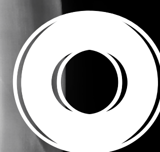
MACQUARIE BANK
2010 ANNUAL REPORT



MACQUARIE BANK LIMITED ACN 008 583 542

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

2010 Annual General Meeting
Macquarie Bank's 2010 Annual General Meeting will be held on Friday, 30 July 2010 in the Macquarie Auditorium, Level 3, No.1 Martin Place, Sydney NSW after the Macquarie Group Limited Annual General Meeting, but not earlier than 2:00pm.

Details of the business of the meeting will be contained in the Notice of Annual General Meeting, to be sent to shareholders separately.

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
2010 Annual Report
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Directors' Report
for the financial year ended 31 March 2010

In accordance with a resolution of the Voting Directors (the Directors) of Macquarie Bank Limited (MBL or the Bank), the Voting Directors submit herewith the income statements, statements of comprehensive income, statements of changes in equity and the statements of cash flows for the year ended 31 March 2010 and the statements of financial position as at 31 March 2010 of the Bank and its subsidiaries (consolidated entity) at the end of, and during, the financial year ended on that date and report as follows:

Voting Directors

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

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

Executive Voting Directors
W.R. Sheppard, Managing Director and Chief Executive Officer
N.W. Moore

Independent Voting Directors
M.J. Hawker[2]
P.M. Kirby
C.B. Livingstone, AO
H.K. McCann, AM[3]
J.R. Niland, AC
H.M. Nugent, AO
P.H. Warne

[1] On 31 August 2009, Mr Clarke resumed full duties as Chairman following a leave of absence which commenced on 27 November 2008.

[2] Mr Hawker was appointed to the Board on 22 March 2010.

[3] Mr McCann was appointed Acting Chairman during Mr Clarke's absence (from 27 November 2008 to 30 August 2009).

Other than Mr Hawker, the Voting Directors listed above each held office as a Voting Director of Macquarie Bank throughout the financial year ended 31 March 2010. Those Voting Directors listed as Independent Directors have been independent throughout the period of their appointment.

Mr L.G. Cox was an Executive Voting Director from the beginning of the financial year until his retirement on 29 July 2009.

Details of the qualifications, experience and special responsibilities of the Voting 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 Voting Directors of Macquarie Bank (the Board) and meetings of Committees of the Board, and the number of meetings attended by each of the Voting Directors during the financial year is summarised in the tables below:

Board meetings

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

1 Mr Clarke was granted leave of absence from 27 November 2008 to 30 August 2009 due to illness. Since resuming full duties on 31 August 2009, Mr Clarke has attended all Board and Special Board meetings.

2 Mr Cox retired as an Executive Voting Director on 29 July 2009.

3 Mr Hawker was appointed to the Board as an Independent Voting Director on 22 March 2010.

Board Committee meetings

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

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

Directors' Report
for the financial year ended 31 March 2010 continued

Principal activities

The principal activity of the consolidated entity during the financial year ended 31 March 2010 was to act as a full service financial services provider offering a range of commercial banking and retail financial services in Australia and selected financial services offshore. The Bank is a subsidiary of Macquarie Group Limited and is regulated by the Australian Prudential Regulation Authority (APRA) as an authorised deposit–taking institution (ADI). In the opinion of the Voting Directors, there were no significant changes to the principal activities of the consolidated entity during the financial year under review not otherwise disclosed in this report.

Result

The financial report for the financial years ended 31 March 2010 and 31 March 2009, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2010 was $663 million (2009: $576 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 the financial year ended/period	
Ordinary shares	3 July 2009	Final Dividend	345,000,000	31 March 2009	Paid
	16 December 2009	Interim Dividend	35,000,000	31 March 2010	Paid
Macquarie Income Securities[1]	15 April 2009	Periodic	5,543,018	15 January 2009 to 14 April 2009	Paid
	15 July 2009	Periodic	4,876,602	15 April 2009 to 14 July 2009	Paid
	15 October 2009	Periodic	4,930,191	15 July 2009 to 14 October 2009	Paid
	15 January 2010	Periodic	5,595,616	15 October 2009 to 14 January 2010	Paid
	15 April 2009	Periodic	5,888,219	15 January 2010 to 31 March 2010	Provided
Macquarie Income Preferred Securities[2]	15 April 2009	Periodic	22,252,535	16 October 2008 to 15 April 2009	Paid
	15 October 2009	Periodic	15,960,054	16 April 2009 to 15 October 2009	Paid
	15 April 2010	Periodic	1,975,706	16 October 2009 to 31 March 2010	Provided

[1] Macquarie Income Securities (MIS) are stapled securities comprising an interest in a note, being an unsecured debt obligation of Macquarie Finance Limited (MFL), issued to a trustee on behalf of the holders of the MIS (MFL note) and a preference share in Macquarie Bank. The MIS are quoted on Australian Securities Exchange (ASX). The MIS distributions set out above represent payments made, or to be made, by MFL to MIS holders, in respect of the MFL note component of the MIS. The payments are not dividends or distributions paid or provided by Macquarie Bank to its members. The MIS are classified as equity under Australian Accounting Standards – see notes 31 and 32 to the financial report for further information on the MIS and MIS distributions.

[2] Macquarie Income Preferred Securities (MIPS) are limited partnership interests in Macquarie Capital Funding LP (Partnership), a partnership established in Jersey as a limited partnership, that are traded on the Luxembourg Stock Exchange. In certain circumstances, preference shares issued by Macquarie Bank and held by the general partner of the Partnership may be substituted for the MIPS. The assets of the Partnership include convertible debentures issued by Macquarie Bank (acting through its London Branch) which are listed on the Channel Islands Stock Exchange. The MIPS distributions set out above represent payments made, or to be made, by the Partnership to the MIPS holders. The payments are not dividends or distributions paid or provided by MBL to its members. The MIPS are classified as equity under Australian Accounting Standards – see notes 31 and 32 to the financial report for further information on the MIPS and MIPS distributions.

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

State of affairs

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

Review of operations and financial result

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders of the consolidated entity for the year ended 31 March 2010 was $663 million, an increase of 15 per cent on the prior year. This result was achieved despite the extremely challenging global markets and economic environment.

Net operating income for the year ended 31 March 2010 was $3,652 million, an increase of 19 per cent on the prior year.

The year ended 31 March 2010 included significant write-downs, impairment charges, net equity accounted losses ($395 million), negative fair value adjustment on fixed rate issued debt ($255 million) and gains from liability management (Macquarie Income Preferred Securities, $127 million and subordinated debt, $55 million).

Included within operating income is an amount recognised as a result of changes in the credit spread on issued debt and subordinated debt carried at fair value of $255 million loss (2009: $274 million gain). In addition, the consolidated entity's financing of the acquisition of GBP157.5 million of MIPS contributed $127 million to operating income.

Operating expenses were up 18 per cent on the prior year to $2,890 million. Employment expenses, the largest contributor to operating expenses, were up 23 per cent on the prior corresponding period to $1,089 million. The increase in employment expenses was primarily driven by higher performance–related profit share.

Return on equity for the year to 31 March 2010 was 9.9 per cent.

Additional information relating to each of MBL's operating segments is set out in the Financial Report on page 79-82.

Financial Position

The consolidated entity's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. Cash and liquid assets decreased from $26 billion at 31 March 2009 to $20 billion at 31 March 2010. Cash and liquid asset holdings now represent over 34 per cent of the consolidated entity's net funded assets.

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

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

The consolidated entity has met its externally imposed capital requirements throughout the year. The consolidated entity is well capitalised, and as at 31 March 2010, it had a Tier 1 capital ratio of 11.5 per cent and a total capital ratio of 13.3 per cent.

Events subsequent to balance date

Following approval by unitholders on 22 April 2010, investments in the Macquarie Cash Management Trust (CMT) will be converted to an at call account with Macquarie Bank. The conversion is scheduled to take place in July 2010. At the current time, total funds under management in the Macquarie CMT are $10 billion. The funds transferred to the consolidated entity will form part of the consolidated entity's overall funding pool.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 2010 not otherwise disclosed in this report.

Directors' Report
for the financial year ended 31 March 2010 continued

Likely developments in operations and expected outcomes

While market conditions continue to improve, continuing uncertainty makes forecasting difficult.

Subject to market conditions, for the year to 31 March 2011 we currently expect improved operating results on the prior year for all of our businesses.

The income statement for the year to 31 March 2011 is likely to be characterised by fewer one-off items as seen in the second half of this year; a compensation ratio consistent with historical levels, continued higher cost of funding reflecting market conditions and high liquidity levels including the recent CMT/CMA initiative.

The balance sheet in the 31 March 2011 financial year is likely to be characterised by high cash balances as a result of the CMT/CMA initiative, which we anticipate will continue to be deployed across the businesses, and a level of equity investments at or below existing levels.

In addition to market conditions, the result for the year to 31 March 2011 remains subject to a range of other challenges, including: increased competition across all markets; the cost of maintaining our continued conservative approach to funding and capital and proposed regulatory reform which has the potential to impact flows to capital markets.

Over the medium term, we remain well placed due to the global depth and reach of our businesses, the diversification of our business mix, our strong committed team with interests aligned to shareholders, our strong balance sheet, capital and funding position and effective risk management.

Subject to the continuation of increasing economic activity across major markets, we expect continued growth in revenue and earnings across most businesses over time and continued growth in our businesses driven by further expansion of our strong client franchise.

Directors’ Report — Remuneration Report
for the financial year ended 31 March 2010

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Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

Introduction

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

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

Macquarie Group Limited's Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Voting Directors. This Board and the Board Remuneration Committee (BRC) annually review the remuneration strategy to ensure the best outcomes are delivered for Macquarie and its shareholders. Following this year's review the Macquarie Group Limited Board's view is that:

In the difficult financial markets of the past year, Macquarie's consistent approach to remuneration continues to deliver long-term shareholder returns by ensuring continued alignment with the interests of staff and shareholders while attracting and retaining high quality people. These outcomes have been achieved because:

1. Macquarie's remuneration framework has remained robust despite unprecedented change in financial markets
2. While the underlying principles remain unchanged, Macquarie's remuneration arrangements have been enhanced to further align staff and shareholders' interests and to remain in line with or ahead of leading practice
3. Macquarie's remuneration arrangements are delivering results, although comparisons are more difficult because of the changes
4. Strong corporate governance has been exercised and
5. Non-Executive Directors continue to be recognised for their role.

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

This Remuneration Report has been prepared in accordance with the *Corporations Act 2001* (Cth) (the Act). The Report contains disclosures as required by Accounting Standard AASB 124 *Related Party Disclosures* as permitted by Corporations Regulation 2M.3.03.

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

— financial information for Macquarie Bank relating to the years ended 31 March 2006, 31 March 2007, 31 March 2008, 31 March 2009 and 31 March 2010 has been presented in accordance with Australian Accounting Standards equivalent to International Financial Reporting Standards (AIFRS)

— financial information for Macquarie Bank relating to the year ended 31 March 2005 has been restated in accordance with AIFRS, with the exception of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition* and Measurement, which became effective from 1 April 2005

— financial information for Macquarie Bank relating to earlier periods has not been restated in accordance with AIFRS, and is, therefore, presented in accordance with the Australian Accounting Standards prevailing at the time.

1 Macquarie's remuneration framework has remained robust despite unprecedented change in financial markets

Significant changes in global financial markets resulted in remuneration practices, particularly in the financial services industry, coming under scrutiny from governments and regulators. These changes are still unfolding in jurisdictions around the world. In this context, the Macquarie remuneration approach remains robust.

1.1 Global financial markets have seen unprecedented change

1.1.1 Governments and regulators reviewed remuneration arrangements and the industry landscape has been reshaped following the global financial crisis

2008	2009 – January	2009 – February	2009 – April
JP Morgan Chase acquired Bear Stearns following its collapse, Bank of America acquired Merrill Lynch Lehman Brothers filed for bankruptcy with most of its investment banking and trading businesses sold to Barclays Babcock & Brown placed in voluntary administration Widespread redundancies by global investment banks commence, continuing well into 2009 - many relate to closure of non-core businesses	Many US financial institutions start receiving significant US Treasury cash infusions under Troubled Asset Relief Program (TARP) - including Goldman Sachs, Morgan Stanley, Citigroup and JP Morgan Chase Several major European institutions receive assistance from relevant governments, including Royal Bank of Scotland and UBS	FSA (UK) first regulator to publish a draft Code of Practice (Code) on remuneration policies The Code's overriding General Principle: *Firms must establish, implement and maintain remuneration policies, procedures and practices that are consistent with effective risk management*	Financial Stability Board (FSB) published its principles for sound compensation practices which were endorsed by the G20 leaders. Principles were intended to reduce incentives towards excessive risk taking

2009 – May	2009 – June to August	2009 – October to November	2009 – December
Australian Prudential Regulation Authority (APRA) releases first draft of the revised Prudential Standard APS 510 and accompanying guidance, Prudential Practice Guide PPG 511 Australian Government requests Productivity Commission undertake a review into executive remuneration Australian Government puts forward legislation relating to executive termination benefits Australian Government announces changes to the taxation of employee share schemes UK Government commissions examination of corporate governance in the financial services industry	Regulators in other countries including Hong Kong, France and Switzerland release guidelines in line with FSB's principles Final FSA Code on remuneration policies published	Application of FSB principles through the US Federal Reserve Bank Final APRA standard published - implementation date of 1 April 2010 Australian Government legislation passed by Parliament, significantly reducing amount of executive termination benefits which can be paid without obtaining shareholder approval, to the equivalent of one year's base salary for relevant executives UK Government examination of corporate governance in the financial services industry published - number of recommendations relate to remuneration and broadly mirror FSA Code	Final Productivity Commission report makes recommendations in relation to governance and accountability of boards regarding remuneration matters Australian Government changes to taxation of employee share schemes enacted in legislation, reducing the concessional tax treatment available for employee share plans US - The Wall Street Reform and Consumer Protection Act - requiring an annual say-on-pay, golden parachutes vote, and new compensation committee requirements UK announced an employer-paid tax of 50 per cent on bankers' bonuses greater than £25,000 paid before 5 April 2010

2010 to date
April 2010, Australian Government released response to final Productivity Commission report on executive remuneration March 2010, UK Government publishes draft regulations under the Financial Services Bill to apply from the 2010 reporting year, including mandatory disclosure for all executives receiving greater than £500,000, disclosed in bands of £500,000 up to £5 million and thereafter in £1 million bands

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

Despite the difficult conditions at the beginning of 2009, many financial services firms recovered during the year as reflected in their financial results, increasing their ability to offer more compelling pay packages and their desire to rebuild businesses. Some of the US banks began to repay their TARP cash injections, therefore removing themselves from government restrictions as well as from the public spotlight on compensation. These banks were then able to offer more competitive compensation packages. The perception by many financial institutions of a unique window for recruiting talent, building businesses and increasing market share also placed significant upward pressure on remuneration levels. The recruitment market strengthened, particularly at the top executive end of the market where high performers found several opportunities on offer. This has resulted in intense competition across the globe for proven talent. This competition for talent is arguably the most intense witnessed in Macquarie's history.

1.1.2 The composition of remuneration has significantly changed with some major themes emerging

The major themes emerging in the current remuneration environment reflect a greater desire to manage the behaviour between risk and return. These themes are:

- bonuses are based on profits not revenue, and on risk-adjusted capital
- a higher percentage of performance-based remuneration is being deferred
- a higher proportion of retained performance-based remuneration is being delivered in equity
- options are being used less frequently, being replaced by other forms of equity such as restricted stock
- clawback practices are being implemented
- the fixed remuneration component for risk and finance staff has increased.

Macquarie's old remuneration arrangements reflected these themes, and with the changes approved by shareholders in December 2009, these themes are featured to an even greater extent.

1.1.3 Governance expectations have significantly increased

One of the more significant impacts of the government and regulator-driven change has been the increase in governance expectations for boards and remuneration committees.

The APRA prudential standards require increased scrutiny by boards and remuneration committees, including the requirement that boards approve a company's remuneration policy.

The Federal Government has indicated that it intends to implement many of the Productivity Commission's recommendations, and further strengthen several of the Productivity Commission's proposals by expanding their scope, coverage and enforceability.

With the significant reduction in executive termination benefits which can be paid without obtaining shareholder approval, boards will likely become more mindful of the termination benefits restrictions that impose criminal sanctions on directors and officers who receive termination benefits in contravention of the restrictions as well as the company that provides the benefit and the company officers involved.

1.2 Macquarie's underlying remuneration framework remains robust

In the difficult financial markets of the past year, Macquarie's underlying remuneration framework has remained robust and has contributed to Macquarie's resilience relative to peers. It has also contributed to Macquarie's long-term success in growing earnings. That approach, and its consistency over time, has served shareholders well during recent times, as well as over the longer term. The Board believes that this continues to be the right approach.

The overarching objective of Macquarie's remuneration framework is to drive superior shareholder returns over the long-term while managing risk in a prudent fashion. This is delivered through two key drivers. The first is to attract and retain high quality people by offering a competitive performance-driven remuneration package that encourages both long-term commitment and superior performance. The second key driver is to use remuneration to align the interests of staff and shareholders by motivating staff through its remuneration policies to increase Macquarie's net profit after tax (NPAT) and sustain a high relative return on equity (ROE) while managing risk.

The principles that underpin Macquarie's remuneration framework are unchanged:

— emphasising performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (refer section 2.1)
— linking rewards to create sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 2.2)
— using equity to create alignment with shareholder interests (refer section 2.3)
— designing retention mechanisms to encourage a long-term perspective and hence alignment with shareholders (refer section 2.3.2 to 2.3.7)
— using broadly consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 2.3)
— ensuring arrangements are competitive on a global basis with Macquarie's international peers (refer discussion in section 1.1.1 in regards to the competitive environment).

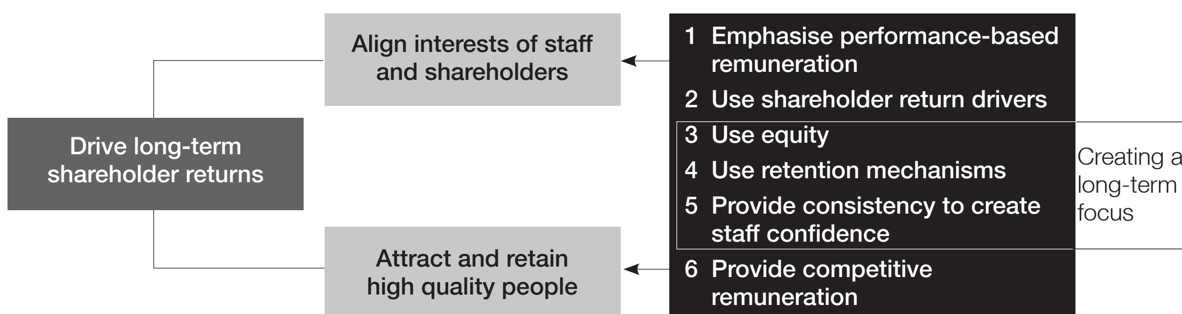
2 While Macquarie's underlying principles remain unchanged, its remuneration arrangements have been enhanced to further align staff and shareholders interests and to continue to be in line with or ahead of leading practice

Changes to Macquarie's remuneration arrangements were approved by shareholders in December 2009.

Whilst the remuneration approach is robust, to ensure ongoing long-term alignment with shareholders and staff retention, Macquarie announced proposed changes to its remuneration arrangements on 31 March 2009. The changes also reflected global remuneration and regulatory trends. Further details of the March proposal were announced on 1 May 2009, with a view to seeking shareholder approval at the 2009 Annual General Meeting (2009 AGM). The Board subsequently deferred the proposals following foreshadowed legislative changes announced by the Australian Government. While the legislation was not yet finalised, in the interests of reducing uncertainty for shareholders and staff, Macquarie considered that adequate clarity existed to progress its proposals, and announced modifications to its March 2009 proposals on 31 October 2009. Macquarie sought and obtained shareholder approval at a General Meeting on 17 December 2009. The revised remuneration arrangements took effect for the 2009 financial year and are as follows:

— less profit share is delivered as cash
— more profit share is being deferred
— more retained profit share is held as equity
— options have been replaced by Performance Share Units (PSU's) and awarded to the most senior people only
— retention arrangements have been strengthened
— more onerous conditions have been introduced around the release of retained profit share on termination.

Key elements of the remuneration framework



The next section of the Remuneration Report discusses how Macquarie enhanced its remuneration arrangements to further align staff and shareholders interests.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

Full details of Macquarie's remuneration arrangements are set out in the remainder of this section.

The following table shows how Macquarie's remuneration arrangements relate to the remuneration principles referred to on the previous page.

Link between the remuneration principles and the remuneration arrangements

Principle	Features of the remuneration system
1 There is an emphasis on performance-based remuneration with an appropriate balance between short and longer-term incentives having regard to risk (Refer discussion in section 2.1)	— Profit share allocations are highly variable — Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance (approximately 94 per cent in the case of the Managing Director and Chief Executive Officer) — Profit share allocations and PSU grants for Executive Committee members provide substantial incentives for superior performance, but low or no participation for less satisfactory performance — The CRO advises the BRC on risk management issues — The CRO and CFO advise the BRC on the risk input into the determination of the profit share pool, such as the cost of equity capital to be used in the profit share pool calculation
2 Rewards are linked to sustainable shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 2.2)	— The overall profit share pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital — The allocation of the pool to individual businesses, and in turn to individuals, is based primarily, but not exclusively, on relative contribution to profits, taking into account capital usage and other factors including specific risk factors. Performance looks at a range of factors including risk management, governance and compliance, people leadership and upholding Macquarie's *Goals and Values* — Earnings per share and ROE are used as performance hurdles for Executive Committee PSUs — ROE is used as the performance hurdle for Executive Director options granted under the old remuneration arangements
3 Equity is used to provide rewards to create alignment with shareholder interests (Refer discussion in section 2.3)	— For Executive Directors, retained profit share is invested in a combination of Macquarie shares and notionally in Macquarie-managed fund equity. The investment mix varies depending on an individual's role — For other staff, retained profit share is invested in Macquarie shares — PSU grants with performance hurdles are granted to Executive Committee members — Grants of Macquarie shares may be made to staff being hired or promoted — Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share. This is satisfied through the new equity arangements — Staff share plans are available to encourage broader staff equity participation
4 Retention mechanisms encourage a long-term perspective and hence alignment with shareholders (Refer discussion in section 2.3.2 to 2.3.7)	— For Executive Committee members and Designated Executive Directors, 50 per cent (55 per cent for Managing Director and Chief Executive Officer) of annual profit share is retained, and vests and is released from years three to seven — For other Executive Directors, 50 per cent of 2009 annual profit share is retained, and vests and is released from years three to seven. From 2010, 40 per cent is retained, and vests and is released from years three to five — Time based vesting rules with hurdles apply to Executive Committee PSUs

Principle	Features of the remuneration system
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)	— Macquarie's remuneration approach has been in place since it was founded with only incremental changes over time as appropriate
6 Arrangements are competitive on a global basis with international peers (Refer discussion in section 3)	— The Board reviews the remuneration arrangements at least annually to ensure that they are equitable and competitive — The compensation ratio is used as a general guide to consideration of the overall competitiveness of remuneration levels, but is not the basis on which the profit share pool is created

The primary focus of section 2 is on Executive Director remuneration, in particular, Executive Committee members. However, comments are made in relation to other staff where relevant. Macquarie Bank's Executive Committee has responsibility for the management of Macquarie Bank as delegated by the Macquarie Bank Board, and is made up of a central group comprising the Macquarie Group Managing Director and Chief Executive Officer, the Macquarie Bank Managing Director and Chief Executive Officer, the CRO, the CFO and the heads of Macquarie Bank's major Operating Groups. The current members of the Executive Committee are identified in Appendix 1.

The remainder of this section discusses the remuneration structure and its individual components in greater detail. Specifically, it describes how the remuneration system:

— **emphasises** performance-based remuneration (refer section 2.1)

— **links** the quantum of an individual's annual performance-based remuneration to the individual's contribution to shareholder return drivers (refer section 2.2)

— **delivers** remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests which encourages appropriate management of risk (refer section 2.3).

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

2.1 The remuneration structure continues to emphasise performance-based remuneration

The foundation of Macquarie's remuneration structure continues to be an emphasis on performance-based remuneration. In line with regulatory sentiment and competitive market conditions, the 'pay mix' for certain risk and finance personnel was reviewed and where appropriate, fixed remuneration is being increased to ensure a more appropriate balance between fixed and variable compensation. The base pay of other executives continues to be reviewed in line with overall market conditions.

Despite these increases, levels of fixed remuneration remain relatively low with the emphasis being on performance-based remuneration. For other Executive Directors, fixed remuneration can be relatively low or modest compared with similar roles in non-investment banking organisations. 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).

The following table summarises the current performance-based remuneration arrangements:

Key Area	Executive Committee and Designated Executive Directors[1]	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	50 per cent (55 per cent for the Macquarie Group Managing Director and Chief Executive Officer)	50 per cent (for profit share retained in 2009) and 40 per cent from 2010	25 per cent above certain thresholds
How retained profit share is invested	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in a combination of Macquarie shares and Macquarie-managed fund equity notionally invested Investment mix will vary depending on an individual's role	Invested in Macquarie shares
Vesting and release of retained profit share	All retained amounts vest and are released from three to seven years after the year retained (see also forfeiture below)	All retained amounts vest and are released from three to seven years after the year retained (for profit share retained in 2009) and from three to five years for profit share retained from 2010 (see also forfeiture below)	Vesting and release occurs two to four years after the year retained
Forfeiture of retained profit share on leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a "disqualifying event" occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances Retained profit share is forfeited in stages if a "disqualifying event" occurs within two years of leaving	Unvested amounts are forfeited except in the case of death, permanent disability, genuine retirement, redundancy and other limited exceptional circumstances
Other	PSUs granted to Executive Committee members	N/A	N/A
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last 10 years in Macquarie shares (which is satisfied by the above requirements)	Required to hold the deemed after-tax equivalent of 10 per cent of all of their profit share allocations over the last five years in Macquarie shares (which is satisfied by the above requirements)	

[1] Executive Directors who are members of the Operations Review Committee and others who have a significant management or risk responsibility in the organisation.

Old performance-based remuneration arrangements[1]

Key Area	Executive Committee (including Managing Director and Chief Executive Officer)	Other Executive Directors	Staff other than Executive Directors
Amount of profit share retained	40 per cent (55 per cent for the Macquarie Group Managing Director and Chief Executive Officer)	20 per cent	25 per cent above certain thresholds
How retained profit share is invested	20 per cent is invested in a notional portfolio of Macquarie-managed funds and cash under the DPS Plan 20 per cent (35 per cent for the Managing Director and Chief Executive Officer) is held in the form of Macquarie shares	20 per cent is invested in a notional portfolio of Macquarie-managed funds and cash under the DPS Plan	Held in cash
Vesting and release of retained profit share	DPS Plan amounts begin to vest after five years of service as an Executive Director and fully vest after 10 years Amounts are released in cash 10 years after the year retained or earlier if they leave employment (see also forfeiture below) Macquarie shares released after three years from date shares acquired	DPS Plan amounts begin to vest after five years of service as an Executive Director and fully vest after 10 years Amounts are released in cash 10 years after the year retained or earlier if they leave employment (see also forfeiture below)	Vesting and release occurs two to four years after the year retained
Forfeiture of retained profit share on leaving	Unvested amounts in the DPS Plan are forfeited except in limited circumstances Retained profit share is forfeited if a "disqualifying event" occurs within six months of leaving	Unvested amounts in the DPS Plan are forfeited except in limited circumstances Retained profit share is forfeited if a "disqualifying event" occurs within six months of leaving	Unvested amounts are forfeited except on the grounds of redundancy, death, total and permanent disability and other limited exceptional circumstances
Other	Options granted	Options granted	Options granted to Division Directors and Associate Directors
Minimum Shareholding Requirement	Required to hold the deemed after-tax equivalent of 10 per cent of all their profit share allocations over the last 10 years in Macquarie shares	Required to hold the deemed after-tax equivalent of 10 per cent of all their profit share allocations over the last five years in Macquarie shares	

[1] They were disclosed as current in the 2009 Remuneration Report. These arrangements are reflected in the prior year comparative data in the Executive Remuneration disclosure in Appendix 2.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

2.2 Remuneration is linked to the drivers of shareholder returns

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

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

— they are correlated over time with total shareholder returns

— they provide an appropriate incentive because they are elements of performance over which the executives can exercise considerable control. TSR, on the other hand, is influenced by many external factors over which executives have limited control

— both measures can be substantiated using information that is disclosed in audited financial accounts, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff.

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

ROE is also one of the two measures enshrined in the performance hurdle applicable on PSUs for Executive Committee members (refer section 2.5.3).

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

Overview of profit share arrangements

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

Determination of the profit share pool

The size of the Macquarie profit share pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital. A portion of Macquarie's profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The methodology used to calculate the profit share pool is reviewed at least annually by the BRC and the Non-Executive Directors of the Macquarie Board, including:

— the proportion of after-tax profit and the proportion of earnings in excess of Macquarie's cost of equity capital used to calculate the pool

— the cost of equity capital and the tax rate.

As part of this review, the CRO and the CFO advise the BRC on the risk input into the calculation of the profit share pool.

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

— to change the quantum of the pool to reflect internal or external factors if deemed in the interests of Macquarie and shareholders

— to defer the payment of profit share amounts to a subsequent year at a Macquarie business or individual level where it is in the interests of Macquarie and shareholders to do so.

This year, the Non-Executive Directors of the Macquarie Board have exercised their discretion in relation to changing the quantum of the pool.

Allocation of the profit share pool

Allocation of the pool to businesses is based on performance, primarily, but not exclusively, reflecting relative contributions to profits (not revenue) while taking into account capital usage. It also takes into account other risk factors such as operational incidents and the risk profiles of the businesses, as identified by the CRO to the BRC.

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

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

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

The CRO advises the BRC on risk management issues.

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

The Board and management seek to ensure that remuneration for risk and financial control personnel, including the CFO and the CRO, is structured in a way that does not compromise the independence of these personnel in carrying out their functions and is determined in a way that maintains Macquarie's robust risk management framework. For instance, an evaluation of their performance occurs independently of the business with which they are associated.

Profit share allocations for risk and financial control personnel are reflective of their individual performance, including the quality of the control decisions they have made, and their contribution to the quality and integrity of the control functions. The allocations to these staff are not directly linked to the profits of Macquarie or the businesses in which they operate.

The BRC reviews the allocation of the profit share pool to the central Risk Management Group and central Finance function. It also annually recommends to the Board, remuneration for all risk management and finance staff as a total category, in addition to specific recommendations for the CFO, CRO and other Executive Directors with a risk management or financial control role.

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

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

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

Profit share allocations to individuals are subject to retention arrangements as discussed in section 2.3.2.

Commentary on allocation to the Managing Director and Chief Executive Officer of Macquarie Bank

In approving the profit share and PSU grants to the Managing Director and Chief Executive Officer of Macquarie Bank, the Non-Executive Directors annually and specifically assess the Managing Director's performance by considering a range of indicators, including risk management, governance and compliance, financial performance measures, strategic initiatives, staff and human resources indicators, reputation management and monitoring, and community and social responsibility matters.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

2.3 Direct long-term alignment with shareholder interests is emphasised

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

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

The remuneration changes approved by shareholders at the December 2009 General Meeting provide an even closer alignment of staff and shareholder interests, with a greater emphasis on longer-term incentives.

Under these new remuneration arrangements, retained Executive Director profit share from 2009 is invested in a combination of Macquarie shares, under the new equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the DPS Plan that operates for 2009 and future retained profit share (Post-2009 DPS Plan).

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

However, some overarching rules apply to equity-based remuneration:

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

All Executive Committee members and Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to Macquarie.

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

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

2.3.1 Transitional arrangements

Under the new remuneration arrangements, Executive Directors were given the choice of leaving their pre-2009 retained profit share in the Pre-2009 DPS Plan, or move some or all of these amounts into the new arrangements (Transitioned Amounts).

Transitioned Amounts have been invested in the MEREP and notionally in Macquarie-managed funds (through the Post-2009 DPS Plan) according to the relevant Executive Director's role, in the manner set out in section 2.3.3. Transitioned Amounts will vest to the Executive Directors on a straight line basis over seven years from 2010 to 2016 (for Executive Committee members) or over five years (for other Executive Directors) from 2010 to 2014. The disqualifying events set out in section 2.3.7 will apply.

Any pre-2009 retained profit share not transitioned to the new arrangements will be grandfathered in the Pre-2009 DPS Plan. The old vesting, release and forfeiture provisions for Executive Director retention will continue to apply under the Pre-2009 DPS Plan, as set out in the table headed 'Old performance-based remuneration arrangements' in section 2.1.

The following sections 2.3.2 to 2.3.8 set out the new profit share arrangements as approved by shareholders at the December 2009 General Meeting.

2.3.2 Profit share arrangements – delivery of profit share

A percentage of each employee's annual gross profit share allocation will be retained by Macquarie (retained profit share). The percentage is set according to their role, as follows:

Role	2008	2009	2010
Macquarie Group Managing Director and Chief Executive Officer[1]	30 per cent	55 per cent	55 per cent
Executive Committee Members[2]	30 per cent	50 per cent	50 per cent
Designated Executive Directors	20 per cent	50 per cent	50 per cent
Other Executive Directors	20 per cent	50 per cent	40 per cent
Staff other than Executive Directors	25 per cent of profit share allocations above certain thresholds	25 per cent of profit share allocations above certain thresholds	25 per cent of profit share allocations above certain thresholds

1 Refers to the percentage retained for Nicholas Moore in 2008 in his role as Group Head of Macquarie Capital.

2 Including the Macquarie Bank Managing Director and Chief Executive Officer.

The Macquarie Board has the discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30 per cent for Executive Directors. This is because:

- regulatory and remuneration trends continue to evolve and change
- Macquarie must have the ability to meet regulatory requirements
- Macquarie must have the flexibility to remain competitive in the global markets in which it operates. The global remuneration environment is a very important consideration when determining remuneration structures. Competition for talented staff is unprecedented with aggressive recruiting activity for high quality staff.

In addition, the Macquarie Board has the discretion to change the percentage of profit share allocation retained to meet exceptional circumstances that may arise when a staff member moves between jurisdictions. The Macquarie Board would consider changing the retention level where local laws impact the application of the Transitional Arrangements. At all times these adjustments are to ensure that all Executive Directors are in a similar situation and not disadvantaged due to local restrictions.

2.3.3 Investment of retained profit share

Retained profit share is invested in a combination of Macquarie shares under the equity plan (MEREP), and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan. The following table shows the current percentage allocation of retained profit share that is invested in the Post-2009 DPS Plan and the MEREP, depending on the staff member's role:

Role	Post-2009 DPS Plan (notional investment in Macquarie-managed fund equity)	MEREP (Macquarie shares)
Macquarie Group Managing Director and Chief Executive Officer, Macquarie Bank Managing Director and Chief Executive Officer, CFO and CRO, General Counsel	20 per cent	80 per cent
Group Head, Macquarie Funds Group	50 per cent	50 per cent
Other Executive Committee members	10 per cent	90 per cent
Executive Directors with Funds responsibilities	Minimum of 40 per cent to a maximum of 50 per cent depending on mix of funds management and other functions	Maximum of 60 per cent to a minimum of 50 per cent depending on mix of funds management and other functions
Other Executive Directors	10 per cent	90 per cent
Staff other than Executive Directors	Nil	100 per cent

Both the MEREP and the DPS Plan are fundamental tools in Macquarie's retention and alignment strategies, encompassing both long-term retention arrangements and equity holding requirements.

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Post-2009 DPS Plan

The Post-2009 DPS Plan comprises exposure to a notional portfolio of Macquarie-managed funds. These retained amounts for Executive Directors are notionally invested over the retention period. This investment is described as "notional" because Executive Directors do not directly hold securities in relation to this investment. However, the value of the retained amounts will vary as if these amounts were directly invested in actual securities, giving the Executive Directors an effective economic exposure to the performance of the securities.

The notional portfolio is set for each Executive Director according to their role, as determined by the BRC. The BRC makes an annual determination as to how each Executive Director's retained profit share that is invested in Macquarie-managed fund equity (retained DPS in the DPS Plan) for that year should be notionally invested by Macquarie. The Executive Director has no input into that decision or its timing. The following general principles are used in making this decision:

- retained DPS in the DPS Plan for Executive Directors who are involved in the management of a particular fund (e.g. the Chief Executive Officer of a fund), will be 100 per cent notionally invested in that particular fund
- retained DPS in the DPS Plan for Executive Directors who are involved more generally in the management of one of Macquarie's funds businesses, including certain Operating Group Heads, will be notionally invested in a portfolio of funds managed by that particular business
- retained DPS in the DPS Plan for other Executive Committee members will be notionally invested in a general portfolio of Macquarie-managed fund equity
- retained DPS in the DPS Plan for Executive Directors who provide other services to particular funds (e.g. advisory services), will be notionally invested in a portfolio of funds that are managed by that particular business
- retained DPS in the DPS Plan for all other Executive Directors will be notionally invested in a general portfolio of Macquarie-managed fund equity.

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. The notional returns are calculated based on total shareholder return. If the notional investment of retained DPS results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

MEREP

Retained profit share invested in Macquarie shares is held under the new equity plan, the Macquarie Group Employee Retained Equity Plan (MEREP). MEREP has been established with a flexible plan structure that offers different types of equity grants depending on the jurisdiction in which the participating employees are based. In most cases, the equity grants are in the form of units comprising a beneficial interest in a Macquarie share held in a trust for the staff member (Restricted Share Units or RSUs). A RSU comprises a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the Trustee. The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP. RSUs are the primary form of award under the MEREP. Where legal or tax rules make the grant of RSUs impractical, due to different tax rules for employee equity and different securities laws, equity grants will be in the form of:

- shares held by the staff member subject to restrictions (Restricted Shares). A Restricted Share comprises a Macquarie share transferred from the MEREP Trust and held by a MEREP participant subject to restrictions on disposal, vesting and forfeiture rules. The participant is entitled to receive dividends on those Restricted Shares and to vote those Restricted Shares; or
- the right to receive Macquarie shares in the future (Deferred Share Units or DSUs). A DSU comprises a right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. Macquarie may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs provide for cash payments or additional DSUs in lieu of dividends paid on Macquarie shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as will be provided to holders of Restricted Shares or RSUs. However, holders of DSUs have no voting rights as to any underlying Macquarie share.

These different types of equity grants enable Macquarie through the MEREP to offer substantially similar economic benefits to staff across multiple jurisdictions.

The Macquarie Board or the BRC has the discretion to review the percentage allocated to the Post-2009 DPS Plan and the MEREP on an annual basis to reflect an individual Executive Director's responsibilities and to strengthen shareholder alignment for Macquarie and the Macquarie-managed funds.

In limited circumstances, and only with the approval of the BRC, the allocation of retained profit share may be in other than the Post-2009 DPS Plan or the MEREP. An example might include investment in funds or products of a specific business group where there is a view to directly align the interests of employees with those of their clients.

2.3.4 Income on invested retained profit share

Notional returns on retained profit share invested in the Post-2009 DPS Plan may be paid annually to Executive Directors. The notional returns are calculated based on total shareholder return. If the notional investment of retained profit share results in a notional loss, this loss will be offset against any future notional income until the loss is completely offset.

Employees with retained profit share invested in the MEREP will be entitled to either receive dividends or cash payments or additional equity in lieu of dividends paid on Macquarie shares.

2.3.5 Release of retained profit share – normal vesting

The vesting period is established for each retained profit share allocation by the BRC, according to the prevailing market conditions and having regard to regulatory and remuneration trends at the time of allocation (refer to section 2.3.2 above for further commentary). The BRC has established the following release schedule for 2009 and 2010 retained profit share invested in the Post-2009 DPS Plan and the MEREP:

2.3.6 Early vesting and release of retained profit share

The Macquarie Board, the BRC or the Macquarie Executive Committee under delegation from the BRC has the discretion to accelerate the vesting of retained profit share and/or reduce the retention period, including where an Executive Director's employment ends on the grounds of genuine retirement or redundancy (subject to the disqualifying events provisions).

In considering whether the discretion should be exercised in a particular case of genuine retirement, factors including, but not limited to, the following matters, events or circumstances may be taken into account:

- whether the Executive Director demonstrates that he/she is genuinely retiring from the industries within which Macquarie operates and competes
- whether the Executive Director is likely to work at any time in the future within the industries within which Macquarie operates and competes
- whether the Executive Director is likely to work full-time in any capacity, including directorships or consultancy
- whether the Executive Director has facilitated an appropriate succession strategy
- the Executive Director's length of service with Macquarie reflecting a sustained contribution and commitment to Macquarie, with an expectation of at least 10 years of service as an Executive Director.

If an Executive Director dies or becomes wholly and permanently unable to work while employed by Macquarie, 100 per cent of their retained profit share will vest and (subject to the disqualifying event provisions) be released to the Executive Director or, in the case of death or incapacity, to the Executive Director's legal personal representative.

Role	2009 Performance Year	2010 Performance Year
Executive Committee Members, Designated Executive Directors	one-fifth in each of years 3-7	one-fifth in each of years 3-7
Other Executive Directors	one-fifth in each of years 3-7	one-third in each of years 3-5
Staff other than Executive Directors	one-third in each of years 2-4	one-third in each of years 2-4

For each year's allocation, once the vesting period has been determined it will remain fixed for that allocation. Retained profit share is released when it vests.

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In certain other limited exceptional circumstances, the discretion may be exercised to accelerate the vesting of retained profit share and reduce the retention period on the grounds of business efficacy. If the discretion is exercised, all relevant factors will be considered on a case by case basis and will include consideration as to whether exercise of the discretion is in the best interests of Macquarie.

In all cases where the discretion is exercised, the Macquarie Board, the BRC or the Macquarie Executive Committee under delegation from the BRC may impose such other conditions as it considers appropriate.

2.3.7 Disqualifying events - clawback

An Executive Director will not be entitled to receive any of their unvested Transitioned Amounts from the Pre-2009 DPS Plan, or retained profit share from 2009 and future years if the Macquarie Board, the BRC or the Macquarie Executive Committee under delegation from the BRC determines, in its absolute discretion, that the Executive Director has during the period of employment with Macquarie or since leaving:

(a) committed an act of dishonesty (including but not limited to misappropriation of funds and deliberate concealment of a transaction)

(b) committed a significant and wilful breach of duty that causes material damage to Macquarie

(c) joined a competitor of Macquarie Group

(d) taken staff to a competitor or been instrumental in causing staff to go to a competitor or

(e) otherwise acted, or failed to act, in a way that damages Macquarie, including but not limited to situations, where the action or inaction leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

If an Executive Director leaves Macquarie and the discretion to release unvested retained amounts is exercised as described above in section 2.3.6, the release will occur over the period from six months to two years after the Executive Director leaves. Different disqualifying event provisions will apply at the six month, one year and two year timeframes as follows:

- **retained profit share from all but the last two years** – released on the expiry of six months following the end of employment (the 'First Period') provided the Executive Committee has determined that none of the disqualifying events (a), (b), (c), (d) and (e) set out above occurred during the First Period.
- **retained profit share from the second year prior to the end of employment** - released on the expiry of a further six months following the end of the First Period (the 'Second Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period and disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period.
- **retained profit share from the year prior to the end of employment** - released on the expiry of a further 12 months following the end of the Second Period (the 'Third Period') provided the Executive Committee has determined that no disqualifying event occurred during the First Period, disqualifying events (a), (b), (d) and (e) set out above have not occurred during the Second Period and disqualifying events (a), (b) and (e) set out above have not occurred during the Third Period.

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

2.3.8 Tax events

As described in the explanatory information provided ahead of shareholders approving the MEREP and certain benefits under the MEREP, the rules of the MEREP give the Macquarie Board or its delegate the discretion to change the terms of MEREP awards, including the vesting date, to avoid situations of undue hardship or to maintain business efficacy. The Macquarie Board, the BRC or the Macquarie Executive Committee under delegation from the BRC, may exercise this discretion where an employee has a tax liability on termination of employment in respect of any unvested equity award which is subject to continued vesting conditions and other restrictions beyond cessation of employment (for example, the two year clawback period described in section 2.3.7 above). This would enable the early release of some Macquarie shares from the MEREP, in cases where an employee terminates employment and this triggers a tax liability in respect of MEREP awards at a time when the employee has not received the underlying shares and may not receive the full number of shares on which they will be taxed for a considerable time.

The number of shares released would be limited to the number with an aggregate value equal to the tax liability (see below). The employee would be required to contractually agree to repay an amount equal to the value of the shares released in the event that the BRC deem a disqualifying event has occurred. Approval for early release of Macquarie shares under these circumstances for Executive Committee members will reside with the BRC.

Process for determination of early release of tax liability

Where an employee terminates employment the Taxation Division will determine whether a tax liability arises in respect of retained MEREP awards and calculate an estimate of the tax liability[1]. Executive Committee and/or the BRC will, on a best endeavours basis, consider, amongst other things, the possibility of the operation of the forfeiture rules in respect of the individual. For example, if there is a high risk of forfeiture, early release would not be made.

If a decision to allow early release is made, Macquarie will then instruct the Trustee to release sufficient shares to the employee to fund the estimated tax liability. Subject to the Staff Dealing Policy, the employee is then able to sell these shares and use the cash to fund the tax liability. The remaining MEREP awards will be held within the MEREP until the post-termination retention period ends.

2.3.9 Minimum shareholding requirement for Executive Directors

The retention arrangements also impose on Executive Directors a requirement to hold Macquarie ordinary shares equivalent to the aggregate of five per cent (being the deemed after-tax equivalent of 10 per cent) of their annual gross DPS allocation for the past five years (for the wider Executive Director population) or 10 years (for Executive Committee members). These shares cannot be hedged.

This requirement remains but is satisfied through the new equity retention arrangements.

2.3.10 Other equity arrangements - Staff share plans encourage broader staff equity participation

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

Staff share acquisition plan

Prior to 1 January 2010, under the Macquarie Group Staff Share Acquisition Plan (MGSSAP), eligible employees in Australia were given the opportunity to nominate an amount of their pre-tax available profit share to acquire Macquarie ordinary shares. The MGSSAP was adopted by Macquarie at the time of the corporate restructure in November 2007 and substantially replicates the terms of the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) which was approved by Macquarie Bank Limited shareholders in 1999. The MGSSAP was modified in 2008 to include the ability to issue new shares as an alternative to acquiring existing shares on-market, at the option of Macquarie.

As a result of changes to the taxation rules for shares acquired under the MGSSAP, new offers will not be made from 1 January 2010.

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 Macquarie Bank Limited's shareholders in 1997. Eligible employees in Australia are offered up to $1,000 worth of Macquarie ordinary shares funded from pre-tax available profit share.

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

The number of shares each participant receives is $1,000 divided by the weighted average price at which Macquarie Group Limited'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.

[1] Estimate based on number of retained MEREP Awards, Macquarie share price and top marginal tax rate.

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2.4 Options, while discontinued, remain outstanding

Options were previously granted to approximately the most senior 20 per cent of staff based on performance and promotion. As previously noted, Macquarie has ceased offering options.

This section explains the options arrangements that were in place for previous option grants, some of which are currently unvested. These arrangements are not in place going forward, but provide some background to assist in understanding the relevant option disclosures in Appendix 2 and Appendix 3. Final tranches will be due to vest in October 2013.

2.4.1 General terms of option arrangements

The Plan

Plan	Macquarie Group Employee Share Option Plan (MGESOP)
History	Macquarie has had an employee option plan in place since 1995, with only minor amendments to the Plan rules being made over that time. The MGESOP was established by Macquarie Group Limited with substantially the same terms as the predecessor plan, the Macquarie Bank Employee Share Option Plan, administered by Macquarie Bank Limited
Eligible staff	Associate Director, Division Director and Executive Director

Key option terms

Options over	Fully paid unissued ordinary shares in Macquarie Group Limited
Term of options	Five years
Consideration	Nil
Exercise price	Set at the prevailing market price: the exercise price will generally be the weighted average price of shares traded on ASX during one week up to and including the date of grant of the options (adjusted for cum-dividend trading and excluding certain special trades)
Vesting schedule	Options vest in three tranches after two, three and four years, giving an average vesting period of three years. However, vested options can only be exercised by Executive Directors if the relevant performance condition is also satisfied
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

2.4.2 Performance hurdles for Executive Committee options

Description of performance hurdles for Executive Committee options

Applicability	Performance conditions are imposed as summarised below on options granted to Executive Directors
Description of performance hurdle	The performance hurdle requires that Macquarie's three year average ROE exceeds the three year average ROE of a reference group of companies at a certain percentile level. This hurdle operates in addition to both the vesting rules and the embedded share price hurdle
Basis of hurdle	Macquarie's three year average ROE versus companies in a Reference Index
Reference index	S&P/ASX 100 Index (note that the S&P/ASX 300 Industrials was used for options granted prior to June 2006)
Performance level required to meet hurdle	For Executive Committee members, above the 65th percentile was chosen as it was considered a challenging medium to long-term target, noting that if the hurdle is not met, none of the relevant options can be exercised
Application of retesting	No retesting for option grants has applied since June 2006. The performance hurdle is tested once only (at time of vesting). Prior to June 2006, the performance hurdle was retested on a quarterly basis until expiry
Calculation methodology	In assessing whether Macquarie's performance is above these hurdles, Macquarie obtains data from external sources and, where required, supplements this with data published by the individual companies. The percentile ranking of Macquarie, based on the three year average annual ROE against all companies in the applicable reference index, is then determined quarterly. This method of assessment was selected because the data is readily available and easily computed

2.5 Performance share units (PSUs) have been substituted for options for Executive Committee members only

One aspect of the remuneration changes approved by shareholders at the December 2009 General Meeting was the suspension of option grants, and their replacement with PSUs, which are DSUs or RSUs with performance hurdles attached, for Executive Committee members only. This was done for the following reasons:

- tax legislation requires taxation of options at the vesting date and not at the date of exercise, with no opportunity for any refund of income taxes paid in the event the options subsequently lapse due to non-exercise, rather a capital loss only is available. This acts as an incentive for exercise on vesting, limiting their use as a mechanism for long-term alignment
- options reward staff when there is an upside but there is not the same consequence on the downside. PSUs provide alignment across market cycles.

For 2009 and 2010, the PSUs granted to the Executive Committee are structured as DSUs with performance hurdles. Where PSUs are structured as DSUs, holders will have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs.

Unlike options, there is no exercise price for PSUs.

2.5.1 Determination and allocation of the PSUs

The Macquarie Board approves the number of PSUs to be allocated to each Executive Committee member each year as part of the annual remuneration review process. This determination has regard to overall performance of Macquarie, the extent to which the Executive Committee members have fulfilled their roles, and the long term value delivered to shareholders. The allocation to individual executives is broadly in the same manner as annual profit share allocations i.e. it is performance-based.

2.5.2 Vesting Schedule

The PSUs vest in three equal tranches after two, three and four years from the deemed vesting commencement date (typically 1 July in the year of grant), giving an average vesting period of three years. As a general rule, unvested PSUs will lapse on termination. However, the Macquarie Board or the BRC has the authority to accelerate the vesting of PSUs. The Macquarie Board or the BRC may consider exercising this authority where, for example, a staff member dies, is totally and permanently disabled, gives notice of their intention to enter into genuine retirement or a staff member's employment ends on the grounds of redundancy, illness or in other limited exceptional circumstances, such as hardship or where business efficacy justifies exercising the discretion.

2.5.3 Performance hurdles for Executive Committee PSUs

PSUs issued under the MEREP will only be released or become exercisable upon the achievement of certain performance hurdles. Two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded.

The BRC will periodically review the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends.

Description of performance hurdles:

Hurdle 1— 50 per cent of the PSUs, based solely on the relative average annual ROE over the vesting period compared to a reference group of domestic and international financial institutions. Vesting is on a sliding scale with 50 per cent vesting above the 50th percentile and 100 per cent vesting at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the award would vest.

The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking peers with whom Macquarie competes and frequently compares its performance. The reference group for the 2009 and 2010 PSU allocations is comprised of ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

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Hurdle 2 — 50 per cent of the PSUs, based solely on compound average annual growth rate (CAGR) in EPS over the vesting period. Awards will vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9 per cent and 100 per cent vesting at EPS CAGR of 13 per cent. For example, if EPS CAGR was 11 per cent, 75 per cent of the award would vest.

Under both performance hurdles, the objective will be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest expire.

Rationale for selection of performance hurdles:

- ROE and EPS are considered appropriate measures of performance as they are considered to be drivers of longer term shareholder returns and are broadly similar to the performance measures Macquarie uses for determining annual profit share
- the addition of an EPS objective provides closer alignment with the interests of shareholders as it is a measure with which they are directly concerned. In addition, such a measure is particularly appropriate for the Executive Committee who are at a level within Macquarie where they can affect its achievement without being highly impacted by factors, including market sentiment, over which other executives have reduced control; ROE and EPS can be substantiated using information that is disclosed in audited financial statements, providing confidence in the integrity of the remuneration system from the perspective of both shareholders and staff
- the use of a sliding vesting scale diversifies the risk of not achieving the hurdle for executives, provides rewards proportional to performance for shareholders and replaces the all-or-nothing test which some have argued could, in the current climate, promote excessive risk taking. Sliding vesting scales are also more widely used and supported by governance agencies
- use of a reference group of significant Australian financial companies and international peers provides a more appropriate reference group than the previous use of the S&P/ASX 100 Index which includes only domestic companies and a small proportion of financial services institutions. This also recognises that, following the significant changes in global financial markets, regulated financial institutions will likely face increased regulatory requirements, which other companies will not. The inclusion of international peers recognises the extent of Macquarie's internationalisation. At 31 March 2010, over half of Macquarie's income and approximately half of Macquarie's staff were offshore. Also, international ownership of Macquarie's shares remains significant with non-Australian ownership averaging approximately 33 per cent over the five years to 31 March 2010
- the approach is consistent with that advocated by APRA in not using TSR as a measure.

Performance level required to meet hurdles:

- being two, three or four year average measures aligned with the vesting period, Macquarie's performance hurdles reward sustained strong performance and are relatively well insulated from short-term fluctuations
- the ROE hurdle has vesting only commencing if the mid-point of peers' performance has been exceeded and 100 per cent vesting is only achieved if the 75th percentile has been reached
- the use of an absolute EPS hurdle requires Macquarie to deliver increased business results before awards are vested, lessening the chance that awards could vest when results are negative as with the use of a relative measure
- the chosen EPS CAGR hurdle is considered appropriate having regard to a range of factors including historical average market EPS CAGR figures. The table below shows the five year historical mean and 75th percentile EPS CAGRs for some relevant market sectors. The figures include reported 2009 annual results, which have been affected by the global economic downturn.

5 year EPS CAGR (per cent per annum)[1]

	S&P/ASX 100 ex Resources	S&P/ASX Banks	S&P/ASX Financials ex Property Trusts	MSCI Financials
Mean	10.4	5.7	8.7	5.7
75th percentile	17.5	11.1	11.1	13.2

[1] Data provided by Macquarie Research Equities as at 31 March 2010. MSCI refers to the MSCI All Countries World Index.

Macquarie's EPS CAGR over the same five year period was (2.8) per cent per annum and since listing in 1996 has been 12.6 per cent per annum.

Further, many of Macquarie's international peers do not have performance hurdles on their equity plans.

2.6 No special contractual termination payments are made

The following table summarises key features of the employment contracts for Executive Committee members including the Macquarie Bank Managing Director and Chief Executive Officer:

Length of contract	Permanent open ended
Remuneration review period	1 April to 31 March annually
Directors' profit share participation	All Executive Directors are eligible to be considered for a DPS allocation, referred to in section 2.3.2, which ensures that a large part of their remuneration is 'at risk'. The DPS terms are set out in the Macquarie Group Executive Directors' Remuneration Booklet (also known as the Grey Book). A departing Executive Director's retained DPS will only be released early on a discretionary basis in the case of genuine retirement, redundancy and certain other limited exceptional circumstances and will be subject to forfeiture provisions. Upon retirement from Macquarie, Executive Directors may be entitled to the vested retained DPS held under the Pre-2009 DPS Plan scheme provided that it is determined that no disqualifying events have occurred
Option participation	Executive Directors are no longer eligible for options (five year options over ordinary unissued Macquarie ordinary shares). Subject to discretions able to be exercised by the Board or its delegates, on termination from Macquarie, all Executive Directors continue to remain entitled to retain options which are vested at the termination date
PSU participation	Executive Committee are eligible to receive PSUs which are DSUs with performance hurdles and are a replacement for new options grants
Termination of employment	Termination of employment by Macquarie or the Executive Director requires four weeks notice[1]. Depending on the jurisdiction, Executive Directors 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 subject to legislative restrictions on termination benefits), no other solely contractual termination entitlements exist.

[1] Subject to compliance with local regulatory and legal requirements. In Australia, Executive Directors given notice by Macquarie may receive an additional weeks notice where they are over 45 years of age and have more than two years' continuous service.

Subject to variations arising from local employment, transmission of business and other laws in the jurisdictions in which Macquarie operates, these contractual arrangements generally apply to all staff at Executive Director level.

Executive Directors who chose to keep some or all pre-2009 profit share in the Pre-2009 DPS Plan as per the transitional arrangements detailed in section 2.3.1 and leave Macquarie are eligible to receive the vested portion (subject to there being no disqualifying events in the period of up to six months following the departure) under the Pre-2009 DPS Plan. Executive Directors who leave Macquarie may also retain any vested but unexercised options (which will lapse if they are not exercised in the six months following departure).

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3 Remuneration arrangements are delivering results, although comparisons are difficult because of the changes

Performance over past five years 2005-2010

		2005	2006	2007	2008	2009	**2010**
Net profit after tax attributable to ordinary equityholders (NPAT)	$ millions	812	916	1,463	15,696[1]	576	**663**
Return on average ordinary shareholders' funds (p.a.)	%	29.8	26.0	28.1	23.8[2]	11.3	**9.9**

[1] NPAT from continuing operations for the 12 months to 31 March 2008 was $750m (2007: $657m).
[2] After adjusting for discontinued operations.

4 Strong governance has been exercised

Effective governance is central to Macquarie's remuneration strategy and approach. As noted in section 1, governance expectations have significantly increased. The Macquarie Board and the Macquarie Bank Board considers that strategies are in place to provide even stronger governance of Macquarie's remuneration approach. The Board aims to ensure that Macquarie's remuneration system is sound in the following ways:

— strong Board and Board Remuneration Committee (BRC) oversight
— assessment of risk as part of the profit share allocation process
— independent remuneration review.

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

4.1 Strong Board oversight exists to ensure sound overall remuneration governance

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

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

Helen Nugent	BRC Chairman	Independent Non-Executive Director
David Clarke[1]	BRC Member	Non-Executive Chairman
John Niland	BRC Member	Independent Non-Executive Director
Peter Warne	BRC Member	Independent Non-Executive Director
Kevin McCann[2]	BRC Member	Independent Non-Executive Acting Chairman

[1] Due to illness, Mr Clarke sought and was granted leave of absence from 27 November 2008 to 30 August 2009.

[2] Mr McCann was appointed Acting Chairman of Macquarie Group Limited and a BRC member on 27 November 2008 for the duration of Mr Clarke's absence and served in this capacity during that time.

The BRC members have the required experience and expertise in both human resources and risk to achieve effective governance of Macquarie's remuneration system. All members of the BRC are also members of the Board Risk Committee, with Mr Warne being the Acting Chairman of that committee in Mr Clarke's absence, and the Chairman since 27 August 2009. In addition, all members of the BRC have extensive experience in remuneration, either through their professional background or as members of the remuneration committees of other boards.

The BRC has a regular meeting cycle and held a significant number of additional meetings this year in order to address the various remuneration issues arising from the changing remuneration environment. The BRC met 20 times over the last financial year. Attendance at the meetings is set out in the Directors Report.

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

The responsibilities of the BRC are set out in a formal charter which is available on Macquarie's website

The Charter was reviewed and amended during the year to reflect the requirements of APRA's Prudential Standard APS 510. The amendments included the specific inclusions of the following BRC responsibilities:

- ensuring that Macquarie's remuneration policies and practices support Macquarie's risk management framework
- liaising with the Board Risk Committee and the Board Audit and Compliance Committee to ensure there is effective coordination between the committees to assist in producing a properly integrated approach to remuneration that appropriately reflects risk
- reviewing and assessing the effectiveness of Macquarie's remuneration policy including compliance with regulatory requirements
- reviewing and making specific remuneration recommendations for persons whose activities may in the BRC's opinion affect the financial soundness of Macquarie. This is in addition to the existing specific remuneration recommendations in respect of Executive Voting Directors and Executive Committee members.

Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

Subject to the appropriate management of conflict of interest issues, the Boards of Macquarie and Macquarie Bank, as appropriate, approve the following on the recommendation of the BRC:

- the remuneration policy for the whole of Macquarie (not just for the Executive Committee) including:
  - assessing the effectiveness of the remuneration policy and compliance with legal and regulatory requirements
  - material changes to the remuneration policy including remuneration structure, retention and termination policies for staff
  - material changes to the recruitment policies and procedures for Macquarie's senior management team (Executive Committee and other Operating Group Heads)
- all individual remuneration/profit share recommendations for members of the respective Executive Committees and other Executive Voting Directors (including the Managing Director), and other persons whose activities may, in the BRC's opinion affect the financial soundness of Macquarie
- all individual PSU grants to members of the respective Executive Committees, with the proviso that grants to Executive Voting Directors (including the Managing Director) must be approved by shareholders at the Annual General Meeting
- other remuneration recommendations relating to individuals or groups of individuals which are disclosed or are significant because of their sensitivity or precedent implications, or because they are covered by regulatory standards
- the continued application of the profit share methodology and any adjustments
- determination of the total PSU pool available for Executive Committee members
- recommendations relating to the remuneration framework for the Non-Executive Directors of Macquarie and Macquarie Bank
- appropriate levels of delegated responsibility from Macquarie's Board to management for remuneration related policy and practice decisions
- remuneration recommendations relating to Non-Executive Directors of Macquarie and Macquarie Bank.

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

— changes to the remuneration, recruitment, retention and termination policies and procedures not requiring Macquarie Board approval

— material changes to superannuation/pension arrangements

— the percentage of Executive Directors retained profit share allocated to Macquarie shares and Macquarie-managed fund equity

— the specific notional portfolio allocations of retained DPS amounts for individual Executive Directors.

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

— all individual remuneration/profit share recommendations for Executive Directors, other than those required to be approved by the Non-Executive Directors of Macquarie and Macquarie Bank Boards 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 Director promotion equity grants to staff other than those designated above.

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

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

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.

4.2 Risk is assessed as part of the profit share allocation process

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

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

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

— the profit share pool is determined by reference to both profit (not revenue) and earnings over and above the estimated cost of capital

— ROE is taken into account at a Macquarie-wide level and economic and prudential capital usage at a business group level for profit share pool allocation

— the performance hurdle for existing Executive Director options and Executive Committee PSUs to vest is linked to ROE, not TSR.

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

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

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

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

Remuneration outcomes must be consistent with risk outcomes

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

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

Under the revised remuneration arrangements, the proportion of an Executive Director's profit share allocation that is deferred and subject to the time horizon of risk has increased from 20 per cent to 50 per cent for 2009, and to 40 per cent for 2010 and for Executive Committee members from 40 per cent to 50 per cent (55 per cent for the Macquarie Group Managing Director and Chief Executive Officer).

A departing Executive Director's unvested retained profit share is only paid out in the case of genuine retirement, redundancy or in certain other limited exceptional circumstances, and is forfeited in stages if a 'disqualifying event' occurs within two years of leaving. For example, the payment of a departing Executive Director's retained profit share will be subject to forfeiture if it is found that the individual has acted in a way that damages Macquarie, including but not limited to action or inaction that leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie or its businesses.

Consistent with previous arrangements there are no "golden handshake" payments.

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

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

4.3 An independent remuneration review has been undertaken

The BRC has access to Macquarie senior management and has retained independent consultants, Towers Watson for the use of the Board to obtain advice on the appropriateness of remuneration packages and other employment conditions as required.

The BRC, on behalf of the Non-Executive Directors of Macquarie, commissioned an independent review of Executive Director remuneration from a US office of Towers Watson. The review considered the overall approach to remuneration, the extent of alignment with shareholder interests and a comparison of individual remuneration for senior executives where relevant peer information was available. In addition, the BRC independently analysed global remuneration trends and data.

Towers Watson's findings were that:

- Macquarie has used essentially the same remuneration system since Macquarie's founding
- the objectives on which Macquarie's remuneration system are built are similar to those cited in other leading global investment banks, with the paramount goal to encourage management to drive shareholder returns over the short and longer term
- Macquarie's remuneration system:
  - has helped ensure that pay and performance are linked tightly
  - has several means to align executive reward and shareholder value creation
  - orients senior staff toward longer-term value creation rather than short-term benefits
- Macquarie's remuneration governance process is fairly similar to that in place at Macquarie's peer US investment banks
- Macquarie's remuneration components support its remuneration principles and are very much in line with practices at peer global investment banks, including that:
  - fixed remuneration is modest relative to total compensation, the bulk of which is delivered through variable means (annual and long-term incentives)
  - the annual profit share is based on profit and return on equity, which are recognised by most peers as necessary to drive share price
  - individual profit share awards to executives are highly differentiated by individual contribution and results
  - a significant portion of profit share is invested in both Macquarie equity and Macquarie-managed funds equity and withheld for several years
  - executives must maintain an equity stake in the company
  - equity-based compensation (in the form of Macquarie shares and Macquarie PSUs for Executive Committee) is used as a long-term incentive for executives
  - Macquarie imposes a long vesting period on the portion of profit share deferred
  - Macquarie's total remuneration as a percentage of revenue and as a percentage of earnings is centred near the median relative to investment banking peers
  - like other investment banks, Macquarie has a long holding period for senior executives.

An external review of Non-Executive Directors' remuneration was also commissioned in early 2010 from Guerdon Associates (refer section 5.2 for details).

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5 Non-Executive Directors continue to be recognised for their role

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

5.1 Non-Executive Director remuneration policy

The overall objective of Macquarie's Non-Executive Director remuneration policy is to ensure that Non-Executive Directors are remunerated appropriately. This objective is achieved by:

— setting Board and Board Committee fees in line with market rates for relevant Australian financial organisations for the time commitment and responsibilities involved

— delivering these fees in a form that is not contingent on Macquarie's performance

— not providing termination or retirement benefits other than payments relating to their accrued superannuation contributions comprising part of their remuneration.

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

All Voting Directors are required to at least annually disclose their financing arrangements relating to their Macquarie securities to Macquarie.

All Non-Executive Directors of Macquarie Group Limited are also Non-Executive Directors of Macquarie Bank Limited. This policy governs the remuneration of Non-Executive Directors of both Macquarie and Macquarie Bank in aggregate.

5.2 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 completed in early 2010 to ensure that the Non-Executive Directors' remuneration was in line with the relevant benchmark organisations and to ensure that the methodology and framework employed was appropriate. The review was conducted by Guerdon Associates. The Board of Directors critically evaluated the analyses and the conclusions reached.

The current per annum base outlined below are consistent with the recommendations of this review.

Macquarie and Macquarie Bank Fees

	Macquarie Bank fees	
	Chairman	Member
Board	$240,000	$65,000

Macquarie Bank Limited does not have separate Board Committees, although Macquarie Group Limited's Audit and Compliance Committee and Remuneration Committee support both Boards.

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, until recently, by way of Macquarie ordinary shares acquired via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional ordinary shares in Macquarie. 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 have been acquired on-market at prevailing market prices. New offers under the NEDSAP were suspended in 2009.

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

There are no termination payments to Non-Executive Directors on their retirement from office (and there never have been 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.

Macquarie's Non-Executive Directors are remunerated for their services from the maximum aggregate amount (currently $3,000,000 per annum) approved by shareholders for that purpose. The current limit of $3,000,000 was approved by Macquarie Bank Limited shareholders at Macquarie Bank's 2007 AGM. This same amount has been set in place for Macquarie Group Limited and applies on a consolidated basis. Although fees have been split between Macquarie Bank Limited and Macquarie Group Limited, the Board ensures that Non-Executive Director remuneration for Macquarie Group Limited and Macquarie Bank Limited taken together does not exceed this shareholder approved maximum aggregate amount.

It is expected that shareholder approval will be sought at the 2010 Annual General Meeting to increase this maximum aggregate amount to reflect the increase in the workload of Non-Executive Directors, to accommodate the appointment of an additional Non-Executive Board member in March 2010 and to allow for moderate future growth.

5.3 Minimum shareholding requirement for Non-Executive Directors

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. Non-Executive Directors are required to have a meaningful direct shareholding in Macquarie.

Under the minimum shareholding requirement, Non-Executive Directors are required to acquire and maintain, directly or indirectly, a holding of 4,000 Macquarie ordinary shares, which they may accumulate over three years from the date of appointment. They are required to extend this holding by an additional 2,000 Macquarie ordinary shares over the next two years, such that they maintain a holding of 6,000 Macquarie ordinary shares. Under Macquarie's Trading Policy, Non-Executive Directors are forbidden from hedging shares held to meet this minimum Macquarie shareholding requirement. Actual shareholdings are set out in Appendix 3 below.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

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

The following persons were Voting Directors of Macquarie Bank Limited for the period during the financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated:

Directors:		Changes during 2009 and 2010 (except as noted below)
Executive		
N.W. Moore[1]	Macquarie Group Limited Managing Director and Chief Executive Officer	Ceased being a Key Management Personnel on 12 November 2007. Appointed to the Macquarie Bank Limited Board on 24 May 2008
A.E. Moss, AO		Retired 24 May 2008
L.G. Cox, AO		Retired 29 July 2009
W.R. Sheppard[1]	Managing Director and Chief Executive Officer	
Non-Executive		
D.S. Clarke, AO	Non- Executive Chairman	On leave of absence from 27 November 2008 to 30 August 2009
M.J. Hawker		Appointed to the Board on 22 March 2010
P.M. Kirby		
C.B. Livingstone, AO		
H.K. McCann, AM		Acting Chairman in D.S. Clarke's absence
J.R. Niland, AC		
H.M. Nugent, AO		
P.H. Warne		Acting Chairman of the Board Risk Committee in D.S. Clarke's absence and was appointed Chairman of the Board Risk Committee on 27 August 2009

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 and its controlled entities during the financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated:

Executives:

S.D. Allen[1]	Group Head, Risk Management Group (appointed 28 September 2009)
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired on 26 February 2009)
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
R.S. Laidlaw[1]	Group Head, Macquarie Securities Group (appointed 10 June 2008)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (retired 30 November 2009)
G.C. Ward[1]	Chief Financial Officer
S. Wikramanayake[1]	Group Head, Macquarie Funds Group (appointed 10 June 2008)

[1] Member of Macquarie Bank's Executive Committee as at 29 April 2010.

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in accordance with the requirements of the *Corporations Act* 2001 and 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 AASB 124: *Related Party Disclosures*. Macquarie's Non-Executive Directors are specifically required by the *Corporations Act* 2001 to be included as Key Management Personnel. However, the Non-Executive Directors do not consider themselves as part of 'management'.

Appendix 2: Remuneration disclosures

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 2 above.

The individuals identified above as Key Management Personnel include the five highest remunerated Company 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 years ended 31 March 2010 and 31 March 2009, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

The following factors impact the current year and prior year comparatives:

- Comparative data in the following remuneration table reflects the amounts disclosed in the 2009 Remuneration Report, i.e. the old remuneration arrangements. Under those arrangements, the whole of the profit share provision, including amounts held subject to restrictions, for each financial year was charged against earnings in that year, and was disclosed in the Executive remuneration disclosure for Key Management Personnel. As explained in section 2.3, under the revised arrangements, retained profit share is invested as a combination of Macquarie equity, and Macquarie-managed fund equity notionally invested under the Post-2009 DPS Plan. The portion of retained profit share that is delivered as Macquarie equity is recognised in earnings as a share based payment expense, spread over the vesting period, which is up to seven years for the most senior group. The portion that is delivered as Macquarie-managed fund equity is not accounted for as a share-based payment and the full amount is charged against earnings in the current year, consistent with prior years
- The current year also reflects the accounting adjustments required to transition to the revised remuneration arrangements including the treatment of 2009 profit share retention that was previously to be delivered as either cash or fully vested Macquarie shares, but is now delivered as Macquarie equity under the MEREP. The portion of Executive Directors' retained profit share relating to 2009 that is no longer to be paid in cash or delivered in fully vested Macquarie shares has been reversed in the current year with a benefit and recognised in earnings. The MEREP equity awards granted in relation to the 2009 profit share retention are accounted for as a share-based payment expensed over the vesting period from 1 April 2009 which is up to seven years for the most senior group
- Transitioned Amounts, as explained in section 2.3.1, have been reclassified in the current year from profit share liability to equity, and the discount to the fair value per MEREP equity award at grant date is accounted for as a share-based payment, expensed over the vesting period, being seven years for Executive Committee members
- While MEREP equity awards in respect of the current year's performance will be granted in the following financial year, Macquarie begins recognising an expense (based on an initial estimate) from 1 April of the current financial year in relation to these future grants. The expense is estimated using the Macquarie share price as at 31 March 2010 (and for PSUs, also incorporates a risk free interest rate of 5.75 per cent; expected life of four years; and a dividend yield of 3.47 per cent per annum). In the following financial year, Macquarie will adjust the accumulated expense recognised for the final determination of fair value for each MEREP award to be granted when granted, and will use this valuation for recognising the expense over the remaining vesting period.

As explained in section 2.3.3 above, DPS amounts retained under the DPS Plan are notionally invested for Executive Directors, providing them with an economic exposure to the underlying investments, typically Macquarie-managed specialist funds. This ensures that they are exposed to both the upside and downside of the underlying securities.

Executive Directors are each entitled to amounts equivalent to the investment earnings (dividends/distributions and security price appreciation) on the underlying securities. Where these amounts are positive, they may be paid to Executive Directors as additional remuneration and are included in the relevant remuneration disclosures below as part of "Long-Term Employee Benefits" (refer to the "Earnings on prior year restricted profit share" column in the tables on pages 36 to 37). When these amounts are negative, they are deducted from "Long-Term Employee Benefits" remuneration in the same column.

These earnings on restricted profit share amounts reflect the investment performance of the assets in which prior year retained DPS amounts have been invested. Their inclusion in the individual remuneration disclosures below may therefore cause distortions when year-on-year remuneration trends are examined. They do not reflect remuneration review decisions made in relation to the individual's current year performance.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

Executive key management personnel remuneration disclosure

		Short-Term Employee Benefits		
		Salary (including superannuation $	Performance related remuneration (a) $	Total short-term employee benefits $
Executive Directors				
N.W. Moore	**2010**	**297,203**	**2,681,904**	**2,979,107**
	2009	335,977	1,376,414	1,712,391
W.R. Sheppard	**2010**	**423,389**	**926,337**	**1,349,726**
	2009	464,958	253,990	718,948
Other Executives				
S.D. Allen (h)	**2010**	**111,870**	**86,500**	**198,370**
	2009	–	–	–
A.J. Downe	**2010**	**420,965**	**3,565,907**	**3,986,872**
	2009	440,954	3,642,070	4,083,024
R.S. Laidlaw (i)	**2010**	**89,895**	**738,605**	**828,500**
	2009	7,311	32,345	39,656
P.J. Maher	**2010**	**436,580**	**1,520,590**	**1,957,170**
	2009	431,585	911,272	1,342,857
G.C. Ward	**2010**	**247,669**	**1,002,989**	**1,250,658**
	2009	329,447	1,511,709	1,841,156
S. Wikramanayake (i)	**2010**	**334,781**	**906,733**	**1,241,514**
	2009	169,698	375,394	545,092
Former Executive Directors and Executives				
J.K. Burke (j)	**2010**	**–**	**–**	**–**
	2009	112,085	–	112,085
L.G. Cox (k)	**2010**	**8,533**	**–**	**8,533**
	2009	201,954	116,257	318,211
N.R. Minogue (l)	**2010**	**166,023**	**406,349**	**572,372**
	2009	329,447	1,187,771	1,517,218
A.E. Moss (m)	**2010**	**–**	**–**	**–**
	2009	76,949	1,157,863	1,234,812
Total Remuneration – Executive Key Management Personnel	**2010**	**2,536,908**	**11,835,914**	**14,372,822**
	2009	2,900,365	10,565,085	13,465,450

Long-Term Employee Benefits				Share Based Payments				
Restricted profit share (b) $	Earnings on prior year restricted profit share (c) $	Total long-term employee benefits $	Equity Awards including Shares (d) $	PSUs (e) $	Options (f), (g) $	Total share-based payments $	Total remuneration $	Percentage of remuneration that consists of options and PSUs %
423,893	196,699	620,592	205,522	688,542	981,244	1,875,308	5,475,007	30.50
611,740	(3,110,901)	(2,499,161)	1,070,545	–	584,665	1,655,210	868,440	67.32
156,469	69,950	226,419	236,797	169,545	359,302	765,644	2,341,789	22.58
84,663	(1,655,184)	(1,570,521)	84,663	–	157,415	242,078	(609,495)	(25.83)
(26,700)	(6,212)	(32,912)	257,707	53,412	136,729	447,848	613,306	31.00
–	–	–	–	–	–	–	–	–
(428,090)	466,881	38,791	151,572	1,193,709	1,061,308	2,406,589	6,432,252	35.06
1,214,023	(3,403,223)	(2,189,200)	1,214,023	–	307,384	1,521,407	3,415,232	9.00
(15,910)	55,355	39,445	104,134	172,084	211,344	487,562	1,355,507	28.29
10,782	(43,168)	(32,386)	10,782	–	18,522	29,304	36,574	50.64
(55,993)	36,179	(19,814)	239,211	390,654	310,562	940,427	2,877,783	24.37
303,757	(841,014)	(537,257)	303,757	–	163,884	467,641	1,273,240	12.87
56,612	30,165	86,777	35,136	369,470	203,053	607,659	1,945,094	29.43
503,903	(607,005)	(103,102)	503,903	–	143,256	647,159	2,385,213	6.01
579,454	297,553	877,007	8,557	273,926	439,817	722,300	2,840,821	25.12
125,131	(381,421)	(256,290)	125,131	–	228,688	353,819	642,621	35.59
–	–	–	–	–	–	–	–	–
–	(160,663)	(160,663)	–	–	(121,657)	(121,657)	(170,235)	71.46
–	460	460	–	–	(3,729)	(3,729)	5,264	(70.82)
29,064	(101,894)	(72,830)	–	–	7,075	7,075	252,456	2.80
406,349	75,651	482,000	–	–	(179,141)	(179,141)	875,231	(20.47)
395,924	(840,269)	(444,345)	395,924	–	101,993	497,917	1,570,790	6.49
–	–	–	–	–	–	–	–	–
–	(3,629,506)	(3,629,506)	–	–	42,840	42,840	(2,351,854)	(1.82)
1,096,084	1,222,681	2,318,765	1,238,636	3,311,342	3,520,489	8,070,467	24,762,054	
3,278,987	(14,774,248)	(11,495,261)	3,708,728	–	1,634,065	5,342,793	7,312,982	

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 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 2010, these amounts also include an adjustment to reflect the difference between the percentage of 2009 profit share that was reported as current in the 2009 Executive remuneration disclosure and the actual percentage of 2009 profit share that is current, as per the revised remuneration arrangements.

For 2009, in the case of Mr A.E. Moss, the amount included in this column in the table above also includes the related restricted profit share amounts (refer (b) below), which was paid within 12 months of the end of the reporting period, in accordance with the requirements of AASB 124: *Related Party Disclosures*.

(b) For 2010, this amount represents:

— 2010 retained profit share notionally invested in Macquarie-managed fund equity

— An adjustment to reflect the difference between the percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity as reported in the 2009 Executive remuneration disclosure and the actual percentage of 2009 retained profit share notionally invested in Macquarie-managed fund equity, as per the revised remuneration arrangements.

For 2009, this amount represents retained profit share notionally invested in Macquarie-managed fund equity as per the old remuneration arrangements. For 2009, in the case of Mr A.E. Moss (because he retired), the retained amount is included within "Performance related remuneration" as it was paid within 12 months of the end of the reporting period.

(c) This is the notional earnings / (loss) on prior year restricted profit share allocations described on page 35 in this Appendix.

(d) For 2009, this was the amount of the current year profit share allocation, which is allocated to invest in Macquarie ordinary shares under the Executive Committee Share Acquisition Plan. For 2010, this amount represents:

— the current year amortised amount in respect of both 2009 and 2010 retained profit share as calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements

— the write back of 100 per cent of 2009 profit share which was allocated to invest in fully vested Macquarie ordinary shares as described in section 2.3.3. This is an adjustment because this is now being delivered as Macquarie equity under MEREP, which is expensed over the vesting period from 1 April 2009 which is up to seven years for the most senior group

— the current year amortisation, as calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements, in respect of the discount to the fair value per share at grant date for Transitioned Amounts, as discussed in section 2.3.1.

For retained profit share relating to 2009 invested in the MEREP and pre-2009 profit share transitioned to the MEREP, the conversion price was publicly announced by Macquarie on 1 May 2009 to be the volume weighted average price (VWAP) from 4 May 2009 up to and including the date of the 2009 AGM on 29 July 2009, being $36.36.

Equity awards granted in respect of the 2009 year are measured for accounting purposes on 17 December 2009, being the date that shareholders approved the MEREP, using the closing price of Macquarie shares traded on the ASX on that day, being $46.35.

(e) This amount has been calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements and is in respect of PSUs granted in respect of both the 2009 and 2010 performance years. PSU grants for each individual have been measured at their grant date based on each grants fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of PSUs granted.

(f) This amount has been calculated on the basis as described in note 1 (xx) Share based payments to the 2010 Financial Statements. Prior option grants for each individual have been measured at their grant dates based on each grant's fair value, and this amount is recognised evenly over the relevant vesting period for each tranche of options granted, regardless of whether the options are in or out-of-the-money. For 2010, the amount is based on options granted in August 2006 (exercise price of $61.79), August 2007 (exercise price of $71.41) and August 2008 (exercise price of $53.91) which are all currently out-of-the-money.

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 Cox, 87,052 options lapsed in the current year when he retired from the Board on 29 July 2009. In the case of Mr Minogue, 9,083 options lapsed in the current year when he retired from executive responsibilities on 30 November 2009. In the case of Mr Burke, 108,334 unvested options lapsed in the 2009 financial year when he retired from executive responsibilities on 26 February 2009. The reversal of the amounts previously recognised in relation to these options exceeded the amounts recognised in relation to their options which vested during the year, resulting in a negative balance in the table above for 2010 for Mr Cox and Mr Minogue and for 2009 for Mr Burke.

(g) Performance hurdles attached to the options issued to the Executive Committee and Executive Voting Directors allow for options to become exercisable upon vesting only when Macquarie's average annual ROE for the three previous financial years is above the 65th percentile, as further discussed in section 2.4.2. Performance hurdles for options issued on or after 30 June 2006 and vesting at 1 July 2009 were not achieved and therefore the options did not to vest. The related expense previously recognised for these option grants was reversed in 2009 and result in a reduction in total 2009 remuneration for the impacted individuals.

Notes on individuals

(h) Mr S.D. Allen was appointed to the Executive Committee on 28 September 2009.

(i) Mr R.S. Laidlaw and Ms S. Wikramanayake were appointed to the Executive Committee on 10 June 2008.

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

(k) Mr L.G. Cox retired from the Board on 29 July 2009.

(l) Mr N.R. Minogue retired from the Executive Committee on 30 November 2009.

(m) Mr A.E. Moss retired on 24 May 2008. Mr Moss's total remuneration for 2009 included a final profit share allocation for the period 1 April 2008 up to the date of his retirement on 24 May 2008, which was paid in November 2008.

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)' and 'Earnings on prior year restricted profit share'. All other remuneration was performance based.

As is evident from the tables on pages 36 to 37, the majority of the remuneration for the named Group executives is performance based (ranging from 81 per cent to 94 per cent for individuals who were Executive Committee members during the year ended 31 March 2010, excluding the impact of notional earnings on retained amounts). This is consistent with the comments previously made that the effect of Macquarie's profit sharing mechanism is to provide substantial incentives in relation to superior performance, but low or no participation for less satisfactory performance. The mechanism provides significant alignment of their interests with those of shareholders.

Directors' Report — Remuneration Report

for the financial year ended 31 March 2010 continued

Non-Executive Director remuneration

The remuneration arrangements for all of the persons listed below as Non-Executive Directors are described in section 5.1 above.

		Directors Fees $	Other Benefits (a) $	Total Compensation $
D.S. Clarke (b)	**2010**	**167,554**	**–**	**167,554**
	2009	180,208	10,487	190,695
M.J. Hawker (c)	**2010**	**1,747**	**–**	**1,747**
	2009	–	–	–
P.M. Kirby	**2010**	**65,000**	**–**	**65,000**
	2009	65,000	–	65,000
C.B. Livingstone	**2010**	**65,000**	**–**	**65,000**
	2009	65,000	–	65,000
H.K. McCann (d)	**2010**	**137,446**	**–**	**137,446**
	2009	122,792	–	122,792
J.R. Niland	**2010**	**65,000**	**–**	**65,000**
	2009	65,000	–	65,000
H.M. Nugent	**2010**	**65,000**	**–**	**65,000**
	2009	65,000	–	65,000
P.H. Warne (e)	**2010**	**65,000**	**–**	**65,000**
	2009	65,000	–	65,000
Total Remuneration – Non-Executive Key Management Personnel	**2010**	**631,747**	**–**	**631,747**
	2009	628,000	10,487	638,487

(a) For the period that Mr Clarke was Non-Executive Chairman, Mr Clarke was entitled to the use of an office and administrative support. The prior year amount of $10,487 is an estimate of the portion of the cost of these services which may have been used by the Chairman for other purposes.

(b) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(c) Mr Hawker was appointed to the Board on 22 March 2010.

(d) Mr McCann was appointed Acting Chairman in Mr Clarke's absence (from 27 November 2008 to 30 August 2009).

(e) Mr Warne was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence (from 27 November 2008) and was appointed Chairman on 27 August 2009.

Appendix 3: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-down $'000	Closing balance at 31 March $'000	Number in group 31 March
Total for Key Management Personnel and their related parties	**2010**	**42,861**	**3,045**	**–**	**31,691**	**11**
	2009	57,176	4,501	–	42,861	10
Total for Key Management Personnel	**2010**	**22,729**	**863**	**–**	**12,422**	**5**
	2009	39,164	2,493	–	22,729	5

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

Certain loans are provided under zero cost collar facilities 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 2010

Name and position	Balance at 1 April 2009 $'000	Interest charged (a) $'000	Write-down $'000	Balance at 31 March 2010 $'000	Highest in period $'000
Executive Directors					
N.M. Moore	5,313	330	–	**5,274**	5,313
Non-Executive Directors					
D.S. Clarke (b)	37,290	2,700	–	**26,160**	38,975
Executives					
R.S. Laidlaw	238	14	–	**238**	238

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

(b) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

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

For the year ended 31 March 2009

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

(a) Or date of appointment if later.

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

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

(d) Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

(e) Mr Laidlaw was appointed to the Executive Committee on 10 June 2008. The balance at 1 April 2008 represents holdings at date of appointment.

Appendix 4: 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 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 a legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the economic entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2010 $'000	Consolidated 2009 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**7,772**	10,823

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

Executive Directors
N.W. Moore

Non-Executive Directors
P.M. Kirby

Executives
S.D. Allen (2010 only), A.J. Downe, R.S. Laidlaw, P.J. Maher, W.R. Sheppard, G.C. Ward and S. Wikramanayake (2010 only)

Former
L.G. Cox, N.R. Minogue

Directors' Report — Remuneration Report
for the financial year ended 31 March 2010 continued

The following Key Management Personnel (including related parties) have entered into a zero cost collar transaction with Macquarie Bank and other non related entities in respect of fully paid ordinary Macquarie ordinary shares. This has the effect of acquiring cash-settled put options against movements in the Macquarie share price below current levels and disposing of the benefit of any share price movement above the nominated level.

Name and position	Description	Number of shares 2010	Number of shares 2009
Non-Executive Directors			
D.S. Clarke	Maturing May 2009	–	361,163
	Maturing August 2009	–	25,196
	Maturing June 2010	**213,517**	213,517
Executives			
A.J. Downe	Maturing July 2010	**21,905**	–

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.

Voting Directors' equity participation

At 29 April 2010, none of the Voting Directors held any relevant interests, as notified by the Voting Directors to the ASX in accordance with the *Corporations Act 2001* (Cth) (the Act), in shares or share options of Macquarie Bank.

Directors' and Officers' indemnification and insurance

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

— the liability is owed to Macquarie Bank or to a related body corporate

— the liability did not arise out of conduct in good faith;

— the liability is for a pecuniary penalty order or a compensation order under the Act

— in the case of legal costs, the costs are incurred in defending or resisting a liability excluded above, criminal proceedings in which the person is found guilty or proceedings brought by the Australian Securities & Investments Commission (ASIC) or a liquidator where grounds for a court order are established (but excluding costs relating to investigations before commencement of proceedings for the court order), or the costs incurred in relation to proceedings for relief to the person under the *Corporations Act 2001* in which the court denies relief

— Macquarie Bank is forbidden by statute from indemnifying the person against the liability or legal costs

— an indemnity by Macquarie Bank of the person against the liability or legal costs would, if given, be made void by statute.

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

— indemnify a current or past Voting Director to the full extent of the indemnity given in relation to officers of Macquarie Bank under its Constitution in force from time to time

— take out and maintain a company reimbursement insurance policy and make available to Voting Directors a Directors' and Officers' insurance policy (each policy to be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie Bank's position) for seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank

— loan funds to a Voting Director to cover the Voting Director's legal costs in defending a claim, repayable when the outcome of the proceedings is determined (where the outcome results in the Voting Director having an indemnity for such legal costs, the loan will be repayable from the amount paid by Macquarie Bank to the Voting Director under the indemnity) and

— grant access to Voting Directors to all Board papers for at least seven years after the Voting Director ceases to be a Voting Director of Macquarie Bank, and access to other documents if the documents were in Macquarie Bank's possession at the time the Voting Director was a Voting Director and where it is not contrary to Macquarie Bank's interest for the documents to be provided.

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

Directors' Report
for the financial year ended 31 March 2010 continued

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

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

This indemnity does not apply to the extent that:

— Macquarie is forbidden by law from indemnifying the person against the liability or legal costs; or

— An indemnity by Macquarie of the person against the liability or legal costs, if given would be void by law.

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

Directors' interests and benefits

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

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

Share options

Information on Macquarie's share option scheme, options granted and shares issued as a result of the exercise of options during or since the end of the financial year is contained in note 36 - Employee equity participation, in the financial report.

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

Voting Directors’ relevant interests

The relevant interests of Voting Directors as at 29 April 2010 in managed investment schemes made available by related bodies corporate of Macquarie Bank and other disclosable relevant interests (including Macquarie Group ordinary shares) are listed in the table below:

Name and position	Direct interests	Indirect interest
Non-Executive Voting Directors		
D.S. Clarke	— 50,210 Macquarie ordinary shares	— 222,366 Macquarie ordinary shares — 213,517 Cash Settled Put Options[1]
Executive Voting Directors		
W.R. Sheppard	— 9,082 Macquarie ordinary shares — 95,000 Macquarie share options[2] — 108,729 Restricted Share Units in the MEREP[3] — 3,900 Performance Share Units in the MEREP[3] — 49,000 Macquarie Nine Film & Television Investment Fund ordinary shares — 67,701 Macquarie Wrap Cash Account units	— 240,227 Macquarie ordinary shares — 96,000 Macquarie share options — 132,933 Macquarie Australian Small Companies Fund units — 6,000 Macquarie Convertible Preference Securities — 150,000 Macquarie Technology Fund units — 206,000 Macquarie Martin Place Trust units — 98,044 Macquarie Global Infrastructure Fund (A) shares — 2,156 Macquarie Global Infrastructure Fund (B) shares — 350,378 Macquarie Master Australian Enhanced Equities Fund units — 609,004 Charter Hall Retail REIT units
N.W. Moore	— 858,699 Macquarie ordinary shares — 728,300 Macquarie share options[2] — 466,460 Restricted Share Units in the MEREP[3] — 38,300 Performance Share Units in the MEREP[3] — 483,674 Macquarie Global Infrastructure Fund (B) units — 5,000,000 Macquarie Reflexion Trust June 2006 units — 50,000 Macquarie Nine Film & Television Investment Fund ordinary shares — 50 Macquarie Timber Land Trust 2004 units — 75 Macquarie Timber Land Trust 2006 units — 1,637,618 Macquarie Global Infrastructure Fund III (B) units	— 387,046 Macquarie ordinary shares — 200,000 Macquarie Technology Fund – 1A ordinary shares — 64,177 Macquarie Global Infrastructure Fund (B) units — 362,382 Macquarie Global Infrastructure Fund III (B) units — 201,659 Macquarie Cash Management Trust units

Directors' Report
for the financial year ended 31 March 2010 continued

Name and position	Direct interests	Indirect interest
Independent Voting Directors		
M.J. Hawker	–	– 4,103 Macquarie ordinary shares – 1,000 Macquarie Convertible Preference Securities – 16,893 Macquarie Wrap Cash Account units
P.M. Kirby	– 23,198 Macquarie ordinary shares	–
C.B. Livingstone	– 646 Macquarie ordinary shares	– 11,354 Macquarie ordinary shares – 18,813 Charter Hall Retail REIT units
H.K. McCann	– 11,922 Macquarie ordinary shares	– 1,563 Macquarie ordinary shares – 103,000 Macquarie Martin Place Trust units – 112,415 Charter Hall Retail REIT units
J.R. Niland	– 2,309 Macquarie ordinary shares	– 7,813 Macquarie ordinary shares
H.M. Nugent	– 3,945 Macquarie ordinary shares	– 9,061 Macquarie ordinary shares
P.H Warne	– 2,744 Macquarie ordinary shares	– 13,077 Macquarie ordinary shares – 70,418 Charter Hall Retail REIT units

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

The transaction in 1 above does not relate to Macquarie Group ordinary shares in respect of which the relevant persons are not permitted by Macquarie policy to minimise their equity risk.

[2] These share options were issued pursuant to the Macquarie Group Employee Share Option Plan and are subject to the exercise conditions applying to grants of options to Executive Directors, as described in note 36 – Employee equity participation.

[3] These RSUs and PSUs were issued pursuant to the Macquarie Group Employee Retained Equity Plan and are subject to the vesting, forfeiture and other conditions applying to grants of awards to Executive Directors, as described in note 36 – Employee equity participation.

Environmental regulations

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

The Voting 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 43 to the financial report – Audit and other services provided by PwC.

Macquarie Bank's external auditor policy, which is discussed in the Macquarie Corporate Governance Statement contained in the 2010 Macquarie Annual Report, states that the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for Macquarie Bank, or audits its own professional expertise. The policy also provides that significant permissible non–audit assignments awarded to external auditors must be approved in advance by the Board Audit and Compliance Committee (BACC) or the BACC Chairman, as appropriate.

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

Auditors' independence declaration

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

Rounding of amounts

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

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

David S. Clarke, AO
Non-Executive Director and
Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
29 April 2010

Directors' Report Schedule 1
for the financial year ended 31 March 2010

Directors' experience and special responsibilities

David S. Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 68)

(granted leave from 27 November 2008 to 30 August 2009)

Non-Executive Chairman (Chairman of Macquarie Bank since its inception in February 1985)

David Clarke has been Non-Executive Chairman of Macquarie Bank since 1 April 2007 and Non-Executive Chairman of Macquarie Group Limited since August 2007. He was Executive Chairman of Macquarie Bank from its formation in 1985 until 31 March 2007, when he ceased executive duties. From 1971 to 1977, he was Joint Managing Director of Hill Samuel Australia Limited (predecessor to Macquarie Bank), from 1977 to 1984 Managing Director and from 1984, Executive Chairman. He is a member of the Investment Advisory Committee of the Australian Olympic Foundation 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 was previously Chairman of Australian Vintage Limited (November 1991 to July 2009), Goodman Group (October 2000 to July 2009) and the management companies of Macquarie ProLogis Trust (June 1987 to March 2007), Macquarie Office Trust (June 1987 to March 2007) and Macquarie CountryWide Trust (June 1995 to March 2007). Mr Clarke is a resident of New South Wales.

W. Richard Sheppard, BEc (Hons) (Syd) (age 61)

Managing Director and Chief Executive Officer since November 2007

Executive Voting Director – joined the Board in November 2007

Richard Sheppard joined Macquarie Bank's predecessor, Hill Samuel Australia Limited in 1975, initially working in Corporate Finance. He was Head of Macquarie Bank's Melbourne Office from 1986 until 1988 and became Head of the Corporate Banking Group in 1988. He has been a member of the Group Executive Committee since 1986 and was appointed as Deputy Managing Director of Macquarie Bank in 1996. Following the restructure of Macquarie Group in November 2007, he was appointed Managing Director and Chief Executive Officer of Macquarie Bank and Deputy Managing Director of Macquarie Group Limited. He is a past Chairman of several of Macquarie Bank's associates including Macquarie CountryWide Management Limited (March 2007 - March 2010), Hills Motorway Trust (December 2002- April 2006), Macquarie Airports (December 2002 - April 2006) and Macquarie Private Capital Group (Director from August 2004 and Chairman from October 2005 until June 2008) and a former Director of Macquarie Office Management Limited (May 2009 - March 2010). He is currently Chairman of Macquarie DDR Management Limited (since October 2003) and a member of the Government's Financial Sector Advisory Council and the Australian Financial Markets Association. He is also a member of a number of other boards including Cure Cancer Australia Foundation, Quest for Life Foundation, the Bradman Foundation and the Sydney Cricket Club. Mr Sheppard is a resident of New South Wales.

Michael J. Hawker, BSc (Sydney), FAICD, FAIM, SF Fin (age 50)

Independent Voting Director since 22 March 2010

Michael Hawker was appointed to the Boards of Macquarie Bank Limited and Macquarie Group Limited in March 2010. Mr Hawker was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, he was with Westpac where his roles included Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of roles with Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe. Currently, Mr Hawker serves as a Director of Aviva Plc Group (since January 2010), the largest insurance provider in the UK, the Australian Rugby Union and the Sydney University Football Club Foundation. He is also a member of the Advisory Board to GEMS, a Hong-Kong based private equity firm. He was previously President of the Insurance Council of Australia, Chairman of the Australian Financial Markets Association, board member of the Geneva Association, member of the Financial Sector Advisory Council and is the founder of the Australian Business in the Community Network. Mr Hawker is a resident of the United Kingdom.

Peter M. Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 62)

Independent Voting Director – joined the Board in June 2003

Member – Board Audit and Compliance Committee

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

Catherine B. Livingstone, AO, BA (Hons) (Macquarie), HonDBus (Macquarie), HonDSc (Murdoch), FCA, FTSE (age 54)

Independent Voting Director – joined the Board in November 2003

Chairman – Board Audit and Compliance Committee

Catherine Livingstone joined the Board of Macquarie Bank as an Independent Voting Director in November 2003 and became a member of the Board of Macquarie Group Limited in August 2007. Ms Livingstone was the Managing Director of Cochlear Limited from 1994 to 2000. Prior to that she was the Chief Executive, Finance at Nucleus Limited and before that held a variety of finance and accounting roles including having been with chartered accountants, Price Waterhouse, for several years. Ms Livingstone was also previously Chairman of the CSIRO and a Director of Goodman Fielder Limited and Rural Press Limited. Ms Livingstone was awarded the Centenary Medal in 2003 for service to Australian Society in Business Leadership and was elected a Fellow of the Australian Academy of Technological Sciences and Engineering in 2002. She is Chairman of Telstra Corporation Limited (Director since November 2000 and Chairman since May 2009), WorleyParsons Limited (since June 2007) and Future Directions International Pty Limited and is a member of the New South Wales Innovation Council. Ms Livingstone is a resident of New South Wales.

H. Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 69)

Independent Voting Director – joined the Board in December 1996 (Acting Chairman from 27 November 2008 to 30 August 2009)

Lead Independent Voting Director

Member – Board Audit and Compliance Committee

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

Directors' Report Schedule 1
for the financial year ended 31 March 2010 continued

Nicholas W. Moore, BCom LLB (UNSW), FCA (age 51)

Executive Voting Director – joined the Board in May 2008

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

John R. Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 69)

Independent Voting Director – joined the Board in February 2003

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

Helen M. Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv), HonDBus (Qld) (age 61)

Independent Voting Director – joined the Board in June 1999

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

Peter H. Warne, BA (Macquarie) (age 54)

Independent Voting Director – joined the Board in July 2007

Member – Board Audit and Compliance Committee

Peter Warne joined the Board of Macquarie Bank as an Independent Voting Director in July 2007 and became a member of the Board of Macquarie Group Limited in August 2007. Mr 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 Securities Exchange in July 2006, he became a Director of ASX Limited. Currently, Mr Warne is on the boards of other listed entities as Chairman of ALE Property Group (since September 2003) and a Director (currently Acting Chairman) of WHK Group Limited (since May 2007). He is also Deputy Chairman of Capital Markets CRC Limited and Director of Next Financial Limited. Mr Warne is a Director of Securities Research Centre of Asia Pacific Limited and a member of the Advisory Board of the Australian Office of Financial Management. He is a former Director of Macquarie Capital Alliance Group (February 2005 - June 2007) and a former Chairman and Director of TEYS Limited (Director from October 2007 and Chairman from July 2008 until June 2009). Mr Warne is a resident of New South Wales.

Company secretaries' qualifications and experience

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FCIS

Company Secretary since 25 October 1993

Dennis Leong is an Executive Director of Macquarie and Head of Macquarie's Company Secretarial Division, which is responsible for the Group's company secretarial requirements, professional risks insurances and employee equity plans. He has had over 16 years company secretarial experience and 12 years experience in corporate finance at Macquarie and Hill Samuel Australia Limited.

Amelia Cho, BCom LLB (UNSW)

Assistant Company Secretary since 29 March 2001

Amelia Cho is an Associate Director of Macquarie. Ms Cho has had 14 years experience in the Company Secretarial Division at Macquarie. She was previously an Associate Lawyer in the Commercial Division of Dunhill Madden Butler (now known as PricewaterhouseCoopers Legal). She holds a current practising certificate with the Law Society of NSW.

Paula Walsh, ACIS

Assistant Company Secretary since 29 May 2008

Paula Walsh is a Division Director of Macquarie. She has over 22 years company secretarial experience, with 24 years service with British Telecommunications PLC where, amongst other roles, she was most recently Head of Corporate Governance, Asia Pacific, until joining Macquarie in May 2007.

Nigel Donnelly, BEc LLB (Hons) (Macquarie)

Assistant Company Secretary since 30 October 2008

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

Directors' Report Schedule 2
for the financial year ended 31 March 2010

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Bank Limited for the year ended 31 March 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

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

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
29 April 2010

Liability is limited by a scheme approved under Professional Standards Legislation

Macquarie Bank Limited
2010 Financial Report
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The Financial Report was authorised for issue by the Directors on 29 April 2010.
The consolidated entity has the power to amend and reissue the Financial Report.

Income statements
for the financial year ended 31 March 2010

	Notes	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Interest and similar income		**4,353**	6,267	**3,166**	4,551
Interest expense and similar charges		**(3,028)**	(5,302)	**(2,311)**	(4,148)
Net interest income	2	**1,325**	965	**855**	403
Fee and commission income	2	**1,036**	995	**96**	139
Net trading income	2	**1,237**	1,545	**582**	1,438
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	2	**7**	98	**–**	(1)
Other operating income and charges	2	**47**	(534)	**1,026**	514
Net operating income		**3,652**	3,069	**2,559**	2,493
Employment expenses	2	**(1,089)**	(887)	**(687)**	(799)
Brokerage and commission expenses	2	**(548)**	(509)	**(401)**	(383)
Occupancy expenses	2	**(122)**	(101)	**(86)**	(77)
Non–salary technology expenses	2	**(88)**	(75)	**(58)**	(55)
Other operating expenses	2	**(1,043)**	(872)	**(824)**	(645)
Total operating expenses		**(2,890)**	(2,444)	**(2,056)**	(1,959)
Operating profit before income tax		**762**	625	**503**	534
Income tax (expense)/benefit	4	**(65)**	32	**81**	86
Profit from ordinary activities after income tax		**697**	657	**584**	620
Distributions paid or provided on:					
Macquarie Income Preferred Securities	5	**(8)**	(45)	**–**	–
Other minority interests		**(5)**	(3)	**–**	–
Profit attributable to minority interests		**(13)**	(48)	**–**	–
Profit attributable to equity holders of Macquarie Bank Limited		**684**	609	**584**	620
Distributions paid or provided on:					
Macquarie Income Securities	5	**(21)**	(33)	**–**	–
Convertible debentures	5	**–**	–	**(15)**	(47)
Profit attributable to ordinary equity holders of Macquarie Bank Limited		**663**	576	**569**	573

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

Statements of comprehensive income
for the financial year ended 31 March 2010

	Notes	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Profit from ordinary activities after income tax for the financial year		**697**	657	**584**	620
Other comprehensive income/(expense):					
Available for sale investments, net of tax	32	**188**	(52)	**173**	(9)
Cash flow hedges, net of tax	32	**99**	(177)	**–**	(39)
Share of other comprehensive (expense)/ income of associates and joint ventures, net of tax	32	**(29)**	36	**–**	–
Exchange differences on translation of foreign operations, net of tax		**(167)**	39	**110**	(33)
Total other comprehensive income/(expense) for the financial year		**91**	(154)	**283**	(81)
Total comprehensive income for the financial year		**788**	503	**867**	539
Total comprehensive income for the financial year is attributable to:					
Ordinary equity holders of Macquarie Bank Limited		**689**	394	**852**	492
Macquarie Income Securities holders		**21**	33	**–**	–
Convertible debentures holders		**–**	–	**15**	47
Minority interests		**78**	76	**–**	–
Total comprehensive income for the financial year		**788**	503	**867**	539

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

Statements of financial position
as at 31 March 2010

	Notes	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Assets					
Cash and balances with central banks		**–**	141	**–**	141
Due from banks	6	**6,490**	10,169	**5,120**	9,032
Cash collateral on securities borrowed and reverse repurchase agreements	7	**6,084**	4,534	**5,978**	4,534
Trading portfolio assets	8	**11,324**	8,772	**11,151**	8,494
Loan assets held at amortised cost	9	**43,794**	43,922	**16,162**	15,238
Other financial assets at fair value through profit or loss	11	**7,125**	5,541	**6,949**	5,201
Derivative financial instruments – positive values	40	**21,540**	27,335	**14,955**	21,418
Other assets	12	**7,321**	4,341	**3,103**	1,825
Investment securities available for sale	13	**16,761**	14,544	**15,937**	13,411
Intangible assets	14	**948**	337	**16**	15
Life investment contracts and other unitholder investment assets	15	**4,854**	4,314	**–**	–
Due from related body corporate entities	34	**2,391**	4,647	**2,457**	4,588
Due from subsidiaries	34	**–**	–	**16,361**	15,045
Interests in associates and joint ventures accounted for using the equity method	16	**915**	1,571	**342**	499
Property, plant and equipment	17	**139**	88	**23**	31
Investments in subsidiaries	18	**–**	–	**3,848**	3,959
Deferred income tax assets	20	**373**	93	**283**	11
Non-current assets and assets of disposal groups classified as held for sale	21	**51**	56	**–**	–
Total assets		**130,110**	130,405	**102,685**	103,442
Liabilities					
Due to banks	22	**2,167**	3,264	**1,238**	2,009
Cash collateral on securities lent and repurchase agreements	23	**7,201**	3,881	**7,195**	3,881
Trading portfolio liabilities	24	**4,921**	1,980	**4,910**	1,977
Derivative financial instruments – negative values	40	**21,634**	27,273	**14,866**	23,906
Deposits		**22,288**	21,603	**22,043**	21,270
Debt issued at amortised cost	25	**39,408**	48,270	**19,170**	23,776
Other financial liabilities at fair value through profit or loss	26	**2,625**	3,878	**2,355**	3,276
Other liabilities	27	**6,727**	4,001	**3,103**	2,444
Current tax liabilities		**76**	111	**18**	33
Life investment contracts and other unitholder liabilities		**4,864**	4,312	**–**	–
Due to related body corporate entities	34	**8,008**	3,332	**8,044**	2,876
Due to subsidiaries	34	**–**	–	**9,596**	8,849
Provisions	28	**71**	76	**53**	71
Deferred income tax liabilities	20	**273**	72	**78**	246
Liabilities of disposal groups classified as held for sale	21	**9**	–	**–**	–
Total liabilities excluding loan capital		**120,272**	122,053	**92,669**	94,614
Loan capital					
Subordinated debt at amortised cost		**905**	1,491	**905**	1,488
Subordinated debt at fair value through profit or loss		**499**	451	**499**	451
Total loan capital	30	**1,404**	1,942	**1,404**	1,939
Total liabilities		**121,676**	123,995	**94,073**	96,553
Net assets		**8,434**	6,410	**8,612**	6,889

	Notes	**Consolidated 2010 $m**	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Equity					
Contributed equity					
Ordinary share capital	31	**6,508**	4,503	**6,508**	4,503
Equity contribution from ultimate parent entity	31	**87**	57	**67**	44
Macquarie Income Securities	31	**391**	391	**391**	391
Convertible debentures	31	**–**	–	**107**	884
Reserves	32	**(170)**	(201)	**251**	(32)
Retained earnings	32	**1,533**	1,250	**1,288**	1,099
Total capital and reserves attributable to equity holders of Macquarie Bank Limited		**8,349**	6,000	**8,612**	6,889
Minority interests					
Macquarie Income Preferred Securities	32	**67**	398	**–**	–
Other minority interests	32	**18**	12	**–**	–
Total equity		**8,434**	6,410	**8,612**	6,889

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

Statements of changes in equity
for the financial year ended 31 March 2010

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Minority interests $m	Total equity $m
							Consolidated
Balance at 1 April 2008		3,995	182	1,374	5,551	834	6,385
Total comprehensive (expense)/income for the financial year		–	(182)	609	427	76	503
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	917	–	–	917	–	917
Contribution from ultimate parent entity in relation to share based payments	31	39	–	–	39	–	39
Dividends paid	5	–	–	(733)	(733)	–	(733)
Distributions arising from group restructure of combining entities under common control	32	–	(201)	–	(201)	–	(201)
Minority interests:							
Contributions/distributions of equity, net of transactions costs	32	–	–	–	–	(70)	(70)
Financing of Macquarie Income Preferred Securities	32	–	–	–	–	(382)	(382)
Distributions paid or provided		–	–	–	–	(48)	(48)
		956	(201)	(733)	22	(500)	(478)
Balance at 31 March 2009		**4,951**	**(201)**	**1,250**	**6,000**	**410**	**6,410**
Total comprehensive income for the financial year		**–**	**26**	**684**	**710**	**78**	**788**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	**2,005**	**–**	**–**	**2,005**	**–**	**2,005**
Contribution from ultimate parent entity in relation to share based payments	31	**30**	**–**	**–**	**30**	**–**	**30**
Dividends paid	5	**–**	**–**	**(401)**	**(401)**	**–**	**(401)**
Distributions arising from group restructure of combining entities under common control	32	**–**	**5**	**–**	**5**	**–**	**5**
Minority interests:							
Contributions/distributions of equity, net of transactions costs	32	**–**	**–**	**–**	**–**	**6**	**6**
Cancellation of Macquarie Income Preferred Securities	32	**–**	**–**	**–**	**–**	**(396)**	**(396)**
Distributions paid or provided		**–**	**–**	**–**	**–**	**(13)**	**(13)**
		2,035	**5**	**(401)**	**1,639**	**(403)**	**1,236**
Balance at 31 March 2010		**6,986**	**(170)**	**1,533**	**8,349**	**85**	**8,434**

	Notes	Contributed equity $m	Reserves $m	Retained earnings $m	Total $m	Minority interests $m	Total equity $m
							Bank
Balance at 1 April 2008		4,873	49	1,226	6,148	–	6,148
Total comprehensive (expense)/ income for the financial year		–	(81)	620	539	–	539
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	917	–	–	917	–	917
Contribution from ultimate parent entity in relation to share based payments	31	32	–	–	32	–	32
Dividends paid	5	–	–	(747)	(747)	–	(747)
		949	–	(747)	202	–	202
Balance at 31 March 2009		**5,822**	**(32)**	**1,099**	**6,889**	**–**	**6,889**
Total comprehensive income for the financial year		**–**	**283**	**584**	**867**	**–**	**867**
Transactions with equity holders in their capacity as equity holders:							
Contributions of equity, net of transaction costs	31	**1,228**	**–**	**–**	**1,228**	**–**	**1,228**
Contribution from ultimate parent entity in relation to share based payments	31	**23**	**–**	**–**	**23**	**–**	**23**
Dividends paid	5	**–**	**–**	**(395)**	**(395)**	**–**	**(395)**
		1,251	**–**	**(395)**	**856**	**–**	**856**
Balance at 31 March 2010		**7,073**	**251**	**1,288**	**8,612**	**–**	**8,612**

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

Statements of cash flows
for the financial year ended 31 March 2010

	Notes	**Consolidated 2010 $m**	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Cash flows from operating activities					
Interest received		**4,637**	5,808	**3,436**	3,867
Interest and other costs of finance paid		**(3,195)**	(5,312)	**(2,467)**	(4,113)
Dividends and distributions received		**144**	260	**543**	457
Fees and other non-interest income received		**1,628**	1,145	**799**	514
Fees and commissions paid		**(566)**	(515)	**(407)**	(385)
Net receipts/(payments) from trading portfolio assets and other financial assets/liabilities		**3,012**	5,681	**(641)**	8,364
Payments to suppliers		**(1,595)**	(1,777)	**(1,176)**	(510)
Employment expenses paid		**(1,081)**	(1,082)	**(748)**	(862)
Income tax (paid)/refunded		**(131)**	(34)	**(48)**	31
Life investment contract (expense)/income		**(137)**	265	**–**	–
Life investment contract premiums received and other unitholder contributions		**2,295**	3,745	**–**	–
Life investment contract payments		**(3,226)**	(4,201)	**–**	–
Non-current assets and disposal groups classified as held for sale – net (payments)/receipts from operations		**(41)**	53	**–**	23
Net loan assets repaid/(granted)		**3,738**	(565)	**2,750**	(11,269)
Loan facility repaid by ultimate parent entity		**2,551**	5,000	**2,551**	5,000
Recovery of loans previously written-off		**19**	7	**6**	2
Net (decrease)/increase in amounts due to other financial institutions, deposits and other borrowings		**(10,064)**	(7,713)	**(5,018)**	1,347
Net cash flows (used in)/from operating activities	33	**(2,012)**	765	**(420)**	2,466
Cash flows from investing activities					
Net payments for financial assets available for sale and at fair value through profit or loss		**(8,222)**	(2,134)	**(10,199)**	(2,289)
Payments for interests in associates		**(188)**	(235)	**(28)**	(179)
Proceeds from the disposal of associates		**138**	187	**17**	141
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**–**	(48)	**–**	(47)
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		**–**	563	**–**	354
Payments for the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		**(255)**	(236)	**(259)**	(2,033)
Proceeds from the disposal of subsidiaries and businesses, excluding disposal groups, net of cash deconsolidated		**79**	3,406	**–**	3,861
Payments for life investment contracts and other unitholder investment assets		**(5,722)**	(6,942)	**–**	–
Proceeds from the disposal of life investment contracts and other unitholder investment assets		**6,852**	7,208	**–**	–
Payments for property, plant and equipment, and tangible assets		**(152)**	(47)	**(15)**	(16)
Net cash flows (used in)/from investing activities		**(7,470)**	1,722	**(10,484)**	(208)

	Notes	**Consolidated 2010 $m**	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**1,805**	917	**1,805**	917
Payments to minority interests		**(205)**	(201)	**–**	–
Repayment of subordinated debt		**(406)**	(235)	**(406)**	(235)
Dividends and distributions paid		**(419)**	(791)	**(413)**	(748)
Convertible debentures extinguished		**–**	–	**(622)**	–
Net cash flows from/(used in) financing activities		**775**	(310)	**364**	(66)
Net (decrease)/increase in cash and cash equivalents		**(8,707)**	2,177	**(10,540)**	2,192
Cash and cash equivalents at the beginning of the financial year		**19,872**	17,695	**18,772**	16,580
Cash and cash equivalents at the end of the financial year	33	**11,165**	19,872	**8,232**	18,772

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

Notes to the financial statements
for the financial year ended 31 March 2010

Note 1
Summary of significant accounting policies

(i) Basis of preparation

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

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

Compliance with IFRS as issued by the IASB

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

Historical cost convention

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

Critical accounting estimates and significant judgements

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

- fair value of financial assets and liabilities (note 42);
- impairment of loan assets held at amortised cost, investment securities available for sale, associates and joint ventures and held for sale investments (notes 1(xiii), 1(xiv), 10 and 41.1);
- acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 1(ii), 1(xiii), 16, 18 and 21);
- determination of control of special purpose entities (notes 1(ii), 9 and 25);
- recoverability of deferred tax assets and provision for current and deferred income tax (notes 1(vii), 4 and 20); and
- goodwill and other identifiable intangible assets (notes 1(xvii).

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

Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

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

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

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

AASB 2008–3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*

AASB 2008–3 *Amendments to Australian Accounting Standards* arising from AASB 3 and AASB 127 (effective for annual reporting periods beginning on or after 1 July 2009). These standards amend the accounting for certain aspects of business combinations and changes in ownership interests in controlled entities. Consequential amendments have been made to 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 future payment, and all subsequent changes in fair value are recognised in profit;
- changes in control or significant influence are considered significant economic events, thereby requiring ownership interests to be remeasured to their fair value (and the gain/loss recognised in profit) when control of a controlled entity 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;
- disclosure of any restrictions on the ability of associates to transfer funds to the consolidated entity in the form of cash dividends, or repayment of loans or advances; and
- disclosure of the consolidated entity's share of the capital commitments of the joint ventures themselves.

Until future acquisitions take place that are accounted for in accordance with revised AASB 3, the impact on the consolidated entity is not known. The consolidated entity will apply the amended standard from 1 April 2010.

AASB 2008–6 *Further Amendments to Australian Accounting Standards*

AASB 2008–6 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods on or after 1 July 2009).

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The consolidated entity will apply the amendments prospectively to all partial disposals of subsidiaries from 1 April 2010.

AASB 2009–4 *Further Amendments to Australian Accounting Standards*

AASB 2009–4 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009). The AASB has made amendments to AASB 2 *Share-based Payment*, AASB 138 *Intangible Assets* and AASB Interpretations 9 *Reassessment of Embedded Derivatives* and 16 *Hedges of a Net Investment in a Foreign Operation* as a result to the IASB's annual improvements project. The consolidated entity will apply the amendments from 1 April 2010. Currently no adjustments are expected as a result of applying the revised rules. The impact of these on future transactions will need to be assessed at the time of the transactions.

AASB 2009–5 *Further Amendments to Australian Accounting Standards*

AASB 2009–5 *Further Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2010). In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The consolidated entity will apply the revised standards from 1 April 2011. The consolidated entity does not expect that any adjustments will be necessary as a result of applying the revised rules. The impact on future transactions will need to be assessed as they occur.

AASB 9 *Financial Instruments*

A new standard was issued in December 2009 and is mandatory for annual reporting periods beginning on or after 1 January 2013. It provides revised guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 *Financial Instruments: Recognition and Measurement.*

Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value.

Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the income statement. Changes in the fair value of all other financial assets carried at fair value are reported in the income statement. The consolidated entity is currently assessing the impact of the new standard, and it is likely that some financial assets:

- carried at fair value through profit or loss (e.g. quoted bonds outside of trading book) will change to be carried at amortised cost;
- carried at amortised cost (e.g. beneficial interests) will change to be carried at fair value through profit or loss; and
- containing embedded derivatives (e.g. geared equity investments, and capital protected products) will no longer be separated, and the entire product will change to be carried at fair value through profit or loss.

AASB 9 must be initially applied in the financial year beginning 1 April 2013, with early adoption permitted. Upon adoption, the classification of a financial asset must be assessed based on the facts at the date of initial application, and that classification is to be applied retrospectively.

(ii) Principles of consolidation

Subsidiaries

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

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

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 1
Summary of significant accounting policies continued

(ii) Principles of consolidation continued

Subsidiaries continued

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

Impairment of subsidiaries

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

Securitisations

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

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

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

Interests in associates and joint ventures using the equity method

Associates and joint ventures are entities, over which the consolidated entity has significant influence or joint control, but not control, and are accounted for under the equity method except for those which are classified as held for sale (see note 1(xiii)). The equity method of accounting is applied in the consolidated financial report and involves the recognition of the consolidated entity's share of its associates' and joint ventures' post-acquisition profits or losses in the income statement, and its share of post-acquisition movements in reserves.

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

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

(iii) Business combinations

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

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

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

Combinations between entities or businesses under common control

Combinations between entities under common control are business combinations in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination and that control is not transitory. In the consolidated financial statements of the Bank, assets and liabilities of the acquired entities are measured at the

carrying amounts recognised previously in the seller's consolidated financial statements at the date of the combination. In the separate financial statements of the Bank, assets and liabilities of the acquired businesses are measured at the carrying amounts recognised previously in the seller's financial statements at the date of the combination. Any difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in reserves arising from the Group restructure.

(iv) Segment reporting

Operating segments are identified on the basis of internal reports to senior management who have been identified as the chief operating decision makers, about components of the consolidated entity that are regularly reviewed by senior management in order to allocate resources to the segment and to assess its performance. Information reported to senior management for the purposes of resource allocation and assessment of performance is specifically focussed on core products and services offered, comprising seven reportable segments as disclosed in note 3. Information about products and services and geographical segments are based on the financial information used to produce the consolidated entity's financial statements.

(v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as a result of meeting cash flow hedge or net investment hedge accounting requirements (see note 1(xii)).

Translation differences on non-monetary items (such as equities) held at fair value through profit or loss, are reported as part of the fair value gain or loss in the income statement. Translation differences on non-monetary items (such as equities) classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement (see note 1(xii)).

Subsidiaries and other entities

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

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

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

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

(vi) Revenue recognition

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

Interest income

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

Fee and commission income

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 1

Summary of significant accounting policies continued

(vi) Revenue recognition continued

Fee and commission income continued

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

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

Net trading income

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

Dividends and distributions

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

(vii) Income tax

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

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

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

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

The consolidated entity undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The consolidated entity estimates its tax liability based on its understanding of the tax law.

Tax consolidation

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

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

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

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

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

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

(ix) Discontinued operations

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

(x) Trading portfolio assets and liabilities

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

Assets and liabilities included in the trading portfolio are carried at fair value (see note 42). Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of the trading portfolio are recognised as net trading income in the income statement in the period in which they arise. Dividend income or expense on the trading portfolio is recognised in the income statement as net trading income.

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

(xi) Derivative instruments

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

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

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

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

(xii) Hedge accounting

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

Cash flow hedges

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

Fair value hedges

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

Net investment hedges

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

The fair values of various financial instruments used for hedging purposes are disclosed in note 40. Movements in the cash flow hedging reserve in equity are shown in note 32.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 1

Summary of significant accounting policies continued

(xiii) Investments and other financial assets

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

Loans and receivables

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

Other financial assets at fair value through profit or loss

This category includes only those financial assets which have been designated by management as held at fair value through profit or loss on initial recognition. The policy of management is to designate a financial asset as such if the asset contains embedded derivatives which must otherwise be separated and carried at fair value; if it is part of a group of financial assets managed and evaluated on a fair value basis; or if by doing so eliminates or significantly reduces, a measurement or recognition inconsistency that would otherwise arise. Interest income on debt securities designated as at fair value through profit or loss is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

Investment securities available for sale

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

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

Interest income on debt securities available for sale is recognised in the income statement in interest income using the effective interest method as disclosed in note 1(vi).

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

This category includes interests in associates and joint ventures for which their carrying amount will be recovered principally through a sale transaction rather than continuing use, and subsidiaries acquired exclusively with a view to resale. These assets are classified as held for sale when it is highly probable that the asset will be sold within the 12 months subsequent to being classified as such.

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

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

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

(xiv) Impairment

Loan assets held at amortised cost

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

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

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

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

Investment securities available for sale

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

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

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

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

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

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

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

Interests in associates and joint ventures

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

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

(xv) Life insurance business

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

Disclosure

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 1

Summary of significant accounting policies continued

(xv) Life insurance business continued

Investment assets

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

Restriction on assets

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

Policy liabilities

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

(xvi) Property, plant and equipment

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

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

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

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

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

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are included in the income statement.

(xvii) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

Management rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight–line method to allocate the cost of management rights over the estimated useful life, usually a period not exceeding 20 years.

Customer and servicing contracts acquired with a finite useful life are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives.

Customer and servicing contracts with indefinite useful life are carried at cost less accumulated impairment losses.

Software

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

Impairment

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

(xviii) Financial liabilities

The consolidated entity has on issue debt securities and instruments which are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Other financial liabilities at fair value through profit or loss

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

(xix) Provisions

Employee benefits

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

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

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

Dividends

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

(xx) Performance based remuneration

Share based payments

The ultimate parent entity, Macquarie Group Limited (MGL), operates share–based compensation plans, which include options granted to employees and shares (including those delivered through the Macquarie Group Employee Retained Equity Plan (MEREP)) granted to employees under share acquisition plans. Information relating to these schemes is set out in note 36. The consolidated entity recognises an expense for the shares and options granted to its employees by MGL. The shares and options are measured at the grant dates based on their fair value and using the number of equity instruments expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

Performance hurdles attached to options, and Performance Share Units (PSUs) under MEREP, that are issued to the Executive Officers are not taken into account when determining their fair value 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 granted in prior years was estimated on the date of grant using standard option pricing techniques based on the Black–Scholes theory. The following key assumptions were adopted for grants made in the prior financial year:

- risk free interest rate: 6.77 per cent;
- expected life of options: four years;
- volatility of share price: 24 per cent; and
- dividend yield: 3.47 per cent per annum.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 1
Summary of significant accounting policies continued

(xx) Performance based remuneration continued

In the current year, MGL established a new equity plan, MEREP. Restricted Share Units (RSUs)/Deferred Share Units (DSUs) and PSUs for Executive Committee members, have been granted in the current year in respect of 2009. The fair value of each of these grants is estimated using MGL's share price on the date of grant, and for each PSU also incorporates a discounted cash flow method using the following key assumptions:

– risk free interest rate: 5.24 per cent (weighted average);
– expected life of PSU: four years; and
– dividend yield: 3.47 per cent per annum.

While RSUs/DSUs and PSUs for Executive Committee members, in respect of the current year's performance will be granted in the following financial year, the consolidated entity and the Bank begins recognising an expense (based on an initial estimate) from 1 April of the current financial year related to these future grants. The expense is estimated using MGL's share price as at 31 March 2010 (and for PSUs, also incorporates a risk free interest rate of 5.75 per cent; an expected life of four years; and a dividend yield of 3.47 per cent per annum). In the following financial year, the consolidated entity and the Bank will adjust the accumulated expense recognised for the final determination of fair value for each RSU/DSU and PSU to be granted when granted, and will use this valuation for recognising the expense over the remaining vesting period.

Where options and shares are issued by MGL to employees of the consolidated entity and the Bank, and MGL is not subsequently reimbursed by the consolidated entity and the Bank, the consolidated entity and the Bank recognises the equity provided as a capital contribution from MGL. Where MGL is reimbursed, the consolidated entity and the Bank recognises any amount it pays in advance (of the share-based payment to be recognised as an expense over the future vesting period) as a prepaid asset.

On transition to MEREP, RSUs/DSUs were granted in place of 2009 and some prior years' retained profit share. Where certain Executive Directors' retained profit share relating to 2008 and prior years was voluntarily invested in MEREP at a price of $36.36 per share (Transitioned Amounts), this is accounted for with the Transitioned Amounts being reclassified from a profit share liability to an intercompany liability owing to MGL (due to the consolidated entity and the Bank being a party to a Payment Agreement with MGL), and the discount to the fair value per RSU at grant date being treated as a share-based payment.

Further, Executive Directors' retained profit share relating to 2009 that is no longer to be paid in cash is reversed in the current year and recognised in profit, and where the liability was defeased by MBL to MGSA in the prior financial year this amount is returned to MBL in the current year (and recognised in profit) due to becoming a party to a Chargeback Agreement. RSUs/DSUs granted in the place of 2009 retained profit share is accounted for as a share-based payment from 1 April 2009.

The consolidated entity and the Bank annually revises its estimates of the number of shares (including those delivered through MEREP) and options that are expected to vest. 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.

Profit share remuneration

The consolidated entity and the Bank recognises a liability and an expense for profit share remuneration to be paid in cash, based on a formula that takes into consideration the consolidated entity's profit from ordinary activities after income tax and its earnings over and above the estimated cost of capital.

(xxi) Cash and cash equivalents

Cash and cash equivalents include cash and balances with central banks and short–term amounts included in due from banks. Negotiable certificates of deposit with an original maturity of less than 3 months is included within cash and cash equivalents and negotiable certificates of deposit with an original maturity greater than 3 months is included within trading portfolio assets or 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 consolidated entity as lessee are primarily operating leases. The total payments made under operating leases is charged to the income statement on a straight–line basis over the period of the lease.

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

(xxiii) Offsetting financial instruments

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

(xxiv) Loan capital

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

(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) Transactions with minorities

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

(xxvii) Comparatives

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

(xxviii) Rounding of amounts

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 2
Profit for the financial year

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Net interest income				
Interest and similar income received/receivable:				
Other entities	**4,198**	5,660	**2,592**	3,437
Subsidiaries (note 34)	**–**	–	**419**	529
Related body corporate entities (note 34)	**155**	607	**155**	585
Interest expense and similar charges paid/payable:				
Other entities	**(2,861)**	(4,777)	**(1,895)**	(2,891)
Subsidiaries (note 34)	**–**	–	**(252)**	(785)
Related body corporate entities (note 34)	**(167)**	(525)	**(164)**	(472)
Net interest income	**1,325**	965	**855**	403
Fee and commission income				
Base fees	**464**	403	**16**	16
Performance fees	**45**	15	**–**	–
Mergers and acquisitions, advisory and underwriting fees	**37**	71	**22**	53
Brokerage & commissions	**288**	276	**58**	68
Other fee and commission income	**154**	171	**–**	–
Income from life investment contracts and other unitholder investment assets (note 15)	**48**	59	**–**	2
Total fee and commission income	**1,036**	995	**96**	139
Net trading income[1]				
Equities	**555**	430	**619**	421
Commodities	**663**	574	**(33)**	128
Foreign exchange products	**104**	241	**513**	500
Interest rate products	**(85)**	300	**(517)**	389
Net trading income	**1,237**	1,545	**582**	1,438
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**7**	98	**–**	(1)

[1] Included in net trading income are fair value losses of $295 million (2009: $177 million gain) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $255 million loss (2009: $274 million gain) as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met – refer to note 1(xii) – Summary of significant accounting policies.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 2

Profit for the financial year continued

Other operating income and charges				
Net gains/(losses) on sale of investment securities available for sale	**42**	(6)	**117**	1
Impairment charge on investment securities available for sale	**(101)**	(240)	**(3)**	(109)
Net gains on sale of associates (including associates held for sale) and joint ventures	**9**	29	**–**	124
Impairment charge on investment in associates (including associates held for sale) and joint ventures	**(69)**	(102)	**(21)**	(5)
Impairment charge on subsidiaries	**–**	–	**(84)**	(205)
Net expense from disposal groups held for sale	**–**	(3)	**–**	(30)
Impairment charge on disposal groups held for sale[1]	**–**	(192)	**–**	(189)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**138**	298	**141**	402
Impairment charge on non-financial assets	**(23)**	(45)	**–**	–
Gain on repurchase of subordinated debt	**55**	–	**55**	–
Net operating lease income[2]	**72**	55	**–**	–
Dividends/distributions received/receivable:				
Investment securities available for sale	**23**	19	**29**	87
Subsidiaries (note 34)	**–**	–	**491**	325
Management fees, group service charges and cost recoveries	**(27)**	(21)	**471**	520
Collective allowance for credit losses (provided for)/written back during the financial year (note 9)	**(1)**	(91)	**2**	(73)
Specific provisions:				
Loan assets provided for during the financial year (note 9)	**(175)**	(325)	**(161)**	(294)
Other receivables provided for during the financial year	**(27)**	(18)	**(27)**	(10)
Recovery of loans previously provided for (note 9)	**32**	17	**29**	17
Recovery of other receivables previously provided for	**5**	–	**–**	–
Loan losses written–off	**(63)**	(40)	**(23)**	(12)
Recovery of loans previously written–off	**19**	7	**6**	2
Other income/(expenses)	**138**	124	**4**	(37)
Total other operating income and charges	**47**	(534)	**1,026**	514
Net operating income	**3,652**	3,069	**2,559**	2,493

1 Prior year impairment charge arising from the reclassification of the Italian mortgages business as a disposal group held for sale.

2 Includes rental income of $279 million (2009: $140 million) less depreciation of $207 million (2009: $85 million) in relation to operating leases where the consolidated entity is lessor.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 2

Profit for the financial year continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance–related profit share	**(1,012)**	(853)	**(661)**	(774)
Share based payments	**(66)**	(32)	**(21)**	(25)
Provision for annual leave	**(8)**	(2)	**(3)**	–
Provision for long service leave	**(3)**	–	**(2)**	–
Total employment expenses	**(1,089)**	(887)	**(687)**	(799)
Brokerage and commission expenses				
Brokerage expenses	**(417)**	(380)	**(313)**	(308)
Other fee and commission expenses	**(131)**	(129)	**(88)**	(75)
Total brokerage and commission expenses	**(548)**	(509)	**(401)**	(383)
Occupancy expenses				
Operating lease rental	**(68)**	(58)	**(48)**	(43)
Depreciation: furniture, fittings and leasehold improvements (note 17)	**(28)**	(17)	**(18)**	(11)
Other occupancy expenses	**(26)**	(26)	**(20)**	(23)
Total occupancy expenses	**(122)**	(101)	**(86)**	(77)
Non–salary technology expenses				
Information services	**(45)**	(42)	**(32)**	(35)
Depreciation: computer equipment (note 17)	**(9)**	(14)	**(6)**	(9)
Other non–salary technology expenses	**(34)**	(19)	**(20)**	(11)
Total non–salary technology expenses	**(88)**	(75)	**(58)**	(55)
Other operating expenses				
Professional fees	**(111)**	(120)	**(83)**	(81)
Auditor's remuneration (note 43)	**(10)**	(11)	**(5)**	(5)
Travel and entertainment expenses	**(55)**	(57)	**(33)**	(39)
Advertising and promotional expenses	**(40)**	(30)	**(24)**	(20)
Communication expenses	**(16)**	(15)	**(8)**	(7)
Amortisation of intangibles	**(22)**	(23)	**–**	–
Other expenses[1]	**(789)**	(616)	**(671)**	(493)
Total other operating expenses	**(1,043)**	(872)	**(824)**	(645)
Total operating expenses	**(2,890)**	(2,444)	**(2,056)**	(1,959)

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

Note 3

Segment reporting

(i) Operating segments

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

Macquarie Securities Group activities include institutional/retail derivatives, structured equity finance, arbitrage trading, synthetic products, capital management, collateral management and securities borrowing and lending. It is a full service institutional cash equities broker in the Asia Pacific region and South Africa and specialised in the rest of the world. It provides an equity capital markets service through a joint venture with Macquarie Capital Advisers.

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

Macquarie Funds Group is a full service fund manager that manages assets for pension funds, institutional and retail investors.

Fixed Income, Currencies and Commodities provides a variety of trading, research, sales and financing services across the globe with an underlying specialisation in interest rate, commodity or foreign exchange related institutional trading, marketing, lending, clearing or platform provision.

Corporate and Asset Finance Division provides innovative and traditional capital, finance and related services to clients operating in selected international markets. Corporate and Asset Finance specialises in leasing and asset finance, tailored debt and finance solutions and asset remarketing, sourcing and trading.

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

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

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

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

Segment information has been prepared in conformity with the consolidated entity's segment accounting policy. In accordance with AASB 8 *Operating Segments*, comparative information has been restated to reflect current reportable operating segments.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 3

Segment reporting continued

The following is an analysis of the consolidated entity's revenue and results by reportable segment for the financial year:

	Macquarie Securities Group $m	Macquarie Capital $m	Macquarie Funds Group $m
Revenues from external customers	**489**	**6**	**1,132**
Inter–segmental (expense)/revenue[1]	**(56)**	**22**	**(16)**
Interest revenue	**36**	**3**	**148**
Interest expense	**(22)**	**–**	**(40)**
Depreciation and amortisation	**(1)**	**–**	**(17)**
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	**–**	**12**	**7**
Net operating expense from non–current assets held for sale	**–**	**–**	**–**
Reportable segment profit/(loss)	**116**	**(49)**	**84**
Reportable segment assets	**12,687**	**479**	**7,892**
Revenues from external customers	675	97	718
Inter–segmental (expense)/revenue[1]	(31)	133	(36)
Interest revenue	304	(14)	194
Interest expense	(176)	(7)	(37)
Depreciation and amortisation	(1)	(6)	(2)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	–	31	(1)
Net operating expense from non–current assets held for sale	–	–	–
Reportable segment profit/(loss)	78	133	93
Reportable segment assets	9,842	737	8,491

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

Fixed Income, Currencies and Commodities $m	Corporate and Asset Finance Division $m	Real Estate Banking Division $m	Banking and Financial Services Group $m	Corporate $m	Total $m
					Consolidated 2010
1,790	**955**	**144**	**2,242**	**985**	**7,743**
(68)	**(239)**	**(81)**	**119**	**319**	**–**
637	**993**	**76**	**1,494**	**966**	**4,353**
(380)	**(184)**	**(5)**	**(1,128)**	**(1,269)**	**(3,028)**
(108)	**(108)**	**(2)**	**(30)**	**–**	**(266)**
10	**1**	**(22)**	**2**	**(3)**	**7**
–	**–**	**–**	**–**	**–**	**–**
736	**259**	**(151)**	**268**	**(600)**	**663**
42,060	**14,338**	**1,840**	**29,860**	**20,954**	**130,110**
					Consolidated 2009
1,877	397	279	3,439	2,110	9,592
(98)	(94)	(189)	(420)	735	–
761	365	173	2,691	1,793	6,267
(538)	(129)	(5)	(1,902)	(2,508)	(5,302)
(8)	(80)	(3)	(16)	–	(116)
69	(1)	6	(6)	–	98
(3)	–	–	–	–	(3)
553	84	(355)	(104)	94	576
45,810	8,368	3,040	32,103	22,014	130,405

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 3

Segment reporting continued

(ii) Products and services

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

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

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

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

Lending: banking activities, mortgages, and leasing.

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2010
Revenues from external customers	**1,845**	**3,014**	**11**	**2,873**	**7,743**
					Consolidated 2009
Revenues from external customers	2,256	3,735	141	3,460	9,592

(iii) Geographical areas

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

	Revenues from external customers $m	Non–current assets[1] $m
		Consolidated 2010
Australia	**4,898**	**174**
Asia Pacific	**708**	**19**
Europe, Middle East and Africa	**1,036**	**75**
Americas	**1,101**	**819**
Total	**7,743**	**1,087**
		Consolidated 2009
Australia	6,870	152
Asia Pacific	547	21
Europe, Middle East and Africa	1,311	44
Americas	864	208
Total	9,592	425

[1] Non–current assets consist of intangible assets and property, plant and equipment.

(iv) Major customers

The consolidated entity does not rely on any major customer.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 4

Income tax (expense)/benefit

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
(a) Income tax (expense)/benefit				
Current tax (expense)/benefit	**(428)**	(17)	**(436)**	213
Deferred tax benefit/(expense)	**363**	49	**517**	(127)
Total	**(65)**	32	**81**	86
Deferred income tax benefit/(expense) included in income tax benefit/(expense) comprises:				
(Decrease)/increase in deferred tax assets	**564**	(72)	**348**	(36)
(Increase)/decrease in deferred tax liabilities	**(201)**	121	**169**	(91)
Total	**363**	49	**517**	(127)
(b) Numerical reconciliation of income tax (expense)/benefit to prima facie tax payable				
Prima facie income tax expense on operating profit[1]	**(229)**	(188)	**(151)**	(160)
Tax effect of amounts which are (not deductible)/ non–assessable in calculating taxable income:				
Rate differential on offshore income	**200**	155	**166**	111
Distribution provided on Macquarie Income Preferred Securities and related distributions	**2**	13	**7**	14
Non–deductible share-based payments expense	**(9)**	(10)	**(6)**	(8)
Intra–group dividends	**–**	–	**147**	98
Other items	**(29)**	62	**(82)**	31
Gain on sale of discontinued operations	**–**	–	**–**	–
Total income tax (expense)/benefit	**(65)**	32	**81**	86
(c) Tax (expense)/benefit relating to items of other comprehensive income				
Available for sale reserve	**(51)**	27	**(52)**	8
Cash flow hedges	**(42)**	75	**3**	14
Foreign currency translation reserve	**(204)**	–	**(26)**	–
Share of other comprehensive income of associates and joint ventures	**13**	(15)	**–**	–
Total tax (expense)/benefit relating to items of other comprehensive income	**(284)**	87	**(75)**	22

[1] Prima facie income tax on operating profit is calculated at the rate of 30 per cent (2009: 30 per cent). The Australian tax consolidated group has a tax year ending on 30 September.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 5

Dividends paid and distributions paid or provided

(i) Dividends paid

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Ordinary share capital				
Interim dividend paid	**35**	–	**35**	–
2009 Final dividend paid	**345**	700	**345**	700
Total dividends paid (note 32)	**380**	700	**380**	700

(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 2 July 2010 from retained profits at 31 March 2010, but not recognised as a liability at the end of the financial year, is $450 million (2009: $345 million).

(iii) Distributions paid or provided

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**16**	28	**–**	–
Distributions provided	**5**	5	**–**	–
Total distributions paid or provided (note 32)	**21**	33	**–**	–

The Macquarie Income Securities (MIS) is a stapled arrangement, which includes a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principal under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to Directors' discretion. The distributions paid/provided in respect of the MIS are recognised directly in equity in accordance with AASB 132 *Financial Instruments: Presentation.* Refer to note 31 – Contributed equity for further details on these instruments.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**6**	33	**–**	–
Distributions provided	**2**	12	**–**	–
Total distributions paid or provided (note 32)	**8**	45	**–**	–

The Macquarie Income Preferred Securities (MIPS) represent the minority interests of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIPS are recorded as movements in minority interests, as disclosed in note 32 – Reserves, retained earnings and minority interests. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. For each debenture 500 Bank preference shares may be substituted at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity. Refer to note 31 – Contributed equity, for further details on these instruments.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Convertible Debentures				
Distributions paid (net of distributions previously provided)	**–**	–	**12**	26
Distributions provided	**–**	–	**3**	21
Total distributions paid or provided (note 32)	**–**	–	**15**	47

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 6

Due from banks

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Cash at bank[1]	**2,745**	1,857	**1,666**	869
Overnight cash at bank[2]	**2,966**	5,578	**2,776**	5,577
Other loans to banks	**697**	2,566	**596**	2,418
Due from clearing houses[3]	**82**	168	**82**	168
Total due from banks	**6,490**	10,169	**5,120**	9,032

1 Included within this balance is $nil (2009: $1 million) provided as security over payables to other financial institutions.

2 Included within this balance is $126 million (2009: $nil) provided as security over payables.

3 Included within this balance is $9 million (2009: $nil) provided as security over payables.

Note 7

Cash collateral on securities borrowed and reverse repurchase agreements

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Central banks	**–**	13	**–**	13
Governments[1]	**28**	709	**28**	709
Financial institutions	**6,036**	3,791	**5,930**	3,791
Other	**20**	21	**20**	21
Total cash collateral on securities borrowed and reverse repurchase agreements	**6,084**	4,534	**5,978**	4,534

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

The consolidated entity enters into stock borrowing and reverse repurchase transactions with counterparties which require lodgement of non-cash collateral. The fair value of collateral held as at 31 March 2010 is $6,237 million (2009: $1,555 million). Under certain transactions, the consolidated entity is allowed to resell or repledge the collateral held.

Note 8

Trading portfolio assets

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Trading securities				
Equities[1]				
Listed	**4,566**	2,843	**4,537**	2,836
Unlisted	**28**	43	**6**	7
Corporate bonds	**2,699**	1,117	**2,678**	1,070
Commonwealth government bonds[1]	**2,455**	3,017	**2,455**	3,017
Other government securities	**1,063**	995	**1,063**	995
Foreign government bonds[1]	**305**	511	**305**	479
Treasury notes	**73**	–	**73**	–
Bank bills	**3**	9	**–**	9
Promissory notes	**1**	–	**1**	–
Certificates of deposit	**–**	66	**–**	66
Total trading securities	**11,193**	8,601	**11,118**	8,479
Other trading assets				
Commodities	**131**	171	**33**	15
Total other trading assets	**131**	171	**33**	15
Total trading portfolio assets[2]	**11,324**	8,772	**11,151**	8,494

1 Included within these balances are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided as security is $121 million (2009: $nil).

2 Included within this balance are trading assets of $4,144 million (2009: $3,214 million) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Note 9				
Loan assets held at amortised cost				
Due from clearing houses	**2,217**	1,310	**1,229**	742
Due from governments[1]	**297**	111	**200**	9
Due from other entities				
Other loans and advances	**38,160**	39,574	**15,158**	14,986
Less specific provisions for impairment	**(332)**	(396)	**(293)**	(326)
	37,828	39,178	**14,865**	14,660
Lease receivables	**3,684**	3,556	**57**	7
Less specific provisions for impairment	**(5)**	(14)	**–**	–
Total due from other entities	**41,507**	42,720	**14,922**	14,667
Total loan assets before collective allowance for credit losses	**44,021**	44,141	**16,351**	15,418
Less collective allowance for credit losses	**(227)**	(219)	**(189)**	(180)
Total loan assets held at amortised cost[2, 3]	**43,794**	43,922	**16,162**	15,238

1 Governments include federal, state and local governments and related enterprises in Australia.

2 Included within this balance are loans of $15,998 million (2009: $20,390 million) held by consolidated SPEs which are available as security to note holders and debt providers.

3 Included within this balance are loans of $690 million (2009: $830 million) provided as security over issued notes and payables to other external investors and financial institutions.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Specific provisions for impairment				
Balance at the beginning of the financial year	**410**	100	**326**	60
Provided for during the financial year (note 2)	**175**	325	**161**	294
Loan assets written–off, previously provided for	**(142)**	(24)	**(106)**	(16)
Recovery of loans previously provided for (note 2)	**(32)**	(17)	**(29)**	(17)
Transfer from related body corporate entities	**2**	7	**–**	–
Attributable to foreign currency translation	**(76)**	19	**(59)**	5
Balance at the end of the financial year	**337**	410	**293**	326
Specific provisions as a percentage of total gross loan assets	**0.76%**	0.92%	**1.76%**	2.07%
Collective allowance for credit losses				
Balance at the beginning of the financial year	**219**	112	**180**	106
Transfer from related body corporate entities	**–**	10	**–**	–
Provided for during the financial year (note 2)	**1**	91	**(2)**	73
Attributable to acquisitions during the financial year	**11**	6	**11**	1
Attributable to foreign currency translation	**(4)**	–	**–**	–
Balance at the end of the financial year	**227**	219	**189**	180

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

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 10

Impaired financial assets

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Impaired debt investment securities available for sale before specific provisions for impairment	**143**	188	**–**	–
Less specific provisions for impairment	**(115)**	(137)	**–**	–
Debt investment securities available for sale after specific provisions for impairment	**28**	51	**–**	–
Impaired loan assets and other financial assets with specific provisions for impairment	**994**	1,340	**898**	1,195
Less specific provisions for impairment	**(368)**	(423)	**(322)**	(341)
Loan assets and other financial assets after specific provisions for impairment	**626**	917	**576**	854
Total net impaired assets	**654**	968	**576**	854

Impaired assets have been reported in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* and include loan assets (netted with certain derivative liabilities of $nil (2009: $85 million)).

Note 11

Other financial assets at fair value through profit or loss

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Investment securities	**4,479**	3,065	**4,241**	2,725
Loan assets	**2,646**	2,476	**2,708**	2,476
Total other financial assets at fair value through profit or loss[1]	**7,125**	5,541	**6,949**	5,201

1 Included within this balance is $2,173 million (2009: $2,793 million) provided as security over payables to other financial institutions.

Note 12

Other assets

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Debtors and prepayments	**4,491**	2,931	**1,864**	1,820
Security settlements[1]	**1,446**	156	**1,237**	–
Assets under operating leases[2]	**754**	926	**–**	1
Property held for sale and development	**563**	298	**1**	1
Other	**67**	30	**1**	3
Total other assets[3]	**7,321**	4,341	**3,103**	1,825

1 Security settlements are receivable within three working days of the relevant trade date.

2 Assets under operating lease are stated net of accumulated depreciation of $250 million (2009: $411 million).

3 Included within this balance is $626 million (2009: $710 million) of assets which are provided as security over amounts payable to other financial institutions.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 13
Investment securities available for sale

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Equity securities				
Listed[1]	391	140	289	121
Unlisted	270	271	61	67
Debt securities[2, 3]	16,100	14,133	15,587	13,223
Total investment securities available for sale[4]	16,761	14,544	15,937	13,411

1 Included within this balance is $1 million (2009: $1 million) provided as security over payables to other financial institutions.

2 Includes $2,234 million (2009: $6,217 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $20 million (2009: $238 million) of bank bills.

3 Included within this balance is $299 million (2009: $15 million) provided as security over payables to other financial institutions.

4 Included within this balance is $182 million (2009: $nil) pledged as collateral to secure liabilities under repurchase agreements and stock lending agreements.

Note 14
Intangible assets

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Goodwill	378	189	–	–
Customer and servicing contracts	168	67	–	–
Intangible assets with indefinite lives	262	18	–	–
Other identifiable intangible assets	140	63	16	15
Total intangible assets	948	337	16	15

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

	Goodwill $m	Customer and servicing contracts $m	Intangible assets with indefinite lives $m	Other identifiable intangible assets $m	Total $m
Balance at the beginning of the financial year	189	67	18	63	337
Acquisitions during the financial year	218	126	234	106	684
Adjustments to purchase consideration[1]	4	1	–	–	5
Transferred from held for sale	–	–	11	–	11
Disposals during the financial year	–	–	–	(10)	(10)
Impairment during the financial year	(2)	–	–	(2)	(4)
Amortisation expense for the financial year	–	(14)	–	(8)	(22)
Currency translation difference arising during the financial year	(31)	(12)	(1)	(9)	(53)
Balance at the end of the financial year	378	168	262	140	948

1 These balances relate to adjustments to purchase considerations and allocations.

In relation to businesses acquired and held for disposal, the individual business is treated as a cash generating unit. Assets associated with strategic business acquisitions are allocated to each of the operating segments (refer to note 3 – Segment reporting) and assessed for impairment on a regional legal entity operating group basis.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 15

Life investment contracts and other unitholder investment assets

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Cash and due from banks	**103**	106	**–**	–
Debt securities	**617**	714	**–**	–
Units in unit trusts	**3,968**	3,372	**–**	–
Equity securities	**166**	122	**–**	–
Total life investment contracts and other unitholder investment assets	**4,854**	4,314	**–**	–

Investment assets are held to satisfy policy and unitholder liabilities, which are predominately investment linked.

Income from life investment contracts and other unitholder investment assets				
Premium income, investment revenue and management fees	**667**	346	**–**	2
Life investment contract claims, reinsurance and changes in policy liabilities	**(585)**	(266)	**–**	–
Direct fees	**(34)**	(21)	**–**	–
Total income from life investment contracts and other unitholder investment assets (note 2)	**48**	59	**–**	2

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

As at 31 March 2010, the life investment contracts business had investment assets in excess of policy holder liabilities of $13 million (2009: $14 million).

Note 16

Interests in associates and joint ventures accounted for using the equity method

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Loans and investments without provisions for impairment	**723**	1,064	**144**	375
Loans and investments with provisions for impairment	**394**	926	**241**	128
Less provision for impairment	**(202)**	(419)	**(43)**	(4)
Loans and investments at recoverable amount	**192**	507	**198**	124
Total interests in associates and joint ventures accounted for using the equity method	**915**	1,571	**342**	499

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 16

Interest in associates and joint ventures accounted for using the equity method continued

	Consolidated 2010 $m	Consolidated 2009 $m
(a) Reconciliation of movement in the consolidated entity's interests in associates and joint ventures accounted for using the equity method:		
Balance at the beginning of the financial year	**1,571**	1,956
Transfer as part of restructure	**2**	2
Associates acquired/equity invested	**200**	268
Share of pre–tax profits of associates and joint ventures	**10**	139
Share of tax expense of associates and joint ventures	**(3)**	(41)
Dividends received/receivable from associates (note 34)	**(96)**	(200)
Associates disposed of	**(129)**	(195)
Impairment of investments in associates	**(65)**	(102)
Foreign exchange and other adjustments	**(164)**	186
Transferred to other asset categories	**(411)**	(442)
Balance at the end of the financial year	**915**	1,571

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

Name of entity	Country of incorporation	Reporting date	Ownership interest 2010 %	Ownership interest 2009 %
Diversified CMBS Investments Inc[1, a]	USA	31 March	**57**	57
Macquarie Countrywide Trust[2, 3, b]	Australia	30 June	**–**	11
Macquarie Goodman Japan Limited[b]	Singapore	31 March	**50**	50
Macquarie Office Trust[2, 3, b]	Australia	30 June	**–**	14
MGPA Limited[4, b]	Bermuda	30 June	**56**	56

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

[2] The consolidated entity had significant influence due to its fiduciary relationship as manager of these entities.

[3] Due to a restructure of ownership these interests have now been classified as investment securities available for sale.

[4] Significant influence arises due to the consolidated entity's voting power and board representation.

[a] Funds management and investing.

[b] Property development/management entity.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
(c) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**9**	2	**–**	–
For which the consolidated entity is severally liable	**3**	1	**–**	–

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 16

Interest in associates and joint ventures accounted for using the equity method continued

(d) Financial information of interests in associates and joint ventures are as follows:

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Consolidated entity's share of:				
Assets	**2,036**	4,466	**443**	961
Liabilities	**1,147**	2,322	**323**	592
Revenues	**558**	911	**112**	223
Profit after tax	**4**	98	**1**	–

Note 17

Property, plant and equipment

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Furniture, fittings and leasehold improvements				
Cost	**177**	124	**48**	55
Less accumulated depreciation	**(50)**	(50)	**(30)**	(34)
Total furniture, fittings and leasehold improvements	**127**	74	**18**	21
Communication equipment				
Cost	**7**	9	**5**	6
Less accumulated depreciation	**(6)**	(8)	**(5)**	(6)
Total communication equipment	**1**	1	**–**	–
Computer equipment				
Cost	**63**	70	**82**	48
Less accumulated depreciation	**(55)**	(57)	**(77)**	(38)
Total computer equipment	**8**	13	**5**	10
Infrastructure assets				
Cost	**3**	–	**–**	–
Less accumulated depreciation	**–**	–	**–**	–
Total infrastructure assets	**3**	–	**–**	–
Total property, plant and equipment	**139**	88	**23**	31

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

	Furniture, fittings and leasehold improvements $m	Communication equipment $m	Computer equipment $m	Infrastructure assets $m	Total $m
Balance at the beginning of the financial year	**74**	**1**	**13**	**–**	**88**
Acquisitions	**50**	**–**	**4**	**3**	**57**
Disposals	**(3)**	**–**	**–**	**–**	**(3)**
Reclassification[1]	**30**	**–**	**–**	**–**	**30**
Foreign exchange movements	**4**	**–**	**–**	**–**	**4**
Depreciation expense (note 2)	**(28)**	**–**	**(9)**	**–**	**(37)**
Balance at the end of the financial year	**127**	**1**	**8**	**3**	**139**

1 During the year a number of agricultural non-current assets have been transferred out of held for sale resulting in $30 million being transferred into property, plant and equipment.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 18
Investments in subsidiaries

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Investments at cost without provisions for impairment	–	–	3,794	3,921
Investments at cost with provisions for impairment	–	–	352	252
Less provisions for impairment	–	–	(298)	(214)
Investments at recoverable amount	–	–	54	38
Total investments in subsidiaries	–	–	3,848	3,959

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

- Delaware Management Holdings Inc. (United States)
- Macquarie Agricultural Funds Management Limited (formerly known as Macquarie Pastoral Management Limited)
- Macquarie Alternative Assets Management Limited
- Macquarie Americas Corp (United States)
- Macquarie Australia Securities Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Corporate and Asset Finance Limited
- Macquarie Financial Limited/Financiere Macquarie Ltee (Canada)
- Macquarie Financial Products Management Limited
- Macquarie France SARL (France)
- Macquarie Funding Inc (Canada)
- Macquarie Funding Holdings Inc (United States)
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Hong Kong Finance International Limited (Hong Kong)
- Macquarie Hong Kong Finance Limited (Cayman Islands)[1]
- Macquarie Income Investments Limited
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Leasing Pty Limited
- Macquarie Life Limited
- Macquarie Private Capital Management Limited
- Macquarie Securitisation Limited
- Macquarie TCG (USA) LLC (United States)
- MQ Portfolio Management Limited

Note: All entities are incorporated in Australia unless otherwise stated.
Overseas subsidiaries conduct business predominantly in their place of incorporation unless otherwise stated.
Beneficial interest in all entities is 100 per cent.
All entities have a 31 March reporting date.

[1] Incorporated in the Cayman Islands with business conducted predominantly in Hong Kong.

Note 19

Deed of cross guarantee

On 26 March 2009 MBL, Macquarie Americas Holdings Pty Limited, Macquarie Corporate and Asset Finance Limited, Macquarie Leisure Developments Pty Limited, Macquarie Property Investment Management Holdings Limited and Pacific Rim Operations Limited entered into a deed of cross guarantee under which each company guarantees the debts of the others. On 25 February 2010, Macquarie Australia Pty Limited entered the deed and on 22 March 2010 Boston Australia Pty Limited and MTF Holdings Pty Limited entered the deed. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

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

The above entities represent a 'Closed Group' (the Closed Group) for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by MBL they also represent the 'Extended Closed Group'.

Consolidated income statement of the Closed Group for the financial year ended 31 March 2010

	2010 $m	2009 $m
Interest and similar income	3,239	4,571
Interest expense and similar charges	(2,311)	(4,149)
Net interest income	928	422
Fee and commission income	69	139
Net trading income	565	1,436
Share of net profits of associates and joint ventures accounted for using the equity method	13	86
Other operating income and charges	858	441
Net operating income	2,433	2,524
Employment expenses	(688)	(799)
Brokerage and commission expenses	(375)	(381)
Occupancy expenses	(85)	(77)
Non–salary technology expenses	(58)	(55)
Other operating expenses	(707)	(627)
Total operating expenses	(1,913)	(1,939)
Operating profit before income tax	520	585
Income tax benefit	83	83
Profit attributable to equity holders of the Closed Group	603	668
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year[1]	1,090	1,183
Profit attributable to equity holder of the Closed Group	603	668
Dividends paid or provided	(416)	(747)
Retained earnings at the end of the financial year	1,277	1,104

[1] The opening retained earnings of the Closed Group for 2010 includes the opening retained earnings of Macquarie Australia Pty Limited, Boston Australia Pty Limited and MTF Holdings Pty Limited amounting to $14 million, entities which entered into the deed of cross guarantee in the year ended 31 March 2010.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 19

Deed of cross guarantee continued

Consolidated statement of financial position of the Closed Group as at 31 March 2010

	2010 $m	2009 $m
Assets		
Cash and balances with central banks	–	141
Due from banks	5,120	9,032
Cash collateral on securities borrowed and reverse repurchase agreements	5,978	4,534
Trading portfolio assets	11,151	8,494
Loan assets held at amortised cost	16,162	15,238
Other financial assets at fair value through profit or loss	6,965	5,222
Derivative financial instruments – positive values	14,955	21,418
Other assets	3,103	1,827
Investment securities available for sale	16,014	13,430
Intangible assets	16	15
Due from related body corporate entities	2,457	4,588
Due from subsidiaries	13,835	14,076
Interest in associates and joint ventures accounted for using the equity method	339	736
Property, plant and equipment	23	31
Investments in subsidiaries	5,221	4,547
Deferred income tax assets	214	6
Total assets	101,553	103,335
Liabilities		
Due to banks	1,657	2,009
Cash collateral on securities lent and repurchase agreements	7,195	3,881
Trading portfolio liabilities	4,910	1,977
Derivative financial instruments – negative values	14,866	23,906
Deposits	21,623	21,267
Debt issued at amortised cost	19,170	23,776
Other financial liabilities at fair value through profit or loss	2,355	3,276
Other liabilities	3,103	2,445
Current tax liabilities	18	33
Due to related body corporate entities	8,046	2,847
Due to subsidiaries	8,271	8,763
Provisions	53	71
Deferred income tax liabilities	–	301
Total liabilities excluding loan capital	91,267	94,552
Loan capital		
Subordinated debt at amortised cost	905	1,488
Subordinated debt at fair value through profit or loss	499	451
Total loan capital	1,404	1,939
Total liabilities	92,671	96,491
Net assets	8,882	6,844
Equity		
Contributed equity		
Ordinary share capital	6,855	4,547
Macquarie Income Securities	391	391
Convertible debentures	107	884
Reserves	252	(82)
Retained earnings	1,277	1,104
Total equity	8,882	6,844

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 20

Deferred income tax assets/(liabilities)

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
The balance comprises temporary differences attributable to:				
Other assets and liabilities	**247**	367	**96**	(4)
Tax losses	**115**	49	**46**	–
Fixed assets	**26**	33	**28**	33
Investments in subsidiaries, associates and joint ventures	**69**	39	**–**	–
Set–off of deferred tax liabilities	**(84)**	(395)	**113**	(18)
Total deferred income tax assets	**373**	93	**283**	11
Intangible assets	**(145)**	–	**–**	–
Financial instruments	**(94)**	(508)	**165**	(261)
Other liabilities	**(78)**	–	**(78)**	–
Tax effect of reserves	**(40)**	41	**(52)**	(3)
Set–off of deferred tax assets	**84**	395	**(113)**	18
Total deferred income tax liabilities	**(273)**	(72)	**(78)**	(246)
Net deferred income tax assets/(liabilities)	**100**	21	**205**	(235)

Potential tax assets of approximately $58 million (2009: $29 million) attributable to tax losses carried forward by subsidiaries have not been brought to account in the subsidiaries and in the consolidated entity as the Directors do not believe the realisation of the tax assets is probable.

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

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

Note 21

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

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Non–current assets and assets of disposal groups classified as held for sale				
Other non–current assets[1]	**4**	56	**–**	–
Assets of disposal groups classified as held for sale[2]	**47**	–	**–**	–
Total non–current assets and assets of disposal groups classified as held for sale	**51**	56	**–**	–
Liabilities of disposal groups classified as held for sale				
Total liabilities of disposal groups classified as held for sale[2]	**9**	–	**–**	–

[1] Included within this balance are assets with a carrying value of $nil (2009: $10 million) provided as security over payables to other financial institutions.

[2] The balance at 31 March 2010 represents the assets and liabilities of Advanced Markets Holdings LLC.

All of the above non–current assets and assets/liabilities of disposal groups classified as held for sale are expected to be disposed of to other investors within 12 months of being classified as held for sale, unless events or circumstances occur that are beyond the control of the consolidated entity and the consolidated entity remains committed to its plan to sell the asset.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 22
Due to banks

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
OECD banks	699	1,030	197	448
Clearing houses[1]	42	26	42	26
Other	1,426	2,208	999	1,535
Total due to banks	**2,167**	3,264	**1,238**	2,009

[1] Amounts due to clearing houses are settled on the next business day.

Note 23
Cash collateral on securities lent and repurchase agreements

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Central banks	2,776	729	2,776	729
Governments	–	101	–	101
Financial institutions	4,419	3,044	4,413	3,044
Other	6	7	6	7
Total cash collateral on securities lent and repurchase agreements	**7,201**	3,881	**7,195**	3,881

Note 24
Trading portfolio liabilities

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Listed equity securities	3,381	1,878	3,381	1,875
Corporate securities	819	12	808	12
Commonwealth government securities	434	78	434	78
Other government securities	287	12	287	12
Total trading portfolio liabilities	**4,921**	1,980	**4,910**	1,977

Note 25
Debt issued at amortised cost

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Debt issued at amortised cost[1]	39,408	48,270	19,170	23,776
Total debt issued at amortised cost	**39,408**	48,270	**19,170**	23,776

[1] Included within this balance are amounts payable to SPE note holders of $14,419 million (2009: $20,131 million).

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

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 26

Other financial liabilities at fair value through profit or loss

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Debt issued at fair value	**101**	176	**95**	169
Equity linked notes	**2,524**	3,702	**2,260**	3,107
Total other financial liabilities at fair value through profit or loss	**2,625**	3,878	**2,355**	3,276

Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Australian dollars	**18,020**	25,259	**5,314**	8,658
United States dollars	**14,035**	16,320	**12,993**	14,302
Canadian dollars	**5,789**	3,607	**39**	7
Euros	**1,622**	4,081	**804**	2,378
Japanese yen	**1,350**	683	**1,350**	683
Great British pounds	**547**	905	**477**	183
Hong Kong dollars	**386**	626	**382**	626
Singapore dollars	**177**	492	**59**	40
New Zealand dollars	**88**	94	**88**	94
Korean won	**19**	81	**19**	81
Total by currency	**42,033**	52,148	**21,525**	27,052

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

Note 27

Other liabilities

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Creditors	**4,205**	2,388	**1,664**	1,360
Due to brokers and customers[1]	**1,768**	958	**1,000**	676
Accrued charges and sundry provisions	**472**	534	**266**	374
Other	**282**	121	**173**	34
Total other liabilities	**6,727**	4,001	**3,103**	2,444

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 28
Provisions

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Provision for annual leave	**35**	30	**23**	22
Provision for long service leave	**26**	25	**26**	25
Provision for other employee entitlements	**3**	4	**1**	3
Provision for dividends	**7**	17	**3**	21
Total provisions	**71**	76	**53**	71

Note 29
Capital management strategy

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

The consolidated entity's capital management objectives are to:

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

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

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

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

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

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

Note 30

Loan capital

Subordinated debt

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

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

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
30 September 2009	**–**	3	**–**	–
15 September 2014	**–**	301	**–**	301
18 September 2015	**239**	489	**239**	489
19 September 2016	**330**	176	**330**	176
6 December 2016	**516**	668	**516**	668
31 May 2017	**319**	305	**319**	305
Total subordinated debt	**1,404**	1,942	**1,404**	1,939
Reconciliation of subordinated debt by major currency:				
Euros	**516**	669	**516**	669
Great British pounds	**331**	413	**331**	413
Australian dollars	**318**	368	**318**	368
United States dollars	**239**	492	**239**	489
Total subordinated debt by currency	**1,404**	1,942	**1,404**	1,939

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

The carrying value of subordinated debt at fair value through profit or loss at 31 March 2010 is $14 million higher (2009: $236 million lower) than the contractual amount at maturity as credit risk and current market interest rates are factored into the determination of fair value.

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated and Bank		Consolidated and Bank	
	2010 Number of shares	2009 Number of shares	**2010 $m**	2009 $m

Note 31
Contributed equity

	2010 Number of shares	2009 Number of shares	**2010 $m**	2009 $m
Ordinary share capital				
Opening balance of fully paid ordinary shares	**337,902,108**	300,536,918	**4,503**	3,586
Issue of 3,926,700 shares to Macquarie B.H. Pty Ltd on 4 July 2008 at $76.40 per share	**–**	3,926,700	**–**	300
Issue of 2,341,926 shares to Macquarie B.H. Pty Ltd on 1 November 2008 at $19.87 per share	**–**	2,341,926	**–**	47
Issue of 31,096,564 shares to Macquarie B.H. Pty Ltd on 30 March 2009 at $18.33 per share	**–**	31,096,564	**–**	570
Issue of 10,920,790 shares to Macquarie B.H. Pty Ltd on 1 April 2009 at $18.33 per share	**10,920,790**	–	**200**	–
Issue of 26,301,219 shares to Macquarie B.H. Pty Ltd on 28 September 2009 at $18.06 per share	**26,301,219**	–	**475**	–
Issue of 30,854,431 shares to Macquarie B.H. Pty Ltd on 31 January 2010 at $18.96 per share	**30,854,431**	–	**585**	–
Issue of 38,107,417 shares to Macquarie B.H. Pty Ltd on 29 March 2010 at $19.55 per share	**38,107,417**	–	**745**	–
Closing balance of fully paid ordinary shares	**444,085,965**	337,902,108	**6,508**	4,503

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Equity contribution from ultimate parent entity				
Balance at the beginning of the financial year	**57**	18	**44**	12
Additional paid up capital	**30**	39	**23**	32
Balance at the end of the financial year	**87**	57	**67**	44

During the current year, the ultimate parent entity, MGL, introduced MEREP, which grants RSUs, DSUs and PSUs to eligible staff of the consolidated entity. Under MEREP the staff retained profit share will be held in the shares of MGL by Macquarie Group Employee Retained Equity Plan Trust (MEREP Trust). Where MEREP Awards are issued by MGL to employees of the consolidated entity and MGL is not subsequently reimbursed by the consolidated entity, the consolidated entity recognises the equity provided as a capital contribution from MGL. During the year ended 31 March 2010 compensation expense relating to MEREP which has been treated as paid up capital totalled $827,641. For further information regarding the terms and conditions of MEREP refer to note 36 – Employee equity participation.

In November 1995, the Bank introduced an Employee Option Plan, as a replacement for the Bank's then closed partly paid share scheme. On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). Staff eligible to participate are those of Associate Director level and above and consultants to the consolidated entity. The options are measured at their grant dates based on their fair value and the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods. Since 13 November 2007 the equity provided has been treated as an equity contribution from MGL. For the year ended 31 March 2010, compensation expense relating to MGESOP which has been treated as additional paid up capital in the consolidated entity totalled $27,990,616 (2009: $31,885,238) and in the Bank $21,429,822 (2009: $25,386,197). In addition, pursuant to an amendment to the terms of the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and Employee Share Plan (ESP) to allow the issue of new shares as an alternative to acquiring existing shares on-market, compensation expense relating to these plans which has been recognised as additional paid up capital in the consolidated entity totalled $8,402,764 (2009: $7,174,013) and in the Bank $8,210,646 (2009: $6,999,693). Details of the MGESOP, MGSSAP and ESP are disclosed in note 36 – Employee equity participation.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 31

Contributed equity continued

Macquarie Income Securities				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**400**	400
Less transaction costs for original placement	**(9)**	(9)	**(9)**	(9)
Total Macquarie Income Securities	**391**	391	**391**	391

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

Convertible debentures				
7,000 convertible debentures of £50,000 each	**–**	–	**107**	884
Total convertible debentures	**–**	–	**107**	884

As part of the issue of the Macquarie Income Preferred Securities (detailed in note 32 – Reserves, retained earnings and minority interests) the London branch of the Bank issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding LP, a subsidiary of the Bank. The convertible debentures, which eliminate on consolidation, currently pay a 6.177 per cent (2009: 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 (2009: 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 5 – Dividends paid and distributions paid or provided.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Note 32				
Reserves, retained earnings and minority interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(9)**	(20)	**(167)**	(134)
Currency translation differences arising during the financial year, net of hedge	**(232)**	11	**110**	(33)
Balance at the end of the financial year	**(241)**	(9)	**(57)**	(167)
Available for sale reserve				
Balance at the beginning of the financial year	**4**	56	**37**	46
Revaluation movement for the financial year, net of tax	**192**	(134)	**177**	(57)
Transfer to income statement for impairment	**1**	92	**1**	57
Transfer to profit on realisation	**(5)**	(10)	**(5)**	(9)
Balance at the end of the financial year	**192**	4	**210**	37
Share based payments reserve				
Balance at the beginning of the financial year	**186**	186	**186**	186
Balance at the end of the financial year	**186**	186	**186**	186
Cash flow hedging reserve				
Balance at the beginning of the financial year	**(146)**	31	**(27)**	12
Revaluation movement for the financial year, net of tax	**99**	(177)	**–**	(39)
Balance at the end of the financial year	**(47)**	(146)	**(27)**	(27)
Share of reserves of interests in associates and joint ventures using the equity method				
Balance at the beginning of the financial year	**30**	(6)	**–**	–
Share of reserves during the financial year	**(29)**	36	**–**	–
Balance at the end of the financial year	**1**	30	**–**	–
Reserves arising from group restructure of combining entities under common control				
Balance at the beginning of the financial year	**(266)**	(65)	**(61)**	(61)
Arising from acquisition of entities of the Non–Banking Group (note 44)	**5**	(201)	**–**	–
Balance at the end of the financial year	**(261)**	(266)	**(61)**	(61)
Total reserves at the end of the financial year	**(170)**	(201)	**251**	(32)
Retained earnings				
Balance at the beginning of the financial year	**1,250**	1,374	**1,099**	1,226
Profit attributable to equity holders of Macquarie Bank Limited	**684**	609	**584**	620
Distributions paid or provided on Macquarie Income Securities (note 5)	**(21)**	(33)	**–**	–
Distributions paid or provided on convertible debentures (note 5)	**–**	–	**(15)**	(47)
Dividends paid on ordinary share capital (note 5)	**(380)**	(700)	**(380)**	(700)
Balance at the end of the financial year	**1,533**	1,250	**1,288**	1,099

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 32

Reserves, retained earnings and minority interests continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Minority interests				
Macquarie Income Preferred Securities[1]				
Proceeds on issue of Macquarie Income Preferred Securities[2]	**107**	894	**–**	–
Less issue costs	**(1)**	(10)	**–**	–
	106	884	**–**	–
Less securities financed	**–**	(382)	**–**	–
	106	502	**–**	–
Current year profit	**8**	45	**–**	–
Distribution provided on Macquarie Income Preferred Securities (note 5)	**(8)**	(45)	**–**	–
Foreign currency translation reserve	**(39)**	(104)	**–**	–
Total Macquarie Income Preferred Securities	**67**	398	**–**	–
Other minority interests				
Ordinary share capital	**9**	6	**–**	–
Retained earnings	**9**	6	**–**	–
Total other minority interests	**18**	12	**–**	–
Total minority interests	**85**	410	**–**	–

1 On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Bank, issued £350 million of Macquarie Income Preferred Securities (the Securities). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent (2009: 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 (2009: 2.35 per cent) per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The instruments are reflected in the consolidated entity's financial statements as a minority interest, with distribution entitlements being included with the minority interest share of profit after tax.

2 On 11 September 2009, the various interests in the Securities held by Macquarie Capital Finance (Dubai) Limited were redeemed.

Note 33

Notes to the statements of cash flows

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year as shown in the statements of cash flows are reconciled to related items in the statement of financial position as follows:				
Cash and balances with central banks	**–**	141	**–**	141
Due from other financial institutions				
Due from banks[1]	**6,459**	10,127	**5,023**	9,026
Trading securities[2]	**4,706**	9,604	**3,209**	9,605
Cash and cash equivalents at the end of the financial year	**11,165**	19,872	**8,232**	18,772

1 Includes cash at bank, overnight cash at bank, other loans to banks and amounts due from clearing houses as per note 1(xxi) – Summary of significant accounting policies.

2 Includes certificates of deposit, bank bills and other short–term debt securities as per note 1(xxi) – Summary of significant accounting policies.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 33

Notes to the statements of cash flows continued

Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Profit from ordinary activities after income tax	**697**	657	**584**	620
Adjustments to profit from ordinary activities				
Depreciation and amortisation	**266**	139	**24**	20
Dividends received from associates	**96**	200	**–**	–
Fair value changes on financial assets and liabilities at fair value through profit or loss and realised investment securities available for sale	**192**	(102)	**177**	(140)
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**(138)**	(298)	**(141)**	(402)
Gain on repurchase of subordinated debt	**(55)**	–	**(55)**	–
Impairment charge on financial and non-financial assets	**422**	1,036	**288**	879
Interest on available for sale financial assets	**244**	(651)	**250**	(821)
Loss on disposal of property, plant and equipment	**5**	11	**–**	–
Net gains on sale of associates (including associates held for sale) and joint ventures	**(9)**	(29)	**–**	(124)
Net losses/(gains) on sale of investment securities available for sale	**(42)**	6	**(117)**	(1)
Share based payment expense (note 31)	**30**	39	**23**	32
Share of net (losses)/profits of associates and joint ventures accounted for using the equity method	**(7)**	(98)	**–**	1
Changes in assets and liabilities				
Change in dividends receivable	**25**	41	**23**	45
Change in fees and non-interest income receivable	**226**	(32)	**227**	(108)
Change in fees and commissions payable	**9**	(6)	**(6)**	(2)
Change in tax balances	**(66)**	(66)	**(129)**	(55)
Change in provisions for employee entitlements	**5**	(14)	**–**	(7)
Change in loan assets granted/(repaid)	**3,738**	(565)	**2,750**	(11,269)
Change in loan receivable from ultimate parent entity	**2,551**	5,000	**2,551**	5,000
Change in debtors, prepayments, accrued charges and creditors	**(14)**	(1,246)	**(3)**	101
Change in net trading portfolio assets and liabilities and net derivative financial instruments	**1,122**	4,526	**(1,710)**	7,178
Change in net interest payable, amounts due to other financial institutions, deposits and other borrowings	**(10,192)**	(7,529)	**(5,156)**	1,519
Change in life investment contract receivables	**(1,117)**	(254)	**–**	–
Net cash flows from operating activities	**(2,012)**	765	**(420)**	2,466
Non-cash investing activity				
Acquisition of subsidiaries by means of equity issue	**200**	–	**200**	–

During the financial year, the Bank acquired certain subsidiaries of the Non-Banking Group (see note 44 – Acquisitions and disposals of subsidiaries and businesses) with the issue of new shares. This increased the Bank's cost of investment in subsidiaries without any corresponding outflow of cash and cash equivalents.

Note 34

Related party information

Ultimate and immediate parent entities

The Bank's ultimate parent entity is MGL. 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.

Transactions between the consolidated entity and the ultimate and immediate parent entities principally arise from the provision and repayment of loans and the provision of management and administration services.

In the financial year ended 31 March 2008 the Bank provided a $10.1 billion intra-group loan to MGL of which $1,249 million (2009: $3,800 million) remained outstanding at the balance sheet date. This facility is an unsecured term loan to be repaid by December 2012.

MGL as the ultimate parent entity of the Macquarie Group is the head entity of the Australian tax consolidated group. The terms and conditions of the tax funding agreement are set out in note 1 (vii) – Summary of significant accounting policies. During the year ended 31 March 2010, current tax liabilities of the consolidated entity and the Bank attributed to MGL as the head entity of the tax consolidated group amounted to $494 million (2009: $584 million) and $442 million (2009: $572 million), respectively.

Balances outstanding with MGL are included in Due from related body corporate entities and Due to related body corporate entities, as appropriate, in the statement of financial position. The following balances with the ultimate parent entity were outstanding as at the financial year end:

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Amounts receivable	**1,071**	3,797	**1,325**	3,801

Subsidiaries

Transactions between the Bank and its subsidiaries principally arise from the provision of banking and other financial services, the granting of loans and acceptance of funds on deposit, derivative transactions, the provision of management and administration services and the provision of guarantees.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the statement of financial position of the Bank except when offsetting reflects the substance of the transaction or event.

Balances arising from lending and borrowing activities between the Bank and subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

The Bank has entered into derivative transactions with its subsidiaries to hedge their operations. The fair value of derivative financial instruments relating to transactions between the Bank and its subsidiaries at 31 March 2010 are $136 million (2009: $860 million) positive value and $597 million (2009: $445 million) negative value.

A list of material subsidiaries is set out in note 18 – Investments in subsidiaries.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 34

Related party information continued

Subsidiaries continued

During the financial year, the following transactions occurred with subsidiaries:

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Interest income received/receivable (note 2)	–	–	419	529
Interest expense paid/payable (note 2)	–	–	(252)	(785)
Fee and commission income	–	–	100	57
Other operating (expense)/income	–	–	(4)	9
Dividends and distributions received/receivable (note 2)	–	–	491	325
Management fees, group service charges and cost recoveries	–	–	482	525
The following balances with subsidiaries were outstanding at the year end:				
Amounts receivable	–	–	16,361	15,045
Amounts payable[1]	–	–	(9,596)	(8,849)

[1] As described in note 1(xx) – Summary of significant accounting policies, the Bank has recognised a liability of $18 million (2009: $nil) for amounts received in advance from subsidiaries for MEREP offered to their employees and yet to be recognised as a share based payment expense by the subsidiary. To the extent that the awards vest, this amount will be retained by the Bank as compensation for issuing and releasing the shares to the subsidiary employees.

Other related body corporate entities

Transactions between the consolidated entity and other 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.

Balances arising from lending and borrowing activities between the consolidated entity and other related body corporate entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

During the financial year, the following transactions occurred with other related body corporate entities:

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Interest income received/receivable (note 2)	155	607	155	585
Interest expense paid/payable (note 2)	(167)	(525)	(164)	(472)
Management fees, group service charges and cost recoveries	(27)	(37)	(17)	(13)
Fee and commission expense	(310)	(205)	(326)	(185)
Other operating expenses	(49)	(34)	(55)	(33)
The following balances with other related body corporate entities were outstanding at the year end:				
Amounts receivable	1,320	850	1,132	787
Amounts payable	(8,008)	(3,332)	(8,044)	(2,876)

Note 34

Related party information continued

Associates and joint ventures

Transactions between the consolidated entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the consolidated entity, in the consolidated income statement.

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

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Interest income received/receivable	**6**	19	**10**	16
Fee and commission income/(expense)[1]	**76**	104	**(21)**	17
Other income	**2**	6	**2**	6
Gains on sale of securities[2]	**8**	2	**–**	1
Dividends and distributions[3] (note 16)	**96**	200	**1**	8
Brokerage and commission expense	**–**	(12)	**–**	(12)

1 Fee and commission income includes all fees charged to associates.

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

3 Dividends and distributions are shown as gross amounts. Under the equity method, these amounts are not taken up as profit but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the consolidated entity's net investment in associates, disclosed in note 16 – Interests in associates and joint ventures accounted for using the equity method):

	Consolidated 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Amounts receivable	**189**	635	**214**	545
Amounts payable	**(2)**	-	**(26)**	-

Balances arising from lending and borrowing activities between the consolidated entity and its associates and joint ventures are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 35
Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MBL during the financial years ended 31 March 2010 and 31 March 2009, unless indicated:

Executive Directors

L.G. Cox, AO	(retired 29 July 2009)
N.W. Moore[1]	(ceased to be a Key Management Person on 12 November 2007, reappointed 24 May 2008)
A.E. Moss, AO	(retired 24 May 2008)
W.R. Sheppard[1]	Managing Director and Chief Executive Officer

Non–Executive Directors

D.S. Clarke, AO[2]	Non–Executive Chairman
M.J. Hawker	(appointed 22 March 2010)
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM[3]	
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne[4]	

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the consolidated entity during the past two financial years ended 31 March 2010 and 31 March 2009, unless otherwise indicated.

Executives

S.D. Allen[1]	Group Head, Risk Management Group (appointed 28 September 2009)
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired 26 February 2009)
A.J. Downe[1]	Group Head, Fixed Income, Currencies and Commodities Group
R. Laidlaw[1]	Group Head, Macquarie Securities Group (appointed 10 June 2008)
P.J. Maher[1]	Group Head, Banking and Financial Services Group
N.R. Minogue	Former Group Head, Risk Management Group (retired 30 November 2009)
G.C. Ward[1]	Chief Financial Officer
S Wikramanayake[1]	Group Head, Macquarie Funds Group (appointed 10 June 2008)

[1] Members of the Bank's Executive Committee as at 29 April 2010.

[2] On 31 August 2009, Mr Clarke resumed full duties as Chairman following a leave of absence which commenced on 27 November 2008.

[3] Mr McCann was appointed Acting Chairman in Mr Clarke's absence (from 27 November 2008 to 30 August 2009).

[4] Mr Warne was appointed Acting Chairman of the Board Risk Committee in Mr Clarke's absence (from 27 November 2008) and was appointed Chairman on 27 August 2009.

It is important to note that the Bank's Non–Executive Directors are specifically required to be categorised as Key Management Personnel for the purposes of the disclosures in the Remuneration Report. However, the Non–Executive Directors do not consider that they are part of 'management'.

The remuneration arrangements for all of the persons listed above are described in Appendix 2 of the Remuneration Report, contained in the Directors' Report pages 7 to 44.

Note 35

Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following table details the aggregate remuneration for Key Management Personnel:

	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Short-term employee benefits: Total short-term employee benefits $	Long-term employee benefits[1]: Restricted profit share $	Share based payments: Shares/ Options $	Total remuneration $
Executive Remuneration							
2010	**2,536,908**	**11,835,914**	**–**	**14,372,822**	**2,318,765**	**8,070,467**	**24,762,054**
2009	2,900,365	10,565,085	–	13,465,450	(11,495,262)	5,342,793	7,312,981
Non-Executive Remuneration							
2010	**631,747**	**–**	**–**	**631,747**	**–**	**–**	**631,747**
2009	628,000	–	10,487	638,487	–	–	638,487

[1] Includes earnings or losses on restricted profit share.

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-down $'000	Closing balance at 31 March $'000	Number in consolidated entity 31 March
Total for Key Management Personnel and their related parties	**2010**	**42,861**	**3,045**	**–**	**31,691**	**11**
	2009	57,176	4,501	–	42,861	10
Total for Key Management Personnel	**2010**	**22,729**	**863**	**–**	**12,422**	**5**
	2009	39,164	2,493	–	22,729	5

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

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 35

Key Management Personnel disclosure continued

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

For the financial year ended 31 March 2010

Name and position	Balance at 1 April 2009[1] $'000	Interest charged[2] $'000	Write-down $'000	Balance at 31 March 2010[3] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	5,313	330	–	5,274	5,313
Non-Executive Directors					
D.S. Clarke	37,290	2,700	–	26,160	38,975
Executives					
R. Laidlaw	238	14	–	238	238

1 Or date of appointment if later.

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

3 Or date of retirement if earlier.

For the financial year ended 31 March 2009

Name and position	Balance at 1 April 2008[1] $'000	Interest charged[2] $'000	Write-down $'000	Balance at 31 March 2009[3] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore[4]	6,985	376	–	5,313	12,570
Non-Executive Directors					
D.S. Clarke[5]	34,826	3,352	–	37,290	37,798
Executives					
A.J. Downe	1,847	105	–	–	1,847
R. Laidlaw	238	–	–	238	238
P.J. Maher	4,878	499	–	20	5,572
N.R. Minogue	4,234	42	–	–	4,339
G.C. Ward	4,406	127	–	–	4,406

1 Or date of appointment if later.

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

3 Or date of retirement if earlier.

4 Mr Moore ceased being a member of the Executive Committee on 12 November 2007. Mr Moore was reappointed on 24 May 2008.

5 Mr Clarke sought and was granted leave from 27 November 2008 to 30 August 2009.

Note 35

Key Management Personnel disclosure continued

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

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

	Consolidated 2010 $m	Consolidated 2009 $m
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**7,772**	10,823

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

Executive Directors

N.W. Moore

Non-Executive Directors

P.M. Kirby

Executives

S.D. Allen (2010 only), A.J. Downe, R. Laidlaw, P.J. Maher, W.R. Sheppard, G.C. Ward, S. Wikramanayake (2010 only)

Former Directors

L.G. Cox, N.R. Minogue

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the Bank and other non-related entities in respect of fully paid ordinary MGL shares. This has the effect of acquiring cash-settled put options against movements in the MGL share price below current levels and disposing of the benefit of any share price movement above the nominated level.

Transactions with the consolidated entity

Name and position	**Description**	**Number of shares 2010**	Number of shares 2009
Non-Executive Directors			
D.S. Clarke	Maturing May 2009	**–**	361,163
	Maturing August 2009	**–**	25,196
	Maturing June 2010	**213,517**	213,517
Executives			
A.J. Downe	Maturing July 2010	**21,905**	–

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.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 36
Employee equity participation

Option Plan

In November 1995, MBL introduced an Employee Share Option Plan, as a replacement for its now closed partly paid share scheme. On 13 November 2007, the date of the Macquarie Group Restructure, all MBL options were cancelled and replacement options over shares in the new ultimate parent entity, MGL, were issued on the same terms on a one-for-one basis under the Macquarie Group Employee Share Option Plan (MGESOP). MGL has suspended new offers under the MGESOP under the new remuneration arrangements which were the subject of shareholder approvals obtained at a General Meeting of MGL in December 2009. The last Grant of Options under the MGESOP was on 8 December 2009. Currently MGL does not expect to issue any further Options under the MGESOP.

Previously, the staff eligible to participate in the MGESOP were those of Associate Director level and above and consultants to the consolidated entity. At 31 March 2010 there were 949 (2009: 988) participants of the MGESOP.

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

- risk free interest rate: 5.35 per cent (weighted average) (2009: 6.77 per cent);
- expected life of options: four years (2009: four years);
- volatility of share price: 44 per cent (2009: 24 per cent); and
- dividend yield: 3.47 per cent per annum (2009: 3.47 per cent per annum).

Options now on issue are all five year options over fully paid unissued ordinary shares in MGL and were granted to individuals or the individual's controlled Company or an entity approved under the MGESOP to hold options.

The options are issued for no consideration and are granted at prevailing market prices. The exercise price of recent options granted was generally based on the weighted average market price during the one week up to and including the date of grant of the options.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2010	**Weighted average exercise price 2010 $**	Number of options 2009	Weighted average exercise price 2009 $
Outstanding at the beginning of the financial year	**13,887,171**	**59.01**	11,654,102	60.50
Granted during the financial year	**176,000**	**35.50**	4,939,313	52.99
Forfeited during the financial year	**(689,361)**	**58.92**	(1,273,535)	65.18
Exercised during the financial year	**(1,056,432)**	**33.80**	(872,179)	30.48
Transfers from related body corporate entities	**593,840**	**59.85**	(429,008)	76.08
Lapsed during the financial year	**(704,448)**	**59.39**	(131,522)	56.92
Outstanding at the end of the financial year	**12,206,770**	**60.88**	13,887,171	59.01
Exercisable at the end of the financial year	**4,812,226**	**64.80**	3,734,170	54.51

For options exercised during the financial year the weighted average share price at the date of exercise was $41.34 (2009: $50.52).

The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $94.48 (2009: $17.10 to $94.48).

Note 36

Employee equity participation continued

Option Plan continued

The weighted average remaining contractual life for the share options outstanding as at 31 March 2010 is 2.22 years (2009: 2.96 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2010	Remaining life (years) 2010	Number of options 2009	Remaining life (years) 2009
10 – 20	**18,000**	**3.94**	18,000	4.94
20 – 30	**110,500**	**3.91**	27,500	4.79
30 – 40	**171,332**	**3.57**	1,160,332	0.89
40 – 50	**99,668**	**3.12**	236,054	2.17
50 – 60	**4,435,286**	**3.35**	4,587,876	4.35
60 – 70	**4,650,726**	**0.96**	5,021,098	1.97
70 – 80	**2,465,906**	**2.31**	2,586,808	3.34
80 – 90	**174,417**	**2.18**	167,368	3.20
90–100	**80,935**	**2.25**	82,135	3.25
	12,206,770	**2.22**	13,887,171	2.96

The weighted average fair value of options granted during the financial year ended 31 March 2010 was $10.80 (2009: $10.64).

The market value of shares issued during the year as a result of the exercise of these options was $44 million (2009: $44 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2010 was $577 million (2009: $383 million). No unissued shares, other than those referred to above, are under option under the MGESOP as at the date of this report.

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 2010, compensation expense relating to the MGESOP totalled $31 million (2009: $32 million).

Options granted vest as to one third of each tranche after the second, third and fourth anniversaries of the date of commencement of employment for new starters and, for existing employees, on 1 July, two, three and four years after the allocation of the options. Subject to the MGESOP Rules and Macquarie Group's personal dealing policy, options can be exercised after the vesting period during an options exercise period up to expiry. In individual cases, such as where an employee leaves with the 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.

For options granted to the members of MBL's Executive Committee, Executive Voting Directors and other Executive Directors where the invitation to apply for the options was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if MGL's average annual return on ordinary equity for the three previous financial years is above the 65th (Executive Committee and Executive Voting Directors) and 50th (other Executive Directors) percentiles, of the corresponding figures for all companies in the then S&P/ASX 100 Index, with the conditions to be examined only upon vesting.

The MGESOP Rules provide that the total number of options which can be on issue at any one time is limited such that the number of shares resulting from exercise of all unexercised options does not exceed 20 per cent of the number of MGL's then issued ordinary shares plus the number of shares which MGL would have to issue if all rights to require MGL to issue shares, which MGL has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has applied a second limitation on the number of options, being effectively the same calculation as in the MGESOP Rules except that any exercised options granted less than five years ago, where the Executive is still with the Bank, will be treated as still being unexercised.

Fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid ordinary shares then on issue.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 36

Employee equity participation continued

Option Plan continued

On 25 May 2000, the MBL Board approved amendments to the Macquarie Bank Employee Share Option Plan Rules referred to as the Deferred Exercise Share Option Plan (DESOP). Shares resulting from the exercise of options since then have been placed under the DESOP, unless option holders request otherwise. Unless the Bank is aware of circumstances which, in the reasonable opinion of the Bank, indicate that the relevant Executive may have acted fraudulently, dishonestly or in a manner which is in breach of his/her obligations to the Bank or any associated entity, then such a request will be granted. These amendments were rolled forward into the current MGESOP approved by the MGL Board.

Shares acquired under DESOP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name and are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to affairs of the Bank or a related entity or if they carry out or fail to carry out an act which brings the Bank or an associated entity into disrepute.

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

- an employee's resignation from the Bank or a related Bank;
- upon request from the employee (after the expiration of the non-disposal period); and
- ten years from the date that the options were originally granted.

Options carry no dividend or voting rights but have standard adjustment clauses for bonus and rights issues and reconstructions.

Macquarie Group Employee Retained Equity Plan

In December 2009 MGL shareholders approved the implementation of the Macquarie Group Employee Retained Equity Plan (MEREP) in conjunction with new remuneration arrangements. These new arrangements included a decrease in the portion of staff profit share paid in cash and an increase in the portion delivered as equity, an increase in the proportion of deferred remuneration, and cessation of new option grants under the Macquarie Group Employee Share Option Plan. Participation in the MEREP is currently provided to the following staff (Eligible Employees):

- Executive Directors with retained DPS ('Director Profit Share') from 2009, a proportion of which was allocated in the form of MEREP Awards (Retained DPS Awards). See the Remuneration Report for more information on the allocation of DPS to Executive Directors;
- Executive Directors with pre-2009 retained DPS which they have elected to transition into the MEREP under the new remuneration arrangements (Transition Awards);
- staff other than Executive Directors with retained profit share, which from 2009 is to be delivered in the form of MEREP Awards under the new remuneration arrangements (Retained Profit Share Awards);
- staff who are promoted to Associate Director, Division Director or Executive Director, who receive a fixed allocation of MEREP awards (Promotion Awards);
- new Macquarie Group staff who commence at Associate Director, Division Director or Executive Director level. Option grants to these staff have now been replaced with a fixed number of MEREP awards depending on level (New Hire Awards); and
- in limited circumstances, Macquarie staff who may receive an equity grant instead of a remuneration or consideration payment in cash. Current examples include individuals who become employees of Macquarie on the acquisition of their employer by a Macquarie Group entity or who receive an additional award at the time of joining Macquarie (also referred to below as New Hire Awards).

For Retained Profit Share Awards representing 2009 retention, Transition Awards and Retained DPS Awards relating to 2009 retained DPS, the conversion price was publicly announced by Macquarie on 1 May 2009 to be the volume weighted average price from 4 May 2009 up to and including the date of the 2009 AGM which was held on 29 July 2009. That price was calculated to be $36.36.

The number of Awards granted was calculated by adjusting the employee's relevant retained profit share amount, or retained DPS, for any applicable on-costs, dividing this amount by $36.36, and rounding down to the nearest whole number. The grant of Awards to Eligible Employees working in Australia is subject to payroll tax, calculated based on the market value of shares on the Acquisition Date.

For most New Hire and Promotion Awards, a standard number of Awards was offered, depending on the level at which the employee was hired at or promoted to. In limited cases, there are variations to these fixed amounts for specific individuals.

Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

Award Types under the MEREP

Restricted Share Units (RSUs)

A RSU is a beneficial interest in a Macquarie share held on behalf of a MEREP participant by the plan trustee (Trustee). The participant is entitled to receive dividends on the share and direct the Trustee how to exercise voting rights in the share. The participant also has the right to request the release of the share from the Trust, subject to the vesting and forfeiture provisions of the MEREP.

Deferred Share Units (DSUs)

A DSU is a right to receive on exercise of the DSU either a share held in the Trust or a newly issued share (as determined by Macquarie in its absolute discretion) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP. A MEREP participant holding a DSU has no right or interest in any share until the DSU is exercised. Macquarie may issue shares to the Trustee or procure the Trustee to acquire shares on-market for potential future allocations to holders of DSUs. Generally DSUs will provide for cash payments in lieu of dividends paid on Macquarie shares before the DSU is exercised. Further, the number of shares underlying a DSU will be adjusted upon any bonus issue or other capital reconstruction of Macquarie in accordance with the ASX Listing Rules, so that the holder of a DSU does not receive a benefit that holders generally of Macquarie shares do not receive. These provisions are intended to provide the holders of DSUs, as far as possible, with the same benefits and risks as are provided to holders of RSUs. However, holders of DSUs will have no voting rights as to any underlying Macquarie shares. DSUs will only be offered in jurisdictions where legal or tax rules make the grant of RSUs impractical, or where PSUs are structured as DSUs (see PSUs below).

Performance Share Units (PSUs)

PSUs are structured as DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent (as the case may be) will be delivered. Where PSUs are structured as DSUs, holders have no right to dividend equivalent payments before the PSUs vest. In all other respects, holders of these PSUs will have the same rights as holders of DSUs. For 2009 the PSUs granted to the Executive Committee, including the CEO, are structured as DSUs with performance hurdles. The rights under any future PSUs structured as RSUs will generally be the same as the rights under RSUs, except for the PSU performance hurdles which will not apply to RSUs.

Notes to the financial statements
for the financial year ended 31 March 2010
continued

Note 36

Employee equity participation continued

Macquarie Group Employee Retained Equity Plan continued

The following is a summary of Awards which have been granted pursuant to the MEREP:

	Number of RSU Awards 2010
RSUs on issue at the beginning of the financial year	–
Granted during the financial year	2,548,361
Forfeited during the financial year	(10,400)
Transfers from related body corporate entities	65,250
RSUs on issue at the end of the financial year	2,603,211

The weighted average fair value of the RSU Awards granted during the financial year was $46.35.

During the financial year no RSU Awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding RSUs as at 31 March 2010 was $119 million.

	Number of DSU Awards 2010
DSUs on issue at the beginning of the financial year	–
Granted during the financial year	442,080
Transfers from related body corporate entities	5,189
DSUs on issue at the end of the financial year	447,269

The weighted average fair value of the DSU Awards granted during the financial year was $46.35.

During the financial year no DSU Awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding DSUs as at 31 March 2010 was $21 million.

	Number of PSU Awards 2010
PSUs on issue at the beginning of the financial year	–
Granted during the financial year	28,400
PSUs on issue at the end of the financial year	28,400

The weighted average fair value of the PSU Awards granted during the financial year was $46.35.

During the financial year no PSU Awards were exchanged for MGL shares.

The market value of shares which may be issued on the exercise of the outstanding PSUs as at 31 March 2010 was $1 million.

The awards are measured at their grant dates based on their fair value and for each PSU 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 2010, compensation expense relating to the MEREP totalled $35 million.

Note 36

Employee equity participation continued

Vesting of Retained DPS Awards

The Vesting Periods that apply to Retained DPS Awards representing 2009 retention are set out below for all Executive Directors:

First staff trading day after[1]	% of Awards released
1 July 2012	20
1 July 2013	20
1 July 2014	20
1 July 2015	20
1 July 2016	20

1 Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

Vesting of Transition Awards

The Vesting Periods that apply to Transition Awards are set out below:

First staff trading day after[2]	% of Awards released for Executive Committee	% of Awards released for Other Executive Directors
1 July 2010	14.28 (1/7th)	20
1 July 2011	14.28 (1/7th)	20
1 July 2012	14.28 (1/7th)	20
1 July 2013	14.28 (1/7th)	20
1 July 2014	14.28 (1/7th)	20
1 July 2015	14.28 (1/7th)	N/A
1 July 2016	14.28 (1/7th)	N/A

2 Vesting will occur on the first day of a staff trading window following 1 July of the specified year. If an Executive Director has been on leave without pay (excluding leave to which the Executive Director may be eligible under local laws) for 12 months or more, the vesting period may be extended accordingly.

Vesting of 2009 Retained Profit Share and 2009 Promotion Awards

The Vesting Periods that apply to 2009 Retained Profit Share and 2009 Promotion Awards are set out below for all Eligible Employees:

First staff trading day after[3]	Proportion of Awards vested
1 July 2011	one third
1 July 2012	one third
1 July 2013	one third

3 Vesting will occur on the first day of a staff trading window following 1 July of the specified year.

In limited cases, the Application Form for 2009 Retained Profit Share Awards and 2009 Promotion Awards may set out a different Vesting Period, in which case that period will be the Vesting Period for the Award.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 36

Employee equity participation continued

Vesting of New Hire Awards

For New Hire Awards to staff who commenced employment with the Macquarie Group prior to 31 December 2009, the Vesting Period for the Awards will commence on the 15th day of the month following their commencement with MGL (Vesting Start Date). The Awards will then vest in three equal tranches on the first day of the first staff trading period following the second, third and fourth anniversary of the Vesting Start Date.

New Hire Awards to Eligible Employees who commence employment with the Macquarie Group on or after 1 January 2010 will vest progressively over four years as follows:

- as to one third of the Awards, on the first day of the first staff trading window following the second Anniversary of the Acquisition Date;
- as to one third of the Awards, on the first day of the staff trading window following the third Anniversary of the Acquisition Date; and
- as to one third of the Awards, on the first day of the first trading window following the fourth Anniversary of the Acquisition Date.

Vesting of Performance Share Units

PSUs will only be released or become exercisable upon the achievement of certain performance hurdles. Currently, only members of the MGL and MBL Executive Committee are eligible to receive PSUs. For the PSUs allocated to Executive Committee Members in respect of the 2009 remuneration year, two performance hurdles have been determined and each will apply individually to 50 per cent of the total number of PSUs awarded, these hurdles are set out below. The BRC will periodically review the performance hurdles, including the reference group, and has the discretion to change the performance hurdles in line with regulatory and remuneration trends. Any change will be disclosed in Macquarie's Annual Report.

Performance Hurdle 1

50 per cent of the PSUs, based solely on the relative average annual return on ordinary equity (ROE) over the vesting period compared to a reference group of domestic and international financial institutions.

Vesting is on a sliding scale with 50 per cent vesting above the 50th percentile and 100 per cent vesting at the 75th percentile. For example, if ROE achievement is at the 60th percentile, 70 per cent of the Award would vest. The reference group comprises significant Australian financial companies within the ASX100 as well as Macquarie's major international investment banking competitors with whom Macquarie competes and frequently compares its performance. The reference group for this year's PSU allocation comprised of ANZ Group, Commonwealth Bank, National Australia Bank, Westpac, Suncorp, Bank of America, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

Performance Hurdle 2

50 per cent of the PSUs, based solely on compound average annual growth (CAGR) in earnings per share (EPS) over the vesting period.

Awards will vest on a sliding scale with 50 per cent vesting at EPS CAGR of 9.0 per cent and 100 per cent vesting at EPS CAGR of 13.0 per cent. For example, if EPS CAGR were 11 per cent, 75 per cent of the Award would vest.

Under both performance hurdles, the objective is to be examined once only, effectively at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest will lapse.

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees are offered up to $1,000 worth of fully paid ordinary Bank shares for no cash payment. MGL has since introduced the Macquarie Group Employee Share Plan (ESP) on the same terms.

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

The latest offer under the ESP was made during December 2009. A total of 1,635 staff participated in this offer. On 25 January 2010, the participants were each issued with 19 fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $52.04, a total of 31,065 shares were issued. The shares were issued for no cash consideration.

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 were given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary MGL shares on-market. MGL has since introduced the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms. In early 2010, MGL suspended new offers under the MGGSAP following Australian taxation changes implemented in late 2009 which would have significantly limited the future participation in the plan. MGL does not expect it will make any future allocations under MGSSAP.

The total number of shares purchased under the MGSSAP was limited in any financial year to three per cent of MGL's shares as at the beginning of that financial year.

The shares allocated under the MGSSAP were either newly issued shares or shares acquired on-market by the MGSSAP Plan Bank, at the direction of MGL.

Shares acquired under the MGSSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name except in special circumstances if the employee resigns. The shares held in the MGSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Bank or a related Bank or if they carry out an act or fail to do an act which brings the Bank or a related Bank into disrepute.

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

- an employee's resignation from the Bank or a related entity;
- upon 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.

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

Previously, the eligible employees were Australian based permanent full-time or part-time employees or fixed term contract employees of the Bank or a related Bank who either received available profit share in the relevant year of at least $1,000 in total or allocated at least $1,000 in available commission towards the MGSSAP.

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. MGL subsequently introduced a Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms but no offers have been made under the plan.

In April 2008 a further sub-plan of the MGSSAP was created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the MGL Executive Committee were required to contribute certain proportions of their annual profit share to acquire MGL shares, which must be held for at least three years. Further information on this is provided in the Remuneration Report. The first offers under this sub-plan were made in May 2008. MGL does not intend making any further allocations under this sub-plan, as Executive Committee members now receive the equity component of their retained profit share under the new Macquarie Group Employee Retained Equity Plan (see above).

Offers under the MGSSAP (including the Macquarie Group Executive Committee Acquisition Plan) were made during May 2009. A total of 106 staff participated in the MGSSAP. In July 2009, 27,391 MGL shares were issued based on the issue price of $33.49 and in December 2009, 1,194 MGL shares were issued.

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 Macquarie Bank Limited shares (shares). MGL has since introduced a Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP) on the same terms. The Australian taxation changes referred to above in respect of the MGSSAP also apply to the NEDSAP. Accordingly, MGL has currently suspended new offers under the NEDSAP and does not expect to make any future allocations under the plan.

Previously, NEDs could elect to participate in the NEDSAP by nominating a minimum of $1,000 of their NED remuneration per buying period to go towards the NEDSAP. Participating NEDs could also subsequently apply to reduce their previously nominated contribution provided that the relevant buying period has not commenced. The shares were acquired at prevailing market prices. Brokerage fees were applied to the NED's account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the shares were transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Bank or a related Bank or if they carry out an act or fail to do an act which brings the Bank or a related Bank into disrepute.

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

- the participant ceasing to be a NED of MGL;
- upon request by the NED (after the expiration of the non-disposal period); and
- ten years from the date that the shares are registered in a NED's name.

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

Shares resulting from participation in the NEDSAP may count towards meeting the minimum shareholding requirements of NEDs.

Offers under the NEDSAP were made during May 2009 and one NED participated in the NEDSAP. In July 2009 3,639 MGL shares were acquired on-market.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m

Note 37
Contingent liabilities and commitments

The following details of contingent liabilities and assets exclude derivatives.

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Contingent liabilities exist in respect of:				
Guarantees	**755**	858	**938**	1,125
Indemnities	**7**	8	**72**	77
Letters of credit	**170**	166	**773**	536
Performance related contingents	**95**	101	**95**	101
Total contingent liabilities[1]	**1,027**	1,133	**1,878**	1,839
Commitments exist in respect of:				
Undrawn credit facilities	**3,818**	2,554	**2,810**	1,928
Forward asset purchase	**172**	251	**108**	218
Total commitments[2]	**3,990**	2,805	**2,918**	2,146
Total contingent liabilities and commitments	**5,017**	3,938	**4,796**	3,985

[1] Contingent liabilities exist in respect of claims and potential claims against the consolidated entity. They are reported as the maximum potential liability without considering the value of recovery of assets. Where necessary, appropriate provisions have been made in the financial statements. The Directors do not consider that the outcome of any such claims known to exist at the date of this financial report, either individually or in aggregate, is likely to have a material effect on the results of its operations or its financial position.

[2] Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

Note 38
Capital and other expenditure commitments

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Not later than one year	**15**	6	**8**	4
Later than one year and not later than five years	**25**	18	**25**	9
Later than five years	**–**	9	**–**	2
Total capital and other expenditure commitments	**40**	33	**33**	15

Note 39
Lease commitments

	Consolidated 2010 $m	Consolidated 2009 $m	Bank 2010 $m	Bank 2009 $m
Non-cancellable operating leases expiring:				
Not later than one year	**49**	72	**–**	–
Later than one year and not later than five years	**130**	205	**–**	1
Later than five years	**33**	71	**–**	–
Total operating lease commitments	**212**	348	**–**	1

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

Note 40

Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The consolidated entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the consolidated entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The consolidated entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(xii) – Summary of significant accounting policies:

Cash flow hedges

The consolidated entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across these portfolios form the basis for identifying the non-trading interest rate risk of the consolidated entity, which is hedged with interest rate swaps and cross-currency swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued.

At 31 March 2010, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $8 million negative value (2009: $165 million negative value).

In 2010, the consolidated entity recognised a $2 million loss (2009: $5 million loss) in the income statement due to hedge ineffectiveness on cash flow hedges. At 31 March 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as cash flow hedges was $86 million negative value (2009: $75 million negative value).

Fair value hedge

The consolidated entity's fair value hedges consist of:

- interest rate swaps used to hedge against changes in the fair value of fixed rate issued debt as a result of movements in benchmark interest rates; and
- foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as fair value hedges was $11 million negative value (2009: $100 million negative value).

During the period fair value losses on the hedging instruments of $111 million have been recognised (2009: $212 million), offset by $107 million (2009: $196 million) of gains on the hedged item.

Net investment in foreign operations hedges

The consolidated entity has applied net investment hedging for foreign exchange risk arising from its non-core foreign operations.

At 31 March 2010, the fair value of outstanding derivatives held by the consolidated entity and designated as net investment in foreign operations hedges was $18 million negative value (2009: $24 million positive value). In 2010, the consolidated entity recognised $nil (2009: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 40

Derivative financial instruments continued

The types of contracts which the consolidated entity trades and uses for hedging purposes are detailed below:

Futures: Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

Forwards and forward rate agreements: Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

Swaps: Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

Options: Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

Note 40

Derivative financial instruments continued

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

			Consolidated 2010					Consolidated 2009
	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	**13,135**	**46**	**50**	**(4)**	28,427	126	141	(15)
Forwards	**2,060**	**52**	**69**	**(17)**	19,678	8	8	–
Swaps	**157,358**	**3,065**	**3,224**	**(159)**	172,050	4,781	4,271	510
Options	**1,939**	**5**	**4**	**1**	321	6	–	6
Total interest rate contracts	**174,492**	**3,168**	**3,347**	**(179)**	220,476	4,921	4,420	501
Foreign exchange contracts								
Forwards	**16,552**	**258**	**391**	**(133)**	78,023	2,084	1,969	115
Swaps	**59,283**	**742**	**884**	**(142)**	16,601	539	957	(418)
Options	**656**	**314**	**342**	**(28)**	2,600	773	759	14
Total foreign exchange contracts	**76,491**	**1,314**	**1,617**	**(303)**	97,224	3,396	3,685	(289)
Equity contracts								
Exchange traded	**12,779**	**176**	**181**	**(5)**	17,196	354	145	209
Swaps	**3,036**	**128**	**228**	**(100)**	1,780	294	1,292	(998)
Options	**35,749**	**986**	**810**	**176**	8,540	686	1,173	(487)
Other	**675**	**–**	**4**	**(4)**	3,020	25	51	(26)
Total equity contracts	**52,239**	**1,290**	**1,223**	**67**	30,536	1,359	2,661	(1,302)
Commodity contracts								
Exchange traded	**36,045**	**4,142**	**4,446**	**(304)**	55,902	3,361	3,469	(108)
Forwards	**60,804**	**5,173**	**4,851**	**322**	44,396	4,234	3,384	850
Swaps	**40,764**	**4,141**	**3,826**	**315**	39,692	5,625	4,828	797
Options	**86,167**	**2,312**	**2,324**	**(12)**	70,912	4,439	4,826	(387)
Total commodity contracts	**223,780**	**15,768**	**15,447**	**321**	210,902	17,659	16,507	1,152
Total derivatives contracts outstanding	**527,002**	**21,540**	**21,634**	**(94)**	559,138	27,335	27,273	62

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 40

Derivative financial instruments continued

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

	Bank 2010				Bank 2009			
	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	**12,816**	**46**	**50**	**(4)**	26,837	100	141	(41)
Forwards	**2,060**	**52**	**69**	**(17)**	19,678	8	8	–
Swaps	**146,788**	**3,014**	**2,863**	**151**	167,807	4,479	4,162	317
Options	**1,939**	**5**	**4**	**1**	321	6	–	6
Total interest rate contracts	**163,603**	**3,117**	**2,986**	**131**	214,643	4,593	4,311	282
Foreign exchange contracts								
Forwards	**16,151**	**254**	**391**	**(137)**	77,655	2,082	1,969	113
Swaps	**59,283**	**783**	**883**	**(100)**	15,914	421	956	(535)
Options	**656**	**314**	**342**	**(28)**	2,600	773	759	14
Total foreign exchange contracts	**76,090**	**1,351**	**1,616**	**(265)**	96,169	3,276	3,684	(408)
Equity contracts								
Exchange traded	**12,779**	**176**	**181**	**(5)**	17,196	354	145	209
Swaps	**3,036**	**128**	**228**	**(100)**	1,777	295	1,291	(996)
Options	**34,721**	**1,217**	**810**	**407**	8,536	686	1,173	(487)
Other	**675**	**–**	**4**	**(4)**	3,020	25	–	25
Total equity contracts	**51,211**	**1,521**	**1,223**	**298**	30,529	1,360	2,609	(1,249)
Commodity contracts								
Exchange traded	**34,773**	**2,190**	**2,300**	**(110)**	43,290	2,216	3,329	(1,113)
Forwards	**53,630**	**3,739**	**3,796**	**(57)**	41,106	3,700	3,211	489
Swaps	**20,197**	**767**	**693**	**74**	20,986	2,728	2,122	606
Options	**86,090**	**2,270**	**2,252**	**18**	63,222	3,545	4,640	(1,095)
Total commodity contracts	**194,690**	**8,966**	**9,041**	**(75)**	168,604	12,189	13,302	(1,113)
Total derivatives contracts outstanding	**485,594**	**14,955**	**14,866**	**89**	509,945	21,418	23,906	(2,488)

Note 41

Financial risk management

Risk Management Group

Risk is an integral part of the consolidated entity's businesses. The main risks faced by the consolidated entity are market risk, equity risk, credit risk, liquidity risk, operational risk, legal and compliance 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 the Macquarie Group. The Head of RMG, as Macquarie's Chief Risk Officer, is a member of the Executive Committee of MGL and MBL and reports directly to the Managing Director and Chief Executive Officer with a secondary reporting line to the Board Risk Committee. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 41.1

Credit risk

Credit risk is the risk of financial loss as a result of failure by a client or counterparty to meet its contractual obligations. 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 once the settlement becomes due. In that situation, the credit exposure is a function of the movement of prices over the period of the contract.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG.

All customers' counterparty limits and exposures are allocated an MGL rating on a 1 – 13 scale which broadly correspond with Standard & Poor's (S&P) and Moody's Investor Services (Moody's) credit ratings. Each MGL rating is assigned a Probability of Default (PD) estimate.

Credit limits and exposures are also allocated a Loss Given Default (LGD) ratio reflecting the estimated economic loss in the event of default occurring.

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 exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

Where counterparties are under stress they are monitored on a more frequent basis and counterparties with a deteriorating credit risk profile are monitored formally on a monthly basis through Creditwatch and Irregulars reporting. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

To mitigate credit risk, the consolidated entity makes use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

The consolidated entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The consolidated entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, interests in associates and joint ventures or banknotes and coin.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk

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

	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets[2] $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	–	668	3,540	278	1,478
Financial institutions	1,850	349	247	2,986	687
Other	–	–	133	23,763	2,682
Total Australia	1,850	1,017	3,920	27,027	4,847
Asia Pacific					
Governments	–	2	245	3	–
Financial institutions	547	309	32	97	50
Other	–	5	–	325	1
Total Asia Pacific	547	316	277	425	51
Europe, Middle East and Africa					
Governments	–	46	–	–	–
Financial institutions	2,126	3,651	35	886	686
Other	–	228	55	2,882	–
Total Europe, Middle East and Africa	2,126	3,925	90	3,768	686
Americas					
Governments	–	436	167	21	–
Financial institutions	1,967	225	235	1,910	284
Other	–	165	1,910	10,643	67
Total Americas	1,967	826	2,312	12,574	351
Total	6,490	6,084	6,599	43,794	5,935
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

[2] Included in Australia – Governments are holdings of $4,496 million (2009: $1,458 million) issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[2] $m	Due from related body corporate entities $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2010
548	126	3,716	–	–	–	10,354
371	–	7,159	–	685	99	14,433
479	2,131	394	1,282	35	1,278	32,177
1,398	2,257	11,269	1,282	720	1,377	56,964
4	6	–	–	–	–	260
244	–	41	–	–	91	1,411
105	27	–	223	–	114	800
353	33	41	223	–	205	2,471
85	391	86	–	–	–	608
7,869	–	2,611	–	–	248	18,112
3,373	917	499	97	–	1,156	9,207
11,327	1,308	3,196	97	–	1,404	27,927
88	183	159	–	–	11	1,065
6,329	7	718	–	–	156	11,831
2,045	1,683	717	789	–	1,864	19,883
8,462	1,873	1,594	789	–	2,031	32,779
21,540	5,471	16,100	2,391	720	5,017	120,141
						120,141

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	–	1,433	4,001	74	–
Financial institutions	2,437	587	666	2,735	560
Other	–	–	137	27,794	2,525
Total Australia	2,437	2,020	4,804	30,603	3,085
Asia Pacific					
Governments	–	–	–	4	–
Financial institutions	777	54	32	119	–
Other	–	–	31	165	1
Total Asia Pacific	777	54	63	288	1
Europe, Middle East and Africa					
Governments	–	2	462	1	–
Financial institutions	5,067	1,900	–	2,325	369
Other	–	219	–	1,199	–
Total Europe, Middle East and Africa	5,067	2,121	462	3,525	369
Americas					
Governments	–	282	14	25	–
Financial institutions	1,888	36	359	1,662	–
Other	–	21	13	7,819	–
Total Americas	1,888	339	386	9,506	–
Total	10,169	4,534	5,715	43,922	3,455
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

[2] Included in Australia – Governments, are holdings of $1,458 million issued by Australian banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[2] $m	Due from related body corporate entities $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
						Consolidated 2009
411	99	2,060	–	–	8	8,086
4,718	6	8,334	–	739	408	21,190
651	1,144	114	4,090	81	1,197	37,733
5,780	1,249	10,508	4,090	820	1,613	67,009
53	3	–	–	–	–	60
342	–	–	–	–	–	1,324
229	27	–	22	–	90	565
624	30	–	22	–	90	1,949
–	220	–	–	–	–	685
6,811	–	2,305	–	–	145	18,922
1,833	1,132	93	18	–	859	5,353
8,644	1,352	2,398	18	–	1,004	24,960
18	55	–	–	–	–	394
3,630	23	802	–	–	236	8,636
8,639	207	425	517	–	995	18,636
12,287	285	1,227	517	–	1,231	27,666
27,335	2,916	14,133	4,647	820	3,938	121,584
						121,584

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

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

	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio Assets[2] $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	–	668	3,540	199	1,478
Financial institutions	1,336	349	247	2,950	687
Other	–	–	132	6,733	2,743
Total Australia	1,336	1,017	3,919	9,882	4,908
Asia Pacific					
Governments	–	2	245	–	–
Financial institutions	429	309	31	91	50
Other	-	5	–	249	1
Total Asia Pacific	429	316	276	340	51
Europe, Middle East and Africa					
Governments	–	46	–	–	–
Financial institutions	1,915	3,651	35	687	686
Other	–	228	55	2,624	–
Total Europe, Middle East and Africa	1,915	3,925	90	3,311	686
Americas					
Governments	–	436	153	–	–
Financial institutions	1,440	119	229	762	252
Other	–	165	1,908	1,867	53
Total Americas	1,440	720	2,290	2,629	305
Total	5,120	5,978	6,575	16,162	5,950
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

[2] Included in Australia – Governments are holdings of $4,496 million (2009: $1,458 million) issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the Bank:

The Bank enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Bank with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[2] $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
						Bank 2010
548	77	3,715	–	–	–	10,225
462	–	6,895	–	–	99	13,025
706	2,229	368	1,448	11,338	1,352	27,049
1,716	2,306	10,978	1,448	11,338	1,451	50,299
4	–	–	–	–	–	251
244	–	41	–	–	91	1,286
105	2	–	219	631	103	1,315
353	2	41	219	631	194	2,852
6	9	86	–	–	–	147
5,456	–	2,611	–	–	244	15,285
3,221	702	453	104	2,214	1,182	10,783
8,683	711	3,150	104	2,214	1,426	26,215
3	9	159	–	–	11	771
3,772	7	718	–	–	156	7,455
428	–	541	686	2,178	1,558	9,384
4,203	16	1,418	686	2,178	1,725	17,610
14,955	3,035	15,587	2,457	16,361	4,796	96,976
						96,976

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

Maximum exposure to credit risk continued

	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m	Other financial assets at fair value through profit or loss $m
Australia					
Governments	–	1,433	4,000	2	–
Financial institutions	1,737	587	664	3,876	560
Other	–	–	137	5,190	2,525
Total Australia	1,737	2,020	4,801	9,068	3,085
Asia Pacific					
Governments	–	–	–	–	–
Financial institutions	658	54	30	108	–
Other	–	–	–	99	1
Total Asia Pacific	658	54	30	207	1
Europe, Middle East and Africa					
Governments	–	2	462	–	–
Financial institutions	4,915	1,900	–	2,155	369
Other	–	219	–	1,108	–
Total Europe, Middle East and Africa	4,915	2,121	462	3,263	369
Americas					
Governments	–	282	14	–	–
Financial institutions	1,722	36	317	938	–
Other	–	21	12	1,762	–
Total Americas	1,722	339	343	2,700	–
Total	9,032	4,534	5,636	15,238	3,455
Total gross credit risk					

[1] Classified based on the exposure to the underlying security borrowed.

[2] Included in Australia – Governments, are holdings of $1,458 million issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the Bank:

The Bank enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in Macquarie Securities Group and Fixed Income, Currencies and Commodities. Stock borrowing and reverse repurchase arrangements entered into by the Bank with external counterparties normally require collateral in excess of 100 per cent (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[2] $m	Due from related body corporate entities $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
						Bank 2009
411	58	2,060	–	–	–	7,964
4,540	5	7,764	–	–	408	20,141
651	1,243	64	4,065	7,498	1,296	22,669
5,602	1,306	9,888	4,065	7,498	1,704	50,774
53	–	–	–	–	–	53
342	–	–	–	–	–	1,192
229	–	–	10	770	130	1,239
624	–	–	10	770	130	2,484
–	27	–	–	–	–	491
6,663	–	2,433	–	–	145	18,580
1,543	463	–	21	4,011	946	8,311
8,206	490	2,433	21	4,011	1,091	27,382
13	9	–	–	–	–	318
3,368	–	802	–	–	174	7,357
3,605	5	100	492	2,766	886	9,649
6,986	14	902	492	2,766	1,060	17,324
21,418	1,810	13,223	4,588	15,045	3,985	97,964
						97,964

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

Credit quality of financial assets

The tables below show the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the consolidated entity's credit rating system.

Credit Quality – Consolidated 2010

	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	6,482	8	–	–	–	6,490
Cash collateral on securities borrowed and reverse repurchase agreements						6,084
Governments	924	228	–	–	–	1,152
Financial institutions	4,507	27	–	–	–	4,534
Other	316	72	10	–	–	398
Trading portfolio assets						6,599
Governments	3,894	58	–	–	–	3,952
Financial institutions	454	64	31	–	–	549
Other	218	1,824	56	–	–	2,098
Loan assets held at amortised cost						43,794
Governments	250	2	–	–	50	302
Financial institutions	5,381	470	–	–	28	5,879
Other	23,589	11,718	161	–	2,145	37,613
Other financial assets at fair value through profit or loss						5,935
Governments	1,478	–	–	–	–	1,478
Financial institutions	1,707	–	–	–	–	1,707
Other	822	1,889	–	–	39	2,750
Derivative financial instruments – positive values						21,540
Governments	697	28	–	–	–	725
Financial institutions	14,165	648	–	–	–	14,813
Other	4,423	1,525	27	–	27	6,002
Other assets						5,471
Governments	706	–	–	–	–	706
Financial institutions	–	–	–	–	7	7
Other	3,047	1,512	–	162	37	4,758
Debt investment securities available for sale						16,100
Governments	3,961	–	–	–	–	3,961
Financial institutions	10,483	46	–	–	–	10,529
Other	739	843	–	–	28	1,610
Due from related body corporate entities						2,391
Other	1,074	–	–	1,317	–	2,391
Life investment contracts and other unitholder investment assets						720
Financial institutions	685	–	–	–	–	685
Other	35	–	–	–	–	35
Total						115,124

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

Note 41.1

Credit risk continued

Credit quality of financial assets continued

Credit Quality – Consolidated 2009

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	10,161	8	–	–	–	10,169
Cash collateral on securities borrowed and reverse repurchase agreements						4,534
Governments	1,522	195	–	–	–	1,717
Financial institutions	2,492	85	–	–	–	2,577
Other	221	19	–	–	–	240
Trading portfolio assets						5,715
Governments	4,477	–	–	–	–	4,477
Financial institutions	1,018	39	–	–	–	1,057
Other	82	99	–	–	–	181
Loan assets held at amortised cost						43,922
Governments	50	–	–	–	54	104
Financial institutions	5,047	1,651	36	–	107	6,841
Other	23,951	9,654	864	–	2,508	36,977
Other financial assets at fair value through profit or loss						3,455
Financial institutions	929	–	–	–	–	929
Other	1,898	568	–	–	60	2,526
Derivative financial instruments – positive values						27,335
Governments	478	4	–	–	–	482
Financial institutions	14,801	700	–	–	–	15,501
Other	9,295	2,057	–	–	–	11,352
Other assets						2,916
Governments	377	–	–	–	–	377
Financial institutions	–	–	24	–	5	29
Other	1,505	912	11	25	57	2,510
Debt investment securities available for sale						14,133
Governments	2,060	–	–	–	–	2,060
Financial institutions	11,407	34	–	–	–	11,441
Other	430	151	–	–	51	632
Due from related body corporate entities						4,647
Other	3,797	–	–	850	–	4,647
Life investment contracts and other unitholder investment assets						820
Financial institutions	739	–	–	–	–	739
Other	81	–	–	–	–	81
Total						117,646

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

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 2010

	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	5,117	3	–	–	–	5,120
Cash collateral on securities borrowed and reverse repurchase agreements						5,978
Governments	924	228	–	–	–	1,152
Financial institutions	4,402	26	–	–	–	4,428
Other	316	72	10	–	–	398
Trading portfolio assets						6,575
Governments	3,880	58	–	–	–	3,938
Financial institutions	449	62	31	–	–	542
Other	217	1,822	56	–	–	2,095
Loan assets held at amortised cost						16,162
Governments	199	–	–	–	–	199
Financial institutions	4,079	386	–	–	25	4,490
Other	4,613	5,809	87	–	964	11,473
Other financial assets at fair value through profit or loss						5,950
Governments	1,478	–	–	–	–	1,478
Financial institutions	1,675	–	–	–	–	1,675
Other	882	1,876	–	–	39	2,797
Derivative financial instruments – positive values						14,955
Governments	561	–	–	–	–	561
Financial institutions	9,605	329	–	–	–	9,934
Other	2,969	1,437	27	–	27	4,460
Other assets						3,035
Governments	95	–	–	–	–	95
Financial institutions	–	–	–	–	7	7
Other	1,899	989	–	29	16	2,933
Debt investment securities available for sale						15,587
Governments	3,960	–	–	–	–	3,960
Financial institutions	10,219	46	–	–	–	10,265
Other	556	806	–	–	–	1,362
Due from related body corporate entities						2,457
Other	1,325	–	–	1,132	–	2,457
Due from subsidiaries						16,361
Other	–	–	–	16,361	–	16,361
Total						92,180

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

Note 41.1

Credit risk continued

Credit quality of financial assets continued

Credit Quality – Bank 2009

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	9,029	3	–	–	–	9,032
Cash collateral on securities borrowed and reverse repurchase agreements						4,534
Governments	1,522	195	–	–	–	1,717
Financial institutions	2,492	85	–	–	–	2,577
Other	221	19	–	–	–	240
Trading portfolio assets						5,636
Governments	4,476	–	–	–	–	4,476
Financial institutions	998	13	–	–	–	1,011
Other	81	68	–	–	–	149
Loan assets held at amortised cost						15,238
Governments	2	–	–	–	–	2
Financial institutions	5,396	1,605	27	–	49	7,077
Other	2,033	4,668	261	–	1,197	8,159
Other financial assets at fair value through profit or loss						3,455
Financial institutions	929	–	–	–	–	929
Other	1,899	567	–	–	60	2,526
Derivative financial instruments – positive values						21,418
Governments	473	4	–	–	–	477
Financial institutions	14,213	700	–	–	–	14,913
Other	4,780	1,248	–	–	–	6,028
Other assets						1,810
Governments	94	–	–	–	–	94
Financial institutions	–	–	–	–	5	5
Other	1,005	660	3	9	34	1,711
Debt investment securities available for sale						13,223
Governments	2,060	–	–	–	–	2,060
Financial institutions	10,962	37	–	–	–	10,999
Other	161	3	–	–	–	164
Due from related body corporate entities						4,588
Other	3,801	–	–	787	–	4,588
Due from subsidiaries						15,045
Other	–	–	–	15,045	–	15,045
Total						93,979

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

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 2010 $m	Consolidated 2009 $m	**Bank 2010 $m**	Bank 2009 $m
Loan assets held at amortised cost				
Other	84	14	84	14

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

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Consolidated 2010
Loan assets held at amortised cost							
Government	17	33	–	–	–	50	40
Financial institutions	–	3	–	–	25	28	3
Other	1,003	218	89	317	518	2,145	2,547
Other financial assets at fair value through profit or loss							
Other	–	3	2	–	34	39	–
Derivative financial instruments – positive value							
Other	–	–	–	–	27	27	–
Other assets							
Financial institutions	–	–	–	–	7	7	–
Other	3	1	–	18	15	37	3
Debt investment securities available for sale							
Other	–	–	–	–	28	28	27
Total	1,023	258	91	335	654	2,361	2,620

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis.

The factors taken into consideration by the consolidated entity when determining whether an asset is impaired are set out in note 1(xiv) – Summary of significant accounting policies.

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,100 million (2009: $1,293 million) relates to collateral held against past due balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets, represents equity securities held as security against failed trade settlements.

Note 41.1

Credit risk continued

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

Repossessed collateral

In the event of customer default on a residential mortgage facility, any loan security is usually held as mortgagee in possession and therefore the consolidated entity does not usually hold any real estate or other assets acquired through the enforcement of security.

In the event of customer default on corporate facilities, the consolidated entity may take possession of real estate or other assets held as security. During the year the consolidated entity took possession of fixed assets and property assets with a carrying value of $466 million (2009: $25 million).

	Past due but not impaired						
Class of financial asset	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2009	
Loan assets held at amortised cost							
Government	16	14	15	9	–	54	13
Financial institutions	18	28	1	22	38	107	14
Other	783	225	221	427	852	2,508	2,863
Other financial assets at fair value through profit or loss							
Other	27	10	9	14	–	60	21
Other assets							
Financial institutions	–	–	–	–	5	5	–
Other	13	1	3	18	22	57	–
Debt investment securities available for sale							
Other	–	–	–	–	51	51	–
Total	857	278	249	490	968	2,842	2,911

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.1

Credit risk continued

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

Class of financial asset	Past due but not impaired Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Bank 2010
Loan assets held at amortised cost							
Financial institutions	**–**	**–**	**–**	**–**	**25**	**25**	**–**
Other	**301**	**46**	**8**	**141**	**468**	**964**	**1,142**
Other financial assets at fair value through profit or loss							
Other	**–**	**3**	**2**	**–**	**34**	**39**	**–**
Derivative financial instrument – positive value							
Other	**–**	**–**	**–**	**–**	**27**	**27**	**–**
Other assets							
Financial institutions	**–**	**–**	**–**	**–**	**7**	**7**	**–**
Other	**–**	**–**	**–**	**1**	**15**	**16**	**–**
Total	**301**	**49**	**10**	**142**	**576**	**1,078**	**1,142**

Class of financial asset	Past due but not impaired Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Bank 2009
Loan assets held at amortised cost							
Financial institutions	–	–	–	11	38	49	–
Other	82	55	125	146	789	1,197	1,312
Other financial assets at fair value through profit or loss							
Other	27	10	9	14	–	60	21
Other assets							
Financial institutions	–	–	–	–	5	5	–
Other	2	1	2	7	22	34	–
Total	111	66	136	178	854	1,345	1,333

Note 41.2

Liquidity risk

Liquidity management

The consolidated entity's liquidity risk management framework ensures that the consolidated entity is able to meet its funding requirements as they fall due under a range of market conditions.

Liquidity management is performed centrally by Group Treasury, with oversight from the Asset and Liability Committee, the MBL Board and the Risk Management Group (RMG). The consolidated entity's liquidity policies are approved by the Board after endorsement by the Asset and Liability Committee. The Asset and Liability Committee includes the Chief Executive Officer, the Chief Financial Officer, Head of RMG, Treasurer and Business Group Heads.

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.

Liquidity policy

The key requirement of the consolidated entity's liquidity policy is that the consolidated entity is able to meet all of its liquidity obligations on a daily basis and during a period of liquidity stress: a 12 month period with no access to funding markets and with only a limited reduction in franchise businesses.

The consolidated entity is funded mainly by capital, long term liabilities and deposits.

Scenario Analysis

Scenario analysis is central to the liquidity risk management framework. Group Treasury models a number of liquidity scenarios covering both market-wide crises and firm-specific crises. The objective of this modelling is to ensure the consolidated entity is able to meet all repayment obligations under each scenario and determine the capacity for asset growth. The modelling includes 12 month liquidity scenarios significantly more severe than the conditions that have been experienced since August 2007.

Scenarios are run over a number of timeframes and a range of conservative assumptions are used with regard to access to capital markets, deposit outflows, contingent funding requirements and asset sales.

Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in the consolidated entity to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from internal scenario projections and also complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a 12 month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from undrawn commitments market moves on derivatives and other margined positions. The size of the liquid asset portfolio must always exceed the minimum cash requirement as calculated in this model.

Liquidity Contingency Plan

Group Treasury maintains a liquidity contingency plan. The liquidity contingency plan defines roles and responsibilities and actions to be taken in a liquidity event. This includes identification of key information requirements and appropriate communication plans with both internal and external parties.

Specifically, the plan details factors that may constitute a crisis, the officer responsible for enacting the contingency management, a committee of senior executives who would be responsible for managing a crisis, the information required to effectively manage a crisis, a public relations strategy, a high level check list of actions to be taken, and contact lists to facilitate prompt communication with all key internal and external stakeholders. The liquidity contingency plan is subject to regular review (at least annually) by both Group Treasury and RMG and is submitted to the Board for approval.

Funding transfer pricing

An internal funding transfer pricing system is in place which aims to align businesses with the overall funding strategy of the consolidated entity. Under this system the costs of long- and short-term funding are charged out, and credits are made to Business Units that provide long-term stable funding.

Contractual undiscounted cash flows

The tables below summarise the maturity profile of the consolidated entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the consolidated entity expects that many customers will not request repayment on the earliest date the consolidated entity could be required to pay and the table does not reflect the expected cash flows indicated by the consolidated entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than 3 months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.2

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 2010	
Due to banks	**327**	**97**	**293**	**450**	**1,059**	**2,226**
Cash collateral on securities lent and repurchase agreements	**509**	**6,648**	**45**	**–**	**–**	**7,202**
Trading portfolio liabilities	**–**	**4,921**	**–**	**–**	**–**	**4,921**
Derivative financial instruments (trading)	**–**	**21,068**	**–**	**–**	**–**	**21,068**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**–**	**1,586**	**1,793**	**2,550**	**17**	**5,946**
Contractual amounts receivable	**–**	**(1,531)**	**(1,660)**	**(2,436)**	**(12)**	**(5,639)**
Deposits	**14,685**	**5,216**	**2,334**	**90**	**–**	**22,325**
Debt issued at amortised cost[1]	**2**	**6,465**	**5,306**	**29,317**	**2,805**	**43,895**
Other liabilities[2]	**–**	**5,973**	**–**	**–**	**–**	**5,973**
Other financial liabilities at fair value through profit or loss	**8**	**1,134**	**860**	**510**	**137**	**2,649**
Life investment contracts and other unitholder liabilities	**–**	**4,864**	**–**	**–**	**–**	**4,864**
Due to related body corporate entities	**5,933**	**878**	**558**	**705**	**–**	**8,074**
Subordinated debt	**–**	**8**	**35**	**198**	**1,487**	**1,728**
Total undiscounted cash flows	**21,464**	**57,327**	**9,564**	**31,384**	**5,493**	**125,232**
Contingent liabilities	**–**	**1,027**	**–**	**–**	**–**	**1,027**
Commitments	**–**	**3,885**	**105**	**–**	**–**	**3,990**
Total undiscounted contingent liabilities and commitments[3]	**–**	**4,912**	**105**	**–**	**–**	**5,017**
					Consolidated 2009	
Due to banks	957	169	547	703	1,216	3,592
Cash collateral on securities lent and repurchase agreements	1,858	1,650	509	–	–	4,017
Trading portfolio liabilities	–	1,980	–	–	–	1,980
Derivative financial instruments (trading)	–	26,363	–	–	–	26,363
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	72	4,707	3,086	3,081	42	10,988
Contractual amounts receivable	(68)	(4,827)	(2,907)	(2,973)	(23)	(10,798)
Deposits	13,064	6,821	1,637	165	–	21,687
Debt issued at amortised cost[1]	1	6,944	11,377	31,051	4,895	54,268
Other liabilities[2]	–	3,346	–	–	–	3,346
Life investment contracts and other unitholder liabilities	–	4,312	–	–	–	4,312
Other financial liabilities at fair value through profit or loss	115	1,771	1,061	1,102	1,649	5,698
Due to related body corporate entities	748	1,108	797	755	–	3,408
Subordinated debt	–	15	276	1,797	–	2,088
Total undiscounted cash flows	16,747	54,359	16,383	35,681	7,779	130,949
Contingent liabilities	–	1,133	–	–	–	1,133
Commitments	–	2,732	73	–	–	2,805
Total undiscounted contingent liabilities and commitments[3]	–	3,865	73	–	–	3,938

1 Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes are dependent on the repayment of the underlying loans. This has been reflected in the maturity analysis.

2 Excludes items that are not financial instruments and non-contractual accruals and provisions.

3 Cash flows on contingent liabilities and commitments are dependent on the occurrence of various future events and conditions, and may or may not result in an outflow of resources. These are reported in the 'less than 3 months' column unless contractual terms specify a cash flow date outside this bucket.

Note 41.2

Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Bank 2010
Due to banks	278	14	–	2	948	1,242
Cash collateral on securities lent and repurchase agreements	502	6,648	45	–	–	7,195
Trading portfolio liabilities	–	4,910	–	–	–	4,910
Derivative financial instruments (trading)	–	14,752	–	–	–	14,752
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	–	463	373	837	17	1,690
Contractual amounts receivable	–	(459)	(444)	(1,029)	(12)	(1,944)
Deposits	14,436	5,216	2,334	90	–	22,076
Debt issued at amortised cost[1]	–	4,880	1,699	14,169	65	20,813
Other liabilities[2]	–	2,664	–	–	–	2,664
Other financial liabilities at fair value through profit or loss	8	899	846	489	137	2,379
Due to related body corporate entities	5,979	777	652	705	–	8,113
Due to subsidiaries	8,759	336	137	9	388	9,629
Subordinated debt	–	8	35	198	1,487	1,728
Total undiscounted cash flows	**29,962**	**41,108**	**5,677**	**15,470**	**3,030**	**95,247**
Contingent liabilities	–	1,878	–	–	–	1,878
Commitments	–	2,813	105	–	–	2,918
Total undiscounted contingent liabilities and commitments[3]	**–**	**4,691**	**105**	**–**	**–**	**4,796**
						Bank 2009
Due to banks	902	30	109	129	1,093	2,263
Cash collateral on securities lent and repurchase agreements	1,858	1,650	509	–	–	4,017
Trading portfolio liabilities	–	1,977	–	–	–	1,977
Derivative financial instruments (trading)	–	23,494	–	–	–	23,494
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	72	2,784	1,300	1,405	39	5,600
Contractual amounts receivable	(68)	(2,836)	(1,196)	(1,458)	(22)	(5,580)
Deposits	12,729	6,814	1,637	165	–	21,345
Debt issued at amortised cost[1]	1	6,395	10,143	24,833	4,895	46,267
Other liabilities[2]	–	2,036	–	–	–	2,036
Other financial liabilities at fair value through profit or loss	115	1,638	724	507	311	3,295
Due to related body corporate entities	457	912	797	755	–	2,921
Due to subsidiaries	7,449	1,328	114	–	–	8,891
Subordinated debt	–	13	276	1,797	–	2,086
Total undiscounted cash flows	23,515	46,235	14,413	28,133	6,316	118,612
Contingent liabilities	–	1,839	–	–	–	1,839
Commitments	–	2,073	73	–	–	2,146
Total undiscounted contingent liabilities and commitments[3]	–	3,912	73	–	–	3,985

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.3

Market risk

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

- foreign exchange and bullion: changes in spot and forward exchange rates and bullion prices and the volatility of exchange rates and bullion prices;
- interest rates and debt securities: 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; and
- commodities and energy: changes in the price and volatility of gold, silver and base metals, agricultural commodities and energy products;

and to the correlation of market prices and rates within and across markets.

It is recognised that trading activities which give rise to market exposures contain an element of risk taking. The consolidated entity is prepared to accept such risks provided they are within agreed limits, independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a regular basis.

RMG monitors positions within the consolidated entity according to a limit structure which sets limits for all exposures in all markets. Limits are for both individual trading desks and divisions as well as in aggregate. Trigger limits for the Macquarie Group as a whole ensure that if several trading book limits are being used simultaneously, the aggregate level of risk is in line with the global risk appetite articulated in the economic capital model.

RMG sets three complementary limit structures:

- **Contingent Loss Limits:** a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. Worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- **Position Limits:** volume, maturity and open position limits are set on a large number of market instruments and positions in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions; and
- **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.

Value-at-Risk (VaR) figures

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

	2010 Average $m	2010 Maximum $m	2010 Minimum $m	2009 Average $m	2009 Maximum $m	2009 Minimum $m
						Consolidated
Equities	6.27	12.46	2.20	4.90	8.32	3.15
Interest rates	4.16	6.47	2.88	4.50	7.69	2.14
Foreign exchange and bullion	1.96	4.15	0.55	3.67	9.55	0.87
Commodities	10.95	16.98	5.37	9.03	17.04	5.48
Aggregate	13.06	21.62	5.62	11.69	18.35	7.90

Note 41.3

Market risk continued

	2010 Average $m	**2010 Maximum $m**	**2010 Minimum $m**	2009 Average $m	2009 Maximum $m	2009 Minimum $m
						Bank
Equities	**6.44**	**12.47**	**2.31**	5.76	15.13	3.68
Interest rates	**4.14**	**6.45**	**2.66**	4.42	7.59	2.11
Foreign exchange and bullion	**2.13**	**8.61**	**0.86**	4.59	13.34	0.73
Commodities	**2.26**	**4.21**	**0.50**	1.91	3.73	0.20
Aggregate	**8.23**	**13.81**	**4.04**	9.28	19.51	4.88

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three to ten years of historical data. VaR focuses on unexceptional price moves, it does not account for losses that could occur beyond the 99 per cent level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The consolidated entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate small levels of interest rate risk. Wherever possible, these interest rate risks are transferred to the consolidated entity's trading 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 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 $3 million (2009: $20 million) respectively.

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

Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of the consolidated entity's investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the Foreign Currency Translation Reserve due to the revaluation of foreign operations.

In order to appropriately manage this risk it is consolidated entity policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

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.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 41.3

Market risk continued

Foreign currency risk continued

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading business units is included in the internal model capital calculation by RMG, with the exception of specific investments in core foreign operations as discussed below.

During the year the foreign currency hedging policy of the consolidated entity was reviewed with the effect of reducing the sensitivity of the group's regulatory capital position to foreign currency movements. This is achieved by leaving specific investments in core foreign operations exposed to foreign currency translation movements. The resultant change in the Australian dollar value of the foreign investment is captured in the Foreign Currency Translation Reserve, a component of regulatory capital. This offsets the corresponding movement in the capital requirements of these investments.

As a result of the consolidated entity's foreign exchange policy, the consolidated entity is partially exposed to currency risk in relation to the translation of its net investment in foreign operations to Australian dollars.

The table below indicates the sensitivity to movements in the Australian dollar rate against various foreign currencies at 31 March 2010. The consolidated entity is active in various currencies globally – those with the most impact on the sensitivity analysis below are USD, GBP, HKD and CAD.

	Movement in exchange rates %	Sensitivity of equity after tax $m Consolidated	Sensitivity of profit after tax $m Bank
Australian dollar	+10	(113.1)	(28.0)
Australian dollar	–10	138.2	34.2

Note 41.3

Market risk continued

Equity price risk

The tables below indicate the equity markets to which the consolidated entity and the Bank had significant exposure at 31 March on its non-trading investment portfolio excluding interests in associates and joint ventures. 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:

	2010			2009		
Geographic region	**Movement in equity price %**	**Sensitivity of profit before tax $m**	**Sensitivity of equity after tax $m**	Movement in equity price %	Sensitivity of profit before tax and profit share $m	Sensitivity of equity after tax $m
						Consolidated
Listed						
Australia	**+10**	**2.6**	**21.0**	+10	0.6	6.9
Asia Pacific	**+10**	**–**	**0.3**	+10	–	0.2
Europe, Middle East and Africa	**+10**	**0.2**	**1.9**	+10	–	0.9
Americas	**+10**	**3.9**	**4.0**	+10	2.1	1.7
Unlisted	**+10**	**0.1**	**21.5**	+10	0.1	18.7
Listed						
Australia	**–10**	**(2.2)**	**(21.0)**	–10	(0.4)	(6.9)
Asia Pacific	**–10**	**–**	**(0.3)**	–10	–	(0.2)
Europe, Middle East and Africa	**–10**	**–**	**(1.9)**	–10	–	(0.9)
Americas	**–10**	**(3.9)**	**(4.0)**	–10	(2.1)	(1.7)
Unlisted	**–10**	**(0.1)**	**(21.5)**	–10	(0.1)	(18.7)
						Bank
Listed						
Australia	**+10**	**2.6**	**14.7**	+10	0.6	5.9
Asia Pacific	**+10**	**–**	**0.3**	+10	–	0.2
Europe, Middle East and Africa	**+10**	**0.2**	**1.8**	+10	–	0.8
Americas	**+10**	**3.9**	**3.4**	+10	2.1	1.5
Unlisted	**+10**	**0.1**	**4.3**	+10	0.1	4.7
Listed						
Australia	**–10**	**(2.2)**	**(14.7)**	–10	(0.4)	(5.9)
Asia Pacific	**–10**	**–**	**(0.3)**	–10	–	(0.2)
Europe, Middle East and Africa	**–10**	**–**	**(1.8)**	–10	–	(0.8)
Americas	**–10**	**(3.9)**	**(3.4)**	–10	(2.1)	(1.5)
Unlisted	**–10**	**(0.1)**	**(4.3)**	–10	(0.1)	(4.7)

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 42
Fair value of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

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

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

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

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

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

- Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- Investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the Available For Sale Reserve in equity until the asset is sold, collected or otherwise disposed of;
- Fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
- For financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilise observable market parameters, market practice is to quote parameters equivalent to an interbank credit rating (that is, all counterparties are assumed to have the same credit quality). Consequently, a CVA calculation is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value; and
- The consolidated entity's own credit risk is factored into the valuation of liabilities measured at fair value via debit valuation adjustments (DVA). This is because credit risk affects what the transaction price of the liability would have been in an arm's length exchange motivated by normal business considerations (e.g. it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the consolidated entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the consolidated entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as volatility and correlation.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- The fair values of liquid assets and other instruments maturing within 3 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;
- The fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximated by their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value;
- The fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the credit worthiness of the borrower;
- The fair value of debt issues and subordinated debt is based on market prices where available. Where market prices are not available the fair value is based on discounted cash flows using rates appropriate to the term and issue and incorporates changes in the consolidated entity's own credit spread;
- Substantially all of the consolidated entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments; and
- The fair values of balances due from/to subsidiaries (in the Bank's separate financial statements) and balances due from/to related body corporate entities (in the Bank's and consolidated financial statements) are approximated by their carrying amount as the balances are generally receivable/payable on demand.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 42

Fair value of financial assets and liabilities continued

The tables below summarise the carrying value and fair value of all financial assets and financial liabilities held at amortised cost of the consolidated entity and the Bank at 31 March 2010

	2010 Carrying amount $m	**2010 Fair value $m**	2009 Carrying amount $m	2009 Fair value $m
				Consolidated
Assets				
Due from banks	**6,490**	**6,490**	10,169	10,169
Loan assets held at amortised cost	**43,794**	**44,012**	43,922	44,049
Due from related body corporate entities	**2,391**	**2,459**	4,647	4,488
Total financial assets	**52,675**	**52,961**	58,738	58,706
Liabilities				
Due to banks	**2,167**	**2,200**	3,264	3,267
Deposits	**22,288**	**22,295**	21,603	21,603
Debt issued at amortised cost	**39,408**	**39,375**	48,270	47,687
Due to related body corporate entities	**8,008**	**8,008**	3,332	3,332
Subordinated debt at amortised cost	**905**	**899**	1,491	720
Total financial liabilities	**72,776**	**72,777**	77,960	76,609
				Bank
Assets				
Due from banks	**5,120**	**5,120**	9,032	9,032
Loan assets held at amortised cost	**16,162**	**16,147**	15,238	15,197
Due from related body corporate entities	**2,457**	**2,525**	4,588	4,429
Due from subsidiaries	**16,361**	**16,361**	15,045	15,045
Total financial assets	**40,100**	**40,153**	43,903	43,703
Liabilities				
Due to banks	**1,238**	**1,238**	2,009	2,009
Deposits	**22,043**	**22,051**	21,270	21,270
Debt issued at amortised cost	**19,170**	**19,429**	23,776	23,588
Due to related body corporate entities	**8,044**	**8,044**	2,876	2,876
Due to subsidiaries	**9,596**	**9,596**	8,849	8,849
Subordinated debt at amortised cost	**905**	**899**	1,488	717
Total financial liabilities	**60,996**	**61,257**	60,268	59,309

Note 42

Fair value of financial assets and liabilities continued

The following tables summarise the levels of the fair value hierarchy for financial instruments measured at fair value at 31 March 2010:

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
				Consolidated
Assets				
Trading portfolio assets	8,505	2,395	424	11,324
Other financial assets at fair value through profit or loss	3,265	3,573	287	7,125
Derivative financial instruments – positive values	3,260	18,004	276	21,540
Investment securities available for sale	15,182	1,168	411	16,761
Life investment contracts and other unitholder investment assets	941	3,913	–	4,854
Total assets	31,153	29,053	1,398	61,604
Liabilities				
Trading portfolio liabilities	3,839	1,079	3	4,921
Derivative financial instruments – negative values	3,857	17,361	416	21,634
Other financial liabilities at fair value through profit or loss	85	2,483	57	2,625
Life investment contracts and other unitholder liabilities	944	3,920	–	4,864
Subordinated debt at fair value through profit or loss	–	499	–	499
Total liabilities	8,725	25,342	476	34,543
				Bank
Assets				
Trading portfolio assets	8,470	2,257	424	11,151
Other financial assets at fair value through profit or loss	3,213	3,459	277	6,949
Derivative financial instruments – positive values	3,467	11,308	180	14,955
Investment securities available for sale	15,080	645	212	15,937
Total assets	30,230	17,669	1,093	48,992
Liabilities				
Trading portfolio liabilities	3,829	1,078	3	4,910
Derivative financial instruments – negative values	3,827	10,787	252	14,866
Other financial liabilities at fair value through profit or loss	85	2,213	57	2,355
Subordinated debt at fair value through profit or loss	–	499	–	499
Total liabilities	7,741	14,577	312	22,630

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 42

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy

The following tables reconcile the balances in Level 3 of the fair value hierarchy for the consolidated entity and for the Bank for the financial year ended 31 March 2010:

	Trading portfolio assets $m	Other financial assets at fair value through profit or loss $m
Balance at the beginning of the financial year	755	100
Purchases	503	145
Sales	(752)	(13)
Issues	–	–
Settlements	–	–
Transfers into Level 3	–	42
Transfers out of Level 3	(83)	–
Fair value gains/(losses) recognised in the income statement[1]	1	13
Fair value gains/(losses) recognised in other comprehensive income[1]	–	–
Balance at the end of the financial year	424	287
Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the financial year end[1]	19	14

[1] The consolidated entity employs various economic hedging techniques in order to manage risks, including risks in level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, Derivative financial instruments – positive values are $276 million and Derivative financial instruments – negative values are $416 million.

Investment securities available for sale $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Consolidated
571	–	–	(88)	1,338
196	(25)	(54)	(43)	722
(73)	27	–	15	(796)
–	–	–	(6)	(6)
(11)	–	–	31	20
–	–	–	(30)	12
(138)	–	–	49	(172)
(75)	(5)	(3)	(68)	(137)
(59)	–	–	–	(59)
411	(3)	(57)	(140)	922
(15)	(2)	(3)	(87)	(74)

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 42

Fair value of financial assets and liabilities continued

Reconciliation of balances in Level 3 of the fair value hierarchy continued

	Trading portfolio assets $m	Other financial assets at fair value through profit or loss $m
Balance at the beginning of the financial year	711	91
Purchases	505	142
Sales	(707)	(13)
Issues	–	–
Settlements	–	–
Transfers into Level 3	–	42
Transfers out of Level 3	(83)	–
Fair value gains/(losses) recognised in the income statement[1]	(2)	15
Fair value gains/(losses) recognised in other comprehensive income[1]	–	–
Balance at the end of the financial year	424	277
Fair value gains/(losses) for the period included in the income statement for assets and liabilities held at the end of the financial year end[1]	16	13

[1] The consolidated entity employs various economic hedging techniques in order to manage risks, including risks in level 3 positions. Such techniques may include the purchase or sale of financial instruments that are classified in levels 1 and/or 2. The realised and unrealised gains and losses for assets and liabilities in level 3 presented in the table above do not reflect the related realised or unrealised gains and losses arising on economic hedging instruments classified in levels 1 and/or 2.

[2] The derivative financial instruments in the table above are represented on a net basis. On a gross basis, Derivative financial instruments – positive values are $180 million and Derivative financial instruments – negative values are $252 million.

Investment securities available for sale $m	Trading portfolio liabilities $m	Other financial liabilities at fair value through profit or loss $m	Derivative financial instruments (net replacement values)[2] $m	Total $m
				Bank
114	–	–	(94)	822
183	(25)	(54)	(42)	709
(73)	27	–	15	(751)
–	–	–	(6)	(6)
–	–	–	42	42
–	–	–	(30)	12
(7)	–	–	49	(41)
(14)	(5)	(3)	(6)	(15)
9	–	–	–	9
212	(3)	(57)	(72)	781
(14)	(2)	(3)	(123)	(113)

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 42

Fair value of financial assets and liabilities continued

Significant transfers between levels of the fair value hierarchy

During the financial year the consolidated entity and the Bank did not have significant transfers between Level 1 and Level 2.

Transfers into Level 3 were due to the lack of observable valuation inputs for certain securities and investments. Transfers out of Level 3 were principally due to valuation inputs becoming observable during the year.

Unrecognised gains

For financial assets and financial liabilities measured at fair value through profit or loss, when the transaction price in a non-active market is different to the fair market value from other observable current market conditions in the same instrument or based on valuation techniques whose variables include other data from observable markets, the consolidated entity and the Bank recognises the difference between the transaction price and the fair value in the income statement. In cases where use is made of data which is not observable, profit or loss is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

The table below summarises the deferral and recognition of profit or loss where a valuation technique has been applied for which not all inputs are observable in the market:

	Consolidated 2010 $m	Bank 2010 $m
Balance at the beginning of the period	55	47
Deferral on new transactions	19	9
Amounts recognised in the income statement during the year	(40)	(38)
Balance at the end of the period	34	18

Sensitivity analysis of valuations using unobservable inputs

The table below shows the sensitivity in changing assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values are determined in whole or in part using valuation techniques based on such assumptions.

	Favourable changes		Unfavourable changes	
	Profit & loss $m	Equity $m	Profit & loss $m	Equity $m
				Consolidated 2010
Product type				
Equity and equity linked products	32	2	(32)	(2)
Asset backed products	30	–	(28)	–
Commodity products	24	–	(24)	–
Credit products	3	–	(3)	–
FX products	2	–	(2)	–
Interest rate products	1	–	(1)	–
Total	92	2	(90)	(2)

	Favourable changes	Unfavourable changes
	Profit & loss $m	Profit & loss $m
		Bank 2010
Product type		
Equity and equity linked products	31	(31)
Commodity products	10	(10)
Credit products	3	(3)
FX products	2	(2)
Interest rate products	1	(1)
Total	47	(47)

Note 43

Audit and other services provided by PricewaterhouseCoopers

During the financial year, the auditor of the Bank and consolidated entity, PricewaterhouseCoopers (PwC), and its related practices earned the following remuneration:

	Consolidated 2010 $'000	Consolidated 2009 $'000	**Bank 2010 $'000**	Bank 2009 $'000
PwC Australian Firm				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**4,099**	3,208	**3,465**	2,071
Other audit-related work	**506**	1,405	**454**	1,239
Other assurance services	**655**	395	**655**	395
Total audit and other assurance services	**5,260**	5,008	**4,574**	3,705
Other advisory services	**566**	1,004	**495**	1,004
Taxation	**333**	230	**270**	230
Total remuneration paid to PwC – Australian Firm	**6,159**	6,242	**5,339**	4,939
Related practices of PwC Australian Firm (including PwC – Overseas Firms)				
Audit and review of financial reports of the Bank or any subsidiary of the Bank	**2,832**	3,955	**–**	–
Other audit-related work	**85**	20	**10**	20
Other assurance services	**171**	245	**–**	–
Total audit and other assurance services	**3,088**	4,220	**10**	20
Other advisory services	**266**	129	**–**	–
Taxation	**520**	528	**–**	–
Total remuneration paid to related practices of PwC – Australian Firm	**3,874**	4,877	**10**	20
Total remuneration paid to PwC	**10,033**	11,119	**5,349**	4,959

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Bank's Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to Initial Public Offerings and due diligence services for new funds. These fees may be recovered by the consolidated entity upon the successful establishment of the funds.

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

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 44

Acquisitions and disposals of subsidiaries and businesses

In accordance with AASB 3 *Business Combinations*, provisional amounts for the initial accounting of acquisitions made during the period have been reported in this Financial Report.

Significant entities and businesses acquired or consolidated due to acquisition of control:

– **Subsidiaries of the Non-Banking Group (comprising Macquarie Financial Holdings Limited and its subsidiaries)**

Pursuant to an internal reorganisation, 100 per cent interest in certain subsidiaries of the Non-Banking Group were acquired by entities of the Banking Group. These acquisitions were at fair value.

– **Blackmont Capital**

On 31 December 2009, a subsidiary of MGL acquired a 100 per cent interest in Blackmont Capital Inc, a full service wealth management and investment dealer business.

– **Delaware Investments**

On 5 January 2010, a subsidiary of MGL acquired a 100 per cent interest in Delaware Investments, a leading US-based diversified asset management firm.

Other entities and businesses acquired or consolidated due to acquisition of control during the financial year are as follows:

Telbane 2 Pty Limited, BE Geothermal GmbH, Advanced Markets Holdings LLC and Relational Technology Services Inc.

Aggregate details of the above entities and businesses (including disposal groups) acquired or consolidated due to acquisition of control are as follows:

	2010 $m	2009 $m
Fair value of net assets acquired[1]		
Cash, other financial assets and other assets	**1,286**	5,551
Goodwill and other intangible assets	**567**	139
Property, plant and equipment	**9**	247
Assets of disposal groups classified as held for sale	**48**	44
Payables, provisions, borrowings and other liabilities	**(986)**	(5,574)
Liabilities of disposal groups classified as held for sale	**(43)**	–
Minority interests	**(2)**	–
Total fair value of net assets acquired	**879**	407
Purchase consideration		
Cash consideration and costs directly attributable to acquisition	**620**	534
Deferred consideration	**–**	74
Equity issued (note 33)	**200**	–
Extinguishment of loan asset	**56**	–
Total purchase consideration	**876**	608
Net cash outflow		
Cash consideration and costs directly attributable to acquisition	**(620)**	(534)
Less: cash and cash equivalents acquired	**365**	298
Net cash outflow	**(255)**	(236)

[1] In relation to the acquisition of certain subsidiaries of the Non-Banking Group, assets and liabilities acquired were recognised at carrying amounts. In accordance with the consolidated entity's accounting policy, the difference between the fair value of the consideration given over the carrying amounts recognised is recorded directly in reserves. For the year ended 31 March 2010, $5 million (2009: $201 million) was recognised in reserves – Reserves arising from Group restructure of combining entities under common control.

Included in the current year results for the consolidated entity is profit of $14 million and revenue of $89 million from Delaware Investments since the date of acquisition. If this acquisition had taken place on 1 April 2009 the impact on the current year results for the consolidated entity would have been profit of $33 million and revenue of $462 million. The operating results of the other acquisitions did not have a material impact on the results of the consolidated entity.

Note 44

Acquisitions and disposals of subsidiaries and businesses continued

Significant entities and businesses acquired or consolidated due to acquisition of control continued

There are no significant differences between the fair value of net assets acquired and their carrying amounts, other than goodwill and other intangible assets as noted above. The goodwill acquired during the current financial year has arisen due to the value of the businesses acquired over their individual asset values, the employees acquired as part of the business and synergies Macquarie expects to realise from the acquisitions.

The 31 March 2009 comparatives relate to subsidiaries of the Non-Banking Group (comprising Macquarie Financial Holdings Limited and its subsidiaries) and Constellation Energy, being the significant entities acquired or consolidated due to acquisition of control.

Significant entities and businesses disposed of or deconsolidated due to loss of control:

There were no significant entities or businesses disposed of during the financial year.

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

Shanghai Chengli Properties Co Ltd, Lachlan Wealth Management Limited, Equinox Investment Holdings Pty Ltd, Macquarie CountryWide Management Limited (sold to the Non-Banking group), Vow Financial Holdings Pty Limited, Macquarie Real Estate Investments Pty Limited and Macquarie Office Management Limited (sold to the Non-Banking group).

Aggregate details of the above entities and businesses disposed of or deconsolidated are as follows:

	2010 $m	2009 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	**154**	4,059
Goodwill and other intangible assets	**7**	–
Property, plant and equipment	**–**	4
Non-current assets and assets of disposal groups classified as held for sale	**15**	–
Payables, provisions, borrowings and other liabilities	**(89)**	(410)
Total carrying value of assets and liabilities disposed of or deconsolidated	**87**	3,653
Net cash inflow		
Cash received	**81**	3,513
Less:		
Investment retained	**–**	(1)
Cash and cash equivalents disposed of or deconsolidated	**(2)**	(106)
Net cash inflow	**79**	3,406

The 31 March 2009 comparatives relate to Macquarie Asset Leasing Trust, MQ Japan Market Neutral Fund (Cayman Islands), Macquarie Infrastructure Opportunities Fund Ltd, the Italian mortgages business, the margin lending business and entities of the MBL Group sold to the Non-Banking Group (Real Estate Group), being the significant entities and businesses disposed of or deconsolidated due to loss of control.

Notes to the financial statements
for the financial year ended 31 March 2010 continued

Note 45

Events occurring after balance sheet date

Following approval by unitholders on 22 April 2010, investments in the Macquarie Cash Management Trust (CMT) will be converted to an at call account with Macquarie Bank. The conversion is scheduled to take place in July 2010. At the current time, total funds under management in the Macquarie CMT are $10 billion. The funds transferred to the consolidated entity will form part of the consolidated entity's overall funding pool.

At the date of this report, the Directors are not aware of any other matter or circumstance which has arisen that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial years subsequent to 31 March 2010 not otherwise disclosed in this report.

Directors' declaration

In the Directors' opinion

a) the financial statements and notes set out on pages 55 to 160 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 2010 and of their performance, as represented by the results of their operations and its cash flows, for the financial year ended on that date; and

b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable; and

c) the audited remuneration disclosures set out on pages 7 to 44 of the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 19 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 19.

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 S. Clarke, AO
Non-Executive Director and
Chairman

Richard Sheppard
Managing Director and
Chief Executive Officer

Sydney
29 April 2010

Independent audit report

To the members of Macquarie Bank Limited

Report on the financial report

We have audited the accompanying financial report of Macquarie Bank Limited (the Company), which comprises the balance sheet as at 31 March 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Bank Limited and the Macquarie Bank Group (the Consolidated Entity). The Consolidated Entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

a) the financial report of Macquarie Bank Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 31 March 2010 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 1.

Liability is limited by a scheme approved under Professional Standards Legislation

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 44 of the directors' report for the year ended 31 March 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Macquarie Bank Limited for the year ended 31 March 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

DH Armstrong
Partner

Sydney
29 April 2010

Glossary

Term	Definition
AASB	Australian Accounting Standards Board
the Act	Corporations Act 2001 (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AIFRS	Australian International Financial Reporting Standards
APRA	Australian Prudential Regulatory Authority
APS	Annual Profit Share
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
BACC	Board Audit and Compliance Committee
BBSW	Australian Financial Association's bank-bill rate, published daily on AAP Reuters page. The Australian equivalent of LIBOR, SIBOR etc.
BCGC	Board Corporate Governance Committee
BORM	Business Operational Risk Manager
BRC	Board Remuneration Committee
CFO	Chief Financial Officer
the Company	Macquarie Group Limited
consolidated entity	Macquarie Group Limited and its subsidiaries
CRO	Chief Risk Officer
CVA	credit valuation adjustments
DESOP	Deferred Exercise Share Option Plan
Directors	the Directors of Macquarie Group Limited (unless the context indicates otherwise)
DPS	Directors' Profit Share
DRP	Dividend Reinvestment Plan
DSU	Deferred Share Unit issued under the MEREP
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
EPS	earnings per share
ERL	Equity Risk Limit
ESP	Macquarie Group Employee Share Plan
Equity Plan	Macquarie Group Employee Retained Equity Plan
FIRB	Foundation Internal Ratings Based Approach
FSF	Financial Stability Forum
FX, Forex	Foreign Exchange
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
Macquarie, Macquarie Group or Group	Macquarie Group Limited and its subsidiaries
Macquarie Bank	Macquarie Bank Limited ABN 46 008 583 542
Macquarie Board/ the Board	the Board of Directors of Macquarie Group Limited
Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
MBL	Macquarie Bank Limited
MCR	minimum capital ratio
MEL	Macro-Economic-Linkages
MEREP	Macquarie Group Employee Retained Equity Plan
MGESOP	Macquarie Group Employee Share Option Plan

Glossary
continued

MGL	Macquarie Group Limited ABN 94 122 169 279
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
NPAT	net profit after tax
ORMF	Operational Risk Management Framework
PSU	Performance Share Unit issued under the MEREP
RMG	Risk Management Group
ROE	return on equity
RPS	retained profit share
RSU	Restricted Share Unit issued under the MEREP
RWA	risk-weighted assets
SPE	special purpose entity
TSR	total shareholder returns
VaR	Volume at Risk

Macquarie Bank Head Office
No.1 Martin Place
Sydney NSW 2000
Australia

Tel: +61 2 8232 3333

Registered Office
Macquarie Bank Limited
Level 3, 25 National Circuit
Forrest ACT 2603
Australia

Tel: +61 2 6225 3000

Designed by Frost*