14,981	-	-	-	-	14,981
Other	185	10	-	-	-	195
Trading portfolio assets						3,601
Governments	1,144	2	-	-	-	1,146
Financial institutions	2,193	3	-	-	3	2,199
Other	246	10	-	-	-	256
Loan assets held at amortised cost						46,848
Governments	102	-	-	-	-	102
Financial institutions	4,373	140	-	-	1	4,514
Other	31,640	8,932	222	-	1,438	42,232
Other financial assets at fair value through profit or loss						3,571
Governments	52	-	-	-	-	52
Financial institutions	333	-	-	-	3	336
Other	179	3,000	-	-	4	3,183
Derivative financial instruments – positive values						20,952
Governments	82	3	-	-	-	85
Financial institutions	5,123	1,032	-	-	11	6,166
Other	10,595	4,106	-	-	-	14,701
Other assets						3,254
Governments	312	-	-	-	-	312
Other	1,618	1,005	-	69	250	2,942
Debt investment securities available for sale						14,207
Governments	175	-	-	-	-	175
Financial institutions	13,732	-	-	-	-	13,732
Other	15	76	-	-	209	300
Due from related body corporate entities						10,568
Other	8,615	-	-	1,953	-	10,568
Life investment contracts and other unit holder investment assets						868
Financial institutions	608	-	-	-	-	608
Other	260	-	-	-	-	260
Total						132,316

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Credit quality of financial assets continued

The tables below show the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the Bank's credit rating system.

Credit Quality – Bank 2009

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	9,029	3	-	-	-	9,032
Cash collateral on securities borrowed and reverse repurchase agreements						4,534
Governments	1,522	195	-	-	-	1,717
Financial institutions	2,492	85	-	-	-	2,577
Other	221	19	-	-	-	240
Trading portfolio assets						5,636
Governments	4,476	-	-	-	-	4,476
Financial institutions	998	13	-	-	-	1,011
Other	81	68	-	-	-	149
Loan assets held at amortised cost						15,238
Governments	2	-	-	-	-	2
Financial institutions	5,396	1,605	27	-	49	7,077
Other	2,033	4,668	261	-	1,197	8,159
Other financial assets at fair value through profit or loss						3,455
Governments	-	-	-	-	-	-
Financial institutions	929	-	-	-	-	929
Other	1,899	567	-	-	60	2,526
Derivative financial instruments – positive values						21,418
Governments	473	4	-	-	-	477
Financial institutions	14,213	700	-	-	-	14,913
Other	4,780	1,248	-	-	-	6,028
Other assets						1,810
Governments	94	-	-	-	-	94
Financial institutions	-	-	-	-	5	5
Other	1,005	660	3	9	34	1,711
Debt investment securities available for sale						13,223
Governments	2,060	-	-	-	-	2,060
Financial institutions	10,962	37	-	-	-	10,999
Other	161	3	-	-	-	164
Due from related body corporate entities						4,588
Other	3,801	-	-	787	-	4,588
Due from subsidiaries						15,045
Other	-	-	-	15,045	-	15,045
Total						93,979

Included in the past due category are balances in which an amount was overdue by one day or more.

Note 44.1 Credit risk continued

Credit quality of financial assets continued

Credit Quality – Bank 2008

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	6,027	27	-	-	-	6,054
Cash collateral on securities borrowed and reverse repurchase agreements						21,151
Governments	6,030	72	-	-	-	6,102
Financial institutions	14,854	-	-	-	-	14,854
Other	185	10	-	-	-	195
Trading portfolio assets						3,280
Governments	890	2	-	-	-	892
Financial institutions	2,149	-	-	-	3	2,152
Other	226	10	-	-	-	236
Loan assets held at amortised cost						20,233
Governments	88	-	-	-	-	88
Financial institutions	4,029	136	-	-	1	4,166
Other	7,604	7,871	221	-	283	15,979
Other financial assets at fair value through profit or loss						3,571
Governments	52	-	-	-	-	52
Financial institutions	333	-	-	-	3	336
Other	179	3,000	-	-	4	3,183
Derivative financial instruments – positive values						19,138
Governments	75	1	-	-	-	76
Financial institutions	4,696	899	-	-	11	5,606
Other	9,607	3,849	-	-	-	13,456
Other assets						2,404
Governments	141	-	-	-	-	141
Other	1,072	964	-	60	167	2,263
Debt investment securities available for sale						12,627
Financial institutions	12,550	-	-	-	-	12,550
Other	-	76	-	-	1	77
Due from related body corporate entities						10,749
Other	8,802	-	-	1,947	-	10,749
Due from subsidiaries						9,372
Other	-	-	-	9,372	-	9,372
Total						108,579

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2009 $m	Consolidated 2008 $m	Bank 2009 $m	Bank 2008 $m
Loan assets held at amortised cost				
Other	14	-	14	-

Ageing analysis of assets past due but not impaired and impaired assets

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2009	
Trading portfolio assets							
Financial institutions	-	-	-	-	-	-	-
Loan assets held at amortised cost							
Government	16	14	15	9	-	54	13
Financial institutions	18	28	1	22	38	107	14
Other	783	225	221	427	852	2,508	2,863
Other financial assets at fair value through profit or loss							
Financial institutions	-	-	-	-	-	-	-
Other	27	10	9	14	-	60	21
Other assets							
Financial institutions	-	-	-	-	5	5	-
Other	13	1	3	18	22	57	-
Debt investment securities available for sale							
Other	-	-	-	-	51	51	-
Total	857	278	249	490	968	2,842	2,911

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis.

The factors taken into consideration by the consolidated entity when determining whether an asset is impaired are set out in note 2(xiv) - Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,293 million (2008: $1,692 million) relates to collateral held against past due balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

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

Note 44.1 Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets continued

Repossessed collateral

In the event of customer default on a residential mortgage facility, any loan security is usually held as mortgagee in possession and therefore the consolidated entity does not usually hold any real estate or other assets acquired through the enforcement of security.

During the year the consolidated entity took possession of property assets with a carrying value of $25 million (2008: $29 million). These assets are in the process of being sold.

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Consolidated 2008
Trading portfolio assets							
Financial institutions	3	-	-	-	-	3	-
Loan assets held at amortised cost							
Financial institutions	-	-	-	-	1	1	-
Other	859	72	185	225	97	1,438	2,095
Other financial assets at fair value through profit or loss							
Financial institutions	-	-	-	3	-	3	-
Other	2	1	1	-	-	4	4
Derivative financial instruments – positive values							
Financial institutions	11	-	-	-	-	11	-
Other assets							
Other	139	46	15	9	41	250	-
Debt investment securities available for sale							
Other	-	-	-	1	208	209	-
Total	1,014	119	201	238	347	1,919	2,099

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.1 Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets continued

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Bank 2009
Trading portfolio assets							
Financial institutions	-	-	-	-	-	-	-
Loan assets held at amortised cost							
Financial institutions	-	-	-	11	38	49	-
Other	82	55	125	146	789	1,197	1,312
Other financial assets at fair value through profit or loss							
Financial institutions	-	-	-	-	-	-	-
Other	27	10	9	14	-	60	21
Derivative financial instruments – positive values							
Financial institutions	-	-	-	-	-	-	-
Other assets							
Financial institutions	-	-	-	-	5	5	-
Other	2	1	2	7	22	34	-
Debt investment securities available for sale							
Other	-	-	-	-	-	-	-
Total	111	66	136	178	854	1,345	1,333

Note 44.1 Credit risk continued

Ageing analysis of assets past due but not impaired and impaired assets continued

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Bank 2008
Trading portfolio assets							
Financial institutions	3	-	-	-	-	3	-
Loan assets held at amortised cost							
Financial institutions	-	-	-	-	1	1	-
Other	80	39	29	49	86	283	425
Other financial assets at fair value through profit or loss							
Financial institutions	-	-	-	3	-	3	-
Other	2	1	1	-	-	4	4
Derivative financial instruments – positive values							
Financial institutions	11	-	-	-	-	11	-
Other assets							
Other	120	2	8	3	34	167	-
Debt investment securities available for sale							
Other	-	-	-	1	-	1	-
Total	216	42	38	56	121	473	429

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.2. Liquidity risk

Liquidity management

The consolidated entity's liquidity risk management framework ensures that the consolidated entity is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee, the MBL Board and the Risk Management Group. The consolidated entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee. The Asset and Liability Committee includes the Chief Executive Officer, the Chief Financial Officer, Head of RMG, Treasurer and Business Group Heads.

Risk Management provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies and the required funding maturity profile.

Liquidity Policy

The consolidated entity's liquidity policy outlines the liquidity requirements for the Banking Group only. The key requirement of the policy is that the consolidated entity is able to meet all of its repayment obligations for the next 12 months through a period of constrained access to wholesale funding markets.

The consolidated entity's liquidity policy was revised in July 2008. The revised policy requires additional scenario analysis and has extended the timeframes over which scenarios are modelled.

Scenario Analysis

Scenario analysis is central to the liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the consolidated entity is able to meet all repayment obligations under each scenario and to determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

Group Treasury maintains portfolios of highly liquid unencumbered assets in the consolidated entity to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a twelve month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

Liquidity Contingency Plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and the Risk Management Group and is submitted to the Board for approval.

Funding transfer pricing

An internal funding transfer pricing system is in place which aims to align businesses with the overall funding strategy of the consolidated entity. Under this system the costs of long- and short-term funding are charged out, and credits are made to Business Units that provide long-term stable funding.

Note 44.2 Liquidity risk continued

Credit ratings

Credit ratings at 31 March 2009 are detailed below:

	Macquarie Bank Limited		
	Short-term	**Long-term**	**Outlook**
Fitch Ratings	F-1	A+	Stable
Moody's Investors Service	P-1	A1	Negative
Standard & Poor's	A-1	A	Negative

Contractual undiscounted cash flows

The tables below summarise the maturity profile of the consolidated entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the consolidated entity expects that many customers will not request repayment on the earliest date the consolidated entity could be required to pay and the table does not reflect the expected cash flows indicated by the consolidated entity's deposit retention history.

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

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.2 Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
					Consolidated 2009	
Due to banks	**957**	**169**	**547**	**703**	**1,216**	**3,592**
Cash collateral on securities lent and repurchase agreements	**1,858**	**1,650**	**509**	**-**	**-**	**4,017**
Trading portfolio liabilities	**-**	**1,980**	**-**	**-**	**-**	**1,980**
Derivative financial instruments (trading)	**-**	**26,363**	**-**	**-**	**-**	**26,363**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**72**	**4,707**	**3,086**	**3,081**	**42**	**10,988**
Contractual amounts receivable	**(68)**	**(4,827)**	**(2,907)**	**(2,973)**	**(23)**	**(10,798)**
Deposits	**13,064**	**6,821**	**1,637**	**165**	**-**	**21,687**
Debt issued at amortised cost[1]	**1**	**6,944**	**11,377**	**31,051**	**4,895**	**54,268**
Other liabilities[2]	**-**	**3,347**	**-**	**-**	**-**	**3,347**
Life insurance policy & other unit holder liabilities	**-**	**4,312**	**-**	**-**	**-**	**4,312**
Other financial liabilities at fair value through profit or loss	**115**	**1,771**	**1,061**	**1,102**	**1,649**	**5,698**
Due to related body corporate entities	**748**	**1,108**	**797**	**755**	**-**	**3,408**
Subordinated debt	**-**	**15**	**276**	**1,797**	**-**	**2,088**
Total undiscounted cash flows	**16,747**	**54,360**	**16,383**	**35,681**	**7,779**	**130,950**
					Consolidated 2008	
Due to banks	1,833	1,447	141	130	325	3,876
Cash collateral on securities lent and repurchase agreements	3,125	3,128	7,323	-	-	13,576
Trading portfolio liabilities	-	10,716	-	-	-	10,716
Derivative financial instruments (trading)	-	20,268	-	-	-	20,268
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	-	5,216	884	2,242	711	9,053
Contractual amounts receivable	-	(5,102)	(449)	(1,581)	(781)	(7,913)
Deposits	8,936	4,800	823	301	748	15,608
Debt issued at amortised cost[1]	823	15,760	24,473	15,441	3,049	59,546
Other liabilities[2]	-	3,238	-	-	-	3,238
Life insurance policy & other unit holder liabilities	-	5,689	-	-	-	5,689
Other financial liabilities at fair value through profit or loss	1,323	575	818	3,701	341	6,758
Due to related body corporate entities	2,505	527	366	5,125	17	8,540
Subordinated debt	-	34	102	1,112	2,047	3,295
Total undiscounted cash flows	18,545	66,296	34,481	26,471	6,457	152,250

(1) Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

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

The maturity profile of commitments are set out in notes 41-42.

Note 44.2 Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2009
Due to banks	**902**	**30**	**109**	**129**	**1,093**	**2,263**
Cash collateral on securities lent and repurchase agreements	**1,858**	**1,650**	**509**	**-**	**-**	**4,017**
Trading portfolio liabilities	**-**	**1,977**	**-**	**-**	**-**	**1,977**
Derivative financial instruments (trading)	**-**	**23,494**	**-**	**-**	**-**	**23,494**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**72**	**2,784**	**1,300**	**1,405**	**39**	**5,600**
Contractual amounts receivable	**(68)**	**(2,836)**	**(1,196)**	**(1,458)**	**(22)**	**(5,580)**
Deposits	**12,729**	**6,814**	**1,637**	**165**	**-**	**21,345**
Debt issued at amortised cost[1]	**1**	**6,395**	**10,143**	**24,833**	**4,895**	**46,267**
Other liabilities[2]	**-**	**2,036**	**-**	**-**	**-**	**2,036**
Other financial liabilities at fair value through profit or loss	**115**	**1,638**	**724**	**507**	**311**	**3,295**
Due to related body corporate entities	**457**	**912**	**797**	**755**	**-**	**2,921**
Due to subsidiaries	**7,449**	**1,328**	**114**	**-**	**-**	**8,891**
Subordinated debt	**-**	**13**	**276**	**1,797**	**-**	**2,086**
Total undiscounted cash flows	**23,515**	**46,235**	**14,413**	**28,133**	**6,316**	**118,612**
						Bank 2008
Due to banks	1,831	571	80	42	-	2,524
Cash collateral on securities lent and repurchase agreements	3,125	3,128	7,323	-	-	13,576
Trading portfolio liabilities	-	10,431	-	-	-	10,431
Derivative financial instruments (trading)	-	18,964	-	-	-	18,964
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	-	1,039	241	776	650	2,706
Contractual amounts receivable	-	(1,081)	(254)	(788)	(694)	(2,817)
Deposits	8,851	4,779	822	301	748	15,501
Debt issued at amortised cost[1]	653	13,322	9,554	4,462	-	27,991
Other liabilities[2]	-	2,080	-	-	-	2,080
Other financial liabilities at fair value through profit or loss	166	508	808	2,929	341	4,752
Due to related body corporate entities	2,458	527	366	5,125	17	8,493
Due to subsidiaries	11,791	3	31	123	50	11,998
Subordinated debt	-	34	102	1,112	2,047	3,295
Total undiscounted cash flows	28,875	54,305	19,073	14,082	3,159	119,494

(1) Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes is dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

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

The maturity profile of commitments are set out in notes 41-42.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.3. Market risk

Market risk is the exposure to adverse changes in the value of the consolidated entity's trading portfolios as a result of changes in market prices or volatility. The consolidated entity is exposed to the following risks in each of the major markets in which it trades:

- foreign exchange and bullion: changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices;
- interest rates: changes in the level, shape and volatility of yield curves, the basis between different interest rate securities and derivatives and credit margins;
- equities: changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity;
- commodities: changes in the price and volatility of gold, silver and base metals, agricultural commodities and energy products; and
- to the correlation of market prices and rates within and across markets.

It is recognised that trading activities which give rise to market exposures contain an element of risk taking. The consolidated entity is prepared to accept such risks provided they are correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

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

RMG sets three complementary limit structures:

- Contingent Loss Limits: a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- Position Limits: volume, maturity and open position limits are set on a large number of market instruments and positions in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions;
- Value-at-Risk (VaR) Limits: statistical measure based on a 10-day holding period and a 99 per cent confidence level, as stipulated by the APRA capital adequacy standard. The model is validated daily by back testing a 1-day VaR against hypothetical and actual daily trading profit or loss.

The Bank is not directly exposed to any material market risk.

Value-at-Risk figures

The table below shows the average, maximum and minimum VaR over the year for the major markets in which the consolidated entity operates. The VaR shown in the table is based on a one-day holding period. The aggregated VaR is on a correlated basis.

Consolidated	2009 Average $m	2009 Maximum $m	2009 Minimum $m	2008 Average $m	2008 Maximum $m	2008 Minimum $m
Equities	**4.90**	**8.32**	**3.15**	7.35	15.30	4.06
Interest rates	**4.50**	**7.69**	**2.14**	3.16	5.51	2.12
Foreign exchange and bullion	**3.67**	**9.55**	**0.87**	3.17	7.77	1.25
Commodities	**9.03**	**17.04**	**0.02**	10.81	17.70	3.73
Aggregate	**11.69**	**18.35**	**7.90**	13.50	19.92	8.69

Note 44.3. Market risk continued

Bank	2009 Average $m	2009 Maximum $m	2009 Minimum $m	2008 Average $m	2008 Maximum $m	2008 Minimum $m
Equities	**5.76**	**15.13**	**3.68**	6.58	13.22	3.05
Interest rates	**4.42**	**7.59**	**2.11**	3.13	5.42	2.03
Foreign exchange and bullion	**4.59**	**13.34**	**0.73**	10.89	13.92	8.22
Commodities	**1.91**	**3.73**	**0.20**	1.31	3.06	0.25
Aggregate	**9.28**	**19.51**	**4.88**	14.11	20.25	9.35

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three to ten years of historical data. VaR focuses on unexceptional price moves, it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The consolidated entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate marketable parcels of interest rate risk. Wherever possible, these interest rate risks are transferred to the consolidated entity's Treasury and Commodities business and managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book as an unavoidable consequence of doing business. Residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the Macquarie Income Preferred Securities (MIPS). As the MIPS are classified as equity for accounting and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase/decrease in interest rates would result in a decrease/increase in profit before tax of $20 million (2008: $34 million) respectively.

Other than the volatility on the derivatives described above, there are no material interest rate risks within the consolidated entity.

Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of the consolidated entity's investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the foreign currency translation reserve due to the revaluation of foreign operations.

In order to appropriately manage this risk it is consolidated entity policy that all non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading business units is included in the internal model capital calculation by RMG.

Foreign currency exposures arise on the consolidated entity's net investment in foreign operations with functional currencies other than the Australian dollar for both the Bank and consolidated entity. Forward foreign exchange contracts or borrowings in the same currency as the exposure are designated as hedges under Australian accounting standards and offset movements on the net assets within foreign operations and are transferred to the foreign currency translation reserve.

As a result of the operation of the consolidated entity's foreign exchange policy the consolidated entity is not exposed to any material residual foreign currency risk.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 44.3. Market risk continued

Equity price risk

The tables below indicate the equity markets to which the consolidated entity had significant exposure at 31 March on its non-trading investment portfolio. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 March) and the income statement due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	2009			2008		
Geographic region	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Australia	+10	**0.6**	**6.9**	+10	3.7	-
America	+10	**2.1**	**1.5**	+10	5.2	6.9
Europe	+10	**-**	**0.9**	+10	3.3	12.9
Asia	+10	**-**	**0.2**	+10	-	2.8
Other	+10	**-**	**0.2**	+10	-	0.1
Unlisted	+10	**0.1**	**18.7**	+10	0.7	13.9
Listed						
Australia	-10	**(0.4)**	**(6.9)**	-10	(3.3)	-
America	-10	**(2.1)**	**(1.5)**	-10	(4.8)	(6.9)
Europe	-10	**-**	**(0.9)**	-10	(3.2)	(12.9)
Asia	-10	**-**	**(0.2)**	-10	-	(2.8)
Other	-10	**-**	**(0.2)**	-10	-	(0.2)
Unlisted	-10	**(0.1)**	**(18.7)**	-10	(0.4)	(13.9)

	2009			2008		
Geographic region	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m
						Bank
Listed						
Australia	+10	**0.6**	**5.9**	+10	1.9	12.2
America	+10	**2.1**	**1.3**	+10	1.1	4.0
Europe	+10	**-**	**0.8**	+10	2.1	1.1
Asia	+10	**-**	**0.2**	+10	-	0.1
Other	+10	**-**	**0.2**	+10	-	-
Unlisted	+10	**0.1**	**4.7**	+10	0.7	3.4
Listed						
Australia	-10	**(0.4)**	**(5.9)**	-10	(1.5)	(12.2)
America	-10	**(2.1)**	**(1.3)**	-10	(0.8)	(4.0)
Europe	-10	**-**	**(0.8)**	-10	(1.9)	(1.1)
Asia	-10	**-**	**(0.2)**	-10	-	(0.1)
Other	-10	**-**	**(0.2)**	-10	-	-
Unlisted	-10	**(0.1)**	**(4.7)**	-10	(0.4)	(3.4)

Note 45. Maturity analysis of monetary assets and liabilities

The tables below detail the maturity distribution of selected monetary assets and liabilities. Maturities represent the remaining contractual maturity from the balance sheet date to the repayment date.

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
							Consolidated 2009
Assets							
Cash and balances with central banks	141	-	-	-	-	-	141
Due from banks	7,589	2,538	12	23	7	-	10,169
Cash collateral on securities borrowed and reverse repurchase agreements	1,706	2,793	35	-	-	-	4,534
Trading portfolio assets	-	8,772	-	-	-	-	8,772
Loan assets held at amortised cost	3,090	1,424	1,817	13,051	4,150	-	23,532
Other financial assets at fair value through profit or loss	-	1,031	648	3,050	812	-	5,541
Debt investment securities available for sale	1,606	8,518	1,802	1,701	506	-	14,133
Due from related body corporate entities	740	1,405	2,502	-	-	-	4,647
Life investment contracts and other unit holder investment assets[(1)]	106	497	186	36	-	3,489	4,314
Sub-total monetary assets	14,978	26,978	7,002	17,861	5,475	3,489	75,783
Loan assets held at amortised cost by SPEs[(2)]	-	1,549	4,028	10,793	4,020	-	20,390
Total monetary assets	14,978	28,527	11,030	28,654	9,495	3,489	96,173
Liabilities							
Due to banks	924	210	438	622	1,070	-	3,264
Cash collateral on securities lent and repurchase agreements	1,607	852	1,422	-	-	-	3,881
Trading portfolio liabilities	-	1,980	-	-	-	-	1,980
Deposits	12,702	5,863	1,568	834	636	-	21,603
Debt issued at amortised cost	4	5,045	6,727	16,349	14	-	28,139
Other financial liabilities at fair value through profit or loss	1	361	953	2,214	349	-	3,878
Life investment contracts and other unit holder liabilities[(1)]	-	-	-	-	-	4,312	4,312
Due to related body corporate entities	748	1,089	778	717	-	-	3,332
Subordinated debt at amortised cost[(3)]	-	-	-	-	1,491	-	1,491
Subordinated debt at fair value through profit or loss[(3)]	-	-	-	-	451	-	451
Sub-total monetary liabilities	15,986	15,400	11,886	20,736	4,011	4,312	72,331
Debt issued at amortised cost by SPEs[(2)]	-	2,452	8,571	6,537	2,571	-	20,131
Total monetary liabilities	15,986	17,852	20,457	27,273	6,582	4,312	92,462

(1) The life business offers an investment linked product. Policy holders are primarily exposed to the liquidity risk on life investment contract assets. The members are subject to liquidity risk on the surplus in the life investment contract statutory funds.

(2) Loan assets held at amortised cost by SPEs are shown at expected repayment maturities and Debt issued at amortised cost by SPEs are shown at expected extinguishment maturities.

(3) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the consolidated entity and subject to APRA approval.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 45. Maturity analysis of monetary assets and liabilities continued

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
							Consolidated 2008
Assets							
Cash and balances with central banks	7	-	-	-	-	-	7
Due from banks	4,320	-	-	2,849	-	-	7,169
Cash collateral on securities borrowed and reverse repurchase agreements	7,116	13,880	282	-	-	-	21,278
Trading portfolio assets	-	15,225	-	-	-	-	15,225
Loan assets held at amortised cost	5,698	4,394	2,306	3,547	9,193	-	25,138
Other financial assets at fair value through profit or loss	-	111	217	3,213	94	-	3,635
Debt investment securities available for sale	1,211	10,295	1,050	1,132	519	-	14,207
Due from related body corporate entities	1,766	1,202	3,800	3,800	-	-	10,568
Life insurance policy and other unit holder investment assets(1)	75	630	160	-	-	4,840	5,705
Sub-total monetary assets	20,193	45,737	7,815	14,541	9,806	4,840	102,932
Loan assets held at amortised cost by SPEs(2)	-	1,476	3,834	10,887	5,513	-	21,710
Total monetary assets	20,193	47,213	11,649	25,428	15,319	4,840	124,642
Liabilities							
Due to banks	1,833	582	982	55	297	-	3,749
Cash collateral on securities lent and repurchase agreements	5,401	852	7,216	-	-	-	13,469
Trading portfolio liabilities	-	10,716	-	-	-	-	10,716
Deposits	8,936	4,762	814	305	748	-	15,565
Debt issued at amortised cost	832	13,164	13,023	4,461	1,719	-	33,199
Other financial liabilities at fair value through profit or loss	197	573	1,909	3,348	244	-	6,271
Life insurance policy and other unit holder liabilities(1)	-	-	-	-	-	5,689	5,689
Due to related body corporate entities	7,769	-	-	-	-	-	7,769
Subordinated debt at amortised cost(3)	-	-	-	-	1,691	-	1,691
Subordinated debt at fair value through profit or loss(3)	-	-	-	-	646	-	646
Sub-total monetary liabilities	24,968	30,649	23,944	8,169	5,345	5,689	98,764
Debt issued at amortised cost by SPEs(2)	-	1,737	10,499	9,203	125	-	21,564
Total monetary liabilities	24,968	32,386	34,443	17,372	5,470	5,689	120,328

(1) The life insurance contract business offers an investment linked product. Policy holders are primarily exposed to the liquidity risk on life investment contract assets. The members are subject to liquidity risk on the surplus in the life investment contract statutory funds.

(2) Loan assets held at amortised cost by SPEs are shown at expected repayment maturities and Debt issued at amortised cost by SPEs are shown at expected extinguishment maturities.

(3) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the consolidated entity and subject to APRA approval.

Note 45. Maturity analysis of monetary assets and liabilities continued

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
							Bank 2009
Assets							
Cash and balances with central banks	141	-	-	-	-	-	141
Due from banks	6,541	2,486	-	-	5	-	9,032
Cash collateral on securities borrowed and reverse repurchase agreements	1,706	2,793	35	-	-	-	4,534
Trading portfolio assets	-	8,494	-	-	-	-	8,494
Loan assets held at amortised cost	3,090	1,160	1,211	7,191	2,586	-	15,238
Other financial assets at fair value through profit or loss	-	1,031	648	2,710	812	-	5,201
Debt investment securities available for sale	1,532	8,100	1,802	1,673	116	-	13,223
Due from related body corporate entities	681	1,405	2,502	-	-	-	4,588
Due from subsidiaries	13,102	1,421	91	431	-	-	15,045
Total monetary assets	26,793	26,890	6,289	12,005	3,519	-	75,496
Liabilities							
Due to banks	924	53	75	1	956	-	2,009
Cash collateral on securities lent and repurchase agreements	1,607	852	1,422	-	-	-	3,881
Trading portfolio liabilities	-	1,977	-	-	-	-	1,977
Deposits	12,369	5,863	1,568	834	636	-	21,270
Debt issued at amortised cost	-	5,045	6,727	12,004	-	-	23,776
Other financial liabilities at fair value through profit or loss	1	358	757	1,814	346	-	3,276
Due to related body corporate entities	488	893	778	717	-	-	2,876
Due to subsidiaries	7,418	1,320	111	-	-	-	8,849
Subordinated debt at amortised cost(1)	-	-	-	-	1,488	-	1,488
Subordinated debt at fair value through profit or loss(1)	-	-	-	-	451	-	451
Total monetary liabilities	22,807	16,361	11,438	15,370	3,877	-	69,853

(1) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the Bank and subject to APRA approval.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 45. Maturity analysis of monetary assets and liabilities continued

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
							Bank 2008
Assets							
Cash and balances with central banks	7	-	-	-	-	-	7
Due from banks	3,341	-	-	2,713	-	-	6,054
Cash collateral on securities borrowed and reverse repurchase agreements	6,989	13,880	282	-	-	-	21,151
Trading portfolio assets	-	14,282	-	-	-	-	14,282
Loan assets held at amortised cost	5,399	4,394	2,294	3,384	4,762	-	20,233
Other financial assets at fair value through profit or loss	-	48	217	3,212	94	-	3,571
Debt investment securities available for sale	430	9,980	1,069	1,074	74	-	12,627
Due from related body corporate entities	1,947	1,202	3,800	3,800	-	-	10,749
Due from subsidiaries	9,372	-	-	-	-	-	9,372
Total monetary assets	27,485	43,786	7,662	14,183	4,930	-	98,046
Liabilities							
Due to banks	1,830	570	79	42	-	-	2,521
Cash collateral on securities lent and repurchase agreements	5,401	852	7,216	-	-	-	13,469
Trading portfolio liabilities	-	10,431	-	-	-	-	10,431
Deposits	8,851	4,741	813	305	748	-	15,458
Debt issued at amortised cost	655	13,088	9,294	3,544	-	-	26,581
Other financial liabilities at fair value through profit or loss	166	506	773	2,636	244	-	4,325
Due to related body corporate entities	7,718	-	-	-	-	-	7,718
Due to subsidiaries	11,965	-	-	-	-	-	11,965
Subordinated debt at amortised cost(1)	-	-	-	-	1,691	-	1,691
Subordinated debt at fair value through profit or loss(1)	-	-	-	-	646	-	646
Total monetary liabilities	36,586	30,188	18,175	6,527	3,329	-	94,805

(1) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the Bank and subject to APRA approval.

Note 46. Fair value of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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.

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

- Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- Investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the Available For Sale Reserve in equity until the asset is sold, collected or otherwise disposed of;
- Fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
- For financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilise observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- The consolidated entity's own credit risk is factored into the valuation of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the consolidated entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the consolidated entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

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 (e.g. for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation. Changing these assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values were determined in whole or in part using valuation techniques based on such assumptions (e.g. for certain exotic or structured financial instruments), would not significantly change the fair values recognised in the financial statements.

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

- The fair values of liquid assets and other instruments maturing within 3 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 46. Fair value of financial assets and liabilities continued

- The fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximated by their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value;
- The fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower;
- The fair value of debt issues and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the consolidated entity's own credit spread;
- Substantially all of the consolidated entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- The fair values of balances due from/to subsidiaries (in the Bank's separate financial statements) and balances due from/to related body corporate entities (in the Bank's and consolidated financial statements) are approximated by their carrying amount as the balances are generally receivable/payable on demand.

The tables below summarise the carrying value and fair value of all financial assets and financial liabilities held at amortised cost of the consolidated entity and Bank at 31 March 2009.

	2009 Carrying amount $m	2009 Fair value $m
		Consolidated
Assets		
Due from banks	10,169	10,169
Loan assets held at amortised cost	43,922	44,049
Due from related body corporate entities	4,647	4,488
Total financial assets	58,738	58,706
Liabilities		
Due to banks	3,264	3,267
Deposits	21,603	21,603
Due to related body corporate entities	3,332	3,332
Debt issued at amortised cost	48,270	47,687
Subordinated debt at amortised cost	1,491	720
Total financial liabilities	77,960	76,609

	2009 Carrying amount $m	2009 Fair value $m
		Bank
Assets		
Due from banks	9,032	9,032
Loan assets held at amortised cost	15,238	15,197
Due from related body corporate entities	4,588	4,429
Due from subsidiaries	15,045	15,045
Total financial assets	43,903	43,703
Liabilities		
Due to banks	2,009	2,009
Deposits	21,270	21,270
Debt issued at amortised cost	23,776	23,588
Due to related body corporate entities	2,876	2,876
Due to subsidiaries	8,849	8,849
Subordinated debt at amortised cost	1,488	717
Total financial liabilities	60,268	59,309

The fair value equivalents of financial assets and financial liabilities held at amortised cost at 31 March 2008 has not been disclosed on the basis that the fair value was not materially different from the carrying value.

Note 47. Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Bank and consolidated entity, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	Consolidated 2009 $'000	Consolidated 2008 $'000	**Bank 2009 $'000**	Bank 2008 $'000
PwC Australian Firm				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**3,208**	4,587	**2,071**	3,639
Other audit-related work	**1,405**	1,150	**1,239**	1,074
Other assurance services	**395**	509	**395**	509
Total audit and other assurance services	**5,008**	6,246	**3,705**	5,222
Other advisory services	**1,004**	76	**1,004**	76
Taxation	**230**	695	**230**	695
Total Remuneration Paid to PwC – Australian Firm	**6,242**	7,017	**4,939**	5,993
Related Practices of PwC Australian Firm (including PwC – Overseas Firms)				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**3,955**	4,238	**-**	101
Other audit-related work	**20**	174	**20**	60
Other assurance services	**245**	328	**-**	-
Total audit and other assurance services	**4,220**	4,740	**20**	161
Other advisory services	**129**	1,096	**-**	-
Taxation	**528**	1,251	**-**	-
Total Remuneration Paid to Related Practices of PwC – Australian Firm	**4,877**	7,087	**20**	161
Total Remuneration Paid to PwC	**11,119**	14,104	**4,959**	6,154

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Bank's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to Initial Public Offerings and due diligence services for new funds. These fees may be recovered by the consolidated entity upon the successful establishment of the funds.

It is the Bank's policy to seek competitive tenders for all major advisory projects.

Notes to the financial statements
for the financial year ended 31 March 2009 continued

Note 48. Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:

– **Subsidiaries of the Non-Banking Group (comprising Macquarie Financial Holdings Limited and its subsidiaries)**

Pursuant to an internal reorganisation, certain subsidiaries of the Non-Banking Group were acquired by subsidiaries of the Bank between 1 August 2008 and 2 December 2008.

– **Constellation Energy**

On 29 March 2009, a subsidiary of MGL acquired the trading assets and other assets and liabilities of Constellation Energy's US-based downstream natural gas trading business. In accordance with AASB 3 Business Combinations, provisional amounts for the initial accounting for Constellation Energy have been reported in this Financial Report.

Other entities acquired during the financial year are as follows:

First China Property Group Limited and its subsidiaries, Globalis Investments LLC, Four Corners Capital Management LLC, Allegiance Capital LLC, Energy Assets Limited and Olicc Technology Pty Ltd.

Aggregate details of the above entities (including disposal groups) and businesses acquired or consolidated due to acquisition of control are as follows:

	2009 $m	2008 $m
Fair value of net assets acquired[1]		
Cash, other financial assets and other assets	**1,237**	91
Loan assets held at amortised costs	**4,314**	-
Goodwill and other intangible assets	**139**	131
Property, plant and equipment and assets under operating leases[2]	**247**	52
Assets of disposal groups classified as held for sale	**44**	113
Payables, provisions, borrowings and other liabilities	**(2,558)**	(34)
Borrowings	**(3,016)**	-
Liabilities of disposal groups classified as held for sale	**-**	(5)
Minority interests	**-**	(4)
Total fair value of net assets acquired	**407**	344
Purchase consideration		
Cash consideration and costs directly attributable to acquisition	**534**	344
Deferred consideration	**74**	-
Total purchase consideration	**608**	344
Net cash outflow		
Cash consideration and costs directly attributable to acquisition	**(534)**	(344)
Less cash and cash equivalents acquired	**298**	81
Net cash outflow	**(236)**	(263)

(1) In relation to the acquisition of subsidiaries of the Non-Banking Group, assets and liabilities acquired were recognised at carrying amounts. In accordance with the consolidated entity's accounting policy, the difference between the fair values of the consideration given over the carrying amounts recognised is recorded directly in reserves. For the financial year ended 31 March 2009, $201 million was recognised in reserves – distribution to the ultimate parent entity.

(2) Includes assets under operating leases of $209 million (2008: $35 million).

The operating results of these entities have not had a material impact on the results of the consolidated entity.

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above.

The 31 March 2008 comparatives relate to America's Water Heater Rentals LLC and Marine Services Holdings Limited being the material entities acquired or consolidated due to acquisition of control.

Note 48. Acquisitions and disposals of subsidiaries and businesses continued

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

– Macquarie Asset Leasing Trust
On 23 July 2008, the Bank disposed of its 100 per cent interest in Macquarie Asset Leasing Trust to a subsidiary of the Non-Banking Group. The disposal was at fair value.

– MQ Japan Market Neutral Fund (Cayman Islands)
On 1 September 2008, a subsidiary of the Bank disposed of its 100 per cent interest in MQ Japan Market Neutral Fund (Cayman Islands).

– Macquarie Infrastructure Opportunities Fund Ltd
Between 31 October and 31 December 2008, a subsidiary of the Bank disposed of its 100 per cent interest in Macquarie Infrastructure Opportunities Fund Ltd.

– Italian mortgages business
On 31 October 2008, the Bank disposed of its portfolio of Italian mortgages.

– Margin lending business
On 8 January 2009 the Bank disposed of the bulk of its margin lending portfolio to Leveraged Equities a wholly owned subsidiary of Bendigo and Adelaide Bank Limited.

– Entities of MBL Group (Real Estate Group)
Pursuant to an internal reorganisation, during the second half of the financial year, 100 per cent interest in certain subsidiaries of the Bank were disposed of to entities of the Non-Banking Group. These disposals were at fair value.

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

	2009 $m	2008 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	**4,059**	15,632
Goodwill and other intangible assets	**-**	12
Property, plant and equipment	**4**	105
Assets of disposal groups classified as held for sale	**-**	1,670
Payables, provisions and other liabilities	**(410)**	(7,442)
Borrowings	**-**	(6,854)
Liabilities of disposal groups classified as held for sale	**-**	(1,334)
Minority interests	**-**	(24)
Total carrying value of assets and liabilities disposed of or deconsolidated	**3,653**	1,765
Reconciliation of cash movement		
Cash received	**3,513**	16,264
Less:		
Investment retained	**(1)**	-
Cash and cash equivalents disposed of or deconsolidated	**(106)**	(2,277)
Net cash inflow	**3,406**	13,987

The 31 March 2008 comparatives relate to Greater Peterborough Health Investment Plan, entities of the Bank disposed of as part of the Macquarie Group restructure, Emerging Markets Finance Limited, ATM Solutions Australasia Pty Limited and Macquarie IMM Investment Management Co Limited, being the significant entities disposed of or deconsolidated due to loss of control.

Note 49. Events occurring after balance sheet date

There were no material events subsequent to 31 March 2009 that have not been reflected in the financial statements.

Macquarie Bank Limited
Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 54 to 153 are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Bank and consolidated entity's financial position as at 31 March 2009 and of their performance, as represented by the results of their operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 6 to 44 of the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 22.

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

H Kevin McCann
Non Executive Director and Acting Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
30 April 2009

Independent audit report
to the members of Macquarie Bank Limited

PRICEWATERHOUSECOOPERS

Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the company), which comprises the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Macquarie Bank Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 March 2009 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Independent audit report
to the members of Macquarie Bank Limited continued

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 44 of the directors' report for the year ended 31 March 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Bank Limited for the year ended 31 March 2009, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Macquarie Bank Limited (the company) ended 31 March 2009 included on the Macquarie Bank Limited website. The company's directors are responsible for the integrity of the Macquarie Bank Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this website.

PricewaterhouseCoopers

Daniel Armstrong

PricewaterhouseCoopers

DH Armstrong
Partner
Sydney
30 April 2009

Investor information

Securityholder calendar

Securityholders may wish to note the following dates:

2009

Date	Event
15 July	MIS distribution
29 July	2009 Annual General Meeting
30 September	First half financial year end
15 October	MIS distribution, MIPS distribution

2010

Date	Event
15 January	MIS distribution
31 March	Full-year financial year end
15 April	MIS distribution, MIPS distribution

Distribution details – Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears on or about the 15th of January, April, July and October each year. Dates and payment rates are listed at www.macquarie.com.au/shareholdercentre

Stock Exchange Listing

Macquarie Income Securities are quoted on the ASX and trade under the code MBLHB.

Macquarie Bank also has debt securities quoted on the Luxembourg Stock Exchange.

2009 Annual General Meeting

This year's meeting will be held on Wednesday, 29 July 2009 in the Macquarie Auditorium, Level 3, No. 1 Martin Place, Sydney NSW after the Macquarie Group Limited AGM but not earlier than 2:00pm. Details of the business of the meeting will be forwarded to securityholders separately.

Voting rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

i) one vote for each fully paid share held; and

ii) that proportion of vote for any partly paid ordinary share held that the amount paid on the partly paid shares bears to the total issue price of the share.

Macquarie Income Securities

Holders of Macquarie Income Securities, as holders of a stapled security that includes a preference share, have:

(a) the right to vote at any general meeting of Macquarie Bank only in each of the following circumstances:
   - i) during a period when two consecutive Semi-annual Dividends (as defined in the preference share terms) due and payable on the preference shares have not been paid in full, and no optional Dividend (as defined in the preference share terms) has been paid
   - ii) on any proposal to reduce Macquarie Bank's share capital
   - iii) on any resolution to approve the terms of a buy-back agreement
   - iv) on any proposal that affects the rights attaching to the preference shares
   - v) on a proposal to wind up Macquarie Bank
   - vi) on any proposal for the disposal of the whole of Macquarie Bank's property business and undertaking
   - vii) during the winding up of Macquarie Bank

(b) the same voting rights, in those circumstances, as holders of ordinary shares (as set out above).

Macquarie Income Preferred Securities

Unpaid preference shares were issued by Macquarie Bank as part of the Macquarie Income Preferred Securities issue. Whilst these preference shares remain unpaid, they have no voting rights, if paid up, these preference shares will have the same voting rights as holders of Macquarie Income Securities, except that instead of having a right to vote in situation (a) i) above, they have a right to vote at any general meeting of Macquarie Bank during a period in which a dividend has been declared on the preference shares but which has not been paid in full by the relevant dividend payment date.

Investor information
continued

Macquarie Income Securities

Twenty largest Macquarie Income Security holders at 23 April 2009:	Macquarie Income Securities	% of Macquarie Income Securities
HSBC Custody Nominees (Australia) Limited	352,934	8.82
J P Morgan Nominees Australia Limited	222,728	5.57
RBC Dexia Investor Services Australia Nominees Pty Limited – MICI A/C	143,696	3.59
Questor Financial Services Limited – TPS RF A/C	94,756	2.37
ANZ Nominees Limited – Cash Income A/C	39,311	0.98
Australian Executor Trustees Limited – No 1 Account	34,542	0.87
Mr John Coreaux Bowden	33,000	0.83
Temple Society Central Fund (Aust)	25,500	0.64
UBS Wealth Management Australia Nominees Pty Ltd	23,434	0.59
Citicorp Nominees Pty Ltd	23,294	0.58
RBC Dexia Investor Services Australia Nominees Pty Limited – Nmsmt A/C	17,173	0.43
ANZ Nominees Limited – SI Cash Income A/C	16,410	0.41
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Incorporated	15,000	0.38
Custodial Services Limited – Beneficiaries Holding A/C	14,431	0.36
Carmichael Group Investments Pty Ltd	14,220	0.36
National Nominees Limited	14,019	0.35
Investment Custodial Services Limited	12,447	0.31
Questor Financial Services Limited – Tps Pip A/C	11,881	0.30
Nulis Nominees (Australia) Limited – Navigator Mast Plan Sett A/C	10,111	0.25
Total	**1,133,787**	**28.34**

Spread of Macquarie Income Securities

Details of the spread of Macquarie Income Security holders at 23 April 2009 are as follows:

Range	Holders	Securities
1–1,000	6,810	1,901,206
1,001–5,000	405	784,898
5,001–10,000	24	180,009
10,001–100,000	17	414,529
100,001 securities and over	3	719,358
	7,259	**4,000,000**

Nine securityholders (representing 40 Macquarie Income Securities) held less than a marketable parcel.

Macquarie Income Preferred Securities

As at 23 April 2009, the £350 million Global Debenture and all 350,000 unpaid preference shares, issued by Macquarie Bank as part of the Macquarie Income Preferred Securities issues, were held by one holder, Macquarie Capital Funding LP. The registers in respect of the preference shares and the Global Debenture are kept at Macquarie Bank's principal administrative office at No.1 Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Website

To view the Annual Reports, presentations, distribution information and other investor information, visit www.macquarie.com.au/shareholdercentre

Enquiries

Investors who wish to enquire about any matter relating to their Macquarie Income Securities securityholding are invited to contact the Share Registry office below.

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 8060 Australia
Telephone: +61 3 9415 4000
Freecall: 1300 554 096
Facsimile: +61 3 9473 2500
Email: web.queries@computershare.com.au
Website: www.computershare.com

All other enquiries relating to a Macquarie Bank securityholding investment can be directed to:

Investor Relations
Macquarie Group
Level 7, No. 1 Martin Place
Sydney New South Wales 2000 Australia
Telephone: +61 2 8232 5006
Facsimile: +61 2 8232 4330
Email: macquarie.shareholders@macquarie.com
Website: www.macquarie.com.au/shareholdercentre

Macquarie Bank's company secretary, Dennis Leong, may be contacted on the above numbers.

Glossary

AASB	Australian Accounting Standards Board
the Act	Corporations Act 2001 (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AIFRS	Australian International Financial Reporting Standards
APRA	Australian Prudential Regulatory Authority
APS	Annual Profit Share
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
BACC	Board Audit and Compliance Committee
BBSW	Australian Financial Association's bank-bill rate, published daily on AAP Reuters page. The Australian equivalent of LIBOR, SIBOR etc.
BCGC	Board Corporate Governance Committee
BORM	Business Operational Risk Manager
BRC	Board Remuneration Committee
the Company	Macquarie Group Limited
consolidated entity	Macquarie Group Limited and its subsidiaries
CVA	credit valuation adjustments
DESOP	Deferred Exercise Share Option Plan
Directors	the Directors of Macquarie Group Limited (unless the context indicates otherwise)
DPS	Directors' Profit Share
DRP	Dividend Reinvestment Plan
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
EPS	earnings per share
ERL	Equity Risk Limit
ECSAP	Executive Committee Share Acquisition Plan
Equity Plan	Macquarie Group Employee Retained Equity Plan
FIRB	Foundation Internal Ratings Based Approach
FSF	Financial Stability Forum
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Macquarie, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie Bank	Macquarie Bank Limited ABN 46 008 583 542

Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
MBL	Macquarie Bank Limited
MCR	minimum capital ratio
MEL	Macro-Economic-Linkages
MGEDSAP	Macquarie Group Executive Director Share Acquisition Plan
MGESOP	Macquarie Group Employee Share Option Plan
MGESP	Macquarie Group Employee Share Plan
MGL	Macquarie Group Limited ABN 94 122 169 279
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
NPAT	net profit after tax
ORMF	Operational Risk Management Framework
RMG	Risk Management Group
ROE	return on equity
RPS	retained profit share
RWA	risk-weighted assets
SPE	special purpose entity
TSR	total shareholder returns
VaR	Volume at Risk

The Holey Dollar

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for Macquarie.

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eTree

eTree
Macquarie is proud to be a Foundation Member of eTree, a Computershare Limited initiative with Landcare Australia which provides shareholders with an environmental incentive to elect to receive shareholder communications electronically. Macquarie shareholders can register to receive their shareholder communications, such as the Annual Report, electronically, by visiting www.etree.com.au/macquarie and registering their email address. For every shareholder who registers an email address Macquarie will donate $1 to Landcare Australia.

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