MACQUARIE BANK
2008 ANNUAL REPORT

MACQUARIE
BANK

MACQUARIE BANK LIMITED ACN 008 583 542

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

Under the non-operating holding company structure, Macquarie's banking and non-banking businesses operate in two separate groups under Macquarie Group Limited; the Banking Group (which includes Macquarie Bank Limited and its subsidiaries) and the Non-Banking Group (Macquarie Financial Holdings Limited and its subsidiaries). Both the Banking and the Non-Banking Groups are wholly-owned by Macquarie Group Limited.

The Banking Group comprises Banking and Financial Services Group, Equity Markets Group, Funds Management Group, Real Estate Group and Treasury and Commodities Group.

The Non-Banking Group comprises Macquarie Capital and a small number of Equity Markets Group and Treasury and Commodities Group activities that use certain offshore regulated entities of the Non-Banking Group.

If you would like a copy of the 2008 Macquarie Group Shareholder Review or Annual Report please call us on +61 2 8232 5006 or visit www.macquarie.com.au/shareholdercentre.

2008 Annual General Meeting

Macquarie Bank's 2008 Annual General Meeting will be held following the Macquarie Group Limited Annual General Meeting but not earlier than 2 pm on Wednesday, 23 July 2008 at the Palladium at Crown, Level 1 Crown Towers, 8 Whiteman Street, Southbank, Victoria.

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

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.

Macquarie Bank Limited
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Directors' Report
for the financial year ended 31 March 2008

In accordance with a resolution of the Voting Directors ("the Directors") of Macquarie Bank Limited ("The Bank"), the Directors submit herewith the balance sheets as at 31 March 2008 and the income statements and the cash flow statements of MBL and the entities it controlled 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 MBL are:

Non-Executive Director:
D.S. Clarke, AO, Chairman

Executive Directors:
A.E. Moss, AO*
L.G. Cox, AO
W.R. Sheppard, Managing Director and Chief Executive Officer **

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

* Mr Moss retired from the role of Managing Director, Chief Executive Officer and Director effective in November 2007.

** Mr Sheppard was appointed to the Board on 13 November 2007 and assumed the roles of Managing Director and Chief Executive Officer.

*** In accordance with MBL's definition of independence (as set out in the Corporate Governance Statement contained in the 2008 Annual Report).

**** Mr Warne was appointed to the Board effective 1 July 2007.

Other than as set out above, the Directors each held office as a Director of MBL throughout the financial year ended 31 March 2008. Mr Johnson and Mr Allpass were Non-Executive Directors from the beginning of the financial year until their retirements on 19 July 2007. Those Directors listed as Independent Directors have been independent throughout the financial year ended 31 March 2008 or since appointment in the case of Mr Warne.

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 MBL during the financial year is summarised in the tables below:

Board meetings

	Monthly Board meetings		Special Board meetings**	
	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke	12	12	7	7
A.E. Moss	12	12	7	7
M.R.G. Johnson*	3	2	2	2
L.G. Cox	12	12	6	5
J.G. Allpass*	3	3	3	3
P.M. Kirby	12	11	7	7
C.B. Livingstone	12	12	7	7
H.K. McCann	12	12	7	6
J.R. Niland	12	12	7	6
H.M. Nugent	12	12	7	7
P.H. Warne	9	9	5	5
W.R. Sheppard	5	5	1	1

* Both Mr Johnson and Mr Allpass retired as Directors on 19 July 2007.

** A majority of these meetings were called at short notice and all instances of non-attendance were due to prior commitments including being overseas at the time.

Board committee meetings

	Board Audit and Compliance Committee**		Board Corporate Governance Committee		Board Nominating Committee		Board Remuneration Committee		Board Risk Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke	–	–	–	–	1	1	4	3	2	2
A.E. Moss	–	–	–	–	–	–	–	–	2	2
M.R.G. Johnson*	–	–	2	1	–	–	–	–	1	1
L.G. Cox	–	–	–	–	–	–	–	–	2	2
J.G. Allpass*	2	2	–	–	–	–	3	3	1	1
P.M. Kirby	3	2	–	–	–	–	3	3	2	2
C.B. Livingstone	7	7	–	–	1	1	–	–	2	2
H.K. McCann	7	7	2	2	–	–	–	–	2	1
J.R. Niland	2	2	2	2	–	–	1	1	2	2
H.M. Nugent	–	–	–	–	1	1	4	4	2	2
P.H. Warne	5	4	–	–	–	–	1	1	1	1
W.R. Sheppard	–	–	–	–	–	–	–	–	–	–

* Both Mr Johnson and Mr Allpass retired as Directors on 19 July 2007.

** Includes meetings held by the Macquarie Group Limited ("MGL") Board Audit and Compliance Committee ("BACC") after 13 November 2007. The MGL BACC assists the Boards of Voting Directors of MGL and MBL in fulfilling the responsibility for the oversight of the quality and integrity of the accounting, financial reporting and compliance practises of the Macquarie Group.

There was a special purpose Board Sub-Committee to conduct due diligence into the establishment of a Non-Operating Holding Company ("NOHC") ("NOHC Sub-Committee"). The NOHC Sub-Committee comprised Ms Livingstone, Mr McCann and certain Bank executives. Mr Cox replaced Mr McCann as a member of the final NOHC Sub-Committee. The NOHC Sub-Committee met nine times during the year with all members in attendance.

The Independent Directors met once during the year in the absence of the Executive Directors. All Independent Directors were in attendance at this meeting.

Directors' Report
for the financial year ended 31 March 2008 continued

Principal activities

The principal activities of the Bank and its controlled entities during the financial year ended 31 March 2008 were those of a full service financial services provider offering a range of investment banking, commercial banking and retail financial services in Australia and selected financial services offshore.

Result

The financial report for the financial years ended 31 March 2008 and 31 March 2007, and the results herein, are 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 2008 was $750 million (2007: $657 million).

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 2007	Final	482,488,290	31 March 2007	Paid
Ordinary shares	30 January 2008	Interim	395,399,868	31 March 2008	Paid
Ordinary shares*	16 November 2007	Special	13,989,564,740	31 March 2008	Paid
Ordinary shares*	16 November 2007	Special	2,250,000,000	31 March 2008	Paid
Macquarie Income Securities**	16 April 2007	Periodic	8,127,671	15 January 2007 to 15 April 2007	Paid
	16 July 2007	Periodic	8,207,452	16 April 2007 to 15 July 2007	Paid
	15 October 2007	Periodic	8,107,726	16 July 2007 to 14 October 2007	Paid
	15 January 2008	Periodic	8,690,849	15 October 2007 to 14 January 2008	Paid
	15 April 2008	Periodic	7,467,945	15 January 2008 to 31 March 2008	Provided
Macquarie Income Preferred Securities***	16 April 2007	Periodic	25,774,811	15 October 2006 to 15 April 2007	Paid
	16 October 2007	Periodic	24,325,069	16 April 2007 to 15 October 2007	Paid
	16 April 2008	Periodic	21,675,837	16 October 2007 to 31 March 2008	Provided

* Following the restructure on 13 November 2007 the Bank paid two special dividends to MGL, the ultimate parent entity.

** 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 the Bank. The MIS are quoted on the Australian Securities Exchange. 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 MBL to its members. The MIS are classified as equity under Australian Accounting Standards – see notes 33 and 34 to the financial report for further information on the MIS and MIS distributions.

*** 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 the 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 MBL (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 33 and 34 to the full 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

On 13 November 2007, the Macquarie Group restructured into a NOHC structure. This followed receipt of the requisite approvals by MBL shareholders and optionholders, as well as the Federal Treasurer, Australian Prudential Regulation Authority ("APRA") and the Federal Court of Australia. This restructure resulted in MGL being established as the ultimate parent of the Macquarie Group. The Macquarie Group comprises two separate sub-groups, a Banking Group and a Non-Banking Group.

Under the restructure, following MBL becoming a controlled entity of MGL, MBL sold certain Non-Banking Group controlled entities to MGL for fair value at the restructure date. The bulk of the profits on sale of these controlled entities were 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 helped finance the acquisition of the 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. All of these transactions were internal to the Macquarie group of companies and did not impact incoming MGL ordinary shareholders.

Ordinary shareholders and optionholders of MBL hold 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. MGL's consolidated financial statements are presented as a continuation of the Macquarie Group.

Review of operations and financial position

Review of operations and financial result

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders of the Macquarie Bank Group ("the economic entity") for the year ended 31 March 2008 was $750 million, an increase of 14 per cent on the prior year after adjusting for discontinued operations. The result was achieved after allowing for a $293 million write-down of holdings in certain listed real estate investments. MBL's consolidated net profit from ordinary activities and discontinued operations after income tax attributable to ordinary equity holders is $15,696 million.

Total operating income from continuing operations for the year ended 31 March 2008 was $4,145 million, an increase of 27 per cent on the prior year.

Total operating expenses from continuing operations for the year to 31 March 2008 were $3,335 million, 31 per cent up on the prior year.

Directors' Report
for the financial year ended 31 March 2008 continued

Financial position
Macquarie Group'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. The restructure that Macquarie Group undertook during the year resulted in a more flexible capital structure to facilitate continuation of Macquarie Group's growth strategies, whilst enabling the Bank to meet its obligations to APRA.

The Bank 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 Bank reported to APRA under the prudential requirements referred to as Basel I.

The economic entity tier 1 capital ratio of 12.4 per cent at 31 March 2008 maintains a buffer in excess of the economic entity's minimum acceptable ratios.

Events subsequent to balance date
Subsequent to balance date the Directors have resolved to issue $300 million of ordinary shares on 4 July 2008 to its immediate parent, Macquarie B.H. Pty Limited.

Likely developments in operations and expected outcomes
Outlook
Market conditions make short-term forecasting more difficult than usual. The current state of financial markets means that it will be challenging to repeat our most recent performance. However, we continue to be well positioned in the medium term due to:

- effective risk management;
- good businesses and committed quality staff;
- the strength, diversification and global reach of our businesses;
- benefits of ongoing organic growth initiatives;
- continued strong global investor demand for quality assets;
- strong capital base;
- no problem trading exposures and no material problems with credit exposures.

Current markets are challenging but we are very well positioned to take advantage of the opportunities which will undoubtedly arise. Despite market conditions, the global business platform has never been stronger.

Directors’ Report – Remuneration Report
for the financial year ended 31 March 2008

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Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

Introduction

The Macquarie Group has a sophisticated remuneration strategy in place to ensure its people are focused on generating outstanding shareholder value and are rewarded consistent with the outcomes they achieve. This strategy has been largely in place since the inception of the Group, although it has evolved incrementally over time to ensure that the system continues to meet its overriding objectives.

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

The Group's Board of Directors oversees the Group's remuneration arrangements, including both executive remuneration and the remuneration of the Non-Executive Voting Directors. The Group's Board and the Board have established a Board Remuneration Committee to assist it with the Group's remuneration policies and practices.

The Board annually reviews the remuneration strategy to ensure it is structured to deliver the best outcomes for Macquarie and its shareholders. This year, as part of that process, it has considered the challenging market conditions of the last twelve months where a number of international investment banks reported record losses and announced layoffs, but where remuneration levels remain high as the competition for the best talent continues.

Macquarie's remuneration approach aims to drive **long-term shareholder returns** by aligning the interests of staff and shareholders and attracting and retaining high quality people. This report discusses how Macquarie's remuneration approach delivers these outcomes for shareholders through:

1. **focusing** on appropriate objectives and **achieving** results;
2. **structuring** remuneration to motivate staff to create shareholder value;
3. **providing strong governance structures and processes;** and
4. **recognising** Non-Executive Directors for their role.

The above four points are discussed in turn in sections 1 to 4.

This Remuneration Report has been prepared in accordance with the Corporations Act 2001. 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, in particular this section. 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 the Bank relating to the years ended 31 March 2006, 31 March 2007 and 31 March 2008 has been presented in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS);
- financial information for the 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; and
- financial information for the 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. Focusing on appropriate objectives and achieving results

Macquarie's remuneration approach aims to drive **long-term shareholder returns** by aligning the interests of staff and shareholders and attracting and retaining high quality people. This report discusses how Macquarie's remuneration approach delivers these outcomes for shareholders through:

1. **focusing on appropriate objectives and achieving results;**
2. **structuring** remuneration to motivate staff to create shareholder value;
3. **providing strong governance structures and processes;** and
4. **recognising** Non-Executive Directors for their role.

The overarching goal of the remuneration framework is to drive outstanding MGL shareholder returns over the longer term. The remuneration framework supports this overall goal through a structure which is focused on ensuring that Macquarie attracts and retains high quality people and aligns their interests to generate outstanding long-term returns for shareholders, at a Group level.

The Group's Board aims to **align the interests of staff and shareholders** by motivating staff through its remuneration policy to:

– increase the Group's net profit after tax; and
– sustain a high relative return on ordinary equity.

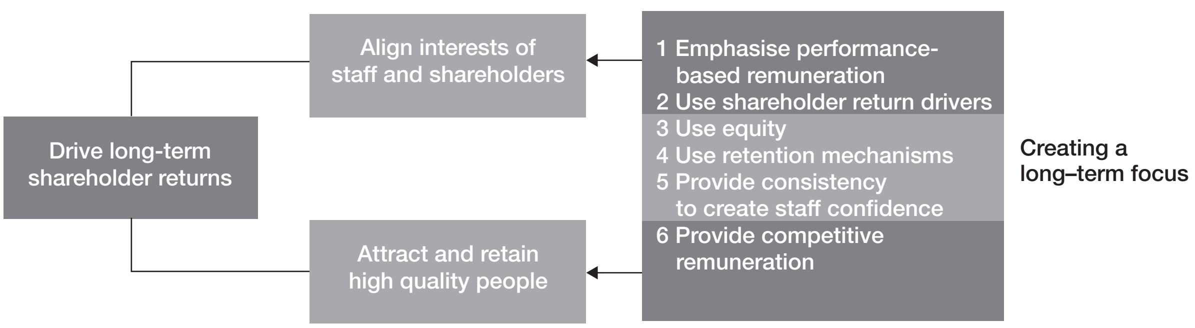
The Board aims to **attract and retain high quality people** by offering a **competitive** performance-driven remuneration package that encourages both long-term commitment and superior performance.

The overarching goals and objectives of the remuneration framework are **supported by a set of underlying principles:**

– distinct emphasis on performance-based remuneration (refer section 2.1);
– rewards linked to Group shareholder value through the use of Group shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 2.2);
– use of equity to provide rewards partly in the form of shares and partly in the form of options to create identification with shareholder interests (refer section 2.3);
– retention mechanisms designed to encourage a long-term commitment to the Group and hence to shareholders (refer section 2.3);
– consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 2.3); and
– arrangements which are competitive on a global basis with the Group's international peers.

The key elements are summarised in the diagram below.

Key elements of remuneration framework



The remuneration approach and its consistency over time have been significant factors in maximising the Group's growth in earnings and its return on equity. In turn, this has led to strong shareholder returns. The medium term growth pattern reflects consistently strong year-on-year performance as follows:

Performance over the past five years

	2003	2004	2005	2006	2007	**2008**
Earnings Net profit after tax attributable to ordinary equityholders (NPAT) $ millions	333	494	812	916	1,463	**15,696***
Return on equity Return on average ordinary shareholder's funds	18.0%	22.3%	29.8%	26.0%	28.1%	**23.8%**

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

2. Structuring remuneration to motivate staff: remuneration framework

Macquarie's remuneration approach aims to drive **long-term shareholder returns** by aligning the interests of staff and shareholders and attracting and retaining high quality people. This report discusses how Macquarie's remuneration approach delivers these outcomes for shareholders through:

1. **focusing** on appropriate objectives and **achieving** results;
2. **structuring remuneration to motivate staff to create shareholder value;**
3. **providing strong governance structures and processes;** and
4. **recognising** Non-Executive Directors for their role.

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

At the simplest level, the remuneration framework for Macquarie's senior executives works because it is structured to:

– *emphasise* performance-based remuneration over fixed remuneration (refer section 2.1);
– *link* the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 2.2), and
– *deliver* remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interest (refer section 2.3).

Executive Remuneration is delivered in three components:
– fixed remuneration, in the form of a base salary;
– performance-based remuneration, in the form of a profit share allocation; and
– performance-based remuneration, in the form of options over Macquarie Group Limited shares.

The specific structure of each of these three components, as set out in the chart below, and their interaction with one another supports the remuneration objectives outlined above, as summarised in the Table titled "Link between the remuneration principles and the remuneration arrangements". The remuneration framework has been designed, and therefore needs to be evaluated, as an integrated package.

The primary focus of this section is on Executive Director remuneration, in particular Executive Committee members. However, comments are made in relation to other staff where relevant. The Bank's Executive Committee has responsibility for the management of the Macquarie Bank Limited Group as delegated by the Macquarie Bank Board, and is made up of a central group comprising the Managing Director of the Group, the Managing Director of the Bank, Head of Risk Management, the Chief Financial Officer and head of Macquarie Bank's major business Groups. The current members of the Executive Committee are identified in Appendix 1.

The following diagram summarises the basic features of an Executive Director's remuneration.

Summary of remuneration structure for an Executive Director

- Pool created at MGL level, based on key drivers of MGL shareholder returns
- Allocation to businesses and then to individuals based on performance*
- MBL's "share" of the profit share pool reflects the allocation to individuals who provide services to the MBL Group
- 20% of profit share allocation withheld for ten years and notionally invested in a portfolio including equity in Macquarie-managed funds
- For Executive Committee members, an additional component is invested in MGL shares for at least three years. These shares cannot be hedged
- Minimum shareholding requirements apply to all Executive Directors based on 5% of their total profit share over the last five years, or ten years in the case of Executive Committee members – these shares cannot be hedged

Profit share

Fixed remuneration

- Takes into account role and market considerations
- Can be relatively low/ modest compared to similar roles in other non-investment banks
- Includes cash salary as well as non-cash benefits

- *The interaction of these three components determines an individual's remuneration package*
- *No special contractual termination entitlements exist*

Options

- 5 year options over MGL shares issued for no consideration with an exercise price set at prevailing market price
- Vest in equal portions after 2, 3 and 4 years
- Options subject to a performance condition which must be satisfied for the option to be exercised
- Hedging of unvested options is forbidden

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

The following table demonstrates the way that the remuneration structure has been designed to support the key remuneration principles introduced in section 1.

Link between the remuneration principles and the remuneration arrangements

	Principle	Features of the remuneration system
1	There is an emphasis on performance-based remuneration *Refer discussion in section 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 – Profit share allocations can comprise a high proportion of total remuneration in the case of superior performance (approximately 98 per cent in the case of Mr Moss)
2	Rewards are linked to MGL shareholder value through the use of MGL shareholder return drivers, namely profitability and returns in excess of the cost of capital *Refer discussion in section 2.2*	– The overall Group profit share pool is determined as a function of Group net profit after tax and excess return on ordinary equity – The allocation of the pool to individual businesses is based primarily on relative contribution to Group 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 Group net profit after tax and return on ordinary equity – An amount of the total Group profit share pool is reflected as an expense in MBL's net profit. This amount equals the profit share allocations of the individuals who provide services to the MBL Group – MGL return on ordinary equity is used as a performance hurdle for Executive Director options
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 2.3*	– MGL option allocation to Director level staff occurs at promotion and annually (with performance hurdles for Executive Directors) – Executive Directors retained profit share is notionally invested in specialist funds managed by the Macquarie Group – Executive Directors are required to acquire and hold a minimum number of MGL shares calculated based on their profit share history (5 per cent of total profit share over the last ten years for Executive Committee members and 5 per cent of total profit share over the last five years for all other Executive Directors) – For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in MGL shares – Group staff share plans are available to encourage broader staff equity participation

	Principle	Features of the remuneration system
4	Retention mechanisms encourage a long-term commitment to the Group and hence to shareholders *Refer discussion in section 2.3*	– 20 per cent of Executive Directors annual profit share is withheld and vests equally between five and ten years of service as an Executive Director – Time based vesting rules apply to 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 2.3*	– Group's remuneration approach has been in place since the Group was founded with incremental changes over time as appropriate
6	Arrangements are competitive on a global basis with the Group's international peers	– Board reviews remuneration arrangements at least annually to ensure that they are equitable and competitive with peers

The remainder of section 2 discusses the remuneration structure and these individual components in greater detail.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

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/modest when 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).

Remuneration arrangements have been structured so that only a very small amount is fixed, with the majority being at risk and based on performance. With the introduction of the new additional equity components for Executive Committee members' arrangements (refer section 2.3.1.2 for full details), and taking into account options, the long-term and deferred elements are expected to total nearly 55 per cent of the Group Managing Director and Chief Executive Officer's annual total compensation, and over 40 per cent of annual total compensation for other Executive Directors based on indicative numbers for 2009.

2.2 Linking remuneration to the drivers of shareholder return
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. The Macquarie Group's approach to measuring performance for the purpose of determining annual profit share is to utilise Group financial performance measures which are known to be drivers of long-term shareholder returns, being net profit after tax and return on ordinary equity. 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.

The Group's net profit after tax and return on ordinary equity 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; and
- net profit after tax and return on ordinary equity can both 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 return on ordinary equity to measure excess returns, i.e. return on ordinary equity relative to the cost of equity capital, creates a particularly strong incentive for staff to ensure that capital is used efficiently. Therefore, the use of these two measures in combination results in the right outcomes for the Group's shareholders.

These drivers also feature prominently in the determination and allocation of profit share, discussed below. Return on ordinary equity is also the measure enshrined in the performance hurdle applicable to Executive Director options (refer section 2.3.2.3).

2.2.1 Profit share arrangements – determination and allocation
Overview of profit share arrangements
The profit share arrangements are designed to encourage superior performance by motivating executives to focus on maximising the Bank's and therefore the Group's earnings and return on ordinary equity, thereby driving long-term, MGL shareholder returns. A group-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 Group pool is determined annually by reference to the Group's after-tax profits and its earnings over and above the estimated cost of capital. A portion of the Group's profits earned accrues to the Group's staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess Group profits is accrued to the profit share pool. The proportion of after-tax profit and the proportion of earnings in excess of the Group'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 both 2008 and 2009. Changes to the methodology are reviewed by the Board Remuneration Committee and the Non-Executive Directors of the MGL Board.

The Non-Executive Directors of the MGL Board have discretions, as follows:

- to change the quantum of the pool to reflect external factors if deemed in the Group's and shareholders' interests. Historically, the Group's Board has made no material alteration to the quantum of the profit share pool; and

- to defer the payment of profit share amounts to a subsequent year at a Group, business or individual level where it is in the interests of the Group and shareholders to do so. The Non-Executive Directors of the MGL Board have exercised their discretion in relation to deferrals for 2006, 2007 and 2008. In accordance with the Group's accounting policy, the deferred amounts are expensed in the year in which the profits are generated.

The whole of the profit sharing provision for a financial year is charged against earnings in that year.

Allocation of the profit share pool
Allocation of the Group's pool to businesses and, in turn, to individuals is based on performance, primarily reflecting relative contributions to profits while taking into account capital usage.

An individual's performance is 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 the Bank's and therefore the Group's net profit after tax and excess return on ordinary equity.

Performance also takes into consideration *how* business is done. Superior performance looks at a range of indicators that go beyond financial performance and include 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 the Group's financial reporting, risk management processes or information systems.

The MGL Board, the Board and management seek to ensure that remuneration for staff in prudential roles is determined in a way that preserves the independence of the function and maintains the Group's and the Bank'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 the Group who have contributed strongly to their success.

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

- Group-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.

An amount of the Group's profit share pool is charged against the Bank's earnings. This amount reflects the profit share allocation of individuals who provide services to MBL or an MBL Group company.

Profit share allocations to individuals are subject to retention arrangements as discussed in section 2.3.

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

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

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.

At the most senior level (the Executive Committee members), direct alignment with long-term MGL shareholder interests is achieved by:

- retaining 20 per cent of each annual profit share allocation into Macquarie-managed fund equity for ten years, subject to forfeiture if a disqualifying event occurs
- allocating an additional portion of each annual profit share allocation into MGL shares for at least three years
- imposing an aggregate minimum MGL shareholding requirement proportionate to an individual's ten year profit share history
- granting options over MGL shares which vest in three tranches over two, three and four years and are subject to a performance hurdle based on the Group's relative return on ordinary equity performance.

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

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From a retention perspective, these various arrangements are designed to interact with one another, for example MGL options vest over two to four years and the retained amounts under the Directors Profit Share Plan vest over five to ten years. The vesting continuum for a new Executive Director can be 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*	Options 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 ten 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 2.3.1.1).

These arrangements are explored in the remainder of section 2.3.

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

- the following cannot be hedged:
  - shares held to satisfy the minimum shareholding requirement;
  - shares held under the Executive Committee Share Acquisition Plan; and
  - unvested options.
- all shares and options must be dealt with in accordance with the Group's Trading Policy, which is available on the Group's website, including that trading must be conducted within designated windows.

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 consistency over time.

The Macquarie Group has been successful over a long period in building new businesses. The long-term view taken by staff reflects their confidence in the consistency of the remuneration approach.

Such consistency has been achieved by incremental change, without the need for dramatic adjustments to remuneration policies in any one year.

2.3.1 Profit share arrangements – delivery of profit share allocations

The treatment of profit share allocations to Executive Committee members has been modified during 2008, with enhancements to the use of equity-based compensation transitioning in during 2008 and 2009.

The annual profit share allocation is delivered to the Executive Directors in the following way:

- 20 per cent is retained under the Directors' Profit Share (DPS) Plan (no change from prior years). This applies to all Executive Directors. In addition to this:
  - for 2008, 10 per cent of Executive Committee members' (excluding the current Group Managing Director and Chief Executive Officer) profit share is invested in MGL shares;
  - for 2009, 20 per cent of Executive Committee members' profit share is invested in MGL shares (35 per cent for the new Group Managing Director and Chief Executive Officer);
- investment in MGL shares is subject to the minimum shareholding requirement;
- eligible Australian Executive Directors have the opportunity to voluntarily invest additional amounts in MGL equity from this remaining component, for example by electing to invest in MGL shares pursuant to the Macquarie Group Staff Share Acquisition Plan;
- the modifications noted here do not apply to the current Group Managing Director and Chief Executive Officer given his planned retirement.

2.3.1.1 Retention under the Directors' Profit Share (DPS) Plan

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

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 the end of a ten year period.

Assuming continued employment with the Group, a rolling ten year retention always exists e.g. amounts retained in year 1 will be released in year 11, amounts retained in year 2 will be released in year 12, and so on.

Forfeiture rules

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) if the 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 the Group; or
- left employment with the Group to join a competitor of the Group; or
- taken a team of staff to a competitor or been instrumental in causing a team to go to a competitor.

Notional investment

The retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as "notional" because the 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 Group's Executive Committee makes an annual determination as to how each Executive Director's retained DPS for that year should be notionally invested by the Group. In making this determination, the Executive Committee takes into account the recommendations of the relevant Group Heads and applies the following general principles that were established by the Board Remuneration Committee in 2006 under a delegation from the Group's Board:

- retained DPS for Executive Directors who are involved in the management of a particular fund (e.g. the CEO of a fund), will be 100 per cent 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 Group Heads, will be 100 per cent notionally invested in a portfolio of funds managed by that particular business;
- retained DPS for other Executive Committee members will be 100 per cent notionally invested in a general portfolio of specialist funds managed by the Group;
- retained DPS for Executive Directors who provide other services to particular funds businesses (e.g. advisory services), will be 100 per cent notionally invested in a portfolio of funds managed by that particular business; and
- 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 specialist funds managed by the Group.

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.

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 Group 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.

2.3.1.2 Additional arrangements for Executive Committee members
To further enhance the level of alignment with MGL shareholders, remuneration arrangements for Executive Committee members were changed in 2008 to reflect a larger portion of the annual profit share being allocated to invest in Macquarie Group Limited shares for at least three years, rather than being otherwise available.

For Executive Committee members (except for the current Group Managing Director and Chief Executive Officer who is retiring in May 2008), this element will comprise 10 per cent pre-tax of annual profit share for 2008. In 2009, this will rise to 35 per cent pre-tax for the Group Managing Director and Chief Executive Officer and 20 per cent pre-tax for other Executive Committee members.

The shares will be 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 2.3.1.4.

The shares will be held in the plan for three years although the executive may elect to leave the shares in the plan for up to ten years. Executive Committee members are not permitted to hedge their interests in these shares.

In 2008, new shares will be issued under these arrangements in relation to all Executive Committee members.

This additional profit share component relates 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 Group entity into disrepute.

2.3.1.3 Minimum shareholding requirement for Executive Directors
The DPS Plan also imposes on Executive Directors a requirement to hold MGL 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, MGL shares delivered through the profit share arrangements described in section 2.3.1.2 above are eligible to meet this requirement.

2.3.1.4 Staff share plans: encouraging broader staff equity participation
In addition to the schemes already outlined, the Group has a number of employee share plans that encourage share ownership by providing concessional tax treatment for shares acquired by employees under the plans.

Staff Share Acquisition Plan
Under the Macquarie Group Staff Share Acquisition Plan (MGSSAP), eligible employees in Australia are given the opportunity to nominate an amount of their pre-tax available profit share to acquire fully paid ordinary Group shares. The MGSSAP was adopted by the Group 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 MBL shareholders in 1999. The MGSSAP was modified recently to include the ability to issue new shares as an alternative to acquiring existing shares on-market, at the option of the Group. In 2008, most participation will be in the form of newly issued shares as this mechanism can provide better price certainty to 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 the Group or a related company;
- a request by the employee (after the expiration of the non-disposal period); and
- ten 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 with cause, commits fraud or theft or otherwise brings the Group into disrepute.

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

In 2007, 852 eligible Australian employees elected to participate in the MBSSAP using their 2007 profit share allocations. 313,615 shares were allotted in July 2007.

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 fully paid ordinary Group 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 the Group or a subsidiary of the Group. 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 the Group'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.

2.3.2 Options
The use of equity, including options, is common market practice in investment banking for senior executive remuneration to ensure a strong motivation exists to increase the share price.

Options over MGL shares are allocated to new Directors to give them immediate exposure when they join the Group or are promoted to a new Director level. Options over MGL shares are also allocated annually in recognition of performance.

Options are also allocated to staff on promotion to the various Director levels, and to new recruits at each of these Director levels, with the number allocated depending on the Director level.

Options perform a number of critical functions:

- they are a reward for past performance, being a key component of "at risk" annual remuneration – they are allocated each year to Director level staff in recognition of performance;
- they provide a long-term equity incentive by encouraging Director level staff to contribute to the Group's activities in a way that should collectively lead to share price appreciation, which is a direct benefit to Group shareholders; and
- they encourage retention of Director level staff over the relevant service period, with annual allocations ensuring that Directors generally have a number of unvested options at a point in time.

The fact that Macquarie only issues options with an exercise price set at the prevailing market price means that increased shareholder wealth is required for options to have any value to the executive. Therefore, unlike other arrangements such as performance rights/shares, options are only valuable if the share price rises above the prevailing market price at the time of the grant. Over and above the performance hurdles, the exercise price, therefore, acts as an embedded share price hurdle (being the price which must be paid to exercise the option).

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 the Group's overseas 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 the Group's three year average return on ordinary equity exceeds the three year average return on ordinary equity of a reference group of companies at a certain percentile level. This hurdle operates in addition to both the time vesting rules and the embedded share price hurdle.

As explained further below, the Group believes 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.

Executive Directors are forbidden from hedging unvested options.

2.3.2.1 Determination and allocation of the options pool
The MGL 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 2.2.1), i.e. it is performance based.

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2.3.2.2 General terms of option arrangements

The Plan

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	The Macquarie Group 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
Number of participants	2,595 as at 31 March 2008 (2007: 2,099)

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 MGL 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; and – 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 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

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 the Group's three year average return on ordinary equity exceeds the three year average return on ordinary equity 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 Group's **three year average return on ordinary equity** versus companies in a Reference Index Rationale: Refer to section 2.2 for the rationale behind the use of return on ordinary equity as a critical shareholder return driver
Reference index	S&P/ASX 100 Index (note that the S&P/ASX 300 Industrials Index was used for options granted prior to June 2006) Rationale: – the S&P/ASX 300 Industrials Index was initially chosen since the Group has few, if any, direct comparables and the S&P/ASX 300 Industrials Index is a widely recognised index of Australian larger listed companies – the change to a narrower group of companies, the S&P/ASX 100 Index, is in recognition of the increase in the Group's market capitalisation – the choice of this Reference Index reflects investor feedback and recognises that the Group is an Australian company and its performance should be judged against other major listed Australian companies – on this basis, the independent remuneration consultant concluded that the Reference Index was appropriate – if the Group wished to benchmark against a peer group, it would be very 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 ten peers given that few, if any, organisations provide a close comparable to the Group in terms of important factors such as business mix. Different accounting practices globally would also impact the comparability of information between organisations – 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 – the Group's performance against both these ASX indices and other major international investment banks has been strong (refer table below)

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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 are able to be exercised Rationale: Being a three year average return on ordinary equity measure, the Group's performance hurdle rewards sustained strong performance and is relatively well insulated from short-term fluctuations. The Group, 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 the Group'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 the Group's overall results and, individually, have less influence over the level of the Group'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 the Group's performance is above these hurdles, the Group obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of the Group based on the three year average annual return on ordinary equity 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, the Group'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 two of the competitors have a three year average ROE higher than the Group.
- only two of the competitors would have met the performance hurdle that applies to the MGL options of the Bank'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 2008 %
Macquarie Group Limited	25.8*
S&P/ASX 100 Index – 65th percentile (current hurdle)	24.1
S&P/ASX 300 Industrials Index – 65th percentile (previous hurdle)	21.7
International Investment Banking Peers – 65th percentile	19.7
International Investment Banking Peers – average	18.8

* This three year average is based on the Group's 2006, 2007 and 2008 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 2008, the Group's most recent three year return on ordinary equity data was in relation to its 2005, 2006 and 2007 results (an average of 27.5 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 2008 to 30 June 2008 inclusive.

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 Directors' Profit Share (DPS) Plan, referred to in section 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. Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Plan provided that 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 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*

* 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), 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.

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3. Providing strong governance structures and processes: oversight of remuneration

Macquarie's remuneration approach aims to drive **long-term shareholder returns** by aligning the interests of staff and shareholders and attracting and retaining high quality people. This report discusses how Macquarie's remuneration approach delivers these outcomes for shareholders through:

1. **focusing** on appropriate objectives and achieving results;
2. **structuring** remuneration to motivate staff to create shareholder value;
3. **providing strong governance structures and processes;** and
4. **recognising** Non-Executive Directors for their role.

3.1 Strong Board oversight to ensure sound overall remuneration governance

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

In line with the normal periodic rotation of Board committee responsibilities, the composition of the Committee changed during the year. The Committee currently comprises four Non-Executive Directors, a majority of whom are Independent, including the Committee Chairman:

H.M. Nugent	Committee Chairman	Non-Executive Director
D.S. Clarke	Committee Member	Non-Executive Chairman
J.R. Niland	Committee Member	Non-Executive Director
P.H. Warne	Committee Member	Non-Executive Director

The Committee has a regular meeting cycle and holds additional meetings as needed. The Committee met seven times over the last financial year with all members in attendance at each meeting, except that the Non-Executive Chairman of the Board did not attend one meeting relating solely to his own remuneration, in line with Macquarie's processes for managing conflict.

The responsibilities of the Committee are set out in a formal charter which is available on the Group's website. Group 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 the Bank**, as appropriate, approve the following on the recommendation of the Board Remuneration Committee:

- all individual remuneration/profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Group Managing Director and 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 Group Managing Director and 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; and
- the continued application of the profit share methodology.

Subject to the appropriate management of conflict of interest issues, the **Macquarie Group Limited Board of Directors** approve the following on the recommendation of the Board Remuneration Committee:

- material changes to the recruitment, retention and termination policies and procedures for the Bank's senior management team (Executive Committee and other Group Heads);
- recommendations relating to the remuneration framework for Macquarie, including in relation to the Non-Executive Directors of Macquarie Group Limited and the 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 Group Limited and the Bank;
- other material changes to remuneration policies; and
- determination of the total option pool available for annual performance/promotion grants to staff.

The **Board Remuneration Committee** approves the following matters **on behalf of the Macquarie Group Limited Board**:

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

The **Board Remuneration Committee** approves the following matters **on behalf of both the Macquarie Group Limited Board and the Bank's Board**:

- all individual remuneration/profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of the Macquarie and Bank's Board 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; and
- the specific notional portfolio allocations of retained Directors' Profit Share amounts for individual Executive Directors.

The Board Remuneration Committee 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.

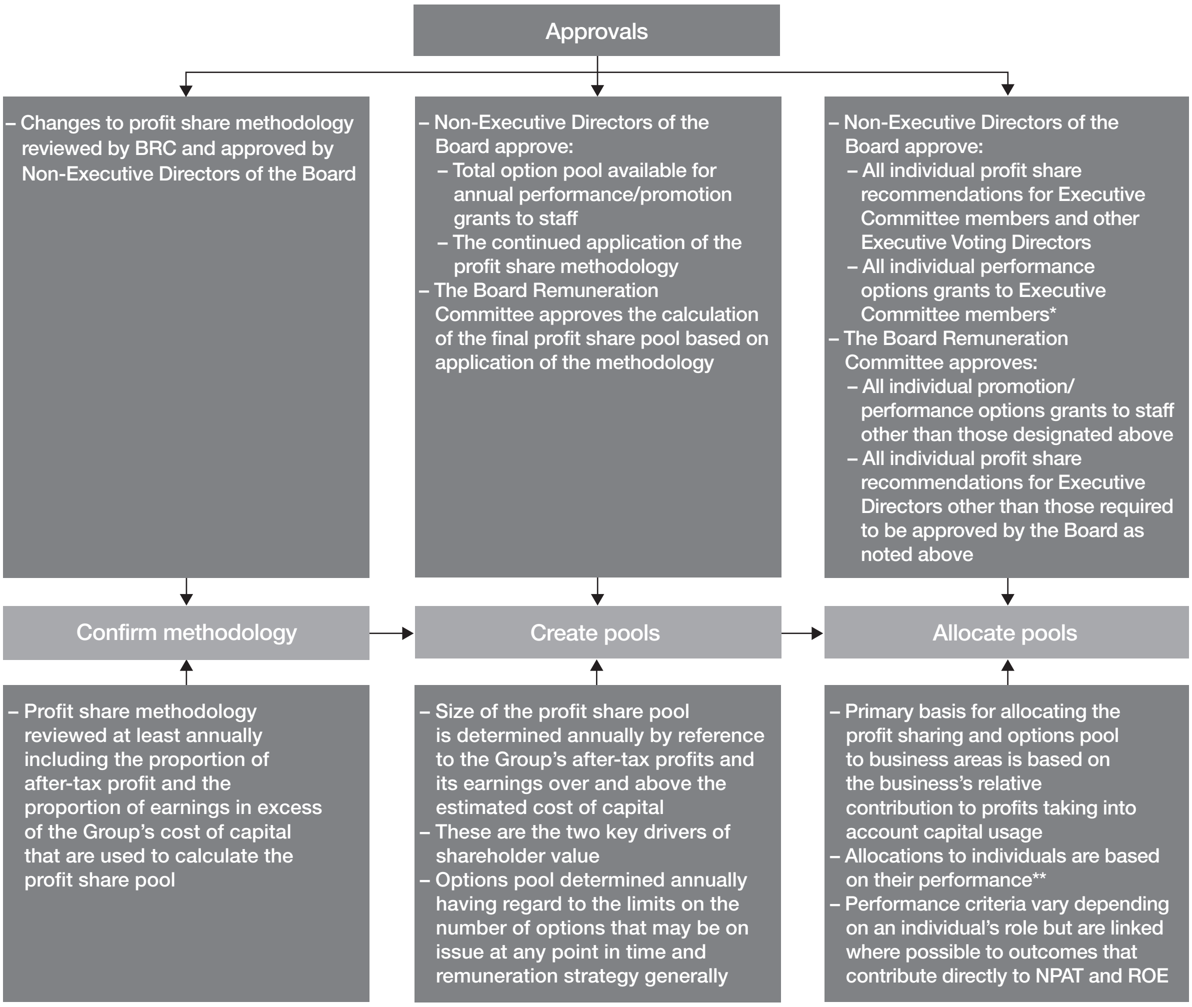
The Board has adopted stringent internal guidelines on declaring and dealing with conflicts of interest. These are rigidly followed by the Committee.

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.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

The following diagram highlights the Group Board's involvement with critical remuneration decisions through the annual remuneration cycle.

Board oversight of remuneration decisions



* On the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting.

3.2 Independent remuneration review

The Board Remuneration Committee has access to senior management of the Group and obtains the advice of external consultants on the appropriateness of remuneration packages and other employment conditions as required.

During 2008, the Board Remuneration Committee, on behalf of the Non-Executive Directors of the Group, 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 MGL 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 Board were satisfied that, for senior management, compensation was appropriate and that it was structured in a way that encouraged the overall objective of driving short and longer term shareholder returns by aligning the interests of staff with those of shareholders and by attracting and retaining high quality people.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2008 from Mercer (refer section 4.2 for details).

4. Recognising Non-Executive Directors for their role

Macquarie's remuneration approach aims to drive **long-term shareholder returns** by aligning the interests of staff and shareholders and attracting and retaining high quality people. This report discusses how Macquarie's remuneration approach delivers these outcomes for shareholders through:

1. **focusing** on appropriate objectives and achieving results;
2. **structuring** remuneration to motivate staff to create shareholder value;
3. **providing strong governance structures and processes;** and
4. **recognising Non-Executive Directors for their role.**

Finally, Macquarie's remuneration approach ensures that the Non-Executive Directors are appropriately rewarded for their role in providing good overall governance. 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.

4.1 Non-Executive Director remuneration policy

All Non-Executive Directors of Macquarie Bank Limited are also Non-Executive Directors of the ultimate parent company, Macquarie Group Limited. Macquarie's Non-Executive Director remuneration policy governs the Non-Executive Directors of both MBL and MGL in aggregate.

This policy is focused on the overall objective of ensuring that Non-Executive Directors are recognised appropriately for providing good overall governance. This objective is achieved by:

(a) 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;

(b) Delivering these fees in a form that is not in any way contingent on Macquarie's performance;

(c) Requiring Non-Executive Directors to have a meaningful direct shareholding in Macquarie, at a more modest level than the minimum shareholding requirement applicable to Executive Directors, and making available a similar share plan as is available to eligible Australian staff to allow Non-Executive Directors to sacrifice a portion of their Board and Committee fees into Macquarie equity; and

(d) 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.

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 2008 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 Mercer. The Board of Directors critically evaluated the analyses and the conclusions reached.

The Group'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 MBL's 2007 Annual General Meeting.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

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.

Prior to 13 November 2007, the implementation date of the corporate restructure, Non-Executive Directors were separately remunerated only for their responsibilities on the Macquarie Bank Limited Board. The per annum rates that applied for the various Board and Committee responsibilities, as well as the current per annum rates for Non-Executive Directors of Macquarie Bank Limited (MBL), are as set out in the table below:

MBL Fees	1 July 2006 – 30th June 2007		1 July 2007 – 12th 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 are currently filled by the Non-Executive Chairman who is not separately remunerated for Committee responsibilities.

** These roles are currently filled by the Non-Executive Chairman who is not separately remunerated for Committee responsibilities. MBL does not have separate Committees.

*** MBL does not have separate Committees, although MGL's Audit and Compliance Committee (Fees per annum for Chairman and Member are $60,000 and $30,000 respectively) and Remuneration Committee (Fees per annum for Chairman and Member are $50,000 and $25,000 respectively) support both Boards.

These base and Committee 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 the Group's fully-paid ordinary shares issued via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional fully paid ordinary shares in the Group. 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 and Committee meetings is included on pages 2 to 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.

4.3 Minimum shareholding requirements for Non-Executive Directors

In order to encourage long-term commitment and to more closely align the interests of the Board with shareholders, the Board has a minimum shareholding requirement for Non-Executive Directors.

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

Under the Group's Trading Policy, Non-Executive Directors are forbidden from hedging shares held to meet this minimum shareholding requirement.

Actual shareholdings are set out in Appendix 3.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

Appendix 1: Key Management Personnel

The Macquarie Group restructured on 13 November 2007. The Key Management Personnel (KMP) for the restructured MBL Group remained the same as that prior to the date of restructure with the exception of Mr Moore and Mr Carapiet who ceased to be KMP for the MBL Group at that date.

The restructure was accounted for as a reverse acquisition in accordance with *AASB 3: Business Combinations.* Full details of the restructure can be found in note 1 of the Financial Statements. The disclosures set out in the Appendices below reflect this restructure such that the remuneration amounts reflect KMP's services to the Macquarie Bank Limited Group. Prior year comparatives are unchanged from last year.

Note that throughout these Appendices, Mr Clarke and Mr Johnson are presented as Non-Executive Directors for the current year and Executive Directors for the comparative year. This was because they both retired from executive responsibilities with effect from 31 March 2007.

The following persons were Voting Directors of Macquarie Bank Limited, for the period during the financial years ended 31 March 2008 and 31 March 2007, unless otherwise indicated:

Directors:	
Executive	
L.G. Cox, AO	
A.E. Moss, AO*	Group Managing Director and Chief Executive Officer
W.R. Sheppard*	Managing Director and Chief Executive Officer, Appointed 13 November 2007
Non-Executive	
J.G. Allpass	Retired 19 July 2007
D.S. Clarke, AO**	Chairman
M.R.G. Johnson**	Deputy Chairman Retired 19 July 2007
P.M. Kirby	
C.B. Livingstone, AO	
B.R. Martin	Retired 20 July 2006
H.K. McCann, AM	
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne	Appointed 1 July 2007

*Members of the Bank's Executive Committee as at 19 May 2008.

**Mr Clarke and Mr Johnson both retired from Executive responsibilities on 31 March 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 Limited and its controlled entities during the financial years ended 31 March 2008 and 31 March 2007, unless otherwise indicated:

Executives:

J.K. Burke*	Group Head, Equity Markets Group
M. Carapiet	Joint Head, Macquarie Capital Advisers, Macquarie Capital (ceased being Key Management Personnel on 12 November 2007)
A.J. Downe*	Group Head, Treasury & Commodities Group
P.J. Maher*	Group Head, Financial Services Group
N.R. Minogue*	Group Head, Risk Management Group
N.W. Moore	Group Head, Macquarie Capital (ceased being Key Management Personnel on 12 November 2007)
G.C. Ward*	Chief Financial Officer
W.J. Moss, AM	Former Group Head, Banking & Property Group (retired on 30 March 2007)

*Members of the Bank's Executive Committee as at 19 May 2008.

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. The Bank'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'.

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 2 above. These executive remuneration arrangements applied to Mr Clarke and Mr Johnson up to and including 31 March 2007.

The individuals identified above as Key Management Personnel include the five highest remunerated Bank 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 2008 and the year ended 31 March 2007, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

		Short-Term Employee Benefits		
		Salary (including superannuation) $	Performance related remuneration (a) $	Total short-term employee benefits $
Executive Directors				
L.G. Cox (f)	**2008**	**304,817**	**769,918**	**1,074,735**
	2007	395,886	1,139,168	1,535,054
A.E. Moss (g)	**2008**	**563,381**	**22,859,946**	**23,423,327**
	2007	670,819	23,178,183	23,849,002
W.R. Sheppard	**2008**	**481,847**	**3,131,170**	**3,613,017**
	2007	517,490	6,782,535	7,300,025
Other Executives				
J.K. Burke	**2008**	**335,475**	**10,675,604**	**11,011,079**
	2007	383,325	10,550,610	10,933,935
A.J. Downe	**2008**	**469,889**	**11,509,756**	**11,979,645**
	2007	479,157	15,072,300	15,551,457
P.J. Maher	**2008**	**451,120**	**3,267,300**	**3,718,420**
	2007	455,199	3,202,864	3,658,063
N.R. Minogue	**2008**	**362,174**	**2,907,263**	**3,269,437**
	2007	431,241	4,144,882	4,576,123
G.C. Ward	**2008**	**362,174**	**2,962,639**	**3,324,813**
	2007	432,211	3,956,479	4,388,690
Former Executive Voting Directors and Executives				
D.S. Clarke (h)	**2008**	**–**	**–**	**–**
	2007	335,410	17,595,026	17,930,436
M.R.G. Johnson (h)	**2008**	**–**	**–**	**–**
	2007	229,995	1,601,432	1,831,427
M. Carapiet (i)	**2008**	**294,908**	**10,145,585**	**10,440,493**
	2007	383,325	15,825,915	16,209,240
N.W. Moore (i)	**2008**	**398,126**	**14,405,056**	**14,803,182**
	2007	517,490	22,801,375	23,318,865
W.J. Moss (h)	**2008**	**–**	**–**	**–**
	2007	383,325	27,789,553	28,172,878
Total Remuneration – Executive Key Management Personnel	**2008**	**4,023,911**	**82,634,237**	**86,658,148**
	2007	5,614,873	153,640,322	159,255,195

Long-Term Employee Benefits			Share-Based Payments				
Restricted profit share (b) $	Earnings on prior year restricted profit share (c) $	Total long-term employee benefits $	Shares (d) $	Options (e) $	Total Share-Based Payments $	Total Remuneration $	Percentage of remuneration that consists of options %
192,480	(41,613)	150,867	–	65,686	65,686	1,291,288	5.09
284,792	77,283	362,075	–	58,920	58,920	1,956,049	3.01
–	(4,095,950)	(4,095,950)	–	1,459,881	1,459,881	20,787,258	7.02
5,794,546	2,437,804	8,232,350	–	1,408,466	1,408,466	33,489,818	4.21
894,620	(1,509,805)	(615,185)	447,310	454,706	902,016	3,899,848	11.66
1,695,634	847,754	2,543,388	–	416,711	416,711	10,260,124	4.06
3,050,173	256,332	3,306,505	1,525,086	529,498	2,054,584	16,372,168	3.23
2,637,652	584,091	3,221,743	–	497,409	497,409	14,653,087	3.39
3,288,502	(3,140,783)	147,719	1,644,251	785,510	2,429,761	14,557,125	5.40
3,768,075	1,567,560	5,335,635	–	604,805	604,805	21,491,897	2.81
933,514	(722,400)	211,114	466,757	297,975	764,732	4,694,266	6.35
800,716	366,902	1,167,618	–	274,085	274,085	5,099,766	5.37
830,647	(783,392)	47,255	415,323	310,945	726,268	4,042,960	7.69
1,036,221	463,166	1,499,387	–	314,359	314,359	6,389,869	4.92
846,468	(568,563)	277,905	423,234	268,971	692,205	4,294,923	6.26
989,120	310,641	1,299,761	–	273,509	273,509	5,961,960	4.59
–	–	–	–	–	–	–	
–	1,209,653	1,209,653	–	(170,207)	(170,207)	18,969,882	(0.90)
–	–	–	–	–	–	–	–
–	391,265	391,265	–	155,988	155,988	2,378,680	6.56
2,898,738	(1,114,754)	1,783,984	1,449,369	1,054,788	2,504,157	14,728,634	7.16
3,956,479	1,674,341	5,630,820	–	1,077,890	1,077,890	22,917,950	4.70
4,115,730	(1,688,430)	2,427,300	2,057,865	1,289,653	3,347,518	20,578,000	6.27
5,700,344	2,478,509	8,178,853	–	1,396,821	1,396,821	32,894,539	4.25
–	–	–	–	–	–	–	–
–	1,377,085	1,377,085	–	1,060,797	1,060,797	30,610,760	3.47
17,050,872	(13,409,358)	3,641,514	8,429,195	6,517,613	14,946,808	105,246,470	
26,663,579	13,786,054	40,449,633	–	7,369,553	7,369,553	207,074,381	

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 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 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 is expected to be paid or payable within twelve months of the end of the reporting period, in accordance with the requirements of *AASB 124: Related Party Disclosures*. For 2007, in the case of Mr Clarke, Mr Johnson and Mr W.J. Moss the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which were 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 2.3.1.1 above. For 2008, in the case of Mr A.E. Moss (because he is retiring), the retained amount is included within "Performance related remuneration" as it is expected to be paid or payable within twelve months of the end of the reporting period. For 2007, in the case of Mr Clarke, Mr Johnson and Mr W.J. Moss these retained amounts are included within "Performance related remuneration" since they were paid within twelve months of the end of the reporting period.

(c) This is the notional earnings on prior year restricted profit share allocations described above in this Appendix.

(d) This is the amount of the current year profit share allocation, which is allocated to invest in Macquarie Group Limited shares as described in 2.3.1.2 above.

(e) This amount has been calculated on the basis as described in note 1 (xviii) Share based payments to the 2008 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. 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 Clarke, 80,200 unvested options lapsed when he retired from executive responsibilities on 31 March 2007. 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 2007.

Notes on individuals

(f) Since the date of the corporate restructure, 13 November 2007, Mr Cox is technically a Voting Director of MBL in a Non-Executive capacity. He is not separately remunerated through Non-Executive Director fees and so his remuneration is disclosed above and not in the Non-Executive Director table. He is not separately remunerated for being a Voting Director of MBL.

(g) Mr A.E. Moss will retire on 24 May 2008. Subsequent to that date, subject to the Group's Board determining that a disqualifying event has not occurred, he will become entitled to his vested profit share from the Group of $24,828,847 adjusted for any further notional earnings increment or decrement thereon. 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 year ended 31 March 2008 (which are included within the "Performance related remuneration" disclosed in the table above).

(h) Mr Clarke and Mr Johnson retired from the Executive Committee on 31 March 2007 and Mr W.J. Moss retired from the Executive Committee on 30 March 2007. Subsequent to 31 March 2007, they became entitled to their vested retained profit share of $14,198,462, $4,111,226 and $19,013,875, respectively, which included notional earnings up until payment date once the Board determined that a disqualifying event had not occurred. These vested retained profit share amounts comprise the retained portions of their profit share allocations from 1997 to 2006 as well as the retained portion of their profit share allocations for the year ended 31 March 2007 (which are included within the "Performance related remuneration" disclosed in the table above).

(i) Mr Carapiet and Mr Moore ceased to be Key Management Personnel on 12 November 2007 as a result of the corporate restructure. They are therefore shown as "Former Executives" of the Bank.

For each of the persons named in the tables above, the amounts of their remuneration for the reporting period that were not related to performance are the amounts in the columns headed 'Salary (including superannuation)' 'Other benefits' and 'Earnings on prior year restricted profit share'. All other remuneration was performance based.

As is evident from the tables on pages 32 to 33, the majority of the remuneration for the named Bank executives is performance based (ranging from 91.1 per cent to 97.9 per cent for individuals who were Executive Committee members during the year ended 31 March 2008). This is consistent with the comments previously made that the effect of the Group's profit sharing mechanism is to provide substantial incentives in relation to superior profitability but low or no participation for less satisfactory performance. The mechanism provides significant alignment of their interests with those of shareholders.

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 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)	**2008**	**537,273**	**29,190**	**566,463**
	2007	–	–	–
J.G. Allpass (c)	**2008**	**77,727**	**27,218**	**104,945**
	2007	250,875	71,988	322,863
M.R.G. Johnson (d)	**2008**	**66,818**	**60,606**	**127,424**
	2007	–	–	–
P.M. Kirby	**2008**	**178,367**	**–**	**178,367**
	2007	221,375	–	221,375
C.B. Livingstone	**2008**	**198,682**	**38,250**	**236,932**
	2007	263,000	8,400	271,400
B.R. Martin (e)	**2008**	**–**	**–**	**–**
	2007	67,413	9,045	76,458
H.K. McCann	**2008**	**196,330**	**26,700**	**223,030**
	2007	259,625	–	259,625
J.R. Niland	**2008**	**184,883**	**–**	**184,883**
	2007	236,424	–	236,424
H.M. Nugent	**2008**	**190,045**	**–**	**190,045**
	2007	245,125	–	245,125
P.H. Warne (f)	**2008**	**124,121**	**–**	**124,121**
	2007	–	–	–
Total Remuneration – Non-Executive Key Management Personnel	**2008**	**1,754,246**	**181,964**	**1,936,210**
	2007	1,543,837	89,433	1,633,270

(a) Other benefits for Non-Executive Directors include due diligence committee fees paid to Mr Allpass of $7,000 (2007: $10,500), Ms Livingstone of $32,100 and Mr McCann of $26,700; fees paid to Mr Allpass, Mr Johnson and Mr Martin for Compliance Committee duties for certain related entities (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 for work performed in relation to the Basel II Board Sub-Committee.
As the Non-Executive Chairman, Mr Clarke is 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 retired as Executive Chairman on 31 March 2007. He continues as Non-Executive Chairman. His 2007 remuneration is reported as Executive Remuneration in the executive remuneration table earlier in this Appendix.

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

(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. His 2007 remuneration is reported as Executive Remuneration in the executive remuneration table earlier in this Appendix.

(e) Mr Martin retired from the Board of Directors on 20 July 2006.

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 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 Bank held during the year by the Key Management Personnel including their related parties. As a result of the corporate restructure that took place on 13 November 2007, shareholders of MBL obtained one MGL ordinary share for each ordinary share they held in MBL prior to implementation of the 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 represents 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 represents 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 as director on 1 July 2007.
(f) Mr Carapiet and Mr Moore ceased being members of the Executive Committee on 12 November 2007.

For the year ended 31 March 2007

Name and position	Number of shares held at 1 April 2006	Shares issued on exercise of options	Other changes (a)	Number of shares held at 31 March 2007 (b)
Executive Directors				
D.S. Clarke	977,248	–	(326,135)	651,113
L.G. Cox	268,112	1,700	–	269,812
M.R.G. Johnson	353,803	–	(60,000)	293,803
A.E. Moss	404,336	–	–	404,336
Non-Executive Directors				
J.G. Allpass	16,563	1,700	250	18,513
P.M. Kirby	7,891	–	1,881	9,772
C.B. Livingstone	7,336	–	214	7,550
B.R. Martin (c)	8,974	1,000	146	10,120
H.K. McCann	9,659	1,700	–	11,359
J.R. Niland	4,109	–	1,850	5,959
H.M. Nugent	19,112	–	650	19,762
Executives				
J.K. Burke	18,000	7,000	–	25,000
M. Carapiet	345,805	83,666	96,463	525,934
A.J. Downe	66,535	54,500	–	121,035
P.J. Maher	46,819	13,334	–	60,153
N.R. Minogue	110,811	–	–	110,811
N.W. Moore	835,251	–	7,862	843,113
W.R. Sheppard	259,271	–	–	259,271
G.C. Ward	13,287	15,924	–	29,211
Former				
W.J. Moss (d)	269,511	–	190	269,701

(a) Includes on market acquisitions and disposals.
(b) Or date of retirement if earlier.
(c) Mr Martin retired from the Board of Directors on 20 July 2006.
(d) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

Appendix 3: Share and option disclosures continued
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. The options are over fully paid unissued ordinary shares of the Bank (MBL). As a result of the corporate restructure that took effect on 13 November 2007, optionholders of MBL obtained one MGL ordinary option for each option they held in MBL prior to implementation of the restructure. Following the restructure, there were no options issued over MBL 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 in 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. The balance at 31 March 2008 represents holdings at date of retirement.
(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.

For the year ended 31 March 2007

Name and position	Number of options held at 1 April 2006	Options granted during the financial year	Options exercised during the financial year	Other changes (a)	Number of options held at 31 March 2007 (b)	Number of options vested in the financial year	Number of options vested at 31 March 2007 (b)	Value of options granted as part of remunerat-ion and that are exercised or sold during the financial year $ (c)
Executive Directors								
D.S. Clarke (d)	133,934	–	–	(80,200)	53,734	53,734	53,734	–
L.G. Cox	15,720	9,245	(1,700)	–	23,265	2,800	2,800	55,828
M.R.G. Johnson	66,300	18,495	–	–	84,795	36,366	36,366	–
A.E. Moss	502,400	165,400	–	(156,800)	511,000	107,468	55,200	6,713,392
Non-Executive Directors								
J.G. Allpass	1,700	–	(1,700)	–	–	–	–	58,735
P.M. Kirby	–	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–	–
B.R. Martin (e)	1,700	–	(1,000)	–	700	–	700	29,280
H.K. McCann	1,700	–	(1,700)	–	–	–	–	47,787
J.R. Niland	–	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–	–
Executives								
J.K. Burke	242,000	65,000	(7,000)	(118,665)	181,335	39,999	–	3,941,371
M. Carapiet	297,144	143,360	(83,666)	–	356,838	83,666	–	2,831,606
A.J. Downe	292,168	85,000	(54,500)	(104,333)	218,335	82,833	–	5,868,755
P.J. Maher	121,668	30,000	(13,334)	(13,334)	125,000	30,001	33,333	1,030,007
N.R. Minogue	132,334	35,000	–	(37,499)	129,835	36,333	21,500	1,275,077
N.W. Moore	434,335	160,000	–	–	594,335	134,334	134,334	–
W.R. Sheppard	161,000	45,000	–	(57,666)	148,334	57,666	–	1,745,925
G.C. Ward	95,001	30,000	(15,924)	(8,334)	100,743	30,000	5,742	834,324
Former								
W.J. Moss (f)	297,501	105,000	–	(73,500)	329,001	73,500	–	2,218,928

(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 Clarke retired as Executive Chairman on 31 March 2007, whereupon 80,200 unvested options lapsed (with a value of $3,245,250). He will continue as Non-Executive Chairman.
(e) Mr Martin retired from the Board of Directors on 20 July 2006.
(f) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

Appendix 3: Share and option disclosures 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

For the year ended 31 March 2007

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	1 August 2006	9,245	61.79	12.25	113,251	1 July 2008	1 August 2011
M.R.G. Johnson	1 August 2006	18,495	61.79	12.25	226,564	1 July 2008	1 August 2011
A.E. Moss	1 August 2006	165,400	61.79	12.25	2,026,150	1 July 2008	1 August 2011
Executives							
J.K. Burke	1 August 2006	65,000	61.79	12.25	796,250	1 July 2008	1 August 2011
M. Carapiet	1 August 2006	143,360	61.79	12.25	1,756,160	1 July 2008	1 August 2011
A.J. Downe	1 August 2006	85,000	61.79	12.25	1,041,250	1 July 2008	1 August 2011
P.J. Maher	1 August 2006	30,000	61.79	12.25	367,500	1 July 2008	1 August 2011
N.R. Minogue	1 August 2006	35,000	61.79	12.25	428,750	1 July 2008	1 August 2011
N.W. Moore	1 August 2006	160,000	61.79	12.25	1,960,000	1 July 2008	1 August 2011
W.R. Sheppard	1 August 2006	45,000	61.79	12.25	551,250	1 July 2008	1 August 2011
G.C. Ward	1 August 2006	30,000	61.79	12.25	367,500	1 July 2008	1 August 2011
Former							
W.J. Moss	1 August 2006	105,000	61.79	12.25	1,286,250	1 July 2008	1 August 2011

*Refer notes on fair value below.

The Bank 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 3 above, the 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 the 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 current financial year:

- risk free interest rate: 7.00 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 the Bank'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.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

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 $
Executive Directors			
L.G. Cox	1,700	1,700	34.71
Non-Executive Directors			
J.G. Allpass	1,700	1,700	34.71
B.R. Martin	1,000	1,000	34.71
H.K. McCann	1,700	1,700	34.71
Executives			
J.K. Burke	7,000	7,000	34.71
M. Carapiet	24,500	24,500	30.51
	32,500	32,500	33.11
A.J. Downe	27,834	27,834	30.51
	26,666	26,666	28.74
P.J. Maher	13,334	13,334	34.71
G.C. Ward	2,591	2,591	28.74
	13,333	13,333	33.11

(a) Or the period until date of retirement if earlier than 31 March 2007.

Appendix 4: Loan disclosures

Loans to Key Management Personnel

Details of loans provided by the Macquarie Bank Limited Group 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-off $'000	Closing Number in balance at 31 March $'000	Number in group 31 March* $'000
Total for Key Management Personnel and their related parties	**2008**	**57,545**	**4,370**	**–**	**57,199**	**14**
	2007	76,318	5,971	–	62,101	19
Total for Key Management Personnel	**2008**	**41,862**	**2,897**	**–**	**39,187**	**9**
	2007	57,882	4,493	–	44,891	11

* Includes loans provided by the Bank to Mr W.J. Moss and his related parties. Mr Moss retired from the Executive Committee on 30 March 2007. As such, he was not a Key Management Personnel on 1 April 2007 and his loans have not been included in the opening balance.

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

Certain loans are provided under zero cost collars secured over Macquarie Group Limited 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 2008

Name and position	Balance at 1 April 2007 $'000	Interest charged (a) $'000	Write-off $'000	Balance at 31 March 2008 (b) $'000	Highest in period $'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 Bank to Directors and Executives are made in the ordinary course of business on a commercial 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.

Directors' Report – Remuneration Report
for the financial year ended 31 March 2008 continued

For the year ended 31 March 2007

Name and position	Balance at 1 April 2006 $'000	Interest charged (a) $'000	Write-off $'000	Balance at 31 March 2007 (b) $'000	Highest in period $'000
Executive Directors					
D.S. Clarke	48,940	3,729	–	29,937	52,658
L.G. Cox	621	21	–	200	684
M.R.G. Johnson	220	5	–	20	220
Executives					
M. Carapiet	5,183	372	–	5,286	5,298
A.J. Downe	500	13	–	–	500
P.J. Maher	1,838	103	–	2,866	3,249
N.R. Minogue	5,054	349	–	4,618	6,379
N.W. Moore	6,848	908	–	12,891	12,891
W.R. Sheppard	100	3	–	–	100
G.C. Ward	739	107	–	1,727	1,727
Former					
W.J. Moss (c)	6,275	361	–	4,556	7,933

(a) All loans provided by the Bank 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 W.J. Moss retired from the Executive Committee on 30 March 2007.

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 the Macquarie Bank Limited Group 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 agreement 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 contributions 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 2008 $'000	Consolidated 2007 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**13,481**	16,817

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

Executive Directors
L.G. Cox, W.R. Sheppard

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

Executives
J.K. Burke, M. Carapiet, A.J. Downe, P.J. Maher, N.R. Minogue, N.W. Moore, G.C. Ward

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The following Key Management Personnel (including related parties) have entered into zero cost collar transactions 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 MGL's 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 new Executive Committee equity alignment and minimum shareholding arrangements as outlined in section 2.3.

Transactions with the Company

Name and position	Description	Number of shares 2008	Number of shares 2007
Non–Executive Directors			
D.S. Clarke (a)	Maturing May 2008	**260,379**	260,379
	Maturing June 2008	**100,784**	100,784
	Maturing August 2009	**25,196**	25,196
	Maturing June 2010	**213,517**	213,517
M.R.G Johnson (b)	Maturing July 2008	**25,000**	–
Executives			
M. Carapiet	Maturing August 2007	**–**	160,666
A.J. Downe	Maturing August 2007	**–**	36,382
	Maturing December 2007	**–**	27,834
	Maturing August 2008	**36,382**	–
	Maturing December 2008	**55,001**	–
N.R. Minogue	Maturing August 2007	**–**	11,500
G.C. Ward	Maturing August 2007	**–**	21,666
	Maturing July 2008	**40,373**	–
	Maturing July 2008	**5,742**	–

(a) In addition, Mr Clarke had an indirect interest in cash-settled put options that were exercisable against 213,517 fully paid ordinary MGL shares.

(b) 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.

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 19 May 2008, none of the Directors held any relevant interests, as notified by the Directors to the Australian Securities Exchange in accordance with the Corporations Act 2001 (Cth), in shares or share options of MBL.

Directors' and Officers' Indemnification and Insurance

Under MBL's Constitution, MBL indemnifies all past and present Directors and Secretaries of MBL (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 MBL 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 and Investments Commission 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;
- MBL is forbidden by statute to indemnify the person against the liability or legal costs; or
- an indemnity by MBL 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, MBL 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, MBL agrees to:

- indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of MBL 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 MBL's position) for seven years after the Director ceases to be a Director of MBL;
- 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 MBL 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 MBL, and access to other documents if the documents were in MBL's possession at the time the Director was a Director and where it is not contrary to MBL's interest for the documents to be provided.

In addition, following the approval of shareholders at the 1999 Annual General Meeting, MBL made an Indemnity and Insurance Deed Poll on 30 July 1999 (Deed Poll). The benefit of the undertakings made by MBL under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of MBL, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of MBL or a wholly-owned subsidiary of MBL. 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 MBL.

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 MBL'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 MBL'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.

A Directors' and Officers' insurance policy 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 MBL in indemnifying such persons pursuant to the Deed and the Deed Poll. Individuals covered by the insurance policy pay the premium attributable to their direct coverage and MBL 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' Report
for the financial year ended 31 March 2008 continued

Directors' Interests and Benefits

A number of Directors have given written notice 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 MBL and any of these companies. Transactions between MBL 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 MBL 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 MBL or of a related entity) by reason of a contract made by MBL 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

MBL operated a share option scheme for employees prior to the restructure of the Macquarie Group into a NOHC holding structure. Information on this 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 38 – Employee equity participation, in the full financial report.

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

Directors' Other Relevant Interests

The relevant interests of Directors as at 19 May 2008 in managed investment schemes made available by controlled entities of MBL and other disclosable relevant interests are:

Name and position	Direct interests	Indirect interests
Executive Directors		
D.S. Clarke	– 381,213 MGL fully paid ordinary shares – 285,575 Zero Cost Collars[2]	– 323,150 MGL fully paid ordinary shares – 391,617.10 Macquarie Balanced Growth Fund Units – 5,000 Macquarie Office Trust Units – 213,517 Cash Settled Put Options[1] – 100,784 Zero Cost Collar[3]
A.E. Moss	– 81,379 MGL fully paid ordinary shares – 713,078 Macquarie Airports Stapled Securities – 500,000 Macquarie Communications Infrastructure Group Stapled Securities – 25,000 Macquarie Global Infrastructure Trust Units – 162,000 Macquarie Infrastructure Group Stapled Securities – 10,000 Macquarie Leisure Trust Units – 48,108.06 Macquarie Newton Australian Absolute Return Fund Units – 11,429 Macquarie Office Trust Units – 51,250 Macquarie Private Equity Trust Units – 100,000 Macquarie Technology Fund 1A Units – 414,813.14 Macquarie Cash Management Trust Units	– 322,857 MGL fully paid ordinary shares – 670,400 MGL share options – 250,000 Macquarie Capital Alliance Group Stapled Securities – 10,000 Macquarie CountryWide Trust Units – 6,334 Macquarie Office Trust Units – 378,366.17 Macquarie Cash Management Trust Units
L.G. Cox	– 87,898 MGL fully paid ordinary shares – 32,265 MGL share options	– 181,914 MGL fully paid ordinary shares – 605,800 High Yield Infrastructure Debt Trust Units – 189,236 Macquarie Airports Stapled Securities – 40,000 MP Structured Fund Units

Directors' Report
for the financial year ended 31 March 2008 continued

Name and position	Direct interests	Indirect interests
W.R. Sheppard	– 14,607 MGL ordinary fully paid shares – 569,775 Macquarie Airports Stapled Securities – 62,500 Macquarie Capital Alliance Group – 239,431 Macquarie Infrastructure Group Stapled Securities – 328,760 Macquarie Leisure Trust Stapled Securities – 75,000 Macquarie Media Group Stapled Securities – 193,334 MGL share options	– 246,706 MGL ordinary fully paid shares – 894 Macquarie Airports Reset Exchange Securities Trust Units – 204,788 Macquarie Private Capital Group Stapled Securities – 289,294 Macquarie Airports Stapled Securities – 212,138 Macquarie Communications Infrastructure Group Stapled Securities – 132,291 Macquarie Australian Small Companies Fund Units – 609,004 Macquarie CountryWide Trust Units – 901,210 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 – 134,237 PBM Alternative Investments Account Units – 258,255.24 Macquarie Cash Management Trust Units
Independent Directors		
P.M. Kirby	– 11,386 MGL fully paid ordinary shares – 159,510 ConnectEast Group Stapled Securities – 117,064 Macquarie Infrastructure Group Stapled Securities – 30,000 Macquarie Media Group Stapled Securities – 100,000 DUET securities	– 42,800 Macquarie Infrastructure Group Stapled Securities
C.B. Livingstone	– 1,791 MGL fully paid ordinary shares	– 6,641 MGL fully paid ordinary shares – 18,813 Macquarie CountryWide Trust Units – 66,600.09 Macquarie Cash Management Trust Units

Name and position	Direct interests	Indirect interests
H.K. McCann	– 11,359 MGL fully paid ordinary shares	– 103,000 Macquarie Martin Place Trust Units – 12,500 Macquarie Capital Alliance Group Stapled Securities – 50,819 Macquarie Communications Infrastructure Group Stapled Securities – 112,415 Macquarie CountryWide Trust Units
J.R. Niland	– 2,309 MGL fully paid ordinary shares	– 5,650 MGL fully paid ordinary shares – 58,000 Macquarie Capital Alliance Group Stapled Securities – 20,291 Macquarie Infrastructure Group Stapled Securities – 50,875 Macquarie Office Trust Units – 7,500 Macquarie Airports Stapled Securities
H.M. Nugent	– 8,143 MGL fully paid ordinary shares – 28,611 Macquarie Airports Stapled Securities	– 4,300 MGL fully paid ordinary shares
P.H. Warne	– 7,604 DUET Trust Units and 1,066 DUET Group Units	– 9,077 MGL fully paid ordinary share – 3,175 Macquarie Airports Stapled Securities – 11,443 Macquarie Office Trust Units – 155,983 Macquarie Capital Alliance Group Stapled Securities – 218,884 Macquarie Infrastructure Group Stapled Securities – 70,418 Macquarie CountryWide Trust Units – 95,114 Macquarie Office Trust Units – 1,333 Macquarie Airports Reset Exchange Securities Trust Units

Directors' Report
for the financial year ended 31 March 2008 continued

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

(2) Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 153,296 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL 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 12 June 2008, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 107,083 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL 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 12 June 2008, in respect of those shares. Mr Clarke entered into a Zero Cost Collar transaction with MBL in respect of 25,196 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL 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 an indirect interest entered into a Zero Cost Collar transaction with MBL in respect of 100,784 fully paid ordinary MGL shares, which had the effect of acquiring cash-settled put options against movements in the MGL 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 12 June 2008, in respect of those shares.

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

Environmental Regulations

MBL and its controlled entities 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 49 to the full financial report – Audit and other services provided by PricewaterhouseCoopers ("PwC").

Macquarie's external auditor policy, which is discussed in MBL's Corporate Governance Statement contained in MGL's 2008 Annual Review, 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 MGL or its controlled entities, 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 Board Audit and Compliance Committee or the Committee Chairman, as appropriate.

The Board Audit and Compliance 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 Corporations Act 2001 (Cth) ("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.

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the Act, is set out on page 56 at the end of this Report.

Rounding of Amounts

In accordance with Australian Securities & Investments Commission 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.

David Clarke
Non-Executive Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
19 May 2008

Directors' Report Schedule 1
for the financial year ended 31 March 2008

Directors' Experience and Special Responsibilities

David S Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 66)
Non-Executive Chairman (Chairman since MBL's inception in February 1985)

David Clarke has been Non-Executive Chairman of MBL since 1 April 2007. He was Executive Chairman of MBL from its formation in 1985 until 31 March 2007. From 1971 to 1977, he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to MBL), from 1977 to 1984 Managing Director and from 1984 Executive Chairman. Mr Clarke was appointed Non-Executive Chairman of Macquarie Group Limited on 30 August 2007. He is also Chairman of Australian Vintage Limited (since November 1991), Goodman International Limited (since October 2000), Poole's Rock Wines Pty Ltd, the Sydney University Football Club Foundation and the George Gregan Foundation. He is an associate of ASX Limited and a member of the Investment Advisory Committee of the Australian Olympic Foundation, a member of the Harvard Business School Asia Pacific Advisory Committee, a member of 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 an honorary life member of the Financial Markets Foundation for Children. He is a member of the Corporate Governance Committee of the Australian Institute of Company Directors and Vice President of the Sydney University Cricket Club. He was previously Chairman of the management companies of Macquarie ProLogis Trust (from June 2002 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.

Allan E Moss, AO, BA LLB (Hons) (Syd), MBA (Harv) (age 58)
Managing Director and Chief Executive Officer from August 1993 to November 2007
Executive Voting Director since June 1989

Allan Moss joined Hill Samuel Australia Limited (predecessor to MBL) in the Corporate Services Group in 1977 and in 1982 became a Director of Hill Samuel Australia Limited. In 1983, he led the team responsible for preparing the submission to the Australian Government for the formation of MBL. The following year, he founded the Risk Management Group which is responsible for MBL's credit and other prudential controls. In 1986, Mr Moss was made responsible for the Corporate Banking Group. He was appointed Head of the Financial Markets Group in 1988 and Deputy Managing Director the following year. Mr Moss became Managing Director in 1993. In August 2007, with the restructure of the Macquarie Group, he became Managing Director and Chief Executive Officer ("CEO") of MGL and retired from his role as Managing Director and CEO of MBL in November 2007.

Mr Moss will retire as a director of MBL on 24 May 2008 when he retires as Managing Director and CEO of MGL. Mr Moss is a resident of New South Wales.

W Richard Sheppard BEc (Hons) (Sydney) (age 59)
Managing Director and CEO since November 2007
Executive Voting Director since November 2007

Richard Sheppard joined MBL's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. He was Head of MBL'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 Deputy Managing Director since 1996. Following the restructure of the Macquarie Group in late 2007 he was appointed Managing Director and CEO of MBL and Deputy Managing Director of MGL. He is a past Chairman of several of MBL's businesses including Hills Motorway Trust and Macquarie Airports (from December 2002 to April 2006) and is currently Chairman of Macquarie CountryWide Trust (since March 2007), Macquarie DDR Trust (since October 2003) and Macquarie Private Capital Group (since October 2005). He is a member of the Government's Financial Sector Advisory Council and the Australian Financial Markets Association. He also sits on a number of other boards including Cure Cancer Australia Foundation, the Bradman Foundation and the Sydney Cricket Club. Mr Sheppard is a resident of New South Wales.

Laurence G Cox, AO, BCom (Melb), FCPA, SF Fin (age 69)
Voting Director since January 1996
Executive Voting Director since March 2004

Laurie Cox joined the Board 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 MBL in March 2004. 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 Chairman of Australian Stock Exchange Limited from 1989 to 1994 (now known as the Australian Securities Exchange). He was a Director of ASX from its inception in 1987, 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 also a former member of the International Markets Advisory Board of The NASDAQ Stock Market (USA), a former Chairman of Transurban Group (from February 1996 to February 2007) and is currently an associate of ASX. He is Chairman of SMS Management & Technology Limited (since May 2001) and the Murdoch Childrens Research Institute and is a Director of and Research Australia Limited. Mr Cox was appointed to the Board of OneSteel Limited ("OneSteel") in September 2007 and was a Director of Smorgon Steel Group Limited from September 1998 until its merger with OneSteel in September 2007. Mr Cox is a resident of Victoria.

Directors' Report Schedule 1
for the financial year ended 31 March 2008

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 60)
Independent Voting Director – joined the Board in June 2003
Member of the Board Audit and Compliance Committee

Peter Kirby was the Managing Director and Chief Executive Officer of CSR Limited from 1998 to March 2003. He was 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, Mr Kirby 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 52)
Independent Voting Director – joined the Board in November 2003
Chairman of the Board Audit and Compliance Committee

Catherine 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) and WorleyParsons Limited (since July 2007), a member of the Boards of the Macquarie Graduate School of Management and Future Directions International Pty Ltd and is a member of the New South Wales Innovation Council and Australia's National Innovation System Review Panel. Ms Livingstone is a resident of New South Wales.

H Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 67)
Independent Voting Director – joined the Board in December 1996
Lead Independent Voting Director
Member of the Board Audit and Compliance Committee

Kevin McCann is a former Partner and Chairman of Allens Arthur Robinson, a leading firm of Australian lawyers. He was a Partner at the firm from 1970 to 2004. He practiced as a commercial lawyer specialising in Mergers and Acquisitions, Mineral and Resources Law and Capital Markets Transactions. He is Chairman of Healthscope Limited (since March 1994), Origin Energy Limited (since February 2000) and the Sydney Harbour Federation Trust, a Director of BlueScope Steel Limited (since May 2002) and a Member of the Takeovers Panel and the Council of the National Library of Australia and is a NSW Councillor of the Australian Institute of Company Directors. He is a former Chairman of Triako Resources Limited (April 1999 to September 2006). Mr McCann is a resident of New South Wales.

John R Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 67)
Independent Voting Director – joined the Board in February 2003

John 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. He is currently Chairman of the Centennial Park and Moore Park Trust and of Campus Living Funds Management Limited. He is a member of the University Grants Committee of Hong Kong and a member of the Board of Trustees of Singapore Management University, where he chairs the Finance and Remuneration Committee. In the region he is also active in providing consulting advice on governance and globalisation strategies to various government bodies and universities. Professor 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 and the Garvan Institute. He is a former President of the National Trust of Australia (NSW). Dr Niland is a resident of New South Wales.

Helen M Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv) (age 59)
Independent Voting Director – joined the Board in June 1999

Helen Nugent has held a number of roles in the finance sector. She is currently Chairman of Funds SA and Swiss Re Life and Health (Australia) Limited and previously was Director of Strategy, Westpac Banking Corporation (1994 to 1999), a Non-Executive Director of the State Bank of New South Wales (1993 to 1994) and a Non-Executive Director of Mercantile Mutual (1992 to 1994). Currently, she is also a Director of Origin Energy Limited (since March 2003), the Australian Davos Connection and a member of the Board of Freehills. She is a former Chairman of Hudson (Australia and New Zealand) and is a former director of UNiTAB (July 1999 to October 2006) and Carter Holt Harvey (May 2003 to June 2006). She was formerly Deputy Chairman of the Australia Council and Chairman of the Major Performing Arts Board of the Australia Council and in 1999, she was Chairman of the Ministerial Inquiry into the Major Performing Arts. Prior to joining Westpac, Dr Nugent was Professor in Management and Director of the MBA Program at the Australian Graduate School of Management and a partner at McKinsey and Company. Dr Nugent is a resident of New South Wales.

Peter H Warne BA (Macquarie) (age 52)
Independent Voting Director since July 2007
Member of the Board Audit and Compliance Committee

Peter Warne 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 the Australian Stock Exchange (now known as the Australian Securities Exchange) ("ASX") in July 2006 he became a Director of ASX Limited. Currently, he is also Chairman of Next Financial Limited, ALE Property Group (since September 2003) and Capital Markets CRC Limited. Mr Warne is a Director of WHK Group Limited (since May 2007), Global Approach Limited (since April 2008) and 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 March 2005 to 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 October 1993

Dennis Leong is an Executive Director of Macquarie Group and Head of Macquarie Group's Company Secretarial and Investor Relations Division, which is responsible for the Group's company secretarial requirements and professional risks insurances and MGL's employee equity plans and investor relations. He has had over 14 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 Group. Ms Cho has had 12 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 practicing certificate with the Law Society of NSW.

Michael Panikian, BBus (UTS) CA F Fin
Assistant Company Secretary since November 2006

Michael Panikian is a Division Director of Macquarie Group. Mr Panikian has 10 years experience at Macquarie in a range of Financial Reporting, Human Resources and Company Secretarial roles. He was previously an Audit Supervisor at Coopers & Lybrand (now known as PricewaterhouseCoopers) and has worked in finance roles for other investment banks in London.

Directors' Report
Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2008, I declare that to the best of my knowledge and belief, the only contravention of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit;

is set out below:

On 15 August 2007, a partner of the firm located overseas and unconnected to the audit reported that he held during the period an immaterial investment in Macquarie Bank Limited. This investment was disposed of within one business day of becoming aware of the matter.

This matter was identified as part of our on-going quality control system. All reasonable steps were undertaken to ensure that the matter was resolved as soon as possible. I report that the matter has been resolved, and in doing so do not believe that the matter has impacted my objectivity or impartiality for the purpose of this audit.

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

Ian Hammond

Ian Hammond
Partner
PricewaterhouseCoopers

Sydney
19 May 2008

Macquarie Bank Limited 2008 Financial Report
Contents

The Financial Report was authorised for issue by the Directors on 19 May 2008.
The Bank has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Interest and similar income	3	**6,647**	4,450	**5,081**	3,398
Interest expense and similar charges	3	**(5,794)**	(3,839)	**(4,682)**	(2,856)
Total net interest income		**853**	611	**399**	542
Fee and commission income	3	**1,092**	855	**170**	299
Net trading income	3	**2,023**	929	**1,631**	922
Share of net profits of associates and joint ventures using the equity method	3	**160**	198	**(3)**	(2)
Other operating income and charges	3	**17**	682	**1,980**	1,432
Total net operating income		**4,145**	3,275	**4,177**	3,193
Employment expenses	3	**(2,028)**	(1,709)	**(1,085)**	(1,137)
Brokerage and commission expenses	3	**(570)**	(335)	**(458)**	(305)
Occupancy expenses	3	**(100)**	(69)	**(89)**	(55)
Non–salary technology expenses	3	**(84)**	(55)	**(70)**	(36)
Other operating expenses	3	**(553)**	(387)	**(256)**	(419)
Total operating expenses		**(3,335)**	(2,555)	**(1,958)**	(1,952)
Operating profit before income tax		**810**	720	**2,219**	1,241
Income tax expense	6	**(60)**	(63)	**(164)**	(208)
Profit from ordinary activities after income tax		**750**	657	**2,055**	1,033
Profit from discontinued operations (net of income tax)	7	**15,030**	894	**14,960**	52
Profit from ordinary activities and discontinued operations after income tax		**15,780**	1,551	**17,015**	1,085
Profit attributable to minority interest		**(50)**	(57)	**–**	–
Profit attributable to equity holders of Macquarie Bank Limited		**15,730**	1,494	**17,015**	1,085
Distributions paid or provided on:					
Macquarie Income Securities	8	**(34)**	(31)	**–**	–
Convertible debentures	8	**–**	–	**(50)**	(54)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**15,696**	1,463	**16,965**	1,031

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

Balance sheets
as at 31 March 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Assets					
Cash and balances with central banks		**7**	3	**7**	3
Due from banks	9	**7,169**	6,120	**6,054**	4,580
Cash collateral on securities borrowed and reverse repurchase agreements	10	**21,278**	25,909	**21,151**	25,843
Trading portfolio assets	11	**15,225**	15,518	**14,282**	14,931
Loan assets held at amortised cost	12	**46,848**	45,796	**20,233**	18,759
Other financial assets at fair value through profit or loss	14	**3,635**	2,779	**3,571**	2,180
Derivative financial instruments – positive values	42	**20,952**	11,913	**19,138**	11,047
Other assets	15	**3,925**	10,444	**2,450**	4,699
Investment securities available for sale	16	**14,736**	6,060	**12,929**	3,211
Intangible assets	17	**133**	100	**–**	10
Life investment contracts and other unit holder assets	18	**5,705**	5,847	**–**	–
Due from related body corporates		**10,568**	–	**10,749**	–
Due from controlled entities		**–**	–	**9,372**	13,527
Interest in associates and joint ventures using the equity method	19	**1,956**	4,071	**503**	613
Property, plant and equipment	20	**44**	378	**29**	150
Investments in controlled entities	21	**–**	–	**2,304**	4,085
Deferred income tax assets	22	**78**	457	**25**	431
Non current assets and assets of disposal groups classified as held for sale	23	**35**	994	**–**	139
Total assets		**152,294**	136,389	**122,797**	104,208
Liabilities					
Due to banks	24	**3,749**	4,127	**2,521**	2,111
Cash collateral on securities lent and repurchase agreements	25	**13,469**	7,489	**13,469**	7,489
Trading portfolio liabilities	26	**10,716**	15,922	**10,431**	15,957
Derivative financial instruments – negative values	42	**21,154**	11,069	**18,970**	9,800
Deposits		**15,565**	12,403	**15,458**	12,055
Debt issued at amortised cost	27	**54,763**	51,365	**26,581**	28,519
Other financial liabilities at fair value through profit or loss	28	**6,271**	5,552	**4,325**	5,149
Other liabilities	29	**4,120**	11,958	**2,632**	7,094
Current tax liabilities		**27**	132	**9**	94
Life investment contracts and other unit holder liabilities		**5,689**	5,781	**–**	–
Due to related body corporates		**7,769**	–	**7,718**	–
Due to controlled entities		**–**	–	**11,965**	7,136
Provisions	30	**87**	153	**77**	124
Deferred income tax liabilities	22	**193**	78	**156**	41
Liabilities of disposal groups classified as held for sale	23	**–**	170	**–**	–
Total liabilities excluding loan capital		**143,572**	126,199	**114,312**	95,569
Loan capital					
Subordinated debt at amortised cost	32	**1,691**	1,783	**1,691**	1,783
Subordinated debt at fair value through profit or loss	32	**646**	888	**646**	888
Total liabilities		**145,909**	128,870	**116,649**	98,240
Net assets		**6,385**	7,519	**6,148**	5,968
Equity					
Ordinary share capital	33	**3,586**	3,103	**3,586**	3,103
Equity contribution from ultimate parent entity	33	**18**	–	**12**	–
Treasury shares	33	**–**	(7)	**–**	–
Macquarie Income Securities	33	**391**	391	**391**	391
Convertible debentures	33	**–**	–	**884**	884
Reserves	34	**182**	380	**49**	212
Retained earnings	34	**1,374**	2,795	**1,226**	1,378
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**5,551**	6,662	**6,148**	5,968
Minority interest	34	**834**	857	**–**	–
Total equity		**6,385**	7,519	**6,148**	5,968

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 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Total equity at the beginning of the year		**7,519**	5,337	**5,968**	4,306
Exchange differences on translation of foreign operations (note 34)		**(110)**	(3)	**(94)**	4
Available for sale investments, net of tax		**(20)**	77	**(62)**	15
Cash flow hedges, net of tax		**21**	8	**12**	(33)
Associates and joint ventures		**(3)**	(12)	**–**	–
Net income recognised directly in equity		**(112)**	70	**(144)**	(14)
Profit from ordinary activities and discontinued operations after income tax		**15,780**	1,551	**17,015**	1,085
Total recognised income and expense for the year		**15,668**	1,621	**16,871**	1,071
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs		**3,454**	1,160	**3,454**	1,160
Reduction of capital	33	**(3,000)**	–	**(3,000)**	–
Contribution from ultimate parent entity in relation to share based payments		**18**	–	**12**	–
Dividends and distributions paid or provided		**(17,151)**	(633)	**(17,117)**	(602)
Distribution arising from group restructure	34	**(65)**	–	**(61)**	–
Minority interest:					
Contribution/(reduction) of equity net of transaction costs		**68**	(21)	**–**	–
Changes in retained earnings due to acquisitions and disposals		**(2)**	27	**–**	–
Distributions paid or provided		**(50)**	(54)	**–**	–
Convertible debentures:					
Distributions paid or provided		**–**	–	**(50)**	(54)
Other equity movements:					
Net movement of available for sale reserve arising from group restructure	34	**(152)**	–	**–**	–
Share based payments	34	**71**	87	**71**	87
Net purchase of treasury shares		**7**	(5)	**–**	–
Total equity at the end of the year		**6,385**	7,519	**6,148**	5,968
Total recognised income and expense for the year is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**15,673**	1,533	**16,821**	1,017
Macquarie Income Securities holders		**34**	31	**–**	–
Convertible debentures holders		**–**	–	**50**	54
Minority interest		**(39)**	57	**–**	–
Total recognised income and expense for the year		**15,668**	1,621	**16,871**	1,071

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 2008

	Notes	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Cash flows from operating activities					
Interest received		**6,053**	4,461	**4,360**	3,199
Interest and other costs of finance paid		**(5,888)**	(3,828)	**(4,614)**	(2,767)
Dividends and distributions received		**298**	460	**2,490**	1,030
Fees and other non-interest income received		**4,147**	3,572	**1,389**	1,653
Fees and commissions paid		**(751)**	(380)	**(518)**	(280)
Net receipts/(payments) from trading securities and other financial assets/liabilities		**9,289**	(8,281)	**8,319**	(8,228)
Payments to suppliers		**(1,309)**	(797)	**(928)**	(254)
Employment expenses paid		**(5,812)**	(2,377)	**(4,487)**	(1,494)
Income tax paid		**(207)**	(626)	**(139)**	(510)
Life investment contract income		**376**	415	**–**	–
Life investment contract premiums received and other unit holder contributions		**3,225**	2,594	**–**	–
Life investment contract payments		**(2,773)**	(2,469)	**–**	–
Assets of disposal groups classified as held for sale – net receipts from operations		**279**	173	**23**	–
Loan assets received/(granted) net		**7,061**	(11,621)	**13,545**	(5,793)
Bridge facility provided to ultimate parent entity	36	**(8,800)**	–	**(8,800)**	–
Recovery of loans previously written off		**5**	3	**–**	–
Net increase in amounts due to other financial institutions, deposits and other borrowings		**11,526**	17,726	**3,235**	11,815
Net cash flows from/(used in) operating activities	35	**16,719**	(975)	**13,875**	(1,629)
Cash flows from investing activities					
Payments for financial assets available for sale and at fair value through profit or loss		**(56,242)**	(14,651)	**(53,492)**	(11,489)
Proceeds from the realisation of financial assets available for sale and at fair value through profit or loss		**53,588**	13,762	**50,577**	11,969
Payments for interests in associates		**(2,089)**	(1,525)	**(192)**	(193)
Proceeds from the sale of associates		**558**	1,080	**167**	771
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**(325)**	(1,750)	**(8)**	(62)
Proceeds from the sale of assets and disposal groups classified as held for sale, net of cash disposed		**1,266**	2,159	**199**	52
Payments for the acquisition of controlled entities, excluding disposal groups, net of cash acquired		**(157)**	(25)	**(617)**	(1,162)
Proceeds from the sale of controlled entities, excluding disposal groups held for sale, net of cash deconsolidated		**14,018**	–	**15,722**	–
Payments for life investment contracts and other unit holder assets		**(7,031)**	(6,083)	**–**	–
Proceeds from the sale of life investment contracts and other unit holder assets		**6,037**	5,520	**–**	–
Payments for property, plant and equipment		**(71)**	(199)	**(64)**	(109)
Proceeds from the sale of property, plant and equipment		**–**	7	**–**	3
Net cash flows from/(used in) investing activities		**9,552**	(1,705)	**12,292**	(220)
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**3,269**	946	**3,269**	946
Return of capital to ultimate parent entity	1	**(3,000)**	–	**(3,000)**	–
Proceeds from other minority interest		**72**	5	**–**	–
Repayment of subordinated debt		**(225)**	–	**(225)**	–
Issue of subordinated debt		**–**	1,394	**–**	1,394
Dividends and distributions paid		**(17,018)**	(472)	**(16,984)**	(442)
Net cash flows (used in)/from financing activities		**(16,902)**	1,873	**(16,940)**	1,898
Net increase/(decrease) in cash		**9,369**	(807)	**9,227**	49
Cash and cash equivalents at the beginning of the financial year		**8,326**	9,133	**7,353**	7,304
Cash and cash equivalents at the end of the financial year	35	**17,695**	8,326	**16,580**	7,353

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

Notes to the financial statements
31 March 2008

Note 1. Macquarie Group restructure

On 13 November 2007, 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 controlled entities and assets to the Non-Banking Group for fair value at the restructure date. The majority of MBL's profit on sale of these controlled entities were 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 controlled entities 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.

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 controlled entities (together "the economic entity") financial report such as:

- fair value of financial instruments (note 48);
- impairment losses on loans and advances (notes 2(xiii), 13 and 43);
- acquisitions and disposals of controlled entities, joint ventures and associates, and held for sale investments (notes 2(ii), 2(xii), 19, 21 and 23);
- consolidation of special purpose entities (notes 2(ii), 12 and 27); and
- recoverability of deferred tax assets (notes 2(vii), 6 and 22).

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.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank and economic entity for accounting periods beginning on or after 1 April 2008 or later periods but which the Bank and economic entity has not yet adopted. The significant ones are as follows:

– 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* (effective from 1 July 2009). These standards amend the accounting for certain aspects of business combinations and changes in ownership interests in subsidiaries. Consequential amendments are made to other standards, AASB 128: *Investments in Associates* and AASB 131: *Interests in Joint Ventures*. Changes include:

  – transaction costs are recognised as an expense at the acquisition date, unless the cost relates to issuing debt or equity securities;

  – contingent consideration is 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; and

  – changes in control are considered significant economic events, thereby requiring previous ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit) when control is gained or lost.

  – changes in a parent's ownership interest in a controlled entity that do not result in a loss of control (e.g. dilutionary gains) are recognised directly in equity.

Until future acquisitions take place that are accounted for in accordance with the revised AASB 3, the impact on the Macquarie Group is not known.

ii) Principles of consolidation

Controlled entities

The consolidated financial report comprises the financial report of the Bank and its controlled entities (together, "the economic entity"). Controlled entities 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 economic entity have been eliminated in full. Minority interest in the results and equity of controlled entities, where the Bank owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement and balance sheet.

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.

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

The Bank and economic 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. The acquisition/disposal date does not necessarily occur when the transaction is closed or finalised at law.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

Securitisations

Securitised positions are held through a number of Special Purpose Entities ("SPEs"), which are generally categorised as Mortgage SPEs and Other SPEs, which include certain managed funds and repackaging vehicles. As the economic 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 economic entity's consolidated balance sheet and income statement.

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

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

Interests in associates and joint ventures using the equity method

Associates and joint ventures are entities over which the economic entity has significant influence or joint control, but not control, and are accounted for under the equity method except for those which are held for sale (see note 2(xii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the economic 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.

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*.

The Bank and economic 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.

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 fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus 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 Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Bank'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 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 value 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) Foreign currency translations

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 economic 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.

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.

Controlled and other entities

The results and financial position of all foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency 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 transaction; and
– all resulting exchange differences are recognised in a separate component of equity – the foreign currency translation reserve.

On consolidation, exchange differences 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.

v) Segment reporting

AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards arising from AASB 8* (effective from 1 April 2009) has been early adopted. The entity has made a formal election to early adopt this standard. The standard requires the entity to adopt the 'management approach' to disclosing information about its reportable segments. The financial information is reported on the same basis as used internally by the chief decision maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. Such information is provided using different measures to that used in preparing the income statement and balance sheet, with reconciliations of certain items provided.

vi) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

Interest income

Interest income arising from loans and deposits is brought to account using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the relevant period. The effective interest rate is that rate that exactly 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 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 income

Corporate advice and other fees charged in respect of services provided are brought to account as work is completed and a fee is agreed with clients. Fees charged for performing a significant act in relation to funds managed by the economic entity are recognised as revenue when that act has been completed.

Dividends and distributions

Dividends and distributions are recognised as income upon declaration.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

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, but are only recognised in both cases 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.

The Bank and economic 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 length of time that tax losses are eligible for carry forward to offset against future profits and whether future profits are expected to be sufficient to recoup losses.

Tax consolidation

Following the Macquarie Group restructure, MGL has elected under Section 124-380(5) of the Australian Income Tax Assessment Act 1997 that the tax consolidated group, of which MBL was the head company, is to continue to exist at and after the restructure. As a consequence of the election made, MGL is now recognised as the new head company of the Macquarie Australian tax consolidated group.

As a consequence, the Bank is not subject to income tax and does not recognise any current tax assets or liabilities in its own financial statements unless the head entity is in default of its obligations, or a default is probable, under the tax consolidation legislation. The Bank is required to recognise deferred tax assets or liabilities in respect of deferred tax amounts arising in relation to its own transactions, events and balances.

Under the terms and conditions of a tax contribution agreement, the Bank will be charged or reimbursed for current tax assets or liabilities incurred by MGL in connection with the Bank's activities. The effect of the tax contribution agreement is that the Bank records an amount as income tax expense equal to the amount that would have been calculated had the Bank continued to be subject to income tax.

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

As part of its trading activities, the economic entity lends and borrows 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.

Repurchase transactions, where the Bank sells securities under an agreement to repurchase, and reverse repurchase transactions, where the Bank purchases securities under an agreement to resell, are also conducted on a collateralised basis. The securities subject to the repurchase/reverse 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 stock borrowing/lending and repurchase/reverse repurchase agreements are recognised in the income statement, using the effective interest rate method, over the expected life of the agreements.

The Bank continually reviews the fair value 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 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

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 has short-sold and are actively traded.

Items included in the trading portfolio are carried at fair value. Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as trading income or expense in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is also recorded as trading income or expense. Interest income and expense on the trading portfolio is recognised in the income statement as interest income or expense.

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

xi) Derivative instruments and hedging

Derivative instruments entered into by the Bank and economic 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 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, unless the derivative meets the requirements for cash flow or net investment hedge accounting.

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

Cash flow hedges

For a derivative or financial instrument designated as hedging a cash flow exposure arising from 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 hedge reserve and subsequently released to the income statement when the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

Fair value hedges
For a derivative or financial instrument designated as hedging a fair value exposure arising from a recognised asset or liability (or a 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 financial instrument designated as hedging a net investment in a foreign operation, the gain or loss on the derivative or financial instrument associated with the effective portion of the hedge is initially 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.

Derivatives that do not qualify for hedge accounting
Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in net trading income.

xii) Investments and other financial assets
With the exception of trading portfolio assets and derivatives which are classified separately in the balance sheet, the remaining investments in financial assets are classified into the following categories: loan assets held at amortised cost, other financial assets at fair value through profit or loss, investment securities available for sale, and non current assets and disposal groups classified as held for sale. The classification depends on the purpose for which the investment was acquired, which is determined at initial recognition and, except for fair value through profit or loss, is re-evaluated at each reporting date.

Loan assets held at amortised cost
Loan assets which are held at amortised cost on the balance sheet 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 only includes 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, or by doing so eliminates, or significantly reduces, a measurement or recognition inconsistency that would otherwise arise. Interest income on such items is recognised in the income statement in interest income.

Investment securities available for sale
Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs, or considering the impacts of changes in interest rates, 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 will be 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, option pricing models and other valuation techniques commonly used by market participants.

The Bank and economic entity determine that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank and economic entity evaluate among other factors, the normal volatility in share price and the amount of time for which the fair value has been below cost. 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.

Non current assets and disposal groups classified as held for sale

This category includes controlled entities and interests in associates or joint ventures whose carrying amount will be recovered principally through a sale transaction rather than continuing use. The policy of management is to classify these assets 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.

Assets and liabilities, including those within a disposal group, classified as held for sale are each presented separately on the face of the balance sheet. The revenue and expenses from disposal groups are presented net within the income statement and notes to the financial statements. 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 disclosures under AASB 7: *Financial Instruments: Disclosure.*

Assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale, or included within a disposal group that is classified as held for sale, 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 would be recognised for any subsequent increase in fair value less costs to sell, limited by the previous cumulative impairment loss recognised. A gain or loss not previously recognised by the date of sale would be recognised at the date of sale.

xiii) Loan impairment review

All loan assets are subject to recurring review and assessment for possible impairment. All bad debts are written off in the period in which they are identified. Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, and is calculated based on the discounted values of expected future cash flows.

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

The Bank and economic 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 provisions for loan losses and have a direct impact on the impairment charge.

xiv) Life business

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

Disclosure

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

Investment assets

Investments 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.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

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.

xv) Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Assets 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 their cost and their residual values over their estimated useful lives, at the following rates:

Furniture and fittings	10 to 20 per cent
Leasehold improvements*	20 per cent
Computer equipment	33 to 50 per cent
Plant and equipment	20 to 33 per cent
Infrastructure assets	5 to 20 per cent
Art	1 per cent

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

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

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

xvi) Intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the economic entity's share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of controlled entities is included in intangible assets on the balance sheet. Goodwill on acquisitions of associates is included in the carrying value of investments in associates. Goodwill acquired in business combinations is not amortised but tested for impairment annually or more frequently if events indicate that it might be impaired. When goodwill is impaired it is carried at cost less accumulated impairment losses.

Identifiable intangibles
– Licences and trading rights are carried at cost less accumulated impairment losses. These assets are not being amortised because they have indefinite lives.
– 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 their estimated useful life not exceeding twenty years.
– Customer relationships acquired as part of a business combination are carried at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated based on the timing of projected cash flows of the relationships over their estimated useful lives.

Identifiable intangibles are subject to annual impairment testing, or more frequently if events indicate that there may be an impairment.

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

xvii) Financial liabilities
The Bank and economic 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 rate method.

Other financial liabilities at fair value through profit or loss
This category only includes 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, or 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.

xviii) 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 rates on high quality corporate bonds, except where there is no deep market in which case rates on Commonwealth Government securities are used, with terms that match as closely as possible to 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 economic entity is legally released from the obligation and does 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 or publicly recommended by the Directors.

xix) Funds under management
Within the economic entity certain controlled, jointly controlled and associate entities act as a custodian and/or a single responsible entity for a number of investment funds and trusts. As at 31 March 2008, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the economic entity (measured based on the gross assets of the individual funds) is $85.8 billion (31 March 2007: $197.2 billion). This includes $6 billion (31 March 2007: $6 billion) in respect of the life business statutory funds and certain other funds that are consolidated in the financial report. Other investment funds and trusts have not been consolidated in the financial report because individual entities within the economic entity do not have control of the funds and trusts.

Commissions and fees earned in respect of the economic entity's funds management activities are brought to account as services are provided, and where these are subject to claw back or meeting certain performance hurdles, at the point when those conditions can no longer affect the outcome.

xx) 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 (the "Plan"). 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 their 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 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.

Notes to the financial statements
31 March 2008 continued

Note 2. Summary of significant accounting policies continued

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 current financial year, risk free interest rate: 7.0 per cent (weighted average), expected life of options: four years, volatility of share price: 20 per cent and dividend yield: 3.4 per cent p.a. The key assumptions adopted for grants made in the previous year were, risk free interest rate: 6.5 per cent (weighted average), expected life of options: four years, volatility of share price: 20 per cent and dividend yield: 3.2 per cent p.a.

Where options are issued by the ultimate parent to employees of the Bank and economic entity, the Bank recognises an expense and a capital contribution from the ultimate parent.

The economic 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 share based payments reserve in equity.

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

xxii) 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 economic entity as lessee, are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Purchased assets, where the economic entity is the lessor under operating leases, are carried at cost and depreciated over their useful life which varies depending on each class of asset and ranges from 3 to 40 years.

xxiii) 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 asset and settle the liability simultaneously.

xxiv) Loan capital
Loan capital is debt issued by the Bank with terms and conditions, which 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 fair value through profit or loss or at amortised cost using the effective interest method.

xxv) 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.

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

xxvii) Rounding of amounts
The Bank is of a kind referred to in Australian Securities & Investments Commission 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.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 3. Profit for the financial year				
Net interest income				
Interest and similar income received/receivable				
Other entities	**6,340**	4,450	**4,090**	2,700
Controlled entities	**–**	–	**694**	698
Related body corporate entities	**307**	–	**297**	–
Interest expense and similar charges paid/payable				
Other entities	**(5,553)**	(3,839)	**(3,632)**	(2,531)
Controlled entities	**–**	–	**(814)**	(325)
Related body corporate entities	**(241)**	–	**(236)**	–
Total net interest income	**853**	611	**399**	542
Fee and commission income				
Fee and commission income	**1,062**	828	**170**	299
Income from life investment contracts and other unit holder investment assets (note 18)	**30**	27	**–**	–
Total fee and commission income	**1,092**	855	**170**	299
Net trading income*				
Equities	**1,375**	671	**1,249**	882
Commodities	**417**	295	**193**	161
Foreign exchange products	**182**	108	**84**	(59)
Interest rate products	**49**	(145)	**105**	(62)
Total net trading income	**2,023**	929	**1,631**	922
Share of net profits of associates and joint ventures using the equity method	**160**	198	**(3)**	(2)
Other operating income and charges				
Net gains on sale of investment securities available for sale	**107**	74	**86**	77
Impairment charge on investment securities available for sale	**(84)**	(3)	**(19)**	1
Net gains on sale of associates and joint ventures	**94**	385	**21**	305
Impairment on associates (including associates held for sale) and joint ventures	**(280)**	(2)	**(2)**	1
Net operating loss from disposal groups held for sale**	**(16)**	–	**–**	–
Gain on deconsolidation of previously controlled entities and businesses held for sale	**99**	33	**(5)**	–
Dividends/distributions received/receivable:				
– equity investments and investment securities available for sale	**59**	67	**68**	105
– controlled entities	**–**	–	**1,466**	510
Management fees, group service charges and cost recoveries – controlled entities	**–**	–	**353**	453
Collective allowance for credit losses provided for during the financial year (note 12)	**(32)**	(10)	**(29)**	(13)
Specific credit provisions				
– provided for during the financial year (note 12)	**(71)**	(32)	**(32)**	(31)
– recovery of loans previously provided for (note 12)	**34**	13	**31**	6
– loan losses written-off	**(20)**	(9)	**(2)**	(1)
– recovery of loans previously written-off	**5**	3	**–**	–
Other income***	**122**	163	**44**	19
Total other operating income and charges	**17**	682	**1,980**	1,432
Total net operating income	**4,145**	3,275	**4,177**	3,193

* Included in the net trading income are fair value changes of $5 million for the year ending 31 March 2008 (31 March 2007: $68 million) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $72 million of profits arising due to the widening credit spreads 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. Also includes fair value changes on derivatives used to hedge the Bank's economic interest rate risk where hedge accounting requirements are not met – refer to note 2(xi).

** Included within net loss from disposal groups held for sale are the net income and expenses arising from the activities of the disposal groups. Refer to note 23 – Non current assets and disposal groups classified as held for sale for the name of each group.

*** Included within other income is rental income of $138 million (2007: $169 million) less depreciation of $83 million (2007: $109 million) in relation to operating leases where the Bank is the lessor.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 3. Profit for the financial year continued				
Employment expenses				
Salary, salary related costs including commissions, superannuation and performance-related profit share	**(1,962)**	(1,658)	**(1,046)**	(1,101)
Share based payments	**(51)**	(40)	**(33)**	(30)
Provision for annual leave	**(9)**	(7)	**(3)**	(3)
Provision for long service leave	**(6)**	(4)	**(3)**	(3)
Total employment expenses	**(2,028)**	(1,709)	**(1,085)**	(1,137)
Brokerage and commission expenses				
Brokerage expenses	**(471)**	(230)	**(399)**	(220)
Other fee and commission expenses	**(99)**	(105)	**(59)**	(85)
Total brokerage and commission expenses	**(570)**	(335)	**(458)**	(305)
Occupancy expenses				
Operating lease rentals	**(63)**	(46)	**(57)**	(40)
Depreciation: infrastructure, furniture, fittings and leasehold improvements (note 20)	**(20)**	(11)	**(15)**	(7)
Other occupancy expenses	**(17)**	(12)	**(17)**	(8)
Total occupancy expenses	**(100)**	(69)	**(89)**	(55)
Non-salary technology expenses				
Information services	**(32)**	(22)	**(23)**	(11)
Depreciation: computer equipment (note 20)	**(22)**	(13)	**(18)**	(9)
Other non-salary technology expenses	**(30)**	(20)	**(29)**	(16)
Total non-salary technology expenses	**(84)**	(55)	**(70)**	(36)
Other operating expenses				
Professional fees	**(86)**	(100)	**(37)**	(24)
Auditor's remuneration (note 49)	**(10)**	(8)	**(3)**	(4)
Travel and entertainment expenses	**(95)**	(66)	**(52)**	(46)
Advertising and promotional expenses	**(27)**	(15)	**(18)**	(12)
Communication expenses	**(19)**	(15)	**(10)**	(10)
Depreciation: communication equipment (note 20)	**(3)**	(3)	**(2)**	(3)
Other expenses*	**(313)**	(180)	**(134)**	(320)
Total other operating expenses	**(553)**	(387)	**(256)**	(419)
Total operating expenses	**(3,335)**	(2,555)	**(1,958)**	(1,952)

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

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 4. Revenue from operating activities				
Interest and similar income	**6,647**	4,450	**5,081**	3,398
Fee and commission income	**1,062**	828	**170**	299
Premium income, investment revenue and management fees from life investment contracts and other unit holder businesses (note 18)	**205**	613	**–**	–
Net trading income	**2,023**	929	**1,631**	922
Profit on the sale of investment securities available for sale and associates and joint ventures	**201**	459	**107**	382
Other income (excluding profit on the sale of investment securities available for sale and associates and joint ventures)	**424**	461	**1,923**	1,085
Total revenue from operating activities	**10,562**	7,740	**8,912**	6,086

Note 5. Segment reporting
(i) Operating segments
For internal reporting and risk management purposes, the economic entity is divided into seven operating Groups ("the Groups"). These Groups have been set-up based on the differences in core products and services offered:

- **Financial Services Group** consists of two key Australasian-based divisions, Macquarie Adviser Services and Macquarie Private Wealth. Macquarie Adviser Services manages relationships with external financial intermediaries and provides sales services and product management of in-house and external products including retail superannuation. Macquarie Private Wealth provides a full-service stockbroking, investment planning, executive wealth management and private banking service.
- **Funds Management Group** is one of Australia's largest fund managers and provides an innovative range of investment solutions to superannuation funds, corporations, financial advisers, platforms and retail investors in Australia and internationally.
- **Banking and Securitisation Group** brings together Macquarie's retail lending and banking businesses.
- **Real Estate Group** encompasses real estate funds management, finance, investment banking and advisory, development, securitisation, asset management and research.
- **Treasury and Commodities Group** activities include trading and related activities in a broad range of financial and commodity markets. Activities range across foreign exchange, debt and futures, as well as agriculture, energy and metal commodities.
- **Equity Markets Group** manages Macquarie's equity derivatives and trading business. It utilises its expertise in risk management and product structuring skills to design equity-based financial solutions and products for retail and wholesale clients. EMG also operates Macquarie's stock borrowing & lending business.
- **Macquarie Capital** includes the wholesale structuring, underwriting, corporate advisory, specialist funds management, private equity and specialised equipment financing, institutional stockbroking and equities research capabilities.
- **Corporate** includes the Group Treasury division and Head Office and Central support functions. Costs within Corporate include unallocated head office costs, employment related costs, earnings on capital, derivative volatility, income tax expense and expenses attributable to minority interests. Corporate is not considered an operating Group.

Any transfers between segments have been determined on an arms-length basis and eliminate on consolidation.

The segment information has been prepared in conformity with the economic entity's segment accounting policy as disclosed in note 2(v).

Notes to the financial statements
31 March 2008 continued

Note 5: Segment reporting continued

	Financial Services Group $m	Funds Management Group $m	Banking & Securitisation Group $m
Revenues from external customers	**736**	**398**	**2,863**
Inter-segmental revenue/(expense)*	**8**	**44**	**(537)**
Interest revenue	**9**	**1**	**2,625**
Interest expense	**–**	**–**	**(1,891)**
Depreciation and amortisation	**(10)**	**(1)**	**(10)**
Share of net (losses)/profits of associates and joint ventures using the equity method	**(1)**	**–**	**(7)**
Net operating (expense)/income from disposal groups held for sale	**–**	**–**	**–**
Reportable segment profit	**187**	**178**	**51**
Reportable segment assets	**2,625**	**3,986**	**38,574**
Revenues from external customers	829	406	2,183
Inter-segmental revenue/(expense)*	10	13	(407)
Interest revenue	1	2	2,041
Interest expense	–	–	(1,353)
Depreciation and amortisation	(7)	(1)	(5)
Share of net (losses)/profits of associates and joint ventures using the equity method	(1)	–	–
Net operating income from disposal groups held for sale	–	–	–
Reportable segment profit	141	59	143
Reportable segment assets	2,423	3,899	25,081

*Internal reporting systems do not enable the separation of intersegmental revenues and expenses. The net position is disclosed above. The key intersegmental item is internal interest charged to businesses for funding of the business net assets.

Real Estate Group $m	Treasury & Commodities Group $m	Equity Markets Group $m	Macquarie Capital $m	Corporate $m	Continuing operations $m	Discontinued operations $m	Total $m
							Consolidated 2008
512	**1,979**	**2,407**	**402**	**896**	**10,193**	**3,125**	**13,318**
(164)	**(230)**	**(393)**	**(74)**	**1,571**	**225**	**(225)**	**–**
142	**803**	**1,066**	**466**	**1,535**	**6,647**	**87**	**6,734**
(15)	**(696)**	**(807)**	**1**	**(2,386)**	**(5,794)**	**(169)**	**(5,963)**
(2)	**(8)**	**(3)**	**(61)**	**(36)**	**(131)**	**(33)**	**(164)**
107	**30**	**(2)**	**41**	**(8)**	**160**	**3**	**163**
–	**–**	**–**	**(16)**	**–**	**(16)**	**3**	**(13)**
(79)	**653**	**639**	**192**	**(1,155)**	**666**	**15,030**	**15,696**
3,688	**38,567**	**35,638**	**4,806**	**24,410**	**152,294**	**–**	**152,294**
							Consolidated 2007
676	1,790	1,314	251	2	7,451	3,989	11,440
(121)	(190)	(407)	(317)	1,510	91	(91)	–
160	1,003	602	462	179	4,450	182	4,632
(16)	(763)	(201)	(24)	(1,482)	(3,839)	(65)	(3,904)
(2)	(4)	(2)	(16)	(43)	(80)	(110)	(190)
136	37	5	22	(1)	198	44	242
–	–	–	–	–	–	38	38
507	635	417	141	(1,474)	569	894	1,463
1,430	22,565	29,760	3,655	31,468	120,281	16,108	136,389

Notes to the financial statements
31 March 2008 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 economic 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	Total continuing operations $m	Total discontinued operations $m	Total $m
						Consolidated 2008	
Revenues from external customers	**1,716**	**4,597**	**669**	**3,211**	**10,193**	**3,125**	**13,318**
						Consolidated 2007	
Revenues from external customers	1,694	2,807	332	2,618	7,451	3,989	11,440

(iii) Geographical areas
Geographical segments have been determined based upon where the transactions have been booked. The operations of the economic entity are headquartered in Australia.

	Revenues from external customers $m	Non current assets* $m
		Consolidated 2008
Australia	**8,112**	**80**
Asia Pacific	**577**	**25**
Europe	**1,440**	**10**
North America	**63**	**62**
Other	**1**	**–**
Continuing operations	**10,193**	**177**
Discontinued operations	**3,125**	**–**
Total	**13,318**	**177**
		Consolidated 2007
Australia	5,424	37
Asia Pacific	675	18
Europe	872	52
North America	477	51
Other	3	–
Continuing operations	7,451	158
Discontinued operations	3,989	320
Total	11,440	478

* Non-current assets consist of Intangible assets and Property, plant and equipment.

(iv) Major customers
MBL does not rely on any major customer.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 6. Income tax (expense)/benefit				
(a) Income tax (expense)/benefit				
Current tax expense	**(554)**	(596)	**(187)**	(144)
Deferred tax benefit	**316**	219	**224**	131
Total	**(238)**	(377)	**37**	(13)
Income tax expense is attributable to:				
Profit from continuing operations	**(60)**	(63)	**(164)**	(208)
Profit from discontinued operations	**(178)**	(314)	**201**	195
Total	**(238)**	(377)	**37**	(13)
Deferred income tax revenue/(expense) included in income tax (expense)/benefit comprises:				
Increase in deferred tax assets	**431**	129	**354**	55
(Increase)/decrease in deferred tax liabilities	**(115)**	90	**(130)**	76
Total	**316**	219	**224**	131
(b) Reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax expense on operating profit*	**(4,805)**	(578)	**(5,093)**	(329)
Tax effect of amounts which are (non-deductable)/ non-assessable in calculating taxable income:				
Rate differential on offshore income	**258**	195	**76**	63
Distribution provided on Macquarie Income Preferred Securities and similar distributions	**15**	16	**15**	16
Non-deductible options expense	**(25)**	(26)	**(21)**	(20)
Intra-group dividends	**–**	–	**709**	277
Other items	**70**	16	**12**	(20)
Gain on sale of discontinued operations	**4,249**	–	**4,339**	–
Total income tax (expense)/benefit	**(238)**	(377)	**37**	(13)
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in the income statement but directly debited or credited to equity:				
Net deferred tax – (credited)/debited directly to equity	**(1)**	11	**(15)**	(19)
Total	**(1)**	11	**(15)**	(19)

* Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2007: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Pursuant to an election made by MGL, the Macquarie Group's Australian tax liabilities are determined according to tax consolidation legislation. MGL together with all eligible Australian resident wholly-owned controlled entities of the Macquarie Group represent a Tax Consolidated Group, with MGL as the Head Entity. As a consequence, the relevant controlled entities are not liable to make income tax payments and do not recognise any current tax balances. Under the terms and conditions of a tax funding agreement, MGL charges each controlled entity for all current tax liabilities incurred in respect of their activities and reimburses each controlled entity for current tax assets utilised, under the Macquarie Group allocation method.

Should MGL be in default of its tax payment obligations, or a default is probable, the current tax balances of the controlled entities will be determined in accordance with the terms and conditions of a tax sharing agreement between MGL and entities in the Macquarie Group.

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

Notes to the financial statements
31 March 2008 continued

Note 7. Discontinued operations
(a) Description

On 13 November 2007, the MBL Group implemented a restructure of the Macquarie Group under which a new listed non-operating holding company, MGL was established as the ultimate parent entity of the Macquarie Group which comprises two separate groups:

– Banking Group which comprises the activities of the Banking and Securitisation Group, Equity Markets Group (except for certain activities), Financial Services Group, Funds Management Group, Real Estate Group and Treasury and Commodities Group (except for certain activities); and a
– Non-Banking Group which comprises most of the activities of Macquarie Capital and certain Equity Markets Group and Treasury and Commodities Group activities. The non-banking group includes the central support functions.

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 operation 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 (2008 column) and the year ended 31 March 2007:

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Operating income	**2,708**	3,904	**1,568**	1,452
Operating expenses	**(1,663)**	(2,696)	**(1,274)**	(1,595)
Profit before income tax	**1,045**	1,208	**294**	(143)
Income tax expense	**(178)**	(314)	**201**	195
Profit after income tax from discontinued operations	**867**	894	**495**	52
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**	894	**14,960**	52
Net cash inflow/(outflow) from operating activities	**1,478**	732	**(407)**	(377)
Net cash inflow/(outflow) from investing activities (2008 includes an inflow of $16,131 million from the sale of discontinued operations)	**16,329**	(842)	**17,002**	–
Net cash (outflow)/inflow from financing activities	**(335)**	(926)	**628**	271
Net increase in cash generated by discontinued operations	**17,472**	(1,036)	**17,223**	(106)

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 7. Discontinued operations continued				
Assets				
Due from banks	**2,058**	1,954	**286**	227
Cash collateral on securities borrowed and reverse repurchase agreements	**1,445**	462	**–**	–
Trading portfolio assets	**457**	236	**–**	–
Loan assets held at amortised cost	**3,590**	2,802	**241**	252
Other financial assets at fair value through profit or loss	**575**	253	**87**	16
Derivative financial instruments – positive values	**208**	63	**117**	33
Other financial assets	**6,507**	5,417	**33**	50
Investment securities available for sale	**1,315**	892	**190**	276
Intangible assets	**12**	10	**–**	–
Interest in associates and joint ventures using the equity method	**3,276**	2,334	**180**	127
Property, plant and equipment	**218**	310	**116**	106
Investments in controlled entities	**–**	–	**2,411**	765
Deferred tax assets	**898**	424	**631**	496
Non current assets and assets of disposal groups classified as held for sale	**653**	951	**95**	–
Total assets	**21,212**	16,108	**4,387**	2,348
Liabilities				
Due to banks	**1,322**	1,049	**–**	–
Cash collateral on securities lent and repurchase agreements	**75**	54	**–**	–
Trading portfolio liabilities	**1,055**	54	**–**	–
Derivative financial instruments – negative values	**–**	66	**–**	3
Deposits	**–**	232	**–**	–
Debt issued at amortised cost	**2,100**	1,674	**–**	–
Other financial liabilities at fair value through profit or loss	**19**	16	**–**	–
Other financial liabilities	**7,926**	5,368	**2,220**	1,725
Current tax liabilities	**201**	47	**–**	–
Due to/(from) controlled entities	**6,209**	4,121	**(370)**	(6)
Provisions	**24**	60	**–**	–
Deferred tax liabilities	**46**	45	**–**	–
Liabilities of disposal groups classified as held for sale	**267**	170	**–**	–
Total liabilities	**19,244**	12,956	**1,850**	1,722
Net assets	**1,968**	3,152	**2,537**	626

(c) Details of the sale of discontinued operations

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
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 the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 8. Dividends paid and distributions paid or provided				
i) Dividends paid				
Ordinary share capital				
2008 Special dividend paid ($46.55 (2007: $nil) per share)*	**13,990**	–	**13,990**	–
2008 Special dividend paid ($7.49 (2007: $nil) per share)*	**2,250**	–	**2,250**	–
Interim dividend paid ($1.45+ (2007: $1.25+) per share)	**395**	312	**395**	312
2007 Final dividend paid ($1.90+ (2006: $1.25+) per share)	**482**	290	**482**	290
Total dividends paid	**17,117**	602	**17,117**	602

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

+ These dividends were 100 per cent franked at the 30 per cent corporate tax rate.

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

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Franking credits were available at the reporting date at a corporate tax rate of 30 per cent	**–**	176	**–**	176

Following the restructure of the Macquarie Group the franking credits have been transferred by the Bank to MGL, as MGL is now recognised as the head company of the Macquarie tax consolidated group.

In the prior year the above amount represented the balances of the franking accounts as at the end of the financial year, adjusted for:

a) franking credits that will arise from the payment of income tax payable as at the end of the financial year;
b) franking credits that may be prevented from being distributed in subsequent financial years;
c) franking debits that will arise from the payment of dividends proposed as at the end of the financial year and the final dividend disclosed below in (ii); and
d) franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

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 4 July 2008 out of retained profits at 31 March 2008, but not recognised as a liability at the end of the financial year, is $700 million.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
iii) Distributions paid or provided				
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**27**	24	**–**	–
Distributions provided	**7**	7	**–**	–
Total distributions paid or provided	**34**	31	**–**	–

The Macquarie Income Security ("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*.

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Note 8. Dividends paid and distributions paid or provided continued				
iii) Distributions paid or provided continued				
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**28**	30	**–**	–
Distributions provided	**22**	24	**–**	–
Total distributions paid or provided	**50**	54	**–**	–

The Macquarie Income Preferred Securities represent the minority interest of a consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Preferred Securities are recorded as movements in minority interest, as disclosed in note 34 – Reserves, retained earnings and minority interest. 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 33 – Contributed Equity, for further details on these instruments.

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Convertible debentures				
Distributions paid (net of distributions previously provided)	**–**	–	**28**	30
Distributions provided	**–**	–	**22**	24
Total distributions paid or provided	**–**	–	**50**	54
Note 9. Due from banks				
Cash at bank*	**1,256**	1,671	**325**	633
Overnight cash at bank	**2,128**	936	**2,128**	923
Other loans to banks	**3,287**	3,380	**3,153**	2,941
Due from clearing houses	**498**	133	**448**	83
Total due from banks	**7,169**	6,120	**6,054**	4,580

* Included within this balance is $15 million (2007: $nil) provided as security over payables to other financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Note 10. Cash collateral on securities borrowed and reverse repurchase agreements				
Central banks	**14**	–	**14**	–
Governments*	**226**	754	**226**	754
Financial institutions	**20,986**	24,650	**20,860**	24,584
Other	**52**	505	**51**	505
Total cash collateral on securities borrowed and reverse repurchase agreements	**21,278**	25,909	**21,151**	25,843

* Governments include federal, state and local governments and related enterprises.

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Note 11. Trading portfolio assets				
Trading securities				
Equities and other securities	**11,520**	12,114	**11,002**	11,675
Promissory notes	**1,302**	809	**1,303**	809
Commonwealth government bonds	**807**	71	**807**	71
Corporate bonds	**734**	1,496	**667**	1,412
Other government securities	**259**	350	**259**	350
Foreign government bonds	**256**	6	**2**	6
Certificates of deposit	**198**	426	**198**	426
Bank bills	**45**	159	**44**	159
Total trading securities	**15,121**	15,431	**14,282**	14,908
Other trading assets				
Commodities	**104**	87	**–**	23
Total other trading assets	**104**	87	**–**	23
Total trading portfolio assets	**15,225**	15,518	**14,282**	14,931

Trading assets pledged as security

Included in the balance of equities and other securities, certificates of deposit and bank bills 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 $1,348 million (2007: $971 million).

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 12. Loan assets held at amortised cost				
Due from clearing houses	**1,502**	2,827	**1,339**	2,751
Due from governments	**102**	165	**88**	110
Due from other entities				
Other loans and advances*	**43,988**	38,346	**18,439**	15,326
Less specific provisions	**(100)**	(71)	**(60)**	(69)
	43,888	38,275	**18,379**	15,257
Lease receivables	**1,468**	4,620	**533**	730
Total due from other entities	**45,356**	42,895	**18,912**	15,987
Total gross loan assets	**46,960**	45,887	**20,339**	18,848
Less collective allowance for credit losses	**(112)**	(91)	**(106)**	(89)
Total loan assets held at amortised cost**	**46,848**	45,796	**20,233**	18,759

* Included within this balance are mortgage loans of $21,710 million (2007: $20,034 million) held by consolidated mortgage SPEs.

** Included within this balance are other loans of $nil (2007: $1,631 million) provided as security over issued notes and payables to other external investors and financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Specific provisions				
Balance at the beginning of the financial year	**71**	52	**69**	48
Provided for during the financial year*	**78**	36	**32**	31
Loan assets written-off, previously provided for	**(9)**	(4)	**(9)**	(4)
Recovery of loans previously provided for*	**(35)**	(13)	**(31)**	(6)
Transfer to related parties	**(4)**	–	**–**	–
Attributable to foreign currency translation	**(1)**	–	**(1)**	–
Total specific provisions	**100**	71	**60**	69
Specific provisions as a percentage of gross loan assets	**0.21%**	0.15%	**0.29%**	0.37%

The specific provisions relate to doubtful loan assets that have been identified and provided for.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Collective allowance for credit losses				
Balance at the beginning of the financial year	**91**	80	**89**	76
Transfer to related entities	**(11)**	–	**(11)**	–
Provided for during the financial year*	**32**	11	**28**	13
Total collective allowance for credit losses	**112**	91	**106**	89

*Included within these balances are amounts relating to both continuing and discontinued operations as a result of the Group restructure.

The collective allowances for credit losses is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.

Note 13. Impaired assets

Impaired assets have been reported in accordance with AASB 139 and include loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Impaired debt investment securities available for sale with specific provisions for impairment	**264**	–	**–**	–
Less specific provisions	**(56)**	–	**–**	–
Impaired loan assets and other financial assets with specific provisions for impairment	**244**	166	**185**	150
Less specific provisions	**(105)**	(78)	**(64)**	(74)
Total net impaired assets	**347**	88	**121**	76

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 14. Other financial assets at fair value through profit or loss				
Investment securities	**499**	789	**436**	190
Loan assets	**3,136**	1,990	**3,135**	1,990
Total other financial assets at fair value through profit or loss	**3,635**	2,779	**3,571**	2,180
Note 15. Other assets				
Debtors and prepayments*	**2,891**	5,549	**2,229**	4,693
Security settlements**	**437**	3,580	**219**	2
Assets under operating lease***	**359**	975	**–**	2
Property held for sale and development*	**229**	336	**2**	–
Other	**9**	4	**–**	2
Total other assets	**3,925**	10,444	**2,450**	4,699

* Included within these balances is $365 million of debtors and prepayments (2007: $383 million) and $86 million (2007: $309 million) of property held for sale and development which are provided as security over amounts payable to other financial institutions.
** Security settlements are receivable within three working days of the relevant trade date.
*** Assets under operating lease are stated net of accumulated depreciation of $43 million (2007: $158 million).

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 16. Investment securities available for sale				
Equity securities				
Listed*	**327**	617	**254**	323
Unlisted**	**202**	377	**48**	34
Debt securities*** #	**14,207**	5,066	**12,627**	2,854
Total investment securities available for sale	**14,736**	6,060	**12,929**	3,211

* Included within this balance is $23 million (2007: $nil) provided as security over payable to other financial institutions.
** Included within this balance is $nil (2007: $155 million) provided as security over payables to other financial institutions.
*** Included within this balance are debt securities of $nil (2007: $471 million) which are recognised as a result of total return swaps. The economic entity does not have legal title to these assets but has full economic exposure to them.
\# Included within this balance is $12,461 million (2007: $2,245 million) of negotiable certificates of deposit due from financial institutions and $268 million (2007: $474 million) of bank bills.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 17. Intangible assets				
Goodwill	**70**	39	**–**	–
Capitalised software	**–**	17	**–**	10
Other identifiable intangibles	**63**	44	**–**	–
Total intangible assets	**133**	100	**–**	10
Note 18. Life investment contracts and other unit holder assets				
Life investment contracts and other unit holder assets				
Cash and due from banks	**81**	63	**–**	–
Debt securities	**787**	865	**–**	–
Units in unit trusts	**4,646**	4,675	**–**	–
Equity securities	**191**	244	**–**	–
Total life investment contracts and other unit holder assets	**5,705**	5,847	**–**	–

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

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Income from life investment contracts and other unit holder assets				
Premium income, investment revenue and management fees	**205**	613	**–**	–
Life investment contract claims, reinsurance and changes in policy liabilities	**(166)**	(578)	**–**	–
Direct fees	**(9)**	(8)	**–**	–
Total income from life investment contracts and other unit holder assets	**30**	27	**–**	–

Notes to the financial statements
31 March 2008 continued

Note 18. Life investment contracts and other unit holder assets continued

Solvency

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

As at 31 March 2008, the life investment contracts business had investment assets in excess of policy holder liabilities of $16 million (2007: $66 million).

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 19. Interest in associates and joint ventures using the equity method				
Interest in associates and joint ventures using the equity method				
Loans and investments without provisions for impairment	**1,513**	4,016	**412**	537
Loans and investments with provisions for impairment	**738**	60	**93**	80
Less provision for impairment*	**(295)**	(5)	**(2)**	(4)
Loans and investments at recoverable amount	**443**	55	**91**	76
Total interest in associates and joint ventures using the equity method**	**1,956**	4,071	**503**	613

* The investment in the associates Macquarie CountryWide Trust and Macquarie Office Trust were written down to their fair values which are based on their publicly quoted market price at 31 March 2008, as an estimate of their value in use.

** Included within this balance is $nil (2007: $184 million) provided as security over amounts payable to other financial institutions.

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 parent entity (refer to note 2(ii)).

The fair values of certain interests in material associates and joint ventures for which there are public quotations, exceeded their carrying value by $3 million (2007: $4 million adjusted for discontinued operations).

	Consolidated 2008 $m	Consolidated 2007 $m
(a) Reconciliation of movement in the economic entity's investment in associates and joint ventures using the equity method:		
Balance at the beginning of the financial year	**4,071**	3,463
Transfer as part of restructure (note 1)	**(3,063)**	–
Associates acquired/equity contributed	**2,203**	1,542
Share of pre-tax profits of associates and incorporated joint ventures	**230**	345
Share of tax expense of associates and incorporated joint ventures	**(70)**	(103)
Dividends received/receivable from associates	**(202)**	(374)
Associates disposed of	**(500)**	(720)
Investments in associates provided for/written-off	**(290)**	2
Foreign exchange and other adjustments	**(115)**	(100)
Transferred (from)/to held for sale, available for sale equity	**(308)**	16
Balance at the end of the financial year	**1,956**	4,071

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

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

Name of entity	Country of incorporation	Reporting date	Ownership interest 2008 %	Ownership interest 2007 %
Diversified CMBS Investments Inc (c)*	USA	31 March	**57**	57
Macquarie MEAG Prime REIT (b)	Singapore	31 December	**26**	24
Macquarie CountryWide Trust (b)**	Australia	30 June	**10**	9
Macquarie Diversified (AA) Trust (c)	Australia	31 March	**19**	28
Macquarie Office Trust (b)**	Australia	30 June	**7**	6
Macquarie Goodman Japan Limited (b)*** +	Singapore	30 June	**50**	–
Macquarie Airports (a)**	Australia	31 December	**–**	16
Macquarie Media Group (e)***	Australia	30 June	**–**	22
Macquarie Communications Infrastructure Group (a)**	Australia	30 June	**–**	12
Macquarie Capital Alliance Group (c)**	Australia	30 June	**–**	17
Macquarie AirFinance Limited (a)^	Bermuda	31 December	**–**	34
European Directories SA (d)***	Luxembourg	31 December	**–**	13
Euro Gaming Limited (e)	UK	31 December	**–**	50
Macquarie Infrastructure Group (a)**	Australia	30 June	**–**	2
Macquarie European Infrastructure Fund (a)**	UK	31 March	**–**	5

* Voting rights for this investment are not proportional to the ownership interest. The economic entity has joint control because neither the economic entity nor its fellow investors have control in their own right.

** The economic entity has significant influence due to its fiduciary relationship as manager of these entities.

*** Significant influence arises due to the economic entity's voting power and board representation.

\+ The reporting date of Macquarie Goodman Japan Limited has been changed to 31 March effective from 14 May 2008.

^ In the prior year, the entity was reported as Macquarie Aircraft Leasing Limited, incorporated in Ireland.

(a) Infrastructure
(b) Property development/ management entity
(c) Funds management and investment banking
(d) Directories business
(e) Media, television, gaming and internet investments

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
(c) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**1**	24	**–**	4
For which the economic entity is severally liable	**–**	146	**–**	6

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 19. Interest in associates and joint ventures using the equity method continued				
(d) Aggregated financial information of interests in associates and joint ventures are as follows:				
Economic entity's share of:				
Assets	**3,057**	9,472	**276**	529
Liabilities	**1,215**	5,806	**122**	280
Revenues	**509**	1,359	**102**	134
Profit	**163**	242	**–**	42
Note 20. Property, plant and equipment				
Furniture, fittings and leasehold improvements				
Cost	**66**	309	**47**	171
Less accumulated depreciation	**(37)**	(109)	**(28)**	(78)
Total furniture, fittings and leasehold improvements	**29**	200	**19**	93
Communication equipment				
Cost	**10**	29	**8**	23
Less accumulated depreciation	**(9)**	(22)	**(8)**	(19)
Total communication equipment	**1**	7	**–**	4
Computer equipment				
Cost	**56**	249	**40**	204
Less accumulated depreciation	**(42)**	(176)	**(30)**	(151)
Total computer equipment	**14**	73	**10**	53
Infrastructure assets				
Cost	**–**	106	**–**	–
Less accumulated depreciation	**–**	(8)	**–**	–
Total infrastructure assets	**–**	98	**–**	–
Total property, plant and equipment	**44**	378	**29**	150

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

	Furniture, fittings and leasehold improvements $m	Communication equipment $m	Computer equipment $m	Infrastructure assets $m	Total $m
Balance at the beginning of the financial year	200	7	73	98	**378**
Acquisitions	46	6	36	–	**88**
Disposals	(29)	(2)	–	–	**(31)**
Reclassification*	–	–	–	(90)	**(90)**
Transfer as part of restructure (note 1)	(150)	(6)	(53)	(6)	**(215)**
Foreign exchange movements	–	–	(1)	–	**(1)**
Depreciation expense:					
– Continuing operations	(20)	(3)	(22)	–	**(45)**
– Discontinued operations	(18)	(1)	(19)	(2)	**(40)**
Balance at the end of the financial year	**29**	**1**	**14**	**–**	**44**

*In August 2007, Windpark Bippen Grunstucks and Windkraft Holleben 1, wholly owned subsidiaries of the economic entity, were reclassified as Held for Sale and subsequently sold. This resulted in a transfer out of Infrastructure Assets of $90 million.

Fixed assets pledged as security

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $nil (2007: $89 million).

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 21. Investments in controlled entities				
Investments at cost without provisions for impairment	–	–	**2,281**	4,058
Investments at cost with provisions for impairment	–	–	**46**	71
Less provisions for impairment	–	–	**(23)**	(44)
Investments at recoverable amount	–	–	**23**	27
Total investments in controlled entities	–	–	**2,304**	4,085

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

Diversified CMBS Australia Holdings Pty Limited
Macquarie Asia Real Estate Management Limited
Macquarie Australia Securities Limited
Macquarie Capital Funding LP (United Kingdom)
Macquarie CLO Investments No.1 Pty Limited
Macquarie Countrywide Management Limited
Macquarie Direct Property Management Limited
Macquarie Finance Limited
Macquarie Funds Management Holdings Pty Limited
Macquarie Global Debt Investment No.1 Pty Limited
Macquarie Hong Kong Finance Limited (Cayman Islands)*
Macquarie Inc (United States)
Macquarie International Finance Limited
Macquarie Infrastructure Investment Management Limited
Macquarie Investment Services Limited
Macquarie Investment Management (UK) Limited (United Kingdom)
Macquarie Leisure Management Health Clubs Pty Limited
Macquarie Leisure Management Limited
Macquarie Life Limited
Macquarie Office Investments Pty Limited
Macquarie Office Management Limited
Macquarie Pastoral Management Limited
Macquarie Real Estate Korea Limited (formerly Macquarie Property Advisors Korea Limited) (Korea)
Macquarie Property Investment Management 2 Limited
Macquarie Property Investment Management 5 Limited
Macquarie Property Investment Management 6 Limited
Macquarie Securitisation Limited

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

*Incorporated in the Cayman Islands with business carried on predominantly in Hong Kong.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 22. Deferred income tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Provisions and accrued expenses	(35)	868	(152)	631
Tax losses	32	37	13	9
Fixed assets	30	20	32	20
Set-off of deferred tax liabilities	51	(468)	132	(229)
Total deferred income tax assets	78	457	25	431
Financial instruments	(77)	(386)	1	(229)
Investments in associates & controlled entities	(19)	(82)	–	–
Available for sale financial assets	(46)	(78)	(25)	(41)
Set-off of deferred tax assets	(51)	468	(132)	229
Total deferred income tax liabilities	(193)	(78)	(156)	(41)
Net deferred income tax (liabilities)/assets	(115)	379	(131)	390

Potential tax assets of approximately $13 million (2007: $52 million) attributable to tax losses carried forward by controlled entities have not been brought to account in the controlled entities and in the economic 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 to unused tax losses. The tax assets relating to deductible temporary differences and tax losses are not carried forward as an asset unless the benefit is probable of realisation.

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

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 23. Non current assets and disposal groups classified as held for sale				
Non current assets and assets of disposal groups classified as held for sale				
Associates*	–	750	–	139
Other non-current assets	35	–	–	–
Total assets of disposal groups held for sale**#	–	244	–	–
Total non current assets and assets of disposal groups classified as held for sale	35	994	–	139

The prior year balance represents the assets of ATM Solutions and Longview Oil and Gas.

* Included within this balance in the prior year were assets with a carrying value of $409 million provided as security over payables to other financial institutions.

** Included within this balance in the prior year were assets with a carrying value of $34 million provided as security over payables to other financial institutions.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 23. Non current assets and disposal groups classified as held for sale continued				
Liabilities of disposal groups classified as held for sale				
Total liabilities of disposal groups classified as held for sale#	–	170	–	–

The prior year balance represents the liabilities of ATM Solutions and Longview Oil and Gas.

All of the above non current assets and assets/liabilities of disposal groups classified as held for sale are expected to be disposed of by way of sale to a Macquarie Managed Fund, trade sale or sale to other investors within twelve months of being classified as held for sale, unless events or circumstances occur that are beyond the economic entity's control.

(a) Summarised information of material associates and jointly controlled entities classified as held for sale is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest 2008	Ownership interest 2007
Macquarie New York Parking 2 LLC (a) ^ @	USA	31 December	–	53%
Taiwan Cable TV Investments Sarl (b) ^^	Taiwan	31 December	–	20%
Retirement Villages Group (c) @	Australia	30 June	–	48%
Lane Cove Tunnel Holding Company Pty Limited (d)	Australia	31 December	–	19%

All associates and jointly controlled entities classified as held for sale are unlisted companies.
Voting power is equivalent to ownership interest unless otherwise stated.

^ Voting power was not proportional to the ownership interest. As at 31 March 2007, the economic entity had joint control because neither the economic entity nor its fellow investors had control in their own right.

^^ Legal interest was different to ownership interest. Legal interest in Taiwan Cable TV Investment Sarl as at 31 March 2007 was 40 per cent.

@ The economic entity's interests in these entities were sold as part of the group restructure (note 1).

(a) Retail parking stations
(b) Media, television and internet investments
(c) Retirement homes
(d) Infrastructure

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
(b) For associates and jointly controlled entities classified as held for sale, the economic entity's share of contingent liabilities, is as follows:				
Share incurred jointly with other investors	–	–	–	–
For which the economic entity is severally liable	–	–	–	–
(c) For associates and jointly controlled entities classified as held for sale, aggregated financial information is as follows:				
Economic entity's share of:				
Assets	–	2,542	–	377
Liabilities	–	1,917	–	241
Revenues	–	372	–	22
Profit/(loss)	–	–	–	–

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 24. Due to banks				
OECD banks	**2,666**	3,056	**1,781**	1,427
OECD central banks	**131**	229	**131**	229
Clearing houses*	**291**	174	**291**	161
Other	**661**	668	**318**	294
Total due to banks	**3,749**	4,127	**2,521**	2,111

*Amounts due to clearing houses are settled on the next business day.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 25. Cash collateral on securities lent and repurchase agreements				
Central banks	**317**	1,018	**317**	1,018
Governments	**69**	–	**69**	–
Financial institutions	**12,084**	5,730	**12,084**	5,730
Other	**999**	741	**999**	741
Total cash collateral on securities lent and repurchase agreements	**13,469**	7,489	**13,469**	7,489
Note 26. Trading portfolio liabilities				
Listed equity securities	**6,495**	14,258	**6,210**	14,293
Commonwealth government securities	**4,053**	1,243	**4,053**	1,243
Other government securities	**154**	352	**154**	352
Corporate securities	**14**	69	**14**	69
Total trading portfolio liabilities	**10,716**	15,922	**10,431**	15,957
Note 27. Debt issued at amortised cost				
Debt issued at amortised cost*	**54,763**	51,365	**26,581**	28,519
Total debt issued at amortised cost	**54,763**	51,365	**26,581**	28,519

* Included within this balance are amounts payable to mortgage SPE noteholders of $21,564 million (2007:$19,932 million).

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 28. Other financial liabilities at fair value through profit or loss				
Debt issued at fair value	**254**	1,229	**236**	1,213
Equity linked notes	**6,017**	4,323	**4,089**	3,936
Total other financial liabilities at fair value through profit or loss	**6,271**	5,552	**4,325**	5,149
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:				
Australian dollars	**39,791**	28,596	**14,023**	6,124
United States dollars	**7,730**	15,936	**7,672**	15,899
Euro	**5,170**	5,120	**5,170**	5,120
Canadian dollars	**2,547**	214	**651**	214
Great British pounds	**2,133**	3,467	**247**	3,467
Japanese yen	**1,624**	571	**1,624**	571
Hong Kong dollars	**896**	1,592	**815**	1,490
Singapore dollars	**621**	240	**180**	240
Other currencies	**522**	1,181	**524**	543
Total by currency	**61,034**	56,917	**30,906**	33,668

The economic entity's primary sources for domestic and international debt funding are its multi-currency, multi-jurisdictional Debt Instrument Program and domestic negotiable certificate of deposit issuance. Securities can be issued for terms varying from 1 day to 30 years.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 29. Other liabilities				
Creditors	**2,334**	5,166	**1,449**	4,021
Due to brokers and customers*	**904**	3,034	**633**	77
Accrued charges and sundry provisions	**808**	3,556	**521**	2,902
Other	**74**	202	**29**	94
Total other liabilities	**4,120**	11,958	**2,632**	7,094

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

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 30. Provisions				
Provision for long service leave	**31**	53	**30**	52
Provision for dividend	**29**	31	**22**	24
Provision for annual leave	**27**	69	**25**	48
Total provisions	**87**	153	**77**	124

Notes to the financial statements
31 March 2008 continued

Note 31. Capital

The Bank and economic entity's capital management strategy is to maximise shareholder value through optimising the level and use of capital resources.

The Bank's capital management objectives are to:

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

The Bank's capital management strategy uses both internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify the Bank's aggregate level of risk. The ECM is used in the Macquarie Group 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 Bank 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 Bank reported to APRA under the prudential requirements referred to as Basel I.

Regulatory capital requirements are measured for the Bank and certain controlled entities 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 controlled entities and its immediate parent less certain controlled entities 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 Authorised Deposit-taking Institutions ("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 controlled entities 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 controlled entities as noted above.

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

Note 32. Loan capital

Subordinated debt

Agreements between the Bank 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 Bank.

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

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Subordinated debt				
18 February 2013	**–**	227	**–**	227
2 May 2013	**25**	25	**25**	25
20 June 2013	**346**	332	**346**	332
15 September 2014	**301**	301	**301**	301
18 September 2015	**383**	432	**383**	432
19 September 2016	**372**	486	**372**	486
6 December 2016	**605**	576	**605**	576
31 May 2017	**305**	292	**305**	292
Total subordinated debt	**2,337**	2,671	**2,337**	2,671
Reconciliation of subordinated debt by major currency:				
Euro	**951**	908	**951**	908
Australian dollars	**569**	845	**569**	845
Great British pounds	**434**	486	**434**	486
United States dollars	**383**	432	**383**	432
Total subordinated debt by currency	**2,337**	2,671	**2,337**	2,671

In accordance with APRA guidelines, the Bank includes the applicable portion of the principal sum as tier 2 capital.

Notes to the financial statements
31 March 2008 continued

	Consolidated and Bank 2008 Number of shares	Consolidated and Bank 2007 Number of shares	Consolidated and Bank 2008 $m	Consolidated and Bank 2007 $m
Note 33. Contributed equity				
Ordinary share capital				
Opening balance of fully paid ordinary shares	**253,941,205**	232,440,369	**3,103**	1,916
Issue of 10,606,061 ordinary shares on 22 May 2006 at $66.00 per share	**–**	10,606,061	**–**	696
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 (2007 $67.94) per share	**(313,615)**	(288,009)	**(28)**	(20)
Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at $88.67 (2007: $67.94) per share	**313,615**	288,009	**28**	20
Issue of shares on exercise of options	**5,466,294**	7,536,936	**195**	239
Issue of shares on 23 June 2006 pursuant to the Share Purchase Plan at $66.00 per share	**–**	137,947	**–**	9
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 12 January 2007 pursuant to the Employee Share Plan effectively at $76.82 per share	**–**	21,632	**–**	2
Issue of shares on 5 July 2006 pursuant to the Dividend Reinvestment Plan (“DRP”) at $63.60 per share	**–**	1,523,326	**–**	97
Issue of shares on 15 December 2006 pursuant to the DRP at $70.23 per share	**–**	1,674,934	**–**	117
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)**	–
Transfer from share based payments reserve for expensed options that have been exercised (note 34)	**–**	–	**29**	27
Closing balance of fully paid ordinary shares	**300,536,918**	253,941,205	**3,586**	3,103

As at 31 March 2007, 34,358,273 options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 38 – Employee equity participation.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Equity contribution from ultimate parent entity				
Additional paid up capital	**18**	–	**12**	–
Total equity contribution from ultimate parent entity	**18**	–	**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 ("the Plan"). Staff eligible to participate are those of Associate Director level and above and consultants to the economic 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 2008, compensation expense relating to the Plan which has been treated as additional paid up capital totalled $18,037,467 (Bank: $12,179,396). Refer to note 38 – Employee equity participation.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Total Treasury Shares	**–**	(7)	**–**	–
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 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 the Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at the Bank's discretion on 19 November 2004.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
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 34 – Reserves, retained earnings and minority interest), 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 controlled entity of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2007: 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 (2007: 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 to the financial statements.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 34. Reserves, retained earnings and minority interest				
Reserves				
Foreign currency translation reserve				
Opening balance	1	4	(40)	(44)
Currency translation differences arising during the financial year, net of hedge	(21)	(3)	(94)	4
Total foreign currency translation reserve	(20)	1	(134)	(40)
Available for sale reserve				
Opening balance	228	151	108	93
Transfer to profit on sale arising from Group restructure	(152)	–	–	–
Revaluation movement for the financial year, net of tax	4	175	(46)	74
Transfer to profit on realisation	(24)	(98)	(16)	(59)
Total available for sale reserve	56	228	46	108
Share-based payments reserve				
Opening balance	144	84	144	84
Option expense for the period*	71	87	58	68
Options issued to subsidiary employees	–	–	13	19
Transfer to share capital on exercise of expensed options (note 33)	(29)	(27)	(29)	(27)
Total share-based payments reserve	186	144	186	144
Cash flow hedging reserve				
Opening balance	10	2	–	33
Revaluation movement for the financial year, net of tax	21	8	12	(33)
Total cash flow hedging reserve	31	10	12	–
Share of reserves of interests in associates and joint ventures using the equity method				
Opening balance	(3)	9	–	–
Share of reserves during the financial year	(3)	(12)	–	–
Total share of reserves of interests in associates and joint ventures using the equity method	(6)	(3)	–	–
Distribution to the ultimate parent entity				
Arising from Group restructure, representing balance at the end of period the financial year	(65)	–	(61)	–
Total reserves	182	380	49	212
Retained earnings				
Balance at the beginning of the financial year	2,795	1,934	1,378	949
Profit attributable to equity holders of Macquarie Bank Limited	15,730	1,494	17,015	1,085
Distributions paid or provided on Macquarie Income Securities	(34)	(31)	–	–
Distributions paid or provided on convertible debentures	–	–	(50)	(54)
Dividends paid on ordinary share capital	(17,117)	(602)	(17,117)	(602)
Balance at the end of the financial year	1,374	2,795	1,226	1,378

* Included in this expense are amounts relating to both continuing and discontinued operations as a result of the Group restructure.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 34. Reserves, retained earnings and minority interest continued				
Minority interest				
Macquarie Income Preferred Securities*				
Proceeds on issue of Macquarie Income Preferred Securities	**894**	894	**–**	–
Issue costs	**(10)**	(10)	**–**	–
	884	884	**–**	–
Current year profit	**50**	54	**–**	–
Distribution provided on Macquarie Income Preferred Securities	**(50)**	(54)	**–**	–
Foreign currency translation reserve	**(132)**	(43)	**–**	–
Total Macquarie Income Preferred Securities	**752**	841	**–**	–
Other minority interest				
Ordinary share capital	**83**	9	**–**	–
Preference share capital	**–**	6	**–**	–
Accumulated (losses)/gains	**(1)**	1	**–**	–
Total other minority interest	**82**	16	**–**	–
Total minority interest	**834**	857	**–**	–

*On 22 September 2004, Macquarie Capital Funding LP, a member of the economic entity, 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 (2007: 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 (2007: 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 first coupon was paid on 15 April 2005.

The instruments are reflected in the economic entity's financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

Note 35. Notes to the cash flow statements

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statements is reconciled to related items in the Balance Sheet as follows:

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Cash and balances with central banks	**7**	3	**7**	3
Due from other financial institutions				
– due from banks*	**7,169**	5,540	**6,054**	4,567
– trading securities**	**10,519**	2,783	**10,519**	2,783
Cash and cash equivalents at the end of the financial year	**17,695**	8,326	**16,580**	7,353

*Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses as per note 2(xxi).

**Includes certificates of deposit, bank bills and other short-term debt securities as per note 2(xxi).

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 35: Notes to 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	**15,780**	1,551	**17,015**	1,085
Adjustments to profit from ordinary activities				
Accretion of interest on available for sale financial assets	**(539)**	(165)	**(530)**	(128)
Amounts provided during the financial year	**483**	55	**53**	42
Depreciation on property, plant and equipment	**85**	81	**50**	46
Dividends received from associates	**203**	374	**–**	–
Fair value changes on available for sale financial assets transferred to profit or loss on realisation	**(24)**	(98)	**(16)**	(59)
Fair value changes on financial assets and liabilities at fair value through profit or loss	**17**	(87)	**(5)**	(12)
Gain on deconsolidation of previously controlled entities and businesses held for sale	**(14,368)**	(469)	**(14,518)**	–
Loss on disposal of property, plant and equipment	**28**	–	**19**	–
Net gains on sale of associates (including associates held for sale) and joint ventures	**(756)**	(650)	**(57)**	(353)
Net gains on sale of investment securities available for sale	**(130)**	(160)	**(96)**	(125)
Share based payment expense	**89**	87	**70**	87
Share of net profits of associates and joint ventures using the equity method	**(160)**	(242)	**–**	–
Changes in assets and liabilities				
Decrease in dividends receivable	**23**	376	**56**	–
Decrease/(increase) in fees and commissions receivable	**959**	(66)	**215**	(67)
Decrease/(increase) in fees and commissions payable	**(101)**	41	**(61)**	26
Increase/(decrease) in current tax liabilities	**389**	215	**(87)**	(298)
Increase in deferred tax assets	**(519)**	(385)	**(204)**	(111)
Increase/(decrease) in deferred tax liabilities	**161**	(79)	**115**	(88)
Increase in interest receivable	**(142)**	(225)	**(118)**	(71)
Increase in interest payable	**75**	319	**60**	233
(Decrease)/increase in provisions for employee entitlements	**(40)**	20	**(43)**	16
Increase/(decrease) in loan assets received	**7,061**	(11,567)	**13,545**	(5,762)
Increase in loan receivable from ultimate parent entity	**(8,800)**	–	**(8,800)**	–
(Increase)/decrease in debtors, prepayments, accrued charges and creditors	**(2,534)**	1,384	**(2,701)**	1,312
Decrease/(increase) in financial instruments, foreign exchange and commodities	**7,158**	(9,260)	**6,678**	(9,066)
Increase in amounts due to other financial institutions deposits and other borrowings	**11,526**	17,462	**3,235**	11,664
Decrease in life investment contract receivables	**795**	513	**–**	–
Net cash flows from/(used in) operating activities	**16,719**	(975)	**13,875**	(1,629)
Financing arrangements				
Total unused	**–**	1,014	**–**	–
Total overdraft facilities	**–**	1,014	**–**	–

The Bank has provided a $10.1 billion Transitional Bridge Facility to MGL, of which $8.8 billion remained outstanding at the balance date. This facility, which is an unsecured amortising two year committed term loan, is providing transitional funding to MGL whilst MGL establishes its profile in the term funding markets.

Note 36. Related party information

Ultimate parent

During the financial year, the MBL Group was restructured which resulted in MGL being established as the ultimate parent entity of the Macquarie Group. Qualitative disclosures of the transaction are presented in note 1 to the financial statements, and quantitative disclosures are presented in other notes to the financial statements, where relevant.

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.

The Bank has provided a $10.1 billion Transitional Bridge Facility to MGL, of which $8.8 billion remained outstanding at the balance date. This facility, which is an unsecured amortising two year committed term loan, is providing transitional funding to MGL whilst MGL establishes its profile in the term funding markets.

The following balances with the ultimate parent entity were outstanding at the year-end:

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Amounts receivable	**8,614**	–	**8,803**	–

Controlled entities

Transactions between the Bank and its controlled entities 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 controlled entities are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with controlled entities are eliminated in the consolidated financial statements. Amounts due from and due to controlled entities 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 controlled entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Prior to the restructure described above, the Bank as the head entity of the tax consolidated group, was party to a tax contribution agreement with its eligible Australian resident controlled entities. The terms and conditions of this agreement are set out in note 2 (vii) – Summary of significant accounting policies. As at 31 March 2007, the amount receivable by the Bank under the tax contribution agreement with the tax consolidated entities was $198 million. This balance is included in "Due from controlled entities" in the Bank's separate balance sheet as at 31 March 2007. Subsequent to the 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 contribution agreement are set out in note 2(vii) – Summary of significant accounting policies.

As at 31 March 2008, the amount payable by the economic entity to the head entity under the revised tax contribution agreement is $140 million (Bank: $122 million). This balance is included in "Due to related body corporates" in the balance sheet.

The Bank has entered into derivative transactions with its controlled entities to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its controlled entities at 31 March 2008 are $728 million positive value (2007: $281 million) and $75 million negative value (2007: $203 million).

Notes to the financial statements
31 March 2008 continued

Note 36. Related party information continued

During the year, the following transactions occurred with controlled entities:

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Interest income received/receivable	–	–	1,215	698
Interest expense paid/payable	–	–	(1,430)	(325)
Fee and commission income	–	–	107	169
Other operating income	–	–	–	2
Dividends and distributions received/receivable	–	–	1,466	925
Management fees, group service charges and cost recoveries	–	–	402	453
Brokerage and commission expense	–	–	–	(1)
Options issued to employees of controlled entities (note 34)	–	–	(13)	(19)
The following balances with controlled entities were outstanding at the year end:				
Amounts receivable	–	–	9,372	13,527
Amounts payable	–	–	(11,965)	(7,136)

Other related body corporate entities

Transactions between the economic 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 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 economic 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 year, the following transactions occurred with other related body corporate entities:

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Interest income received/receivable	275	–	219	–
Interest expense paid/payable	(237)	–	(63)	–
Other operating income	22	–	22	–
Dividends and distributions received/receivable	42	–	898	–
Management fees, group service charges and cost recoveries	(185)	–	(47)	–
Brokerage and commission expense	(184)	–	(132)	–
The following balances with other related body corporate entities were outstanding at the year-end:				
Amounts receivable	1,954	–	1,946	–
Amounts payable	(7,769)	–	(7,718)	–

Related party transactions during the financial year ended 31 March 2008 and comparative information as presented in this note represents related party transactions from ordinary activities and discontinued operations as disclosed in note 7 to the financial statements.

Note 36. Related party information continued

Associates and joint ventures

Transactions between the economic 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 Bank and its controlled entities, in the consolidated income statement.

During the year, the following transactions occurred with associates and joint ventures:

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Interest income received/receivable	**22**	80	**20**	53
Interest expense paid/payable	**–**	(13)	**–**	(9)
Fee and commission income*	**1,037**	967	**313**	275
Other income	**4**	4	**2**	2
Gains on sale of securities**	**37**	58	**40**	42
Dividends and distributions ***	**203**	374	**33**	72
Brokerage and commission expense	**(14)**	(14)	**–**	–

* Fee and commission income includes all fees charged to associates. Any unrealised component is eliminated to determine the economic entity's share of net profits of associates and joint ventures using the equity method.

** Gains on sale of securities are shown after elimination of unrealised profits/losses calculated by reference to the economic entity's ownership interest in the associate.

*** 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 at the year end (these exclude amounts which in substance form part of the economic entity's net investment in associates, disclosed in note 19):

	Consolidated 2008 $m	Consolidated 2007 $m	**Bank 2008 $m**	Bank 2007 $m
Amounts receivable	**472**	721	**376**	565
Amounts payable	**(4)**	(68)	**(4)**	(2)

Balances arising from lending and borrowing activities between the Bank 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.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure

Key Management Personnel

The Macquarie Group restructured on 13 November 2007. The Key Management Personnel ("KMP") for the restructured MBL Group remained the same as prior to the date of restructure with the exception of N.W. Moore and M. Carapiet who ceased to be KMP for the economic entity at that date. The disclosures throughout this note are in respect of the economic entity and subsequent to the restructure date only represent arrangements between the economic entity and the KMP.

The restructure was accounted for as a reverse acquisition in accordance with *AASB 3 Business Combinations*. Full details of the restructure can be found in note 1. Prior year comparatives are unchanged from last year.

Throughout this disclosure note, Mr Clarke and Mr Johnson are presented as Non-Executive Directors for the current year and Executive Directors for the comparative year, as they both retired from executive responsibilities with effect from 31 March 2007.

The following persons were Voting Directors of MBL during the financial years ended 31 March 2008 and 31 March 2007, unless indicated:

Executive Directors

L.G. Cox, AO	
A.E. Moss, AO*	
W.R. Sheppard*	Managing Director and Chief Executive Officer

Non-Executive Directors

J.G. Allpass	(retired 19 July 2007)
D.S. Clarke, AO	Non-Executive Chairman
M.R.G. Johnson	Deputy Chairman (retired 19 July 2007)
P.M. Kirby	
C.B. Livingstone, AO	
B.R. Martin	(retired 20 July 2006)
H.K. McCann, AM	
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 economic entity during the past two financial years ended 31 March 2008 and 31 March 2007, unless otherwise indicated.

Executives

J.K. Burke*	Group Head, Equity Markets Group
M. Carapiet	Joint Head, Macquarie Capital Advisors, Macquarie Capital (ceased to be a KMP on 12 November 2007)
A.J. Downe*	Group Head, Treasury and Commodities Group
P.J. Maher*	Group Head, Financial Services Group
N.R. Minogue*	Group Head, Risk Management Group
N.W. Moore	Group Head, Macquarie Capital (ceased to be a KMP on 12 November 2007)
G.C. Ward*	Chief Financial Officer
W.J. Moss, AM	Former Group Head, Banking and Property Group (retired 30 March 2007)

*Members of the Bank's Executive Committee as at 19 May 2008.

It is important to note that the Bank's Non-Executive Directors are specifically required to be categorised as KMP 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 the remuneration report contained in the Directors Report, pages 7 to 46.

Key Management Personnel remuneration

The following table details the aggregate remuneration for KMP. The Bank has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in Appendix 2 of the Remuneration Report.

Note 37. Key Management Personnel disclosure continued

	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Short-term employee benefits Total short-term employee benefits $	Long-term employee benefits Restricted profit share $	Share-based payments Options $	Total remuneration $
Executive Remuneration							
2008	**4,023,911**	**82,634,237**	**–**	**86,658,148**	**3,641,514**	**14,946,808**	**105,246,470**
2007	5,614,873	153,640,322	–	159,255,195	40,449,633	7,369,553	207,074,381
Non-Executive Remuneration							
2008	**1,754,246**	**–**	**181,964**	**1,936,210**	**–**	**–**	**1,936,210**
2007	1,543,837	–	89,433	1,633,270	–	–	1,633,270

Option holdings of Key Management Personnel and their related parties

The following tables set out details of options held during the year for the KMP 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 restructure. Following restructure, there were no options issued over MBL shares. Further details in relation to the Option Plan are disclosed in note 38 – Employee equity participation.

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)
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 retirement if earlier.
(c) Mr Allpass retired from the Board of Directors on 19 July 2007, the balance at 31 March 2008 represents his 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.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure continued
For the year ended 31 March 2007

Name and position	Number of options held at 1 April 2006	Options granted during the financial year	Options exercised during the financial year	Other changes (a)	Number of options held at 31 March 2007 (b)	Number of options vested during the financial year	Number of options vested at 31 March 2007 (b)
Executive Directors							
D.S. Clarke (c)	133,934	–	–	(80,200)	53,734	53,734	53,734
L.G. Cox	15,720	9,245	(1,700)	–	23,265	2,800	2,800
M.R.G Johnson	66,300	18,495	–	–	84,795	36,366	36,366
A.E. Moss	502,400	165,400	–	(156,800)	511,000	107,468	55,200
Non–Executive Directors							
J.G. Allpass	1,700	–	(1,700)	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–
B.R. Martin (d)	1,700	–	(1,000)	–	700	–	700
H.K. McCann	1,700	–	(1,700)	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–
Executives							
J.K. Burke	242,000	65,000	(7,000)	(118,665)	181,335	39,999	–
M. Carapiet	297,144	143,360	(83,666)	–	356,838	83,666	–
A.J. Downe	292,168	85,000	(54,500)	(104,333)	218,335	82,833	–
P.J. Maher	121,668	30,000	(13,334)	(13,334)	125,000	30,001	33,333
N.R. Minogue	132,334	35,000	–	(37,499)	129,835	36,333	21,500
N.W. Moore	434,335	160,000	–	–	594,335	134,334	134,334
W.R. Sheppard	161,000	45,000	–	(57,666)	148,334	57,666	–
G.C. Ward	95,001	30,000	(15,924)	(8,334)	100,743	30,000	5,742
Former							
W.J. Moss (e)	297,501	105,000	–	(73,500)	329,001	73,500	–

(a) Vested options sold under facility provided by an external party unless otherwise noted.
(b) Or date of retirement if earlier.
(c) Mr Clarke retired as Executive Chairman on 31 March 2007, whereupon 80,200 unvested options lapsed (with a value of $3,245,250). He will continue as Non-Executive Chairman.
(d) Mr Martin retired as a Non-Executive of the Bank on 20 July 2006.
(e) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

Note 37. Key Management Personnel disclosure continued

Shareholding of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of the Bank held during the year by the KMP 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 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 (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 retirement if earlier.

(c) Mr Allpass retired from the Board of Directors 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 represents 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.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure continued
For the year ended 31 March 2007

Name and position	Number of shares held at 1 April 2006	Shares issued on exercise of options	Other changes (a)	Number of shares held at 31 March 2007 (b)
Executive Directors				
D.S. Clarke	977,248	–	(326,135)	651,113
L.G. Cox	268,112	1,700	–	269,812
M.R.G Johnson	353,803	–	(60,000)	293,803
A.E. Moss	404,336	–	–	404,336
Non–Executive Directors				
J.G. Allpass	16,563	1,700	250	18,513
P.M. Kirby	7,891	–	1,881	9,772
C.B. Livingstone	7,336	–	214	7,550
B.R. Martin (c)	8,974	1,000	146	10,120
H.K. McCann	9,659	1,700	–	11,359
J.R. Niland	4,109	–	1,850	5,959
H.M. Nugent	19,112	–	650	19,762
Executives				
J.K. Burke	18,000	7,000	–	25,000
M. Carapiet	345,805	83,666	96,463	525,934
A.J. Downe	66,535	54,500	–	121,035
P.J. Maher	46,819	13,334	–	60,153
N.R. Minogue	110,811	–	–	110,811
N.W. Moore	835,251	–	7,862	843,113
W.R. Sheppard	259,271	–	–	259,271
G.C. Ward	13,287	15,924	–	29,211
Former				
W.J. Moss (d)	269,511	–	190	269,701

(a) Includes on market acquisitions and disposals.
(b) Or date of retirement if earlier.
(c) Mr Martin retired as a Non-Executive Director of the Bank on 20 July 2006.
(d) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

Note 37. Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

Details of loans provided by the economic entity to KMP and their related parties are disclosed in the following tables:

		Opening balance at 1 April $'000	Interest charged (a) $'000	Write-off $'000	Closing balance 31 March $'000	Number in group 31 March
Total for Key Management Personnel and their related parties	**2008**	**57,545**	**4,370**	**–**	**57,199**	**14**
	2007*	76,318	5,971	–	62,101	19
Total for Key Management Personnel	**2008**	**41,862**	**2,897**	**–**	**39,187**	**9**
	2007*	57,882	4,493	–	44,891	11

*Includes loans provided by the Bank to Mr W.J. Moss and his related parties. Mr W.J. Moss retired from the Executive Committee on 30 March 2007. As he was not a Key Management Personnel on 1 April 2007, his loans have not been included in the opening balance.

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

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

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

For the year ended 31 March 2008

Name and position	Balance at 1 April 2007 $'000	Interest charged (a) $'000	Write–off $'000	Balance at 31 March 2008 (b) $'000	Highest in period $'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 economic entity to Directors and Executives are made in the ordinary course of business on a commercial 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.

Notes to the financial statements
31 March 2008 continued

Note 37. Key Management Personnel disclosure continued
For the year ended 31 March 2007

Name and position	Balance at 1 April 2006 $'000	Interest charged (a) $'000	Write–off $'000	Balance at 31 March 2007 (b) $'000	Highest in period $'000
Executive Directors					
D.S. Clarke	48,940	3,729	–	29,937	52,658
L.G. Cox	621	21	–	200	684
M.R.G Johnson	220	5	–	20	220
Executives					
M. Carapiet	5,183	372	–	5,286	5,298
A.J. Downe	500	13	–	–	500
P.J. Maher	1,838	103	–	2,866	3,249
N.R. Minogue	5,054	349	–	4,618	6,379
N.W. Moore	6,848	908	–	12,891	12,891
W.R. Sheppard	100	3	–	–	100
G.C. Ward	739	107	–	1,727	1,727
Former					
W.J. Moss (c)	6,275	361	–	4,556	7,933

(a) All loans provided by the Company 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 W.J. Moss retired from the Executive Committee on 30 March 2007.

Other transactions and balances of Key Management Personnel and their related parties:
The following KMP have acquired Infrastructure Bonds and similar products from controlled entities 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 economic entity in respect of these transactions are the annual payments from the relevant KMP which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2008 $'000	Consolidated 2007 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**13,481**	16,817

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

Executive Directors
L.G. Cox and W.R. Sheppard.

Non–Executive Directors
D.S. Clarke and P.M. Kirby.

Executives
J.K. Burke, M. Carapiet, A.J. Downe, P.J. Maher, N.R. Minogue, N.W. Moore and G.C. Ward.

Note 37. Key Management Personnel disclosure continued

The following KMP (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 Bank

Name and position	Description	Number of shares 2008	Number of shares 2007
Non–Executive Directors			
D.S. Clarke*	Maturing May 2008	**260,379**	260,379
	Maturing June 2008	**100,784**	100,784
	Maturing August 2009	**25,196**	25,196
	Maturing June 2010	**213,517**	213,517
M.R.G Johnson**	Maturing July 2008	**25,000**	–
Executives			
M. Carapiet	Maturing August 2007	**–**	160,666
A.J. Downe	Maturing August 2007	**–**	36,382
	Maturing December 2007	**–**	27,834
	Maturing August 2008	**36,382**	–
	Maturing December 2008	**55,001**	–
N.R. Minogue	Maturing August 2007	**–**	11,500
G.C. Ward	Maturing August 2007	**–**	21,666
	Maturing July 2008	**5,742**	–
	Maturing July 2008	**40,373**	–

* Mr Clarke had an indirect interest in cash-settled put options that are exercisable against 213,517 fully paid ordinary Company shares.

** 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.

All other transactions with KMP (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 38. Employee equity participation

Option Plan

Prior to the Group Restructure, MBL operated an Employee Option Plan where options over MBL shares were granted to employees. This plan ceased on restructure date and as detailed in note 1, options on MBL shares were exchanged for options on MGL shares.

MGL now operates the Employee Option Plan ("the Plan"), which includes granting options to employees of MBL and it's controlled entities. Staff eligible to participate are those of Associate Director level and above and certain consultants to the Company. At 31 March 2008 there were 901 (2007: 2,099) employees of the Company who were participants in the Plan. 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 2008, compensation expense relating to the Plan totalled $84.9 million, for continuing and discontinued operations.

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 a trinomial option pricing framework. The following key assumptions have been adopted for grants made in the current financial year, risk free interest rate: 7.04 per cent (weighted average), expected life of options: four years, volatility of share price: 20 per cent and dividend yield: 3.4 per cent per annum.

The key assumptions adopted for grants made in the previous year were risk free interest rate: 6.5 per cent (weighted average); expected life of options: four years; volatility of share price: 20 per cent and dividend yield: 3.2 per cent.

Notes to the financial statements
31 March 2008 continued

Note 38. 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 Plan:

	Number of options 2008	Weighted average exercise price 2008 $	Number of options 2007	Weighted average exercise price 2007 $
Outstanding at the beginning of the financial year	**34,358,273**	**51.63**	31,235,034	42.45
Granted during the financial year	**12,590,539**	**72.53**	11,987,127	62.88
Forfeited during the financial year	**(1,442,347)**	**61.23**	(1,326,952)	50.30
Exercised during the financial year	**(6,577,026)**	**36.11**	(7,536,936)	31.72
Transfers from/to related entities	**(27,275,337)**	**60.99**	–	–
Outstanding at the end of the financial year	**11,654,102**	**60.50**	34,358,273	51.63
Exercisable at the end of the financial year	**1,899,445**	**43.53**	4,478,569	31.24

For options exercised during the financial year the weighted average share price at the date of exercise was $82.38 (2007: $67.09).

The range of exercise prices for options outstanding at the end of the financial year was $25.23 to $94.48 (2007: $20.57 to $83.55).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2008 is 3.06 years (2007: 3.16 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2008	Remaining life (years) 2008	Number of options 2007	Remaining life (years) 2007
20 – 30	**559,036**	**0.42**	3,848,229	1.42
30 – 40	**1,376,550**	**1.37**	8,243,550	2.05
40 – 50	**161,839**	**2.12**	750,989	2.90
50 – 60	**74,168**	**4.07**	97,500	3.21
60 – 70	**5,849,289**	**2.93**	20,534,415	3.89
70 – 80	**3,352,020**	**4.35**	687,590	4.36
80 – 90	**204,200**	**4.18**	196,000	4.94
90 – 100	**77,000**	**4.25**	–	–
	11,654,102	**3.06**	34,358,273	3.16

The weighted average fair value of options granted during the financial year was $11.92 (2007: $12.45).

The market value of shares issued during the year as a result of the exercise of these options was $542 million (2007: $506 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2008 was $616 million (2007: $2,843 million). No unissued shares, other than those referred to above, are under option as at the date of this report.

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 staff trading rules, options can be exercised after the vesting period at any time up to expiry. In individual cases, such as where an employee leaves with the Bank'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.

Note 38. Employee equity participation continued

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 a Macquarie Group Employee Share Plan ("ESP") on the same terms. No further issues will be made under the Macquarie Bank Employee Share Plan.

The Company'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 controlled entity 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 ("Shares"). MGL has since introduced a Macquarie Group Staff Share Acquisition Plan ("MGSSAP") on the same terms. No further acquisitions will be made under the MBSSAP.

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 ("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 2007. A total of three NEDs participated in the NEDSAP. In July and December 2007, a total of 1,992 shares were acquired on-market.

Notes to the financial statements
31 March 2008 continued

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 39. Contingent liabilities and assets				
The following details of contingent liabilities and assets exclude derivatives.				
Contingent liabilities exist in respect of:				
Guarantees	**281**	321	**391**	2,316
Indemnities	**78**	25	**83**	28
Undrawn credit facilities	**4,973**	6,576	**4,337**	5,546
Undrawn credit facilities – revocable at any time	**1,236**	1,274	**1,236**	1,274
Other contingent liabilities*	**266**	1,139	**659**	1,189
Total contingent liabilities and assets	**6,834**	9,335	**6,706**	10,353

* Other contingent liabilities include letters of credit, commitments certain of drawdown and performance related contingencies. Also included are forward asset purchases whereby the economic entity has entered into conditional agreements to acquire assets and operating businesses with the intention of subsequent disposal. These assets and businesses will be recognised when control passes to the economic entity. The total commitment at 31 March 2008 was $nil (2007: $1,115 million).

Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary appropriate provisions have been made in the financial statements. The Bank and economic entity do not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

Of the total contingent liabilities above, $6.2 billion (2007: $7.8 billion) also represent contingent assets. Such commitments to provide credit may in the normal course convert to loans and other assets.

	Consolidated 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Note 40. Capital and other expenditure commitments				
Not later than one year	**128**	30	**3**	30
Later than one year and not later than five years	**33**	23	**11**	23
Later than five years	**12**	–	**4**	–
Total capital and other expenditure commitments	**173**	53	**18**	53
Note 41. Lease commitments				
Non–cancellable operating leases expiring:				
Not later than one year	**113**	145	**109**	109
Later than one year and not later than five years	**452**	474	**444**	387
Later than five years	**130**	216	**129**	172
Total operating lease commitments	**695**	835	**682**	668

Operating leases relate to commercial buildings. The future lease commitments disclosed are net of any rental incentives received.

The Bank is in the process of novating its obligation under its leases to Macquarie Group Services Pty Limited.

Notes to the financial statements
31 March 2008 continued

Note 42. Derivative financial instruments
Objectives of holding and issuing derivative financial instruments
The economic 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 Bank'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 economic 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(xi):

Cash flow hedges

The economic 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 all these portfolios form the basis for identifying the non-trading interest rate risk of the economic entity, which is hedged with interest rate 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 2008, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $135 million positive value (2007: $70 million negative value).

In 2008, the economic entity recognised a profit of $2 million (2007: $3 million loss) in the income statement due to hedge ineffectiveness. At 31 March 2008, the fair value of outstanding derivatives held by the economic entity and designated as cash flow hedges was $699 million negative value (2007: $676 million negative value).

Fair value hedges

The economic entity's fair value hedges principally consist of foreign exchange forward contracts used to protect against changes in the fair value of foreign denominated equity instruments due to movements in market foreign exchange rates.

As at 31 March 2008, the fair value of outstanding derivatives held by the economic entity and designated as fair value hedges was $82 million positive value (2007: $10 million positive value).

Net investment in foreign operations hedges

The economic entity has applied net investment hedging for foreign exchange risk arising from foreign operations.

At 31 March 2008, the fair value of outstanding derivatives held by the economic entity and designated as net investment in foreign operations hedges was $1 million positive value (2007: $108 million positive value).

The types of contracts which the economic 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 42. Derivative financial instruments continued

The following table provides details of the economic entity's outstanding derivatives used for trading and hedging purposes as at 31 March.

			Consolidated 2008				Consolidated 2007	
	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	**16,934**	**186**	**153**	**33**	12,548	8	14	(6)
Forwards	**16,366**	**26**	**13**	**13**	4,950	35	36	(1)
Swaps	**138,596**	**1,879**	**1,598**	**281**	121,996	1,265	795	470
Options	**2,812**	**16**	**10**	**6**	3,374	7	5	2
Total interest rate contracts	**174,708**	**2,107**	**1,774**	**333**	142,868	1,315	850	465
Foreign exchange contracts								
Forwards	**48,016**	**2,550**	**1,739**	**811**	23,350	944	703	241
Swaps	**110,949**	**2,047**	**2,399**	**(352)**	97,716	1,008	1,365	(357)
Options	**103,852**	**884**	**678**	**206**	133,717	624	501	123
Total foreign exchange contracts	**262,817**	**5,481**	**4,816**	**665**	254,783	2,576	2,569	7
Equity contracts								
Exchange traded	**110,552**	**253**	**358**	**(105)**	7,166	433	145	288
Swaps	**348**	**98**	**1,711**	**(1,613)**	13,117	53	838	(785)
Options	**35,143**	**2,078**	**1,616**	**462**	29,829	667	611	56
Other	**3,337**	**54**	**65**	**(11)**	972	115	157	(42)
Total equity contracts	**149,380**	**2,483**	**3,750**	**(1,267)**	51,084	1,268	1,751	(483)
Commodity contracts								
Exchange traded	**48,019**	**3,095**	**4,136**	**(1,041)**	41,961	1,642	2,551	(909)
Forwards	**26,828**	**3,098**	**1,594**	**1,504**	70,576	3,220	1,534	1,686
Swaps	**17,996**	**2,084**	**2,092**	**(8)**	12,998	505	497	8
Options	**207,183**	**2,604**	**2,992**	**(388)**	195,782	1,387	1,317	70
Total commodity contracts	**300,026**	**10,881**	**10,814**	**67**	321,317	6,754	5,899	855
Total derivatives contracts outstanding	**886,931**	**20,952**	**21,154**	**(202)**	770,052	11,913	11,069	844

Notes to the financial statements
31 March 2008 continued

Note 42. Derivative financial instruments continued

The following table provides details of the Bank's outstanding derivatives used for trading and hedging purposes as at 31 March.

				Bank 2008				Bank 2007
	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	**10,872**	**36**	**48**	**(12)**	10,171	9	16	(7)
Forwards	**15,597**	**26**	**13**	**13**	2,829	32	33	(1)
Swaps	**123,837**	**1,585**	**1,559**	**26**	107,433	1,179	741	438
Options	**2,812**	**16**	**10**	**6**	1,953	7	5	2
Total interest rate contracts	**153,118**	**1,663**	**1,630**	**33**	122,386	1,227	795	432
Foreign exchange contracts								
Forwards	**47,777**	**2,544**	**1,739**	**805**	23,350	944	703	241
Swaps	**99,093**	**2,046**	**1,624**	**422**	97,260	1,007	687	320
Options	**103,852**	**884**	**678**	**206**	133,717	624	501	123
Total foreign exchange contracts	**250,722**	**5,474**	**4,041**	**1,433**	254,327	2,575	1,891	684
Equity contracts								
Exchange traded	**110,552**	**253**	**358**	**(105)**	7,166	433	145	288
Swaps	**348**	**98**	**1,711**	**(1,613)**	13,097	39	838	(799)
Options	**32,618**	**1,934**	**1,502**	**432**	27,888	634	559	75
Other	**3,337**	**54**	**65**	**(11)**	972	115	157	(42)
Total equity contracts	**146,855**	**2,339**	**3,636**	**(1,297)**	49,123	1,221	1,699	(478)
Commodity contracts								
Exchange traded	**30,627**	**1,931**	**2,958**	**(1,027)**	24,127	1,072	2,133	(1,061)
Forwards	**26,384**	**3,083**	**1,593**	**1,490**	69,302	3,139	1,542	1,597
Swaps	**13,700**	**2,079**	**2,092**	**(13)**	12,178	426	423	3
Options	**207,180**	**2,569**	**3,020**	**(451)**	150,181	1,387	1,317	70
Total commodity contracts	**277,891**	**9,662**	**9,663**	**(1)**	255,788	6,024	5,415	609
Total derivatives contracts outstanding	**828,586**	**19,138**	**18,970**	**168**	681,624	11,047	9,800	1,247

Note 43. Financial risk management

Risk Management Group

Risk is an integral part of Macquarie Bank's businesses. The main risks faced by the Bank 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 and the Board of MGL. 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.

43.1. 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 economic entity's trading activities.

The economic 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 appropriate these are reported to senior management and where recoverability is in doubt, appropriate provisions are held.

To mitigate credit risk, the economic 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 economic 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 economic 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
31 March 2008 continued

Note 43.1. Credit risk continued

Maximum exposure to credit risk

The tables below detail the concentration of credit exposures of the economic entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the economic entity's assets.

Consolidated 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	–	5,852	890	92
Financial institutions	798	1,635	1,959	2,244
Other	–	18	236	39,359
Total Australia	798	7,505	3,085	41,695
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
Other	–	167	–	838
Total Europe	5,053	13,273	66	1,422
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
Total Other	17	228	62	477
Total	7,169	21,278	3,601	46,848
Total gross credit risk				

* Classified based on the exposure to the underlying security borrowed.

The economic 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 economic entity with external counterparties normally requires collateral in excess of 100% (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.

Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Due from related body corporate $m	Life investment contracts and other unit holder assets $m	Credit commitments and contingent liabilities $m	Total $m
52	76	125	–	–	–	–	7,087
220	2,542	–	8,253	–	608	–	18,259
3,180	8,128	1,870	300	9,077	260	3,547	65,975
3,452	10,746	1,995	8,553	9,077	868	3,547	91,321
–	–	1	–	–	–	–	12
–	–	–	–	–	–	–	109
–	–	9	–	14	–	20	127
–	–	10	–	14	–	20	248
–	–	155	175	–	–	–	340
116	2,192	–	3,380	–	–	–	24,487
–	5,465	948	–	36	–	1,907	9,361
116	7,657	1,103	3,555	36	–	1,907	34,188
–	9	31	–	–	–	–	206
–	796	–	1,232	–	–	–	4,714
–	809	89	–	1,314	–	1,173	4,853
–	1,614	120	1,232	1,314	–	1,173	9,773
–	–	–	–	–	–	–	254
–	542	–	214	–	–	–	1,163
–	255	18	–	69	–	42	414
–	797	18	214	69	–	42	1,831
–	–	–	–	–	–	–	75
–	94	–	653	–	–	–	973
3	44	8	–	58	–	145	741
3	138	8	653	58	–	145	1,789
3,571	20,952	3,254	14,207	10,568	868	6,834	139,150
							139,150

Notes to the financial statements
31 March 2008 continued

Note 43.1. Credit risk continued
Maximum exposure to credit risk continued

Consolidated 2007	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m
Australia			
Governments	–	3,344	895
Financial institutions	1,570	1,123	1,296
Other	–	363	742
Total Australia	1,570	4,830	2,933
New Zealand			
Governments	–	–	–
Financial institutions	52	1	4
Other	–	–	–
Total New Zealand	52	1	4
Europe			
Governments	–	–	6
Financial institutions	1,094	18,033	62
Other	–	1,743	103
Total Europe	1,094	19,776	171
North America			
Governments	–	595	–
Financial institutions	720	10	22
Other	–	674	181
Total North America	720	1,279	203
Asia			
Financial institutions	2,532	–	–
Other	–	11	–
Total Asia	2,532	11	–
Other			
Governments	–	–	6
Financial institutions	152	–	–
Other	–	12	–
Total Other	152	12	6
Total	6,120	25,909	3,317
Total gross credit risk			

* Classified based on the exposure to the underlying security borrowed.

The economic 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 economic entity with external counterparties normally requires collateral in excess of 100% (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.

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Life investment contracts and other unit holder assets $m	Credit commitments and contingent liabilities $m	Total $m
40	125	218	169	–	–	184	4,975
66	8	1,202	–	1,266	622	–	7,153
36,754	1,948	1,504	4,314	678	306	6,298	52,907
36,860	2,081	2,924	4,483	1,944	928	6,482	65,035
–	–	1	2	–	–	–	3
–	–	5	–	–	–	–	62
306	–	35	52	–	–	122	515
306	–	41	54	–	–	122	580
–	–	–	251	–	–	–	257
501	47	3,720	–	769	–	–	24,226
2,845	–	838	2,213	1,406	–	1,581	10,729
3,346	47	4,558	2,464	2,175	–	1,581	35,212
1	–	3	1	–	–	–	600
23	–	1,552	–	99	–	–	2,426
4,877	367	1,213	3	809	–	519	8,643
4,901	367	2,768	4	908	–	519	11,669
1	–	246	–	–	–	–	2,779
224	7	583	1,949	39	–	551	3,364
225	7	829	1,949	39	–	551	6,143
–	–	–	1	–	–	–	7
–	–	41	–	–	–	–	193
158	–	752	12	–	–	80	1,014
158	–	793	13	–	–	80	1,214
45,796	2,502	11,913	8,967	5,066	928	9,335	119,853
							119,853

Notes to the financial statements
31 March 2008 continued

Note 43.1. Credit risk continued
Maximum exposure to credit risk continued
The tables below detail the concentration of credit exposure 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 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	–	5,852	890	78
Financial institutions	282	1,635	1,944	2,234
Other	–	18	235	13,164
Total Australia	282	7,505	3,069	15,476
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
Other	–	167	–	838
Total Europe	4,773	13,272	58	1,422
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
Total Other	13	102	27	457
Total	6,054	21,151	3,280	20,233
Total gross credit risk				

* 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 requires collateral in excess of 100% (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.

Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Due from related body corporate $m	Due from controlled entities $m	Credit commitments and contingent liabilities $m	Total $m
52	76	107	–	–	–	–	7,055
220	2,542	–	8,134	–	–	–	16,991
3,180	7,926	1,830	77	9,248	3,360	3,439	42,477
3,452	10,544	1,937	8,211	9,248	3,360	3,439	66,523
–	–	–	–	–	–	–	11
–	–	–	–	–	–	–	54
–	–	–	–	4	69	25	182
–	–	–	–	4	69	25	247
–	–	34	–	–	–	–	44
116	2,002	–	3,309	–	–	–	23,937
–	4,988	415	–	39	3,211	1,907	11,565
116	6,990	449	3,309	39	3,211	1,907	35,546
–	–	–	–	–	–	–	166
–	426	–	893	–	–	–	3,549
–	249	14	–	1,311	1,550	1,112	5,664
–	675	14	893	1,311	1,550	1,112	9,379
–	542	–	214	–	–	–	1,015
–	249	4	–	69	1,182	78	1,612
–	791	4	214	69	1,182	78	2,627
–	–	–	–	–	–	–	75
–	94	–	–	–	–	–	172
3	44	–	–	78	–	145	716
3	138	–	–	78	–	145	963
3,571	19,138	2,404	12,627	10,749	9,372	6,706	115,285
							115,285

Notes to the financial statements
31 March 2008 continued

Note 43.1. Credit risk continued
Maximum exposure to credit risk continued

Bank 2007	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements* $m	Trading portfolio assets $m
Australia			
Governments	–	3,344	895
Financial institutions	1,288	1,086	1,278
Other	–	362	709
Total Australia	1,288	4,792	2,882
New Zealand			
Governments	–	–	–
Financial institutions	16	1	–
Other	–	–	–
Total New Zealand	16	1	–
Europe			
Governments	–	–	6
Financial institutions	987	18,033	62
Other	–	1,743	103
Total Europe	987	19,776	171
North America			
Governments	–	595	–
Financial institutions	391	10	22
Other	–	657	152
Total North America	391	1,262	174
Asia			
Financial institutions	1,897	–	–
Other	–	–	–
Total Asia	1,897	–	–
Other			
Governments	–	–	6
Financial institutions	1	–	–
Other	–	12	–
Total Other	1	12	6
Total	4,580	25,843	3,233
Total gross credit risk			

* Classified based on the exposure to the underlying security borrowed.

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 requires collateral in excess of 100% (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.

Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Due from controlled entities $m	Credit commitments and contingent liabilities Total $m	Total $m
18	125	218	87	–	–	183	4,870
65	8	1,104	–	1,264	–	–	6,093
12,753	1,912	1,504	3,439	111	8,170	7,741	36,701
12,836	2,045	2,826	3,526	1,375	8,170	7,924	47,664
–	–	1	–	–	–	–	1
–	–	4	–	–	–	–	21
49	–	35	–	–	345	135	564
49	–	40	–	–	345	135	586
–	–	–	24	–	–	–	30
–	47	3,506	–	769	–	–	23,404
2,811	–	837	1,081	593	2,791	146	10,105
2,811	47	4,343	1,105	1,362	2,791	146	33,539
–	–	–	–	–	–	–	595
20	–	1,337	–	99	–	–	1,879
2,808	74	912	1	18	1,683	1,908	8,213
2,828	74	2,249	1	117	1,683	1,908	10,687
–	–	245	–	–	–	–	2,142
83	–	561	–	–	441	172	1,257
83	–	806	–	–	441	172	3,399
–	–	–	–	–	–	–	6
–	–	41	–	–	–	–	42
152	–	742	–	–	97	68	1,071
152	–	783	–	–	97	68	1,119
18,759	2,166	11,047	4,632	2,854	13,527	10,353	96,994
							96,994

Notes to the financial statements
31 March 2008 continued

Note 43.1. 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 economic entity's credit rating system.

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						10,568
– Other	8,615	–	–	1,953	–	10,568
Life investment contracts and other unit holder 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.

Note 43.1. Credit risk continued
Credit quality of financial assets continued

Credit Quality – Consolidated 2007

	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	6,105	15	–	–	–	6,120
Cash collateral on securities borrowed and reverse repurchase agreements						25,909
– Governments	3,939	–	–	–	–	3,939
– Financial institutions	19,167	–	–	–	–	19,167
– Other	2,718	85	–	–	–	2,803
Trading portfolio assets						3,317
– Governments	901	6	–	–	–	907
– Financial institutions	1,380	4	–	–	–	1,384
– Other	956	70	–	–	–	1,026
Loan assets held at amortised cost						45,796
– Governments	40	1	–	–	–	41
– Financial institutions	591	–	–	–	–	591
– Other	32,938	10,956	187	–	1,083	45,164
Other financial assets at fair value through profit or loss						2,502
– Governments	125	–	–	–	–	125
– Financial institutions	50	5	–	–	–	55
– Other	265	2,057	–	–	–	2,322
Derivative financial instruments – positive values						11,913
– Governments	222	–	–	–	–	222
– Financial institutions	6,658	108	–	–	–	6,766
– Other	2,492	2,424	5	–	4	4,925
Other assets						8,967
– Governments	424	–	–	–	–	424
– Other	6,051	2,127	–	112	253	8,543
Debt investment securities available for sale						5,066
– Financial institutions	2,134	–	–	–	–	2,134
– Other	2,927	5	–	–	–	2,932
Life investment contracts and other unit holder assets						928
– Financial institutions	622	–	–	–	–	622
– Other	306	–	–	–	–	306
Total						110,518

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
31 March 2008 continued

Note 43.1. 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 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						10,749
– Other	8,802	–	–	1,947	–	10,749
Due from controlled entities						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.

Note 43.1. Credit risk continued
Credit quality of financial assets continued

Credit Quality – Bank 2007

	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	4,576	4	–	–	–	4,580
Cash collateral on securities borrowed and reverse repurchase agreements						25,843
– Governments	3,939	–	–	–	–	3,939
– Financial institutions	19,130	–	–	–	–	19,130
– Other	2,689	85	–	–	–	2,774
Trading portfolio assets						3,233
– Governments	901	6	–	–	–	907
– Financial institutions	1,362	–	–	–	–	1,362
– Other	894	70	–	–	–	964
Loan assets held at amortised cost						18,759
– Governments	18	–	–	–	–	18
– Financial institutions	85	–	–	–	–	85
– Other	11,412	6,865	187	–	192	18,656
Other financial assets at fair value through profit or loss						2,166
– Governments	125	–	–	–	–	125
– Financial institutions	50	5	–	–	–	55
– Other	–	1,986	–	–	–	1,986
Derivative financial instruments – positive values						11,047
– Governments	219	–	–	–	–	219
– Financial institutions	6,148	89	–	–	–	6,237
– Other	2,190	2,392	5	–	4	4,591
Other assets						4,632
– Governments	111	–	–	–	–	111
– Other	2,891	1,431	–	67	132	4,521
Debt investment securities available for sale						2,854
– Financial institutions	2,132	–	–	–	–	2,132
– Other	722	–	–	–	–	722
Due from controlled entities						13,527
– Other	26	–	–	13,501	–	13,527
Total						86,641

Included in the past due category are balances in which an amount was overdue by one day or more.

Notes to the financial statements
31 March 2008 continued

Note 43.1. 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 2008 $m	Consolidated 2007 $m	Bank 2008 $m	Bank 2007 $m
Loan assets held at amortised cost				
– Other	–	8	–	8

Ageing analysis of assets past due but not impaired and impaired assets

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
						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

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 economic entity when determining whether an asset is impaired are set out in Note 2(xiii).

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,692 million (2007: $1,225 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.

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 economic entity does not usually hold any real estate or other assets acquired through the enforcement of security.

During the year the economic entity took possession of property assets with a carrying value of $29 million (2007: $nil). These assets are in the process of being sold.

Note 43.1. 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
							Consolidated 2007
Loan assets held at amortised cost							
– Other	717	114	52	154	46	1,083	1,512
Derivative financial instruments – positive values							
– Other	–	–	–	–	4	4	–
Other assets							
– Other	132	39	12	42	28	253	50
Total	849	153	64	196	78	1,340	1,562
							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**
							Bank 2007
Loan assets held at amortised cost							
– Other	88	15	9	35	45	192	280
Derivative financial instruments – positive values							
– Other	–	–	–	–	4	4	–
Other assets							
– Other	84	11	7	3	27	132	26
Total	172	26	16	38	76	328	306

Notes to the financial statements
31 March 2008 continued

Note 43.2. Liquidity risk

Liquidity Management

Liquidity risk is the risk that the economic entity is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Macquarie Bank's liquidity risk management framework ensures that the economic entity is able to meet its funding requirements as they fall due under a range of market conditions. The primary liquidity objective is to fund in a way that will facilitate growth (and income) in core businesses under a wide range of market conditions.

The Group Asset and Liability Committee (ALCO) assists the Executive Committee with oversight of asset and liability management (including liquidity risk management). The Bank's liquidity policies are approved by the Board after endorsement by ALCO and the Executive Committee.

Funding and liquidity management is performed centrally by Group Treasury, with oversight from ALCO. Group Treasury manage liquidity on a daily basis and provide regular reports to ALCO, the Executive Committee and Board.

RMG provides independent prudential oversight of liquidity risk management, including the independent validation of liquidity scenario assumptions, liquidity policies, and the required funding maturity profile.

The MBL liquidity policy outlines the liquidity requirements for the economic entity only. The policy requires that term assets and liquidity buffers are funded with deposits and term borrowings. Specified percentages of borrowings must have maturities beyond six and twelve months and a limit is set on the maximum percentage of borrowings maturing within the next three months and in any given month.

The Bank models various liquidity scenarios over a twelve month timeframe displaying various degrees of constrained capital market access. The objective of this modelling is to determine MBL's capacity for asset growth whilst meeting all repayment obligations over the next twelve months. The modelling includes twelve month liquidity scenarios significantly more drastic than the conditions that have prevailed since August 2007.

Liquid Asset Holdings

Group Treasury maintains portfolios of highly liquid assets in MBL to ensure adequate funding is available under all conditions. These liquid assets are held to cover both known and contingent sources of funding outflows. The assets are predominantly held in the most liquid asset classes such as short dated interbank deposits and stock eligible for repurchase with Central Banks.

Group Treasury and RMG undertake regular reviews of the liquidity characteristics of the Bank balance sheet. This provides an understanding of the liquidity characteristics of assets and liabilities against a backdrop of changing market conditions. The analysis ensures that the balance sheet is appropriately funded and the liquidity ramifications of market moves are clearly understood.

In response to the current funding market disruption the level of liquid asset holdings has been significantly increased. As at 31 March 2008, Group Treasury's holdings of liquid assets were $17.6 billion (2007: $6 billion). In addition to the liquid asset holdings MBL has other trading assets, many of which are liquefiable at short notice.

Credit ratings

As at 31 March 2008, the credit ratings for the Bank were as follows:

	Short-term	Long-term	Outlook
Fitch Ratings	F-1	A+	Stable
Moody's Investors Service	P-1	A1	Positive
Standard & Poor's	A-1	A	Stable

Contractual undiscounted cash flows

The tables below summarise the maturity profile of the economic 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 economic entity expects that many customers will not request repayment on the earliest date the economic entity could be required to pay and the table does not reflect the expected cash flows indicated by the economic 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.

Note 43.2. 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 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*	**823**	**15,760**	**24,473**	**15,441**	**3,049**	**59,546**
Other liabilities**	**–**	**3,238**	**–**	**–**	**–**	**3,238**
Life investment contracts & 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	**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**
						Consolidated 2007
Due to banks	1,003	2,310	296	246	569	4,424
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	7,489
Trading portfolio liabilities	–	15,922	–	–	–	15,922
Derivative financial instruments (trading)	–	10,280	–	–	–	10,280
Derivative financial instruments (hedging relationship)						
– Contractual amounts payable	–	6,291	2,575	12,997	3,674	25,537
– Contractual amounts receivable	–	(6,314)	(2,405)	(10,192)	(3,561)	(22,472)
Deposits	8,733	3,500	85	81	10	12,409
Debt issued at amortised cost*	17	20,444	15,160	17,445	1,483	54,549
Other liabilities**	–	8,135	–	–	–	8,135
Other financial liabilities at fair value through profit or loss	4	1,045	1,218	3,358	544	6,169
Life investment contracts and other unit holder liabilities	–	5,781	–	–	–	5,781
Subordinated debt	–	37	111	1,063	2,583	3,794
Total undiscounted cash flows	13,843	70,834	17,040	24,998	5,302	132,017

* Included in this balance are amounts payable to mortgage SPE noteholders. The contractual maturity of the notes is dependent on the repayment of the underlying mortgages. This has been reflected in the maturity analysis.
** Excludes liabilities excluded from the scope of the standard and non-contractual accruals and provisions.

Notes to the financial statements
31 March 2008 continued

Note 43.2. Liquidity risk continued
Contractual undiscounted cash flows continued
The tables below summarise the maturity profile of the Bank'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 Bank expects that many customers will not request payment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank'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.

	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 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	**653**	**13,322**	**9,554**	**4,462**	**–**	**27,991**
Other liabilities**	**–**	**2,080**	**–**	**–**	**–**	**2,080**
Other financial liabilities at fair value through profit or loss	**166**	**508**	**808**	**2,929**	**341**	**4,752**
Due to controlled entities	**11,791**	**3**	**31**	**123**	**50**	**11,998**
Due to related body corporate	**2,458**	**527**	**366**	**5,125**	**17**	**8,493**
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**
						Bank 2007
Due to banks	360	1,481	133	138	–	2,112
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	7,489
Trading portfolio liabilities	–	15,957	–	–	–	15,957
Derivative financial instruments (Trading)	–	9,736	–	–	–	9,736
Derivative financial instruments (Hedging relationship)						
– Contractual amounts payable	–	6,078	1,941	2,152	707	10,878
– Contractual amounts receivable	–	(6,186)	(2,014)	(2,295)	(756)	(11,251)
Deposits	8,378	3,371	284	24	–	12,057
Debt issued at amortised cost	15	18,284	6,517	4,259	65	29,140
Other liabilities**	–	4,044	–	–	–	4,044
Other financial liabilities at fair value through profit or loss	4	936	1,208	3,007	544	5,699
Due to controlled entities	2,623	1,132	2,210	1,549	69	7,583
Subordinated debt	–	37	111	1,063	2,583	3,794
Total undiscounted cash flows	15,466	58,273	10,390	9,897	3,212	97,238

** Excludes liabilities excluded from the scope of the standard and non-contractual accruals and provisions.

The maturity profile of commitments are set out in notes 40 to 41.

Note 43.3. Market risk

Market risk is the exposure to adverse changes in the value of the economic entity's trading portfolios as a result of changes in market prices or volatility. The economic entity is exposed to the following risks in each of the major markets in which it trades:

- *foreign exchange:* changes in spot and forward exchange rates and the volatility of exchange rates;
- *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 Bank 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 Bank 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 (VaR) figures

The table below shows the average, maximum and minimum VaR over the year for the major markets in which the economic entity operates. The VaR shown in the table is based on a 1-day holding period. The aggregated VaR is on a correlated basis.

Consolidated*	**2008 Average $m**	**2008 Maximum $m**	**2008 Minimum $m**	2007 Average $m	2007 Maximum $m	2007 Minimum $m
Equities	**5.34**	**7.82**	**4.06**	7.91	13.67	3.39
Interest rates	**3.23**	**4.36**	**2.22**	2.13	3.33	1.26
Foreign exchange and bullion	**2.91**	**5.30**	**1.89**	2.19	4.72	1.39
Commodities	**13.70**	**17.70**	**10.36**	3.50	8.00	1.43
Aggregate	**14.13**	**19.92**	**10.89**	8.44	15.22	2.18

* The analysis represents the VaR for the Consolidated Bank for the period after the Group restructure.

Consolidated**	**2008 Average $m**	**2008 Maximum $m**	**2008 Minimum $m**	2007 Average $m	2007 Maximum $m	2007 Minimum $m
Equities	**7.35**	**15.30**	**4.06**	7.91	13.67	3.39
Interest rates	**3.16**	**5.51**	**2.12**	2.13	3.33	1.26
Foreign exchange and bullion	**3.17**	**7.77**	**1.25**	2.19	4.72	1.39
Commodities	**10.81**	**17.70**	**3.73**	3.50	8.00	1.43
Aggregate	**13.50**	**19.92**	**8.69**	8.44	15.22	2.18

** The analysis represents the VaR for the Consolidated Bank for the full year.

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Note 43.3. Market risk continued
Value at Risk (VaR) figures continued

Bank	2008 Average $m	2008 Maximum $m	2008 Minimum $m	2007 Average $m	2007 Maximum $m	2007 Minimum $m
Equities	**6.58**	**13.22**	**3.05**	6.36	13.13	1.04
Interest rates	**3.13**	**5.42**	**2.03**	1.90	3.02	1.13
Foreign exchange and bullion	**10.89**	**13.92**	**8.22**	11.41	16.51	0.87
Commodities	**1.31**	**3.06**	**0.25**	0.87	1.94	0.22
Aggregate	**14.11**	**20.25**	**9.35**	11.67	18.04	4.10

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% 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 economic 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 economic entities' 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 $34 million (2007: $40 million) respectively.

Other than the volatility on the derivatives described above, there are no material interest rate risks within the economic entity.

Foreign Currency Risk
The economic entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of the economic 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 economic entity policy that all non-trading foreign currency exposures are appropriately hedged or 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. Compliance with this policy is actively monitored by RMG.

Note 43.3. Market risk continued

Foreign currency exposures arise on the economic entity's net investment in foreign operations with functional currencies other than the Australian dollar for both the Bank and economic 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 economic entity's foreign exchange policy the economic entity is not exposed to any material residual foreign currency risk.

Equity Price Risk

The table below indicates the equity markets to which the economic 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:

		2008			2007	
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 $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
– Australia	**+10**	**3.7**	**–**	+10	1.4	25.5
– America	**+10**	**5.2**	**6.9**	+10	2.2	3.8
– Europe	**+10**	**3.3**	**12.9**	+10	10.4	2.3
– Asia	**+10**	**–**	**2.8**	+10	0.7	11.1
– Other	**+10**	**–**	**0.1**	+10	–	0.5
Unlisted	**+10**	**0.7**	**13.9**	+10	–	26.3
Listed						
– Australia	**-10**	**(3.3)**	**–**	-10	(1.3)	(25.5)
– America	**-10**	**(4.8)**	**(6.9)**	-10	(2.2)	(3.8)
– Europe	**-10**	**(3.2)**	**(12.9)**	-10	(10.4)	(2.3)
– Asia	**-10**	**–**	**(2.8)**	-10	(0.7)	(11.1)
– Other	**-10**	**–**	**(0.2)**	-10	–	(0.5)
Unlisted	**-10**	**(0.4)**	**(13.9)**	-10	–	(26.3)
						Bank
Listed						
– Australia	**+10**	**1.9**	**12.2**	+10	2.7	16.8
– America	**+10**	**1.1**	**4.0**	+10	2.2	2.0
– Europe	**+10**	**2.1**	**1.1**	+10	0.4	0.2
– Asia	**+10**	**–**	**0.1**	+10	–	2.9
– Other	**+10**	**–**	**–**	+10	–	0.4
Unlisted	**+10**	**0.7**	**3.4**	+10	–	2.4
Listed						
– Australia	**–10**	**(1.5)**	**(12.2)**	-10	(2.6)	(16.8)
– America	**–10**	**(0.8)**	**(4.0)**	-10	–	(2.0)
– Europe	**–10**	**(1.9)**	**(1.1)**	-10	(0.4)	(0.2)
– Asia	**–10**	**–**	**(0.1)**	-10	–	(2.9)
– Other	**–10**	**–**	**–**	-10	–	(0.4)
Unlisted	**–10**	**(0.4)**	**(3.4)**	-10	–	(2.4)

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Note 44. Average interest bearing assets and liabilities and related interest

	Consolidated 2008			Consolidated 2007		
	Average Balance $m	Income/ (expense) $m	Average rate %	Average Balance $m	Income/ (expense) $m	Average rate %
Interest bearing assets						
Due from banks	9,891	504	5.1	3,369	182	5.4
Cash collateral on securities borrowed and reverse repurchase agreements	20,383	1,168	5.7	16,889	865	5.1
Trading portfolio assets	2,910	193	6.6	4,379	260	5.9
Loans assets held at amortised cost	47,398	3,648	7.7	39,042	2,850	7.3
Other financial assets at fair value through profit or loss	943	72	7.6	820	55	6.7
Other assets	22	2	7.8	19	1	6.0
Investment securities available for sale	10,718	742	6.9	3,852	227	5.9
Due from related parties	5,694	307	5.4	–	–	–
Net interest in associates and joint ventures using the equity method	227	11	5.0	197	10	5.2
Total interest bearing assets	98,186	6,647		68,567	4,450	
Total non–interest bearing assets	47,158			51,037		
Total assets	145,344			119,604		
Interest bearing liabilities						
Due to banks	5,040	(350)	7.0	3,103	(149)	4.8
Cash collateral on securities lent and repurchase agreements	10,996	(594)	5.4	8,333	(432)	5.2
Trading portfolio liabilities	3,051	(190)	6.2	3,190	(179)	5.6
Deposits	16,599	(841)	5.1	10,408	(480)	4.6
Debt issued at amortised cost	53,748	(3,354)	6.2	45,373	(2,424)	5.3
Other financial liabilities at fair value through profit or loss	1,124	(56)	5.0	1,227	(46)	3.7
Other liabilities	266	(17)	6.3	118	(9)	7.5
Due to related parties	3,665	(241)	6.6	–	–	–
Loan capital						
Subordinated debt	2,584	(151)	5.8	2,013	(120)	6.0
Total interest bearing liabilities	97,073	(5,794)		73,765	(3,839)	
Total non–interest bearing liabilities	40,375			39,172		
Total liabilities	137,448			112,937		
Net assets	7,896			6,667		
Equity						
Contributed equity						
Ordinary share capital	3,037			2,763		
Treasury shares	(5)			(3)		
Macquarie Income Securities	391			391		
Reserves	204			325		
Retained earnings	3,463			2,325		
Total capital and reserves attributable to equity holders of Macquarie Bank Limited	7,090			5,801		
Minority interest from disposal groups classified as held for sale	–			(3)		
Minority interest	806			869		
Total equity	7,896			6,667		

Note 45. Geographical concentration of deposits and borrowings

The following tables detail the source of deposits and borrowings, based upon the location of the relevant counterparty. Refer to "Liquidity Management" within Note 43.2 – Liquidity Risk for discussion on the source of the Bank's funding.

	Australia $m	Europe $m	North America $m	Asia Pacific* $m	Other $m	Total $m
						Consolidated 2008
Due to banks	672	1,714	776	368	219	3,749
Cash collateral on securities lent and repurchase agreements	3,261	9,013	96	907	192	13,469
Trading portfolio liabilities	5,097	903	1,572	3,142	2	10,716
Deposits	13,716	512	475	701	161	15,565
Debt issued at amortised cost	42,140	5,638	6,795	190	–	54,763
Other financial liabilities at fair value through profit or loss	1,682	1,598	380	2,611	–	6,271
Subordinated debt at amortised cost	1,691	–	–	–	–	1,691
Subordinated debt at fair value through profit or loss	646	–	–	–	–	646
Total deposits and borrowings by geographical location	68,905	19,378	10,094	7,919	574	106,870
						Bank 2008
Due to banks	353	842	776	331	219	2,521
Cash collateral on securities lent and repurchase agreements	3,261	9,013	96	907	192	13,469
Trading portfolio liabilities	4,812	903	1,572	3,142	2	10,431
Deposits	13,634	492	475	696	161	15,458
Debt issued at amortised cost	19,532	4,878	1,981	190	–	26,581
Other financial liabilities at fair value through profit or loss	539	1,139	380	2,267	–	4,325
Subordinated debt at amortised cost	1,691	–	–	–	–	1,691
Subordinated debt at fair value through profit or loss	646	–	–	–	–	646
Total deposits and borrowings by geographical location	44,468	17,267	5,280	7,533	574	75,122

* Excludes Australia

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Note 45. Geographical concentration of deposits and borrowings continued

	Australia $m	Europe $m	North America $m	Asia Pacific* $m	Other $m	Total $m
						Consolidated 2007
Due to banks	1,551	1,172	709	588	107	4,127
Cash collateral on securities lent and repurchase agreements	4,276	2,654	459	57	43	7,489
Trading portfolio liabilities	2,632	10,096	2,510	638	46	15,922
Deposits	11,319	108	575	268	133	12,403
Debt issued at amortised cost	27,484	16,328	6,850	703	–	51,365
Other financial liabilities at fair value through profit or loss	905	1,393	557	2,697	–	5,552
Subordinated debt at amortised cost	442	1,341	–	–	–	1,783
Subordinated debt at fair value through profit or loss	403	485	–	–	–	888
Total deposits and borrowings by geographical location	49,012	33,577	11,660	4,951	329	99,529
						Bank 2007
Due to banks	577	793	455	179	107	2,111
Cash collateral on securities lent and repurchase agreements	4,276	2,654	459	57	43	7,489
Trading portfolio liabilities	2,649	10,096	2,510	665	37	15,957
Deposits	11,237	107	404	268	39	12,055
Debt issued at amortised cost	5,251	15,715	6,850	703	–	28,519
Other financial liabilities at fair value through profit or loss	623	1,377	557	2,592	–	5,149
Subordinated debt at amortised cost	442	1,341	–	–	–	1,783
Subordinated debt at fair value through profit or loss	403	485	–	–	–	888
Total deposits and borrowings by geographical location	25,458	32,568	11,235	4,464	226	73,951

* Excludes Australia.

	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

Note 46. 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 date to the repayment date.

Consolidated 2008

	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
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
Investment securities available for sale	1,211	10,295	1,050	1,132	519	529	14,736
Life investment contracts and other unit holder assets*	75	630	160	–	–	4,840	5,705
Due from related body corporate	1,766	1,202	3,800	3,800	–	–	10,568
Interest in associates and joint ventures using the equity method	–	–	–	–	–	1,956	1,956
Sub-total monetary assets	20,193	45,737	7,815	14,541	9,806	7,325	105,417
Loan assets held at amortised cost by mortgage SPEs**	–	1,476	3,834	10,887	5,513	–	21,710
Total monetary assets	20,193	47,213	11,649	25,428	15,319	7,325	127,127
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 investment contracts and other unit holder liabilities*	–	–	–	–	–	5,689	5,689
Due to related body corporate	7,769	–	–	–	–	–	7,769
Subordinated debt at amortised cost	–	–	–	606	1,085	–	1,691
Subordinated debt at fair value through profit or loss	–	–	–	–	646	–	646
Sub-total monetary assets	24,968	30,649	23,944	8,775	4,739	5,689	98,764
Debt issued at amortised cost in mortgage SPEs**	–	1,737	10,499	9,203	125	–	21,564
Total monetary liabilities	24,968	32,386	34,443	17,978	4,864	5,689	120,328

* 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.

** Loan assets held at amortised cost by mortgage SPEs are shown at expected repayment maturities and Debt issued at amortised cost in mortgage SPEs are shown at expected extinguishment maturities.

Notes to the financial statements
31 March 2008 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
Note 46. Maturity analysis of monetary assets and liabilities continued							
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
Investment securities available for sale	430	9,980	1,069	1,074	74	302	12,929
Due from related body corporate	1,947	1,202	3,800	3,800	–	–	10,749
Due from controlled entities	9,372	–	–	–	–	–	9,372
Interest in associates and joint ventures using the equity method	–	–	–	–	–	503	503
Total monetary assets	27,485	43,786	7,662	14,183	4,930	805	98,851
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	7,718	–	–	–	–	–	7,718
Due to controlled entities	11,965	–	–	–	–	–	11,965
Subordinated debt at amortised cost	–	–	–	605	1,086	–	1,691
Subordinated debt at fair value through profit or loss	–	–	–	–	646	–	646
Total monetary liabilities	36,586	30,188	18,175	7,132	2,724	–	94,805

Note 46. Maturity analysis of monetary assets and liabilities continued

Consolidated 2007

	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
Assets							
Cash and balances with central banks	3	–	–	–	–	–	3
Due from banks	3,119	2,988	–	13	–	–	6,120
Cash collateral on securities borrowed and reverse repurchase agreements	21,831	4,078	–	–	–	–	25,909
Trading portfolio assets	–	15,518	–	–	–	–	15,518
Loan assets held at amortised cost	5,278	7,468	3,359	5,048	4,609	–	25,762
Other financial assets at fair value through profit or loss	781	924	74	286	714	–	2,779
Investment securities available for sale	12	3,296	–	1,149	631	972	6,060
Life investment contracts and other unit holder assets*	146	550	198	121	–	4,832	5,847
Interest in associates and joint ventures using the equity method	–	–	–	–	–	4,071	4,071
Sub–total monetary assets	31,170	34,822	3,631	6,617	5,954	9,875	92,069
Loan assets held at amortised cost by mortgage SPEs**	–	1,171	3,117	9,820	5,926	–	20,034
Total monetary assets	31,170	35,993	6,748	16,437	11,880	9,875	112,103
Liabilities							
Due to banks	1,074	2,229	272	138	414	–	4,127
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	–	7,489
Trading portfolio liabilities	–	15,922	–	–	–	–	15,922
Deposits	6,808	4,719	761	101	14	–	12,403
Debt issued at amortised cost	1,236	17,009	6,086	4,156	2,946	–	31,433
Other financial liabilities at fair value through profit or loss	43	993	1,181	2,958	377	–	5,552
Life investment contracts and other unit holder liabilities*	–	–	–	–	–	5,781	5,781
Subordinated debt issued at amortised cost	–	–	–	–	1,783	–	1,783
Subordinated debt issued at fair value through profit or loss	–	–	–	–	888	–	888
Sub–total monetary liabilities	13,247	44,275	8,300	7,353	6,422	5,781	85,378
Debt issued at amortised cost in mortgage SPEs**	–	549	7,614	9,864	1,905	–	19,932
Total monetary liabilities	13,247	44,824	15,914	17,217	8,327	5,781	105,310

* The life insurance 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.

** Loan assets held at amortised cost by mortgage SPEs are shown at expected repayment maturities and Debt issued at amortised cost in mortgage SPEs are shown at expected extinguishment maturities.

Notes to the financial statements
31 March 2008 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
Note 46. Maturity analysis of monetary assets and liabilities continued							
Bank 2007							
Assets							
Cash and balances with central banks	3	–	–	–	–	–	3
Due from banks	1,657	2,910	–	13	–	–	4,580
Cash collateral on securities borrowed and reverse repurchase agreements	21,765	4,078	–	–	–	–	25,843
Trading portfolio assets	–	14,931	–	–	–	–	14,931
Loan assets held at amortised cost	5,046	6,666	1,405	3,371	2,271	–	18,759
Other financial assets at fair value through profit or loss	519	735	72	286	568	–	2,180
Investment securities available for sale	4	2,578	–	200	75	354	3,211
Due from controlled entities	11,092	–	–	292	834	1,309	13,527
Interest in associates and joint ventures using the equity method	–	–	–	–	–	613	613
Total monetary assets	40,086	31,898	1,477	4,162	3,748	2,276	83,647
Liabilities							
Due to banks	349	1,491	133	138	–	–	2,111
Cash collateral on securities lent and repurchase agreements	4,086	3,403	–	–	–	–	7,489
Trading portfolio liabilities	–	15,957	–	–	–	–	15,957
Deposits	6,802	4,592	626	35	–	–	12,055
Debt issued at amortised cost	1,236	16,942	6,302	3,985	54	–	28,519
Other financial liabilities at fair value through profit or loss	28	898	1,172	2,674	377	–	5,149
Due to controlled entities	6,261	–	–	–	–	875	7,136
Subordinated debt issued at amortised cost	–	–	–	–	1,783	–	1,783
Subordinated debt issued at fair value through profit or loss	–	–	–	–	888	–	888
Total monetary liabilities	18,762	43,283	8,233	6,832	3,102	875	81,087

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk									
Consolidated 2008									
On-balance sheet assets									
Cash and balances with central banks	7.0	7	–	–	–	–	–	–	7
Due from banks	4.5	7,002	131	36	–	–	–	–	7,169
Cash collateral on securities borrowed and reverse repurchase agreements	4.3	10,191	–	10,805	282	–	–	–	21,278
Trading portfolio assets	6.7	3,659	–	46	–	–	–	11,520	15,225
Loan assets held at amortised cost	8.6	41,588	674	4,113	–	353	120	–	46,848
Other financial assets at fair value through profit or loss	11.2	2,926	80	528	46	25	–	30	3,635
Derivative financial instruments – positive values	–	–	–	–	–	–	–	20,952	20,952
Other assets	–	–	–	–	–	–	–	3,925	3,925
Investment securities available for sale	7.5	1,105	7,422	3,538	1,098	1,104	–	469	14,736
Intangible assets	–	–	–	–	–	–	–	133	133
Life investment contracts and other unit holder assets*	–	–	–	–	–	–	–	5,705	5,705
Due from related body corporate	8.3	8,802	–	–	–	–	–	1,766	10,568
Interest in associates and Joint ventures using the equity method	7.2	199	–	–	–	–	–	1,757	1,956
Property, plant and equipment	–	–	–	–	–	–	–	44	44
Deferred income tax assets	–	–	–	–	–	–	–	78	78
Non-current assets classified as held for sale	12.0	–	–	35	–	–	–	–	35
Total on-balance sheet assets		75,479	8,307	19,101	1,426	1,482	120	46,379	152,294

* 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.

Notes to the financial statements
31 March 2008 continued

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Consolidated 2008									
On-balance sheet liabilities									
Due to banks	3.5	3,189	481	–	79	–	–	–	3,749
Cash collateral on securities lent and repurchase agreements	4.4	6,300	255	922	5,992	–	–	–	13,469
Trading portfolio liabilities	6.1	4,471	–	6,243	–	–	–	2	10,716
Derivative financial instruments – negative values	–	–	–	–	–	–	–	21,154	21,154
Deposits	6.3	10,535	1,686	2,248	719	277	100	–	15,565
Debt issued at amortised cost	6.8	9,836	28,449	9,928	4,648	1,902	–	–	54,763
Other financial liabilities at fair value through profit or loss	4.4	1,550	339	229	701	3,208	244	–	6,271
Other liabilities	–	–	–	–	–	–	–	4,120	4,120
Current tax liabilities	–	–	–	–	–	–	–	27	27
Life investment contracts and other unit holder liabilities	–	–	–	–	–	–	–	5,689	5,689
Due to related body corporate	–	–	–	–	–	–	–	7,769	7,769
Provisions	–	–	–	–	–	–	–	87	87
Deferred income tax liabilities	–	–	–	–	–	–	–	193	193
Subordinated debt at amortised cost	7.1	–	–	–	–	–	1,691	–	1,691
Subordinated debt at fair value through profit or loss	6.3	–	–	–	–	–	646	–	646
Total on-balance sheet liabilities		35,881	31,210	19,570	12,139	5,387	2,681	39,041	145,909
Total equity									6,385

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Consolidated 2007									
On-balance sheet assets									
Cash and balances with central banks	5.3	3	–	–	–	–	–	–	3
Due from banks	5.6	3,314	2,806	–	–	–	–	–	6,120
Cash collateral on securities borrowed and reverse repurchase agreements	5.3	21,831	2,837	1,241	–	–	–	–	25,909
Trading portfolio assets	5.0	–	904	365	378	800	1,053	12,018	15,518
Loan assets held at amortised cost	6.8	34,267	1,610	2,423	3,658	3,331	507	–	45,796
Other financial assets at fair value through profit or loss	7.0	772	852	100	413	177	209	256	2,779
Derivative financial instruments – positive values	–	–	–	–	–	–	–	11,913	11,913
Other assets	–	–	–	–	–	–	–	10,444	10,444
Investment securities available for sale	6.3	83	511	2,505	270	1,126	578	987	6,060
Intangible assets	–	–	–	–	–	–	–	100	100
Life investment contracts and other unit holder assets	2.4	145	313	238	198	121	–	4,832	5,847
Interest in associates and joint ventures using the equity method	6.3	304	–	–	–	–	–	3,767	4,071
Property, plant and equipment	–	–	–	–	–	–	–	378	378
Deferred income tax assets	–	–	–	–	–	–	–	457	457
Assets of disposal groups classified as held for sale	–	–	–	–	–	–	–	994	994
Total on-balance sheet assets		60,719	9,833	6,872	4,917	5,555	2,347	46,146	136,389

Notes to the financial statements
31 March 2008 continued

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Consolidated 2007									
On-balance sheet liabilities									
Due to banks	5.4	2,179	648	431	286	264	319	–	4,127
Cash collateral on securities lent and repurchase agreements	5.1	4,086	3,403	–	–	–	–	–	7,489
Trading portfolio liabilities	5.1	–	–	90	391	477	722	14,242	15,922
Derivative financial instruments – negative values	–	–	–	–	–	–	–	11,069	11,069
Deposits	7.7	9,718	1,537	802	346	–	–	–	12,403
Debt issued at amortised cost	7.0	1,779	7,324	9,425	13,262	4,963	14,612	–	51,365
Other financial liabilities at fair value through profit or loss	5.6	–	9	250	707	263	1	4,322	5,552
Other liabilities	–	–	–	–	–	–	–	11,958	11,958
Current tax liabilities	–	–	–	–	–	–	–	132	132
Life investment contracts and other unit holder liabilities	–	–	–	–	–	–	–	5,781	5,781
Provisions	–	–	–	–	–	–	–	153	153
Deferred income tax liabilities	–	–	–	–	–	–	–	78	78
Liabilities of disposal groups classified as held for sale	–	–	–	–	–	–	–	170	170
Subordinated debt at amortised cost	6.1	–	–	–	–	–	1,783	–	1,783
Subordinated debt at fair value through profit or loss	6.8	–	–	–	–	–	888	–	888
Total on-balance sheet liabilities		17,762	12,921	10,998	14,992	5,967	18,325	47,905	128,870
Total equity									7,519

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Bank 2008									
On-balance sheet assets									
Cash and balances with central banks	7.0	7	–	–	–	–	–	–	7
Due from banks	4.5	6,054	–	–	–	–	–	–	6,054
Cash collateral on securities borrowed and reverse repurchase agreements	4.3	10,064	–	10,805	282	–	–	–	21,151
Trading portfolio assets	6.7	3,234	–	46	–	–	–	11,002	14,282
Loan assets held at amortised cost	8.6	15,041	720	4,129	–	288	55	–	20,233
Other financial assets at fair value through profit or loss	11.2	2,903	69	528	46	25	–	–	3,571
Derivative financial instruments – positive values	–	–	–	–	–	–	–	19,138	19,138
Other assets	–	–	–	–	–	–	–	2,450	2,450
Investment securities available for sale	7.8	77	6,908	3,498	1,098	1,104	–	244	12,929
Due from related body corporate	8.3	8,802	–	–	–	–	–	1,947	10,749
Due from controlled entities	–	–	–	–	–	–	–	9,372	9,372
Interest in associates and joint ventures using the equity method	7.2	116	–	–	–	–	–	387	503
Property, plant and equipment	–	–	–	–	–	–	–	29	29
Investments in controlled entities	–	–	–	–	–	–	–	2,304	2,304
Deferred income tax assets	–	–	–	–	–	–	–	25	25
Total on-balance sheet assets		46,298	7,697	19,006	1,426	1,417	55	46,898	122,797

Notes to the financial statements
31 March 2008 continued

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Bank 2008									
On-balance sheet liabilities									
Due to banks	3.0	2,271	171	–	79	–	–	–	2,521
Cash collateral on securities lent and repurchase agreements	4.4	6,300	255	922	5,992	–	–	–	13,469
Trading portfolio liabilities	6.1	4,219	–	6,210	–	–	–	2	10,431
Derivative financial instruments – negative values	–	–	–	–	–	–	–	18,970	18,970
Deposits	6.3	10,450	1,671	2,242	718	277	100	–	15,458
Debt issued at amortised cost	5.7	7,475	8,186	5,161	4,617	1,142	–	–	26,581
Other financial liabilities at fair value through profit or loss	4.4	411	268	215	691	2,496	244	–	4,325
Other liabilities	–	–	–	–	–	–	–	2,632	2,632
Current tax liabilities	–	–	–	–	–	–	–	9	9
Due to related body corporate	–	–	–	–	–	–	–	7,718	7,718
Due to controlled entities	–	–	–	–	–	–	–	11,965	11,965
Provisions	–	–	–	–	–	–	–	77	77
Deferred income tax liabilities	–	–	–	–	–	–	–	156	156
Subordinated debt at amortised cost	7.1	–	–	–	–	–	1,691	–	1,691
Subordinated debt at fair value through profit or loss	6.3	–	–	–	–	–	646	–	646
Total on–balance sheet liabilities		31,126	10,551	14,750	12,097	3,915	2,681	41,529	116,649
Total equity									6,148

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Bank 2007									
On-balance sheet assets									
Cash and balances with central banks	5.3	3	–	–	–	–	–	–	3
Due from banks	5.6	2,941	1,639	–	–	–	–	–	4,580
Cash collateral on securities borrowed and reverse repurchase agreements	5.3	21,512	2,837	1,494	–	–	–	–	25,843
Trading portfolio assets	5.0	–	763	365	378	762	1,007	11,656	14,931
Loan assets held at amortised cost	7.6	11,840	2,978	1,126	913	1,395	507	–	18,759
Other financial assets at fair value through profit or loss	7.7	752	735	28	411	177	63	14	2,180
Derivative financial instruments – positive values	–	–	–	–	–	–	–	11,047	11,047
Other assets	–	–	–	–	–	–	–	4,699	4,699
Investment securities available for sale	6.5	77	511	2,065	–	200	–	358	3,211
Intangibles	–	–	–	–	–	–	–	10	10
Life investment contracts and other unit holder assets	–	–	–	–	–	–	–	–	–
Due from controlled entities	6.3	11,092	–	–	–	–	–	2,435	13,527
Interest in associates and joint ventures using the equity method	6.3	105	–	–	–	–	–	508	613
Property, plant and equipment	–	–	–	–	–	–	–	150	150
Investments in controlled entities	–	–	–	–	–	–	–	4,085	4,085
Deferred income tax assets	–	–	–	–	–	–	–	431	431
Assets and disposal groups classified as held for sale	–	–	–	–	–	–	–	139	139
Total on-balance sheet assets		48,322	9,463	5,078	1,702	2,534	1,577	35,532	104,208

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31 March 2008 continued

	Weighted average effective interest rate %	Floating interest rate $m	Fixed interest rate repricing: 1 month or less $m	1 month to 3 months $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m
Note 47. Interest rate risk continued									
Bank 2007									
On–balance sheet liabilities									
Due to banks	5.9	1,538	175	1	133	264	–	–	2,111
Cash collateral on securities lent and repurchase agreements	5.1	4,086	3,403	–	–	–	–	–	7,489
Trading portfolio liabilities	5.0	–	–	90	391	477	722	14,277	15,957
Derivative financial instruments – negative values	–	–	–	–	–	–	–	9,800	9,800
Deposits	7.1	9,626	1,542	541	346	–	–	–	12,055
Debt issued at amortised cost	5.3	1,614	7,174	9,390	6,302	3,985	54	–	28,519
Other financial liabilities at fair value through profit or loss	5.9	–	8	241	700	262	–	3,938	5,149
Other liabilities	–	–	–	–	–	–	–	7,094	7,094
Current tax liabilities	–	–	–	–	–	–	–	94	94
Life investment contracts and other unit holder liabilities	–	–	–	–	–	–	–	–	–
Due to controlled entities	6.3	6,261	–	–	–	–	–	875	7,136
Provisions	–	–	–	–	–	–	–	124	124
Deferred income tax liabilities	–	–	–	–	–	–	–	41	41
Subordinated debt at amortised cost	–	–	–	–	–	–	1,783	–	1,783
Subordinated debt at fair value through profit or loss	6.1	–	–	–	–	–	888	–	888
Total on-balance sheet liabilities		23,125	12,302	10,263	7,872	4,988	3,447	36,243	98,240
Total equity									5,968

Note 48. Fair Value

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 significantly 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 carried at fair value, and financial instruments carried at amortised costs.

Financial instruments carried at fair value:

- Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (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 an 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.

Financial instruments carried at amortised cost:

- The fair values of liquid assets and other assets maturing within 12 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 specific maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- The fair values of variable rate financial instruments, including 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. In the case of loan assets held at amortised cost, changes in the fair value do not reflect changes in their credit quality, as the impact of credit risk is largely recognised separately by deducting the amount of the allowance for credit losses;
- The fair value of fixed rate loans and debt at amortised cost is estimated by reference to current market rates offered on similar loans. The fair values of these instruments are not materially different to their carrying amounts.
- Substantially all of the economic 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;
- The fair values of balances due from/to controlled entities (in the Bank's separate financial statements) and balances due from/to related body corporates (in the Bank's and the consolidated financial statements) are approximated by their carrying amounts as the balances are generally receivable/payable on demand.

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 credit risk, volatility and correlation. Changing these assumptions, to reasonably possible alternative assumptions, for those financial instruments for which the 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.

Notes to the financial statements
31 March 2008 continued

Note 49. Audit and other services provided by PricewaterhouseCoopers ("PwC")

During the financial year, the auditor of the Bank and economic entity, PwC, and its related practices earned the following remuneration:

	Consolidated 2008 $000	Consolidated 2007 $000	**Bank 2008 $000**	Bank 2007 $000
PwC Australian Firm				
Audit and review of financial reports of the Bank or any entity in the economic entity	**4,587**	3,420	**3,639**	2,404
Other audit–related work	**1,150**	1,579	**1,074**	1,448
Other assurance services	**509**	454	**509**	454
Total audit and other assurance services	**6,246**	5,453	**5,222**	4,306
Other advisory services	**76**	1,432	**76**	1,432
Taxation	**695**	361	**695**	361
Total Remuneration Paid to PwC – Australian Firm	**7,017**	7,246	**5,993**	6,099
Related Practices of PwC Australian Firm (including PwC – Overseas Firms)				
Audit and review of financial reports of the Bank or any entity in the economic entity	**4,238**	3,460	**101**	126
Other audit–related work	**174**	425	**60**	356
Other assurance services	**328**	25	**–**	–
Total audit and other assurance services	**4,740**	3,910	**161**	482
Other advisory services	**1,096**	5,681	**–**	–
Taxation	**1,251**	1,113	**–**	–
Total Remuneration Paid to Related Practices of PwC – Australian Firm	**7,087**	10,704	**161**	482
Total Remuneration Paid to PwC	**14,104**	17,950	**6,154**	6,581

Use of PwC's services other than on audit and assurance engagements 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 economic entity upon the successful establishment of the funds.

It is the Bank's policy to seek competitive tenders for all major advisory projects.

Note 50. Acquisition and disposal of controlled entities

Significant entities acquired, or consolidated due to change in control:

– America's Water Heater Rentals LLC
On 21 June 2007, a subsidiary of the Bank acquired 100% of America's Water Heater Rentals LLC, which owns and services rental water heaters.

– Marine Services Holdings Limited
On 19 July 2007, a subsidiary of the Bank acquired 100% of Express Offshore Transport, an offshore oil and gas platform transport service.

Other entities acquired during the year are as follows:

OzForex Pty Limited, Greater Peterborough Health Investment Plan, Macquarie Globalis Bric Advantage Fund, Five Oak Storage Limited, Federal Power Avenal LLC (Post acquisition Avenal Power Centre LLC), Rochester Capital Master Fund Limited and Brook Asset Management Limited.

Aggregate details of the material acquisitions (including disposal groups) are as follows:

	2008 $m	2007 $m
Fair value of net assets acquired		
Cash and other financial assets	**90**	103
Derivatives and financial instruments – positive values	**1**	39
Property, plant and equipment and assets under operating leases*	**52**	8
Intangible assets	**131**	14
Assets of disposal groups classified as held for sale	**113**	1,189
Payables, provisions and borrowings	**(34)**	(135)
Liabilities of disposal groups classified as held for sale	**(5)**	(674)
Minority interest	**(4)**	–
Total fair value of net assets acquired	**344**	544
Purchase consideration		
Cash consideration	**344**	544
Total purchase consideration	**344**	544
Reconciliation of cash movement		
Cash consideration	**(344)**	(544)
Less cash acquired	**81**	10
Net cash outflow	**(263)**	(534)

* Includes assets under operating leases of $35 million (2007: $nil).

The operating results of these entities have not had a material impact on the results of the economic entity.

There are no significant differences between the fair value of net assets acquired and the acquiree's carrying value of net assets, other than the goodwill and other intangible assets noted above.

The 31 March 2007 comparatives relate to the acquisition of Longview Oil and Gas, Macquarie Small Caps Roads, East London Bus Group Holdings Limited, Cervus Financial Corp and Corona Energy Holdings Limited.

Notes to the financial statements
31 March 2008 continued

Note 50. Acquisition and disposal of controlled entities continued

Significant entities disposed of or deconsolidated due to change in control:

– Greater Peterborough Health Investment Plan
On 30 August 2007, a subsidiary of the Bank deconsolidated 100% of its interest in the Greater Peterborough Health Investment Plan project.

– Macquarie Group Restructure
On 13 November 2007, the MBL group implemented a restructure (refer to note 1 for further details) 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, which comprises two separate groups:

i) A Banking Group which comprises the activities of the Banking and Securitisation Group, Equity Markets Group (except for certain activities), Financial Services Group, Funds Management Group, Real Estate Group and Treasury & Commodities Group (except for certain activities);
ii) A Non-Banking Group which comprises most of the activities of the Macquarie Capital and certain Equity Markets Group and Treasury & Commodities Group activities.

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

– Emerging Markets Finance Limited
On 31 March 2008, a subsidiary of the Bank sold its 100% holding in Emerging Markets Finance Limited.

Note 50. Acquisition and disposal of controlled entities continued

Other entities disposed of or deconsolidated during the year are as follows:

ATM Solutions Australasia Pty Limited, Macquarie IMM Investment Management Co Limited, Japan Market Neutral Fund, Macquarie IMM Prime Equity Trust, Macquarie Commodities Fund Limited, MACT Holding Co Pty Limited and Live Payments Pty Limited.

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

	2008 $m	2007 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash and other financial assets	15,632	2
Assets of disposal groups classified as held for sale	1,670	3,015
Property, plant and equipment	105	1
Intangible assets	12	21
Borrowings	(6,854)	–
Liabilities of disposal groups classified as held for sale	(1,334)	(2,361)
Payables and provisions	(7,442)	(1)
Minority interest	(24)	–
Total carrying value of assets and liabilities disposed of or deconsolidated	1,765	677
Reconciliation of cash movement		
Cash received	16,264	1,125
Less:		
Investment retained	–	(61)
Cash disposed or deconsolidated	(2,277)	(163)
Net cash inflow	**13,987**	**901**

The 31 March 2007 comparatives relate to the disposal and deconsolidation of Macquarie Small Caps Roads, Smarte Carte Corporation, East London Bus Group Holdings Limited, The Steam Packet Group Limited, Access Health Abbotsford Limited and Access Health Vancouver Limited and Forward Steps Holdings Limited.

Note 51. Events occurring after the balance sheet date

Subsequent to balance date the Directors have resolved to issue $300 million of ordinary shares on 4 July 2008 to its immediate parent, Macquarie B.H. Pty Limited.

Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 58 to 159 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 2008 and of its performance, as represented by the results of its 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 7 to 45 of the Directors' Report comply with Accounting Standard 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*.

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

David Clarke

David Clarke
Non-Executive Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
19 May 2008

Independent audit report
to the members of Macquarie Bank Limited

PRICEWATERHOUSECOOPERS

Report on the financial report and the AASB 124 remuneration disclosures contained in the Directors' report.

We have audited the accompanying financial report of Macquarie Bank Limited (the Bank), which comprises the balance sheet as at 31 March 2008, 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 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.

We have also audited the remuneration disclosures contained in the Directors' report under the heading "remuneration report" in pages 7 to 46 of the Directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' 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 control 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.

The Directors of the company are also responsible for the remuneration disclosures contained in the Directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 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 on the financial report.

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 2008 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.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the Directors' report

In our opinion, the remuneration disclosures that are contained in pages 7 to 46 of the Directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ian Hammond

Ian Hammond
Partner

19 May 2008

Investor information

Website

To view the Interim and Annual Reports, presentations, distribution information and other investor information, visit www.macquarie.com.au/shareholdercentre

Shareholder Calendar

Shareholders may like to note the following dates:

2008

Date	Event
15 July	MIS distribution
23 July	2008 Annual General Meeting
30 September	First half financial year end
15 October	MIS distribution, MIPS distribution

2009

Date	Event
31 March	Full-year financial year end

Distribution details – Macquarie Finance Limited

Macquarie Finance Limited makes interest payments quarterly in arrears on or about 15 January, 15 April, 15 July and 15 October each year. Dates and payment rates are listed at www.macquarie.com.au/shareholdercentre

2008 Annual General Meeting

This year's meeting will be held on Wednesday, 23 July 2008 at the Palladium at Crown, Level 1 Crown Towers, 8 Whiteman Street, Southbank, Melbourne 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 the 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 the 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 the Bank;
  vi) on any proposal for the disposal of the whole of the Bank's property business and undertaking;
  vii) during the winding up of the Bank; and;

(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 the 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 the 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.

Macquarie Income Securities

Twenty largest Macquarie Income Security holders at 2 May 2008:	Macquarie Income Securities	% of Macquarie Income Securities
HSBC Custody Nominees (Australia) Limited	354,074	8.85
J P Morgan Nominees Australia Limited	226,309	5.66
RBC Dexia Investor Services Australia Nominees Pty Limited	140,776	3.52
Questor Financial Services Limited	97,550	2.44
ANZ Nominees Limited	36,775	0.92
Australian Executor Trustees Limited <No 1 Account>	35,766	0.89
Tasmatex Pty Ltd	30,000	0.75
UBS Wealth Management Australia Nominees Pty Ltd	29,264	0.73
Temple Society Central Fund (Aust)	25,500	0.64
Citicorp Nominees Pty Ltd	22,769	0.57
Custodial Services Limited	20,961	0.52
RBC Dexia Investor Services Australia Nominees Pty Limited	17,584	0.44
Argo Investments Limited	15,000	0.38
Catholic Church Endowment Society Incorporated	15,000	0.38
Carmichael Group Investments Pty Ltd	14,220	0.36
Investment Custodial Services Limited	13,168	0.33
Questor Financial Services Limited	12,450	0.31
Albert Investments Pty Ltd	10,000	0.25
Mrs Yvonne Marjan Black	10,000	0.25
Minbashian & Co Pty Ltd	10,000	0.25
Total	**1,137,166**	**28.43**

Spread of Macquarie Income Securities

Details of the spread of Macquarie Income Security holders at 2 May 2008 are as follows:

Range	Holders	Securities
1–1,000	6,938	1,933,881
1,001–5,000	404	816,637
5,001–10,000	19	142,316
10,001–100,000	14	386,007
100,001 shares and over	3	721,159
	7,378	4,000,000

Six shareholders (representing 17 Macquarie Income Securities) held less than a marketable parcel.

Macquarie Income Preferred Securities

As at 2 May 2008, all 7,000 convertible debentures and all 350,000 unpaid preference shares, issued by the 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 convertible debentures are kept at the Bank's principal administrative office at No. 1. Martin Place, Sydney NSW 2000; telephone number +61 2 8232 3333.

Investor information

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 242
Melbourne Victoria 8060 Australia
Telephone: +61 3 9415 4000
Freecall: 1300 554 096
Facsimile: +61 3 9473 2500
Email: sydney.services@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
The Bank's company secretary, Dennis Leong, may be contacted on the above numbers.

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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.