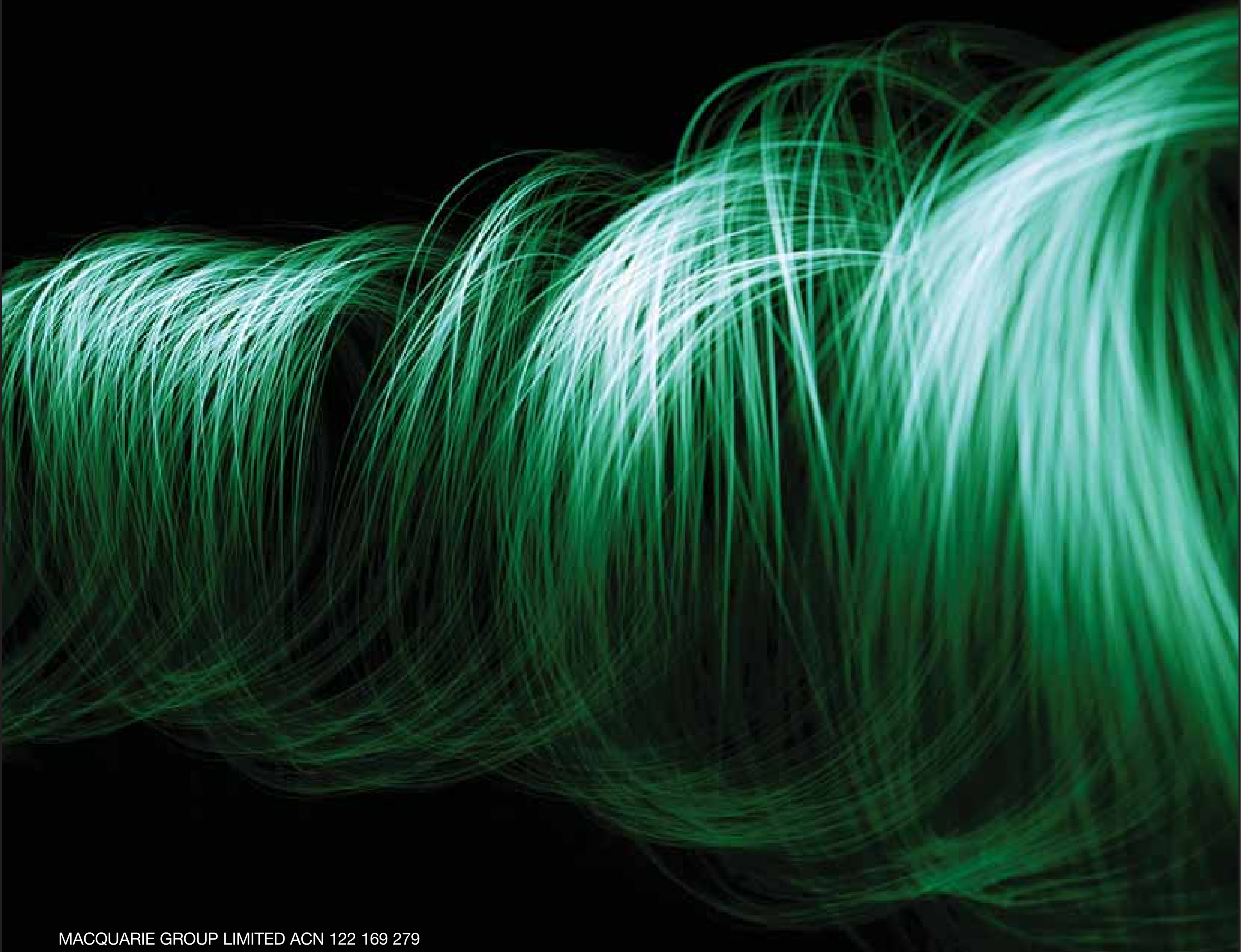
MACQUARIE GROUP
2009 ANNUAL REPORT

MACQUARIE



MACQUARIE GROUP LIMITED ACN 122 169 279

This 2009 Macquarie Group Annual Report complies with reporting requirements and contains statutory financial statements. It contains reports from the Chairman and Managing Director on Macquarie's business and operational highlights, Macquarie's Corporate Governance Statement, the Directors' Report including the Remuneration Report and full financial statements.

The 2009 Shareholder Review contains reports from the Chairman and Managing Director on Macquarie's business and operational highlights. This document is not a concise report prepared under section 314 (2) of the Corporations Act. Macquarie Group has not prepared a concise report for the 2009 financial year.

If you would like a copy of the 2009 Shareholder Review please call us on +61 2 8232 5006 or visit macquarie.com.au/shareholdercentre.

2009 Annual General Meeting

Macquarie Group's 2009 Annual General Meeting will be held at 10:30 am on Wednesday, 29 July 2009 at The Westin Sydney, in the Grand Ballroom, Lower Level, No.1 Martin Place, Sydney NSW.

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

Cover image: Constellation Energy

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

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

Cover photograph Dan Tobin Smith/Gallery Stock

Corporate Governance

Approach to Corporate Governance

Macquarie's governance approach aims to achieve superior financial performance and long term prosperity while meeting stakeholders' expectations of sound corporate governance practices by proactively determining and adopting the most appropriate corporate governance arrangements.

Macquarie's governance approach delivers these outcomes through:

1. reviewing developments in corporate governance;
2. taking into account corporate governance obligations;
3. developing a sound corporate governance framework supported by related processes and corresponding practices; and
4. monitoring the operation of the governance framework and processes.

Reviewing developments in corporate governance

Macquarie actively reviews Australian and international developments in corporate governance and considers the views of shareholders, regulators and other stakeholders. The Macquarie Board (the Board) adopts those arrangements which it considers are in the best interests of Macquarie and its shareholders, consistent with Macquarie's responsibilities to other stakeholders.

Taking into account corporate governance obligations

Macquarie Group Limited (Macquarie) is regulated by the Australian Prudential regulator, APRA, as a non-operating holding company of a licensed Australian Bank, Macquarie Bank Limited (Macquarie Bank). It is also supervised by the Australian corporate regulator, ASIC, and is listed on the Australian Securities Exchange (ASX). A number of Macquarie's key operating subsidiaries are supervised by regulators in the overseas jurisdiction in which they operate. Macquarie's governance obligations include APRA's Governance Standard (*Authorised Deposit-taking Institution Prudential Standard 510*), the ASX Corporate Governance Council's Principles and Recommendations and related ASX Listing Rules and Australian corporate law requirements.

Developing a sound corporate governance framework

Macquarie's corporate governance arrangements have been developed to achieve its aim as stated above. Six of the Board's nine members are Independent Directors, and all Board Committees are composed of a majority of Independent Directors. The Board, with the assistance of the Corporate Governance, Audit and Compliance, Remuneration, and Risk Committees, determines the most appropriate corporate governance arrangements for Macquarie which allow our people the flexibility, within risk limits, to continue to adapt business to changing markets.

In addition to requiring all Macquarie's business to be conducted in accordance with applicable laws and operations in the jurisdictions in which Macquarie operates, and in a way that enhances its reputation in those markets, Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct, consistent with the following goals and values to which Macquarie aspires:

– Integrity
– Client commitment
– Strive for profitability
– Fulfilment for our people
– Teamwork
– Highest standards

Monitoring the operation of the governance framework

The Board Corporate Governance Committee assists the Board in monitoring the effectiveness of the Corporate Governance Framework. Each of the Board Committees assists the Board in monitoring the operation of key corporate governance processes.

The following description of the governance arrangements in place during the year to 31 March 2009 is in the order of the Principles set out in the 2nd edition of the *ASX Corporate Governance Principles and Recommendations (ASX Recommendations)* and provides references to relevant information contained in other sections of the Annual Report or available on Macquarie's website.

Macquarie considers that its governance practices during the year have been consistent with all but one ASX Recommendation. Macquarie believes the exception is appropriate for the reasons set out under Principle 2 below in the description of the role of Chairman. A checklist summarising Macquarie's compliance with the ASX Recommendations and copies of key corporate governance practices are available at www.macquarie.com.au/au/about_macquarie/corporate_governance.htm. All references to Macquarie's website in the following description of Macquarie's corporate governance approach are to this link unless otherwise stated.

Corporate Governance
continued

Principle 1 – Lay Solid Foundations for Management And Oversight

The Board Charter details the composition and role and responsibilities of the Board and their relationship with management to accomplish the Board's primary role of promoting the long term health and prosperity of Macquarie. A copy of the Board Charter is available on Macquarie's website.

As set out in the Board Charter, the Board has delegated specific authorities to the various Board Committees and the Managing Director. Macquarie's Executive Committee and Operations Review Committee operate as management committees appointed by the Managing Director pursuant to his delegated powers and, in exercising these powers, he typically makes decisions regarding significant issues in consultation with one of these Committees.

Macquarie has a number of Non-Voting Executive Directors. Pursuant to Macquarie's constitution, they have no right to attend or vote at any Board meeting. However, they do have the power to exercise management powers delegated by the Board including to sign and countersign Macquarie's common seal.

Dealing with potential conflicts

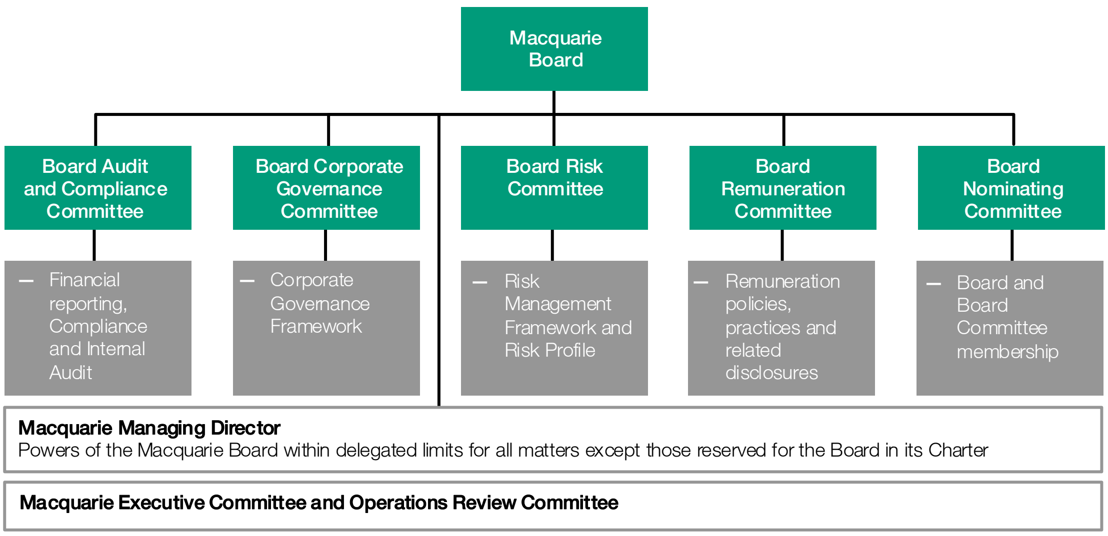
The Board has guidelines for its members for declaring and dealing with potential conflicts of interest which include:

- Board members will declare their interests as required under the Corporations Act 2001 (Cth), ASX Listing Rules and general law requirements
- Board members with a material personal interest in a matter will not receive the relevant Board paper and will not be present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise
- Board members with a conflict not involving a material personal interest, will generally not receive the relevant Board papers, and may be required to absent themselves from the relevant deliberations of the Board

The Board has also established systems and protocols to identify a conflict of interest and a framework for managing conflicts that include Divisional and Macquarie-wide policies, Lists, Information Protocols and appropriate disclosures. It is the responsibility of each of the businesses to ensure that conflicts of interest are adequately managed. Divisional and compliance staff ensure that the day to day legal and compliance obligations are discharged at the business level. The Risk Management Group (RMG) provides a risk oversight role in relation to these staff.

Macquarie Bank is a wholly owned subsidiary of Macquarie, and the Macquarie Bank Board is ultimately responsible for the sound and prudent management of the Macquarie Bank Group, with due consideration for the interests of deposit holders. The Macquarie Bank Board has processes in place to ensure arm's length decision-making by the board of Macquarie Bank. Where potential conflicts arise, management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

Corporate Governance Framework



Performance of Key Executives

The process adopted by the Board to review the performance of Macquarie's most senior executives is available on Macquarie's website. The performance of Macquarie's senior executives has been assessed this year in accordance with this process. Key aspects of the review process are described below.

The Managing Director annually presents a self-assessment to the Non-Executive Directors, who formally review the performance of the Managing Director. The presentation includes financial performance measures, strategic initiatives, staff and human relations indicators, prudential and compliance performance, reputation management and monitoring, and community and social responsibility matters. The Non-Executive Directors report on the performance of the Managing Director to the Board.

The Managing Director evaluates, at least annually, the performance of the following key executives: the Deputy Managing Director and the Group Heads, including the Head of Risk Management and the Chief Financial Officer. Both qualitative and quantitative measures are used that vary according to an individual's role. Factors relevant to assessing performance include relative contributions to profits while taking into account capital usage, how business is done, people leadership and adherence to Macquarie's Goals and Values. The performance of staff whose role is not linked to profit contribution is measured according to criteria appropriate to their position. Staff working in support areas may, for example, be rewarded on the basis of their contribution to Macquarie's financial reporting, risk management processes or information systems.

The Managing Director reports to the Board Remuneration Committee on the performance of these key executives. In conjunction with the annual strategy review, the Board also considers key executive succession planning and the capabilities of key executives.

Principle 2 – Structure the Board to Add Value

The Board considers that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the directors individually and the Board collectively, to:

- discharge their responsibilities and duties under the law effectively and efficiently
- understand the business of Macquarie and the environment in which Macquarie operates so as to be able to agree with management the objectives, goals and strategic direction which will maximise shareholder value
- assess the performance of management in meeting those objectives and goals

The membership of the Board is set out below. Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report in the Annual Report.

Current Board composition

Voting Director	Board Membership	Date of Appointment
David Clarke AO	Non-Executive Chairman (granted leave of absence)*	August 2007
Nicholas Moore	Executive**	February 2008
Laurie Cox AO	Executive	August 2007
Peter Kirby	Independent	August 2007
Catherine Livingstone AO	Independent	August 2007
Kevin McCann AM	Independent (Acting Chairman)*	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

* Due to illness, Mr Clarke sought and was granted leave of absence from 27 November 2008.
Mr McCann was appointed Acting Chairman on 27 November 2008.

** Upon Mr Moss' retirement on 24 May 2008, Mr Moore was appointed Managing Director and CEO.

Corporate Governance
continued

Macquarie's constitution provides that the maximum number of Voting Directors shall be ten unless amended by a resolution of the Board. On 30 April 2009, the Board resolved to reduce the maximum number of voting directors from nine to eight at the close of the 2009 AGM.

The Board Charter provides that the number of Voting Directors necessary to constitute a quorum at a Board meeting is:

– not less than one-third of the Voting Directors currently in office; and
– the number of Non-Executive Directors present at a meeting must be greater than the number of Executive Voting Directors present.

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board believes that independence is essentially a state of mind evidenced by an ability to constructively challenge and independently contribute to the work of the Board.

The independence of directors is assessed annually by the Board Corporate Governance Committee (BCGC). To assist the BCGC, each Independent Board member considers criteria adopted by the Board for assessing director independence and confirms whether they meet the criteria. In February 2009, each Independent Director confirmed that there were no interests or relationships that could interfere with their ability to act in the best interests of Macquarie and independently of management and has undertaken to inform the Board as soon as practical if they think that their status as an Independent Director has or may have changed. The BCGC has determined that each of the six Voting Directors designated as Independent Directors in this Statement bring an independent mind to their duties as a director.

The criteria used to assess independence, including materiality thresholds, are reviewed from time to time and are available on Macquarie's website.

Chairman

David Clarke was Executive Chairman of Macquarie Bank Limited, the previous parent company of the Macquarie Group, from its formation until 31 March 2007. He has since continued to serve on the Board of Macquarie Bank and, since 30 August 2007, on the Board of Macquarie Group Limited, as Non-Executive Chairman. Given his prior role as Executive Chairman of Macquarie Bank, Mr Clarke is not considered to be an Independent Director.

Due to illness, Mr Clarke sought and was granted leave from 27 November 2008. Kevin McCann, the Lead Independent Director, was appointed Acting Chairman on 27 November 2008 and has served in this capacity from this time. Macquarie has noted the ASX Corporate Governance Council's recommendation that listed companies have an independent director as chairman. Given Macquarie's diverse, complex and highly specialised activities, it is important that the Board is chaired by someone with a deep understanding of Macquarie's operations. The Board believes that David Clarke is the most appropriate person to be Macquarie's Chairman. APRA's Governance Standard also requires the chairperson of the Board to be an independent director. Notwithstanding this requirement, APRA has confirmed that it will allow Mr Clarke to continue as Chairman of both Macquarie and Macquarie Bank.

Macquarie has adopted a number of practices to regulate the division of responsibilities between the Board and management, and the accountability of management to the Board, including:

– separate individuals perform the roles of Chairman and Managing Director
– the appointment of a Lead Independent Director to act as a conduit for issues that the Independent Directors have as a group
– having a majority of Independent Directors on the Board
– the Non-Executive Directors meet at least once a year in the absence of management. During the past year the Non Executive Directors met twice. The Independent Directors may also meet on their own with the Lead Independent Director chairing such meetings
– the delegation of certain responsibilities to Board Committees, a number of which the Chairman is not a member. The Board Audit and Compliance Committee Charter states that the Chairman of the Board shall not be eligible to be the Chairman of that Committee and that all members shall be independent directors
– the ability of Voting Directors to seek independent professional advice for company related matters, including Board Committee matters, at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable

Board Committees

Five standing Board Committees have been established to assist in the execution of the Board's responsibilities. All Board members are free to attend any meeting of any Board Committee. The ongoing membership of each Committee is outlined in the table below. However, for the duration of Mr Clarke's leave of absence, Mr McCann is a member and Acting Chairman of the Nominating Committee and a member of the Remuneration Committee and Mr Warne is Acting Chairman of the Risk Committee. Attendance at Board and Committee meetings is set out at the beginning of the Directors' Report.

Standing Committee Membership	Audit and Compliance	Corporate Governance	Nominating	Remuneration	Risk
Non-Executive (non-Independent) Directors					
David Clarke AO			Chairman	Member	Chairman
Executive Voting Directors					
Nicholas Moore					Member
Laurie Cox AO					Member
Independent Directors					
Peter Kirby	Member	Member			Member
Catherine Livingstone AO	Chairman		Member		Member
Kevin McCann AM	Member	Chairman			Member
John Niland AC		Member		Member	Member
Helen Nugent AO			Member	Chairman	Member
Peter Warne	Member			Member	Member

It is the policy of the Board that a majority of the members of each Board Committee be Independent Directors, that all Board Audit and Compliance Committee members be Independent Directors and that the Board Remuneration Committee and the Board Corporate Governance Committee be chaired by Independent Directors.

The allocation of responsibilities between Board Committees is summarised in the Corporate Governance Framework diagram under Principle 1. Each Committee has a charter which includes a more detailed description of their duties and responsibilities. The Charters are available in the Corporate Governance section of Macquarie's website.

The Board Nominating Committee and Board Renewal

The Board Nominating Committee's role, which is outlined in its Charter, is to review and consider the structure and balance of the Board and make recommendations regarding appointments, retirements and terms of office. The Committee comprises the Chairman and two Independent Directors as set out above. Committee member's attendance is set out in the Directors' Report.

The Nominating Committee has unlimited access to senior management of Macquarie and is able to engage recruitment consultants to undertake research on, or assess, candidates for new positions on the Board, or to consult other independent experts where it considers it necessary to carry out its duties and responsibilities.

The Board has adopted a Policy on Board Renewal and Appointment of Directors to govern the selection and appointment of Voting Directors, a copy of which is available on Macquarie's website.

The Board recognises it is important that it undergoes a regular process of renewal via changes in membership. Independent Directors are appointed for terms that will not exceed 12 years. Time served by Independent Directors on the Board of Macquarie Bank prior to the restructure of Macquarie in November 2007, calculated in accordance with the transitional provisions that broadly weight past time on the Board prior to 2003 at 50 percent, will be regarded as time served on the Macquarie Board.

Corporate Governance
continued

Board Performance Review

The Board undertakes a formal annual performance self-assessment, including an assessment of the Board, Board Committees and individual Board members with emphasis on those individual Directors who are required to stand for re-election at the next AGM. The process adopted by the Board to review the performance of the Board and Macquarie's most senior executives is available on Macquarie's website. The performance of the Board has been assessed this year in accordance with the process described below in conjunction with a qualitative external review.

The process for conducting the Board's performance review consists of individual interviews with each of the Voting Directors. The review includes an assessment of the individual contribution of each Board member as well as the performance of the Board as a whole. The Voting Directors also complete a questionnaire and are able to make other comments or raise any issue that they have relating to the Board's or a Board Committee's operation. The results of the questionnaire and interviews are compiled and include a quantitative and a qualitative analysis. An external review is conducted periodically in addition to the internal review process.

A written report discussing the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting.

Each of the Board Committees undertakes a periodic review of their performance in accordance with their Charters which require at least biennial review. Board Committees may also use a questionnaire as part of the Committee review process. The results of the review are then discussed at a Committee meeting. Two of the five standing Committees undertook a review of their performance during the year, including the Board Risk Committee as part of the Board review.

Principle 3 – Promote Ethical and Responsible Decision-Making

Macquarie's Board and management are committed to being a good corporate citizen. Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct.

Macquarie's Code of Conduct, Integrity Officers, and policies discussed below set the standards for dealing with obligations to external stakeholders. A statement of Macquarie's community engagement is detailed in the Macquarie Group Foundation's annual report, which is available on Macquarie's website. A statement on Macquarie's approach to climate change is included in this Annual Report.

Code of Conduct

Macquarie's Voting Directors and staff are required to maintain high ethical standards of conduct. Macquarie has adopted a Code of Conduct, which incorporates the Group's Code of Ethics (*What We Stand For)*. The Code of Conduct is also reflected in, and supported by, a broad range of Macquarie's internal policies and procedures

The Code of Conduct is intended to help Directors and staff to understand their responsibilities to uphold the following goals and values to which Macquarie aspires: Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest Standards. It also includes a requirement to conduct all Macquarie's business in accordance with applicable laws and regulations in the jurisdictions in which Macquarie operates, and in a way that enhances its reputation in those markets.

It covers Macquarie's dealings with external parties and how Macquarie operates internally. It is periodically reviewed and fully endorsed by the Board. The document titled *What We Stand For*, which includes Macquarie's Goals and Values, is distributed to all staff and its standards communicated and reinforced at Macquarie-wide induction programs, presentations to workgroups, online training and annual staff meetings.

A copy of the Code of Conduct is available on Macquarie's website.

Integrity Officers

To strengthen Macquarie's commitment to conducting its business activities in accordance with the highest ethical standards, Macquarie has appointed Executive Directors, Michael Price and James Hodgkinson, as Integrity Officers. Regional Integrity Officers and Regional Integrity Support Officers have been appointed in Asia, Europe and the Americas.

The Integrity Officers serve as an independent point of contact with whom Voting Directors and staff can raise concerns about integrity-related issues. The Integrity Officers report directly to the Managing Director and provide a regular report on the activities of the Integrity Office to the Board Corporate Governance Committee.

The role of the Integrity Officers is to:

- develop and implement strategies in the Australian and international offices to assist Macquarie to properly address issues of integrity in the conduct of its business
- educate, advise and counsel management and staff regarding integrity issues
- devise and introduce systems to ensure that claims of integrity breaches and any integrity-related concerns are dealt with impartially, promptly and confidentially
- ensure that the rights of all parties are respected and maintained at all times

Macquarie has established whistleblower policies in accordance with the legislative requirements and best practice recommendations in each of the jurisdictions in which Macquarie operates. The policies aim to provide a working environment that enables employees to voice genuine concerns in relation to:

- a breach of relevant legislation
- a breach of Macquarie's Goals and Values
- financial malpractice or impropriety or fraud
- failure to comply with legal obligations
- danger to health and safety or the environment
- criminal activity
- attempts to conceal any of the above

Macquarie and Climate Change

Climate change has been a focus throughout the year with investments in renewable and clean energy projects, increasing activity in environmental markets and a corporate commitment to becoming carbon neutral by December 2010. Further information regarding Macquarie's approach to climate change can be found on page 35 of the Annual Report.

Staff and Director Trading

Macquarie's Personal Dealing Policies identify the principles by which Macquarie balances the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities of its staff in any financial product are conducted appropriately. A summary of Macquarie's policy is available on Macquarie's website.

The Policy applies to Voting Directors and all Macquarie staff (full and part-time employees and contractors engaged for more than three months). It also applies generally to "associates" of staff, which include persons or entities over whom a staff member has investment control (such as spouses, dependent children, self-managed super funds and private and family-controlled companies and trusts).

Key aspects of the Policy include:

- pre-clear securities trading: Voting Directors, staff and their associates must pre-clear their securities trading with Macquarie.
- trading windows: Voting Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks duration and follow Macquarie's announcements of its interim and full year profits and after the AGM.
- trading prohibition while in possession of material non-public price sensitive information: in all cases Macquarie prohibits Voting Directors and staff from dealing in such investments while they possess material non-public price sensitive information about Macquarie.
- unvested options, retained shares and minimum shareholding requirements cannot be hedged: Executive Directors are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. Non-executive directors may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement.
- net short positions not permitted: Employees are not permitted to take net short positions in Macquarie shares or any Macquarie-managed funds.

The Board has agreed that Voting Directors generally should not sell Macquarie shares while the shares are subject to an on-market buy-back, and should not undertake short-term trading in any Macquarie-related securities and derivatives without the prior approval of the Chairman (or the Managing Director in the case of the Chairman). Voting Directors and Executive Committee members are also required to annually disclose any financing arrangements relating to their Macquarie securities to the Chairman via the Company Secretary and manage their financing arrangements in accordance with Macquarie's trading policy.

Corporate Governance
continued

Principle 4 – Safeguard Integrity in Financial Reporting

Financial Reporting

Macquarie's Board has responsibility for the integrity of Macquarie's financial reporting. Macquarie Bank's Board has responsibility for the integrity of Macquarie Bank's financial reporting. To assist the Boards in fulfilling their responsibility, the processes discussed below have been adopted. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable accounting standards and provide a true and fair view.

Financial Assurance

The Board Audit and Compliance Committee (BACC) is comprised of four Independent Directors. Details of each individual Voting Director's background are set out in Schedule 1 of the Directors' Report (see page 122) in this Annual Report. Committee members' attendance at BACC meetings is also set out in the Directors' Report.

The main objective of the BACC is to assist the Boards of Macquarie and Macquarie Bank in fulfilling their responsibility for overseeing the quality and integrity of the accounting, auditing, financial reporting and compliance practices of the Macquarie Group.

The responsibilities of the BACC are set out in its Charter, which is available on Macquarie's website.

The BACC meets at least six times a year, with additional meetings as required. The Committee also meets privately with the following parties at least annually in separate sessions to discuss any matters that the Committee or the parties believe should be discussed privately with the Committee:

- Head of Internal Audit
- Head of Risk Management Group
- Head of RMG Compliance
- Head of RMG Credit Assurance
- the external auditors

The BACC has unlimited access to the Heads of RMG, RMG Credit Assurance, RMG Compliance, and Internal Audit, the external auditors, the Group's compliance officers and senior management of the Group. The Committee also has the power to institute and oversee special investigations including consultation with independent experts as needed.

During the year, the BACC undertook an evaluation of its performance, following on from the previous year's extensive review process, and reviewed the extent to which it had met the requirements of its charter. It also commissioned an external review of the Internal Audit function within Macquarie.

Declaration by the Chief Executive Officer and Chief Financial Officer

The Chief Executive Officer and the Chief Financial Officer provide the Boards of Macquarie and Macquarie Bank with written confirmation that the financial reports present a true and fair view, in all material respects, of Macquarie's and Macquarie Bank's financial condition and operational results and are in accordance with relevant accounting standards.

Auditor Independence

The BACC is also responsible for overseeing the external audit of Macquarie and Macquarie Bank.

The policy on auditor independence applies to services supplied by the external auditor and their related firms to Macquarie, its related entities and the trusts and entities managed by Macquarie. A copy of Macquarie's external auditor policy statement is available on Macquarie's website. Under the policy on auditor independence:

- the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the Group, or audits its own professional expertise
- significant permissible non-audit assignments awarded to the external auditors must be approved in advance by the Committee or, between Committee meetings, the Committee Chair
- the external audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner rotated at the conclusion of the 2008 financial reporting period.

Principle 5 – Make Timely and Balanced Disclosure

Commitment to Shareholders and Informed Market

Macquarie believes that shareholders, regulators, ratings agencies and the investment community generally, should be informed of all major business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a Continuous Disclosure Policy which is incorporated in the External Communications Policy. A summary of the External Communications Policy is available on Macquarie's website.

It is Macquarie's policy that any price sensitive material for public announcement, including annual and interim profit announcements, release of financial reports, presentations to investors and analysts and other prepared investor briefings for Macquarie and Macquarie Bank, will be:

- lodged with the ASX as soon as practical and before external disclosure elsewhere
- posted on Macquarie's website as soon as practicable after lodgement with the ASX.

Principle 6 – Respect the Rights of Shareholders

Communications

It is Macquarie's policy, as set out in the summary of the External Communications Policy referred to in Principle 5, that all external communications by Macquarie will:

- be factual and subject to internal vetting and authorisation before issue
- not omit material information
- be timely and expressed in a clear and objective manner.

Macquarie's website at www.macquarie.com.au/au/about_macquare/investor_information.htm contains recent announcements, presentations, past and current reports to shareholders, answers to frequently asked questions and a summary of key financial data. There is also a link on this page allowing Investors to register to receive Macquarie announcements electronically by email as soon as practicable after they have been lodged with the ASX.

Macquarie provides a webcast of its Annual General Meeting (AGM), any other general meetings, year end and half year results presentations and operational briefings for the benefit of shareholders who are unable to attend.

General Meetings

Macquarie typically holds its AGM in July of each year. Macquarie encourages shareholders to participate in general meetings and aims to choose a date, venue and time considered convenient to the greatest number of its shareholders. This year Macquarie's AGM will be held in Sydney and Macquarie Bank's AGM will be held on the same day, after the Macquarie AGM. Last year, Macquarie held its AGM in Melbourne for the first time to allow Victorian shareholders an opportunity to attend. Macquarie's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report.

Notices of Meeting will be accompanied by explanatory notes on the items of business and together they will seek to clearly and accurately explain the nature of business of the meeting. Full copies of Notices of Meeting will be placed on Macquarie's website at www.macquarie.com.au/au/about_macquare/investor_information.htm.

If shareholders are unable to attend the meeting, they are encouraged to vote on the motions proposed by appointing a proxy. The proxy form included with a Notice of Meeting will seek to clearly explain how the proxy form is to be completed and submitted. Online proxy voting is also available to shareholders.

Corporate Governance
continued

Unless specifically stated in a Notice of Meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions.

Holders of Macquarie Income Securities have the right to attend the Macquarie Bank AGM, at which they have limited voting rights, as set out in the terms of their issue which are located at http://www.macquarie.com.au/au/about_macquarie/investor_information/macquarie_income_securities.htm.

Principle 7 – Recognise and Manage Risk

Identifying Significant Business Risks

There are many risks in the markets in which Macquarie operates. A range of factors, some of which are beyond Macquarie's control, can influence performance. In many of its businesses, Macquarie constantly and deliberately assumes financial risk in a calculated and controlled manner. Macquarie has in place limits and a range of policies and procedures to monitor the risk in its activities and these are periodically reviewed by the Board and the Board Risk Committee. The Board Risk Committee has responsibility for the establishment and review of the Risk Management Framework and policies to control risk while the Board Audit and Compliance Committee has responsibility for assessing the effectiveness of the internal controls.

Board Oversight

The Board established the Board Risk Committee, which is comprised of all Board members to focus appropriate attention on the risk management framework of Macquarie. The Board Risk Committee Charter is found on Macquarie's website. In addition to the Board Risk Committee, the Board Audit and Compliance Committee and the Board Corporate Governance Committee assist the Board in ensuring the appropriate focus is placed on monitoring risk. Details of the responsibilities of these committees are provided in the description of the Risk Governance Structure below.

Risk Governance Structure

Risk management is sponsored by the Board, and is a top priority for senior managers, starting with the Managing Director and Chief Executive Officer. The Head of RMG is a member of Macquarie's Executive Committee, reports directly to the Managing Director and Chief Executive Officer of Macquarie and presents on risk matters at each Board meeting.

The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

There are three Board Committees that assist the Board in ensuring the appropriate focus is placed on the risk management framework.

- The Board Risk Committee has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The Committee receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management framework and related policies.
- The Board Audit and Compliance Committee has responsibility for monitoring compliance with the risk management framework approved by the Board Risk Committee for internal control and compliance matters. In this role, the BACC monitors and reviews the effectiveness of the Internal Audit, Compliance and Credit Assurance functions.
- The Board Corporate Governance Committee has responsibility for any governance matters.

Committees exist at the executive management level to ensure the necessary elements of expertise are focused on specific risk areas. Executive Committees and Operation Review Committees operate at both the Macquarie and the Macquarie Bank level and focus on strategic issues, operational issues and review the performance of Macquarie on a monthly basis. Beneath this level, other committees exist where senior specialists focus on specific risks as appropriate (e.g. Market Risk Committee, Asset and Liability Committee).

Risk Management Framework

Macquarie's approach to risk management, including the principles followed by Macquarie in risk management, is described in some detail in the Risk Management Report on page 37 of this annual report. The risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, legal and regulatory risks. It is designed to ensure policies and procedures are in place to manage the risk arising within each business unit. Application varies in detail from one part of Macquarie to another, however, the same risk management framework applies across all business activities without exception.

Chief Executive Officer and Chief Financial Officer Declaration

The Macquarie and Macquarie Bank Boards receive written confirmation from the Chief Executive Officer and the Chief Financial Officer that:

– their statement given to the Board on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
– Macquarie's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

Macquarie's senior management has reported to the Macquarie and Macquarie Bank Boards on the effectiveness of the management of material business risks faced for the year ended 31 March 2009. The Boards have also received the Chief Executive Officer and Chief Financial Officer declarations described above for this financial year.

Principle 8 – Remunerate Fairly and Responsibly

Macquarie's Remuneration Committee

Board oversight of remuneration and the role of the Board Remuneration Committee is described in the Remuneration Report which is contained within the Directors' Report (see pages 56 to 116) in this Annual Report. The membership of the Board Remuneration Committee includes a majority of Independent Directors and the Committee is chaired by an Independent Director. Committee members' attendance at Committee meetings is included in the Directors' Report.

A copy of the Committee's Charter is available on Macquarie's website.

Executive Director and Senior Executive Remuneration

Macquarie's remuneration policies and practices in relation to Executive Voting Directors and senior executives are as disclosed in Macquarie's Remuneration Report. Macquarie acknowledges that disclosure of the structure and objectives of the remuneration policies, and their relationship to Macquarie's performance, allows investors to understand the costs and benefits of those policies and the link between remuneration paid to Executive Voting Directors and key executives and corporate performance. Details of the nature and amount of remuneration (including non-monetary components such as options) paid to each Executive Voting Director and the members of the Executive Committee within Macquarie are set out in the Remuneration Report.

Macquarie's trading policy prohibits Executive Directors, who are the most senior executives of Macquarie, from entering into a transaction that is designed or intended to hedge their exposure to a Macquarie share that is subject to retention arrangements, an unvested Macquarie option, or both. A summary of Macquarie's trading policy is available on Macquarie's website.

Non-Executive Director Remuneration

The remuneration policy for Macquarie's Non-Executive Directors and the amount of remuneration paid to them is discussed in detail in the Remuneration Report. Non-Executive Directors are not granted options, nor receive bonus payments. They do not receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Corporate Governance
continued

Corporate Governance in Macquarie Managed Funds

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie managed funds. Macquarie recognises that unitholders have entrusted their investments to Macquarie because of the Macquarie association and management. The Macquarie managed funds governance standards provide an alignment of interests between the manager and investors in the funds and adopt an appropriate governance framework to ensure protection of security holders' interests.

Macquarie's key expectations for Macquarie-managed Funds (Funds) are that:

- funds management activity is conducted in accordance with Macquarie's high standards and industry best practice, with reference to community expectations and Macquarie's Goals and Values
- market, credit, liquidity, operational, legal and regulatory risks arising in relation to Funds are managed and monitored within an appropriate risk management framework
- each Fund is managed within an appropriate corporate governance framework so as to ensure that investment and other key decisions are made in accordance with the Fund's mandate and taken with appropriate regard to the interests of the investors as a whole
- new Funds are subject to a robust internal approval process that requires independent review and sign-off of key aspects of the Fund structure

The key elements of Macquarie's corporate governance framework for Funds are as follows:

- conflicts of interest arising between a Fund and its related parties should be managed appropriately and, in particular:
  - related party transactions should be identified clearly and conducted on arm's length terms
  - related party transactions should be tested by reference to whether they meet market standards
  - decisions about transactions between listed Funds and Macquarie or its affiliates should be made by parties independent of Macquarie
- a majority of independent directors should be appointed to the boards of responsible entities of listed Funds. For these purposes, the definition of independence is consistent with the definition applied by Macquarie
- funds management businesses should be resourced appropriately. In particular:
  - staff involved in managing a Fund should be dedicated to the relevant funds management business, rather than to advisory or other activities
  - all recommendations to Fund boards (and supporting information) should be prepared or reviewed by funds management staff
  - each listed Fund that invests in operating assets or businesses should have its own managing director or chief executive officer
  - Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets business from its funds management businesses

The Macquarie Board (or the Macquarie Bank Board if appropriate) exercises oversight of the funds management activities of Macquarie by:

- requiring all funds management subsidiaries to adopt and maintain a risk management framework and principles similar to that employed by Macquarie
- requiring Board approval for all new Funds that:
  - are listed or to be listed within 12 months of their establishment
  - exceed specified monetary thresholds in size
  - invest in operating businesses or assets in certain specified industries
- receiving and reviewing appropriate information from the funds management subsidiaries relating to their operations

While Macquarie exercises general oversight of its funds management subsidiaries as set out above, decision-making relating to transactions by Funds are made by the directors of the responsible entities of, and companies within, the Funds. Where a Fund acquires an interest in another company, the board of the underlying company is responsible for decisions relating to that company's business and operations.

Risk Management Report

Introduction – Macquarie's risk management framework in the global financial crisis.

Recent turmoil in global financial markets has prompted widespread reflection on the principles and performance of risk management. Macquarie's risk management principles have remained stable over 30 years, however, current market conditions have prompted us to re-examine events to determine if they remain appropriate.

The key aspects of Macquarie's risk management approach are:

Ownership of risk at the business level - business heads are responsible for identifying risks within their businesses and ensuring that they are managed appropriately. Before taking decisions, clear analysis of the risks is sought to ensure risks taken are consistent with the risk appetite and strategy of Macquarie. Business ownership of risk is an essential element in understanding and controlling risk.

Understanding worst case outcomes - Macquarie's risk management approach is based on examining the consequences of worst case outcomes and determining whether risks can be tolerated. This approach is adopted for all material risk types and is often achieved by stress testing. In particular, Macquarie's market risk framework is based primarily on the application of stress tests, rather than statistical models. This approach has been tested over the past 18 months and the shocks observed in the markets were generally within Macquarie's stress scenarios, resulting in very few worst case loss scenarios being exceeded. Whilst Macquarie operates a number of sophisticated quantitative risk management processes, the foundation of its risk management approach is the informed consideration of both quantitative and qualitative inputs by highly experienced professionals.

Requirement for an independent sign-off by risk management - Macquarie places significant importance on having a strong independent Risk Management Group (RMG) which is charged with signing off all material risk acceptance decisions. It is essential RMG has the capability to do this effectively and hence RMG has invested in recruiting skilled professionals, many with previous trading or investment banking experience. For all material proposals, RMG's opinion is sought at an early stage in the decision making process and independent input from RMG on risk and return is included in the approval document submitted to senior management.

Macquarie's overall appetite for risk is expressed by setting a global risk limit designed to ensure that in a prolonged and severe downturn, losses will be covered by earnings and surplus capital. In difficult times, financial institutions and other companies expect to experience losses. A key question is whether the losses are greater than were expected in a downturn. The majority of the provisions made by Macquarie in FY09 represent unrealised write-downs in the value of Macquarie's funds management assets and other co-investments. These investments were made as part of a calculated business strategy to align the interests of Macquarie, as the manager of funds, with the interests of investors in the funds. At the time the investments were made, potential severe downturn impacts were assessed. The write-downs taken fall within the bounds suggested by this analysis and were able to be absorbed within Macquarie's earnings.
Macquarie's business model is based on providing services to clients. Consequently, our trading businesses do not take large proprietary positions and the limit framework reflects this. This has helped us avoid making large trading losses in recent times.

In line with the promotion of risk ownership at the business level, Macquarie's remuneration policy for senior management encourages a long-term view in decision making. Remuneration for senior management discourages excessive risk taking as incentives are aligned with the long-term profitability of the firm through retention of remuneration and equity participation.

Macquarie considers its risk management framework to be robust. RMG has reviewed it in light of the challenging market conditions experienced in recent times and subsequently implemented appropriate enhancements. Markets have been more volatile in recent times, beyond historic levels but not, generally, beyond levels we planned for. Few of Macquarie's stress tests have been exceeded, however, we have revised our assessment of correlations between markets as it has become clear that previously unconnected markets may move more closely together. The risk culture in Macquarie remains strong, and controls are well designed, well respected by staff and regularly audited and we remain confident that our risk culture and multiple controls are well able to support our business activity.

Risk Management Report
continued

Risk governance structure

Risk management is sponsored by the Board, and is a top priority for senior managers, starting with the Managing Director and Chief Executive Officer. The Head of RMG is a member of Macquarie Group Limited's (Macquarie) Executive Committee, reports directly to the Managing Director and Chief Executive Officer and presents on risk matters at each Board meeting.

The Board oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

There are three board committees that assist the Board in ensuring appropriate focus is placed on the risk management framework.

- The Board Risk Committee (BRC) has responsibility for ensuring an appropriate risk management framework – including the establishment of policies for the control of risk – is in place. The BRC receives information on the risk profile of Macquarie, breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to risk management policies and framework.
- The Board Audit and Compliance Committee (BACC) has responsibility for monitoring compliance with the risk management framework approved by the BRC for internal control and compliance matters. In this role, the Board Audit and Compliance Committee monitors and review the effectiveness of the Internal Audit, Compliance and Credit Assurance functions.
- The Board Corporate Governance Committee (BCGC) has responsibility for governance matters.

Committees exist at the executive management level to ensure the necessary elements of expertise are focused on specific risk areas. Executive Committees and Operation Review Committees operate at both the Macquarie and the Bank level and focus on strategic issues, operational issues and review the performance of Macquarie on a monthly basis. Beneath this level, other committees exist where senior specialists focus on specific risks as appropriate (e.g. Market Risk Committee, Asset and Liability Committee).

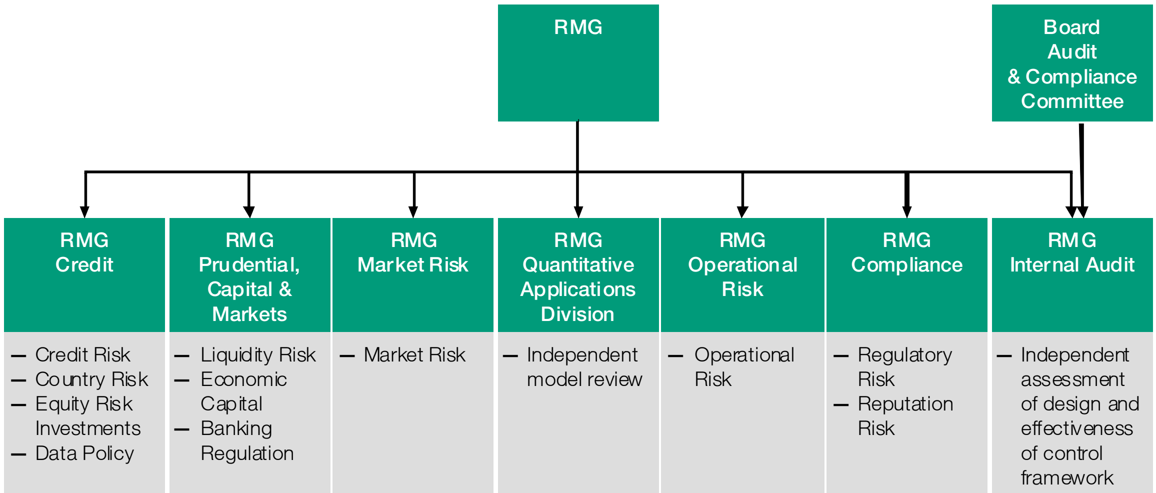
Risk Management Group

RMG's independent oversight of risk is based on the following five principles:

- Independence – RMG, which is responsible for assessing and monitoring risks across Macquarie, is independent of the operating areas of Macquarie and the Head of RMG reports directly to the Managing Director and Chief Executive Officer. RMG authority is required for all material risk acceptance decisions;
- Centralised Prudential Management – RMG's responsibility covers the whole of Macquarie. Therefore, it can assess risks from a Macquarie-wide perspective and provide a consistent approach across all operating areas;
- Approval of all new business activities – Operating areas cannot undertake new businesses or activities, offer new products, or enter new markets without first consulting RMG. RMG reviews and assesses risk and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board;
- Continuous assessment – RMG continually reviews risks to account for changes in market circumstances and Macquarie's operating areas; and
- Frequent monitoring – Centralised systems exist to allow RMG to monitor credit and market risks daily. RMG staff liaise closely with operating and support divisions.

RMG structure and resourcing

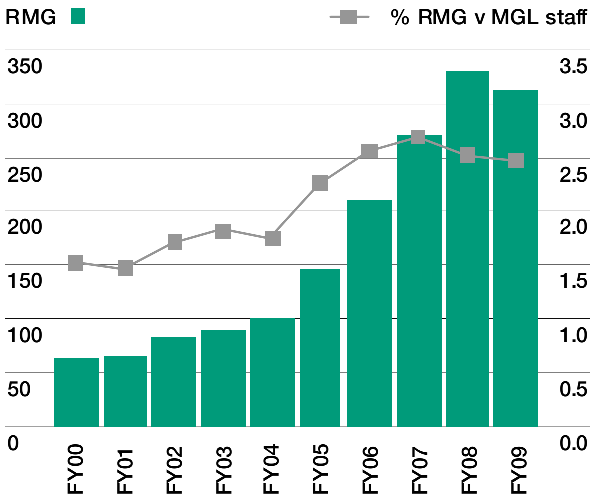
RMG is structured into specialised teams who deal with specific risks. The Divisional split of RMG is detailed below.



Effective risk management is not only a function of disciplined processes but also of imaginative analysis by talented individuals. RMG attracts high calibre candidates. RMG recruits experienced individuals both from within Macquarie and externally and is a source of talent for Macquarie's business units when recruiting.

Growth in RMG has been consistent with overall Macquarie Group growth over the past few years. Over the last year, RMG staff numbers fell approximately five per cent to 314 full-time equivalent staff whilst headcount Macquarie-wide fell approximately three per cent.

Headcount of RMG



Risk Management Report
continued

Additionally 38 per cent of total RMG staff (as at March 2009) were based outside of Australia to ensure that, on a global basis, risks are managed in a controlled manner. Macquarie's international offices are subject to the same risk management controls that apply in Australia. Before an international office can be set up or undertake new activities, RMG analyses the proposed activities, infrastructure, resourcing and procedures to ensure appropriate risk management controls are in place. Australian based RMG staff monitor and routinely visit international offices to ensure compliance with prudential controls. Internationally based RMG staff include both experienced risk management staff from Australia as well as locally experienced staff.

Consistent with the concept of business units owning risk, specific day to day operations are more appropriately discharged and embedded within the business units. The majority of operational risk and compliance functions are discharged within the business units. Divisional compliance staff ensure that day to day legal and compliance obligations are discharged at the business level whilst Business Operational Risk Managers (BORMs) are appointed by the Group Heads to be their representative on operational risk management matters, and act as their delegate in ensuring that operational risk is addressed appropriately within their business units. As at the end of March 2009, there were approximately 420 staff performing such functions within the business units. RMG provides a risk oversight role in relation to these staff members, ensuring appropriate standards are adhered to. These divisional staff members have functional reporting lines to the RMG divisional heads for Operational Risk and Compliance.

New business

The level of innovation across Macquarie tends to be high. Therefore, it is important that all elements of new business initiatives are well understood before commencement.

All new business initiatives must be signed off by RMG prior to commencement. The new business approval process is a formal process whereby all relevant risks (e.g. market, credit, legal, compliance, taxation, accounting, operational and systems issues) are reviewed, to ensure that the transaction or operation can be handled properly and will not create unknown or unwanted risks for Macquarie in the future. The approval of RMG, Finance Division, Taxation Division and other stakeholders within Macquarie is obtained prior to commencement.

For all material transactions, independent input from RMG on the risk and return of the transaction is included in the approval document submitted to senior management.

The Operational Risk function within RMG oversees the new product and business approval process and ensures the necessary approvals are obtained.

Risk management and monitoring

The risk management framework incorporates active management and monitoring of market, credit, equity, liquidity, operational, compliance, legal and regulatory risks. It is designed to ensure policies and procedures are in place to manage the risks arising within each business unit. Application varies in detail from one part of Macquarie to another, however, the same risk management framework applies across all business activities without exception.

Equity risk

Equity risk is the risk of loss arising from banking book equity-type exposures. These exposures include:

- holdings in specialised funds managed by Macquarie Capital
- principal exposures taken by Macquarie Capital, including direct investments in entities external to Macquarie and seed assets for funds
- property equity, including property trusts and direct property investments
- other equity, including lease residuals and investments in resource companies.

Equity Risk Limit

All of the above positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board with reference to the Risk Appetite Test which is described further in the Economic Capital section. In setting the limit, consideration is also given to the level of earnings, capital and market conditions. The limit is reviewed on a semi-annual basis by RMG and the results of the review are reported to Executive Committee and the Board.

Concentrations within the equity portfolio are managed by a number of additional limits approved by the Executive Committee and/or the Board. These include limits on:

- property equity investments
- investments in the resources sector
- lease residuals (by type of leased asset)
- acquisition of seed assets by Macquarie Capital.

Transaction Review and Approval Process

The business unit executing the transaction is responsible for due diligence and risk analysis of each equity investment. For material deals, RMG undertakes a shadow due diligence and a comprehensive analysis of all risks and potential losses associated with the acquisition such as:

- market and credit risks
- regulatory, capital, liquidity and compliance requirements
- business, operational and reputation risks.

All material equity risk positions are subject to approval by RMG and by the Managing Director and Chief Executive Officer, Executive Committee and the Board, depending on the size and nature of the risk. RMG ensures that the transaction is correctly represented to the relevant approvers.

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 credit team within RMG maintains a comprehensive and robust framework for the identification, analysis and monitoring of credit risks arising within each business. Key aspects of this framework include:

Analysis and approval of exposures

The Macquarie and Macquarie Bank Boards are responsible for establishing the framework for approving credit exposures. The Boards delegate discretions to approve credit exposure to designated individuals within Macquarie whose capacity to exercise authority prudently has been adequately assessed.

Business units are assigned modest levels of credit discretions. Credit exposures above those levels are assessed independently by RMG and approved by senior Macquarie and RMG staff, the Managing Director and Chief Executive Officer and the Boards as required.

Macquarie enforces a strict 'no limit, no dealing' rule; all proposed transactions are analysed and approved by designated individuals before they can proceed.

All credit exposures are subject to annual review.

Independent analysis

Specialist credit teams in RMG (e.g. geologists for mining transactions) provide independent analysis of credit risk exposures. The teams work closely with the business units to identify the risks inherent in Macquarie's businesses, and apply analysis appropriate to the level and nature of risks.

Credit risk analysis is focused on ensuring that risks have been fully identified and that the downside risk is properly understood so that a balanced assessment can be made of the worst case outcome against the expected rewards. Downside analysis includes stress testing and scenario analysis.

Macquarie does not rely on quantitative models to assess credit risk but uses fundamental credit analysis to make credit risk acceptance decisions.

Macquarie group ratings

Macquarie relies on its own independent assessment of credit risk. Third party credit assessments are considered an input into the analysis but are not considered to be a sufficient basis for decision making.

Macquarie has established a proprietary internal credit rating framework to assess counterparty credit risk. Macquarie group (MG) ratings are used to estimate the likelihood of the rated entity defaulting on financial obligations. The MG ratings system ensures a consistent assessment of borrower and transaction characteristics across Macquarie and provides the mechanism for meaningful differentiation of credit risk. External ratings from rating agencies are used as supplementary analysis.

All customers' limits and exposures are allocated an MG rating on a 1–13 scale which broadly correspond with Standard & Poors (S&P) and Moody's Investor Services (Moody's) credit ratings. Each MG 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.

Macquarie has an independent Credit Assurance Function within RMG to provide assurance over the effectiveness of credit risk management throughout Macquarie. The role of the Credit Assurance Function is to liaise closely with all business units to ensure credit risks are understood and properly managed, ensure credit discretions are being utilised appropriately and credit ratings are appropriately attributed.

Measuring and monitoring exposures

Credit exposures for loans are evaluated as the full face value.

Credit exposures for derivatives are a function of potential market movements and are assessed by assuming that low probability (i.e. worst case) stressed market movements occur and that Macquarie has to go to the market to replace a defaulting deal at the worst possible time during the term of the transaction. The level of stress that is applied to individual markets is reviewed and approved by RMG at least every two years or when volatility or market conditions dictate.

Where trading gives rise to settlement risk, this exposure is assessed as the full face value of the settlement amount.

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through time are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

To mitigate credit risk, Macquarie makes increasing use of margining and other forms of collateral or credit enhancement techniques (including guarantees and letters of credit) where appropriate.

Risk Management Report
continued

On and off-balance sheet exposures are considered together and treated identically for approval, monitoring and reporting purposes.

A review of the Credit Portfolio analysing credit concentrations by counterparty, country, risk type, industry and credit quality is carried out and reported to Macquarie's Executive Committee quarterly and Board semi-annually.

Macquarie'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.

Loan impairment review

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

Specific provisions are recognised where specific impairment is identified. The rest of the loans are placed into pools of assets with similar risk profiles and collectively assessed for losses that have been incurred but not yet identified.

Total impaired assets and specific provisions have increased substantially during the period, due mainly to the ongoing deterioration in US and UK real estate markets, and the effect of falling commodity prices on metals and energy counterparties. The weakening of the Australian Dollar also contributed to the increase in overall impaired asset and provision levels as the Australian Dollar equivalent of foreign denominated assets rose.

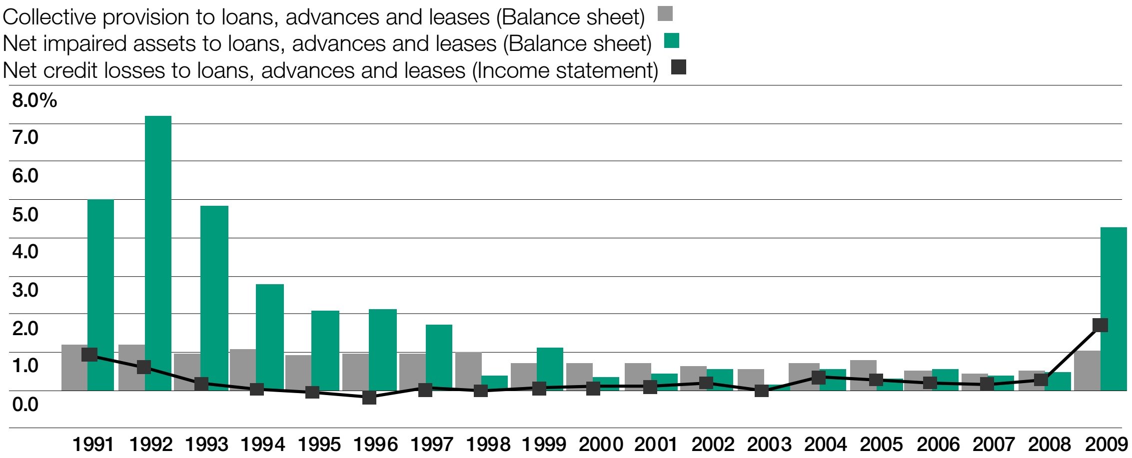
The majority of impairments and provisions relate to Macquarie businesses undertaking mezzanine lending activity. These businesses make advances above the level which would be considered senior debt. In these loans Macquarie recognises a notional split between the senior and junior portion of the loan. The junior portion generates a significantly higher return to compensate for the additional risk. The impairments relate to the junior portion and not the senior portion which is generally well secured, although both portions are recorded as being impaired for regulatory reporting purposes. Macquarie participates in these transactions in the real estate and metals and energy industries. These industries account for 67 per cent of impaired assets.

Other less significant areas of impairment include the residential mortgage sectors in the United States and Italy and South American agricultural and investor products impacted by falling volumes and prices, high input farming costs and difficulties raising funds in current markets.

Country risk

Policies are in place to assist in the management of Macquarie's country risk. Countries are grouped into categories based on the country's risk profile. Before any exposure is taken in a country which is considered to be higher risk, a full review of the economic, political and operating environment is undertaken to determine the level of exposure that is considered to be acceptable.

Ratio of Provisions and Impaired Assets to Loans, Advances and Leases



Note: Loan assets excludes securitisations, special purpose vehicles (including mortgage and lease securitisation vehicles) and segregated futures funds. Net impaired assets and net credit losses excludes investment securities. Please refer to note 13 of the Financial Report for further information on impaired assets

Operational Risk

Macquarie defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Macquarie has established procedures and controls to manage market, credit, reputation and strategic risks. The potential for failure or inadequacy in these procedures and controls would be classified as an operational risk. Operational Risk failures could lead to reputation damage, financial loss or regulatory consequences.

RMG is responsible for ensuring an appropriate framework exists to identify, assess and manage operational risk, and that resources are available to support it. It is also responsible for Macquarie's operational risk capital measurement methodology.

In general, changes in Macquarie's operational risk profile is the net result of greater innovation and growth and this is offset by constant gradual adaptation and matching of the control environment to the new risks.

Operational Risk Management Framework

Macquarie's Operational Risk Management Framework (ORMF) is designed to identify, assess and manage operational risks within the organisation. The key objectives of the framework are as follows:

- risk identification, analysis and acceptance
- execution and monitoring of risk management practices
- reporting and escalation of risk information on a routine and exception basis.

Businesses carry out elements of the ORMF in a manner that is tailored to their specific operational risk profile. However, to ensure consistency and minimum standards the framework includes the following mandatory elements:

- a robust change management process to ensure operational risks in new activities or products are identified, addressed and managed prior to implementation
- a semi annual operational risk self assessment (ORSA) process to identify operational risks at the business level, assess controls and develop action plans to address deficiencies
- recording of operational risk incidents into a centralised reporting system. Incidents are analysed to identify trends and establish lessons learnt on the effectiveness of controls
- allocation of operational risk capital to all Macquarie businesses as a tool to further encourage positive behaviour in Macquarie's day to day management of operational risk
- Macquarie-wide policies which require a consistent approach and minimum standards on specific operational risk matters
- embedded operational risk representatives in business units who act as delegates of the business manager. These representatives ensure operational risks are addressed appropriately and that the ORMF is executed within their area.

Macquarie's Operational Risk Capital Framework

Macquarie's framework for operational risk capital has two main elements:

- an annual scenario approach for modelling operational risk losses and to determine operational risk capital
- a quarterly scorecard analysis which is used to update operational risk capital between scenario analyses and as a basis for updating the allocation of capital to businesses.

Operational risk scenarios identify key risks that, while very low in probability, may result in very high impact losses. In identifying the potential for such losses consideration is given to individual statistical distribution for each scenario, external loss data, internal loss data, risk and control factors determined by the operational risk self assessments, and the contribution of expert opinion from businesses. Results are then modelled to determine the operational risk component of regulatory capital required to be held by Macquarie at the 99.9th percentile level. Monte Carlo techniques are used to aggregate these individual distributions to determine a Macquarie-wide operational risk loss distribution.

Over time new business activity, business growth, and significant changes in activity are reflected in:

- new or revised loss scenarios; and/or
- revised loss probabilities.

Macquarie allocates capital to individual businesses. The capital allocation effectively rewards positive risk behaviour, and penalises increased risks. This is done using scorecards which measure changes in a number of key factors such as the size and complexity of the business, risk and control assessments, incident and exception management and governance. Quantitative statistics on detailed metrics are applied to predefined weightings and formulas to calculate a quarterly percentage change in that business's capital charge.

The quarterly change in the sum of divisional capital is also used as an estimate to update the Macquarie capital requirement between annual assessments.

Risk Management Report
continued

Market risk

Market risk is the exposure to adverse changes in the value of Macquarie's trading portfolios as a result of changes in market prices or volatility. Macquarie 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: changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins
- equities: changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity
- commodities and energy: changes in the price and volatility of base metals, agricultural commodities and energy products

and to the correlation of market prices and rates within and across markets.

It is recognised that all trading activities contain calculated elements of risk taking. Macquarie is prepared to accept such risks provided they are independently and correctly identified, calculated and monitored by RMG, and reported to senior management on a daily basis.

Trading market risk

RMG monitors positions within Macquarie according to a limit structure which sets limits for all exposures in all markets. Limits are applied at a granular level to individual trading desks and also, through increasing levels of aggregation to divisions and, ultimately, Macquarie. This approach removes the need for future correlations or scenarios to be precisely predicted as all risks are stressed to the extreme, and accounted for within the risk profile agreed for each business and Macquarie in aggregate.

Despite historically high volatility and declining liquidity of global markets during the last twelve months, the shocks stipulated in market risk scenarios for price, volatility and business specific risks were typically greater than observed daily movements.

Limits are approved by senior management with appropriate authority for the size and nature of the risk, and remain the ultimate responsibility of the business. Macquarie adheres to a 'no limits, no dealing' policy. If a product or position has not been authorised by RMG, then it cannot be traded. Material breaches of the approved limit structure are communicated monthly to the Boards.

RMG sets three complementary limit structures:

- Contingent Loss Limits: Worst case scenarios that shock prices and volatilities by more than has occurred historically. Multiple scenarios are set for each market to capture the non-linearity and complexity of exposures arising from derivatives
- Position Limits: volume, maturity and open position limits are set on a large number of market instruments and securities in order to constrain concentration risk and to avoid the accumulation of risky, illiquid positions
- Value at Risk (VaR) Limits: statistical measure that determines the potential loss in trading value at both a business and aggregate level.

The risk of loss from incorrect or inappropriate pricing and hedging models is mitigated by the requirement for all new pricing models to be independently tested by the specialist Quantitative Applications Division within RMG.

Aggregate measures of market risk

Aggregate market risk is constrained by two risk measures, VaR and the Macro-Economic-Linkages (MEL) stress scenarios. The VaR model predicts the maximum likely loss in Macquarie's trading portfolio due to adverse movements in global markets over holding periods of one and ten days. The MEL scenario utilises the contingent loss approach to capture simultaneous, worst case movements across all major markets. Whereas MEL focuses on extreme price movements, VaR focuses on unexceptional changes in price so that it does not account for losses that could occur beyond the 99 per cent level of confidence. For this reason, stress testing remains the predominant focus of RMG as it is viewed to be the most effective mechanism to reduce Macquarie's exposure to unexpected market events.

Macro-Economic-Linkages

MEL calculates Macquarie's total market risk exposure to global market stress test scenarios extrapolated from historical crisis events and global market correlations. Each stress test scenario includes a primary shock to either equity, foreign exchange or interest rate markets as well as cross-market effects in corporate margins, metals and commodities. MEL is Macquarie's preferred internal measure of aggregate market risk because of the severity of the shocks applied and the ability for scenarios to develop with changing market dynamics. MEL is monitored and reported to senior management daily and regularly reviewed by RMG to ensure the measure remains appropriate for changing market conditions and the risks to which Macquarie is exposed.

The past 12 months have seen continued deteriorations across global markets as concerns over the longevity of financial institutions and fears of a global recession created significant volatility and reduced liquidity in all markets. The 'Market Contagion' scenario, typically the most conservative of the MEL stress test scenarios, effectively constrained these risks by measuring the impact of an equity market crash of 20 to 35 per cent as well as additional shocks to foreign exchange, metals, interest rate, energy, agricultural commodity and credit markets.

The "Market Contagion" scenario accounts for all the significant markets to which Macquarie is exposed. The assumptions in this scenario are considerably more severe than the conditions that have prevailed in the recent period of market volatility. Macquarie's exposure to the 'Market Contagion' stress test scenario remained low throughout the financial year. The average exposure to this stress test represents less than 2% of total equity.

Value at Risk

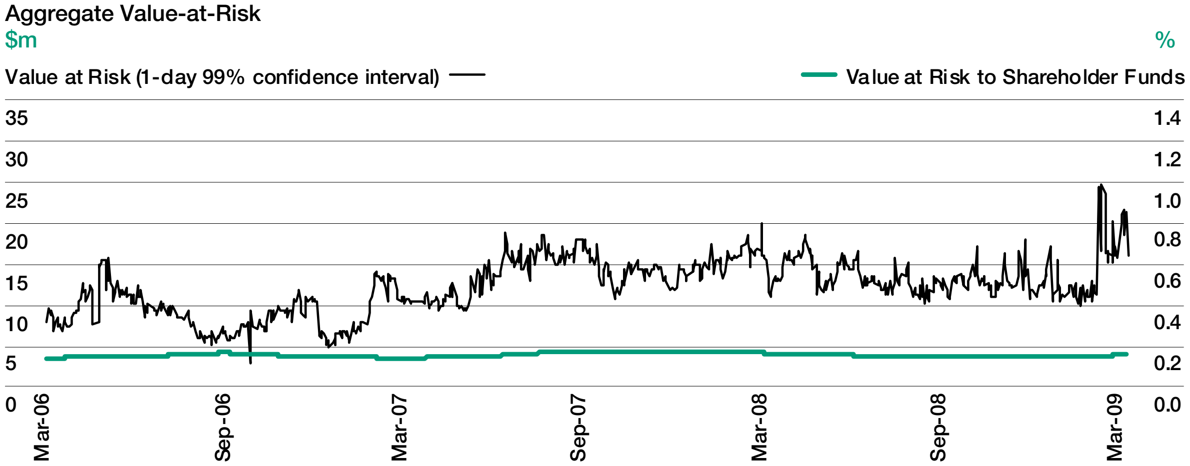
VaR provides a statistically based summary of overall market risk in Macquarie. It is affected by changes in market volatility and correlations and enhancements to the model. The integrity of the VaR model is tested regularly against daily profit and loss.

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths for approximately 1400 benchmarks, using volatilities and correlations based on three to ten years of historical data. Emphasis is placed on more recent market movements to more accurately reflect current conditions. Each benchmark represents an asset at a specific maturity, for example one year crude oil futures or spot gold. The benchmarks provide a high level of granularity in assessing risk, covering a range of points on yield curves and forward price curves, and distinguishing between similar but distinct assets; for example crude oil as opposed to heating oil, or gas traded in different locations. Exposures to individual equities within a national market are captured by specific risk modelling incorporated directly into the VaR model.

Despite volatile market conditions, VaR generally decreased throughout the financial year as trading businesses deliberately reduced risk-taking positions. In early March 2009, VaR increased, largely due to increased activity in natural gas markets resulting from the acquisition of Constellation Energy, increased client activity in response to the current gold price and continued activity in a range of other markets.

Historically, market risk, as measured by VaR, has been modest in comparison to capital and earnings and stable as a percentage of capital. The graph below shows the daily VaR and the six month average VaR as a percentage of total equity.

Aggregate Value-at-Risk



Risk Management Report
continued

Value-at-Risk figures for year ended 31 March

	2009 Average $m	**2009 Maximum $m**	**2009 Minimum $m**	2008 Average $m	2008 Maximum $m	2008 Minimum $m
Equities	5.79	16.41	3.27	7.45	15.30	4.37
Interest rates	5.25	10.04	2.52	3.22	5.51	2.12
Foreign exchange and bullion	5.00	14.97	1.49	3.15	7.77	1.25
Commodities and energy	9.03	17.04	0.20	10.80	17.70	3.73
Aggregate	13.01	24.17	9.28	13.55	19.54	8.69

Trading Revenue

The effectiveness of Macquarie's risk management methodology can be measured by Macquarie's daily trading results. Particularly during periods of highly volatile market activity, as witnessed throughout the past year; the small quantity and magnitude of daily losses incurred by Macquarie is indicative both of an effective risk management framework and business operations focused on servicing client needs.

Macquarie's market risk trading activities are based on earning income from spreads, franchise businesses and client flows. The client franchise activities necessarily involve principal position taking although income from outright proprietary trading activity is minor.

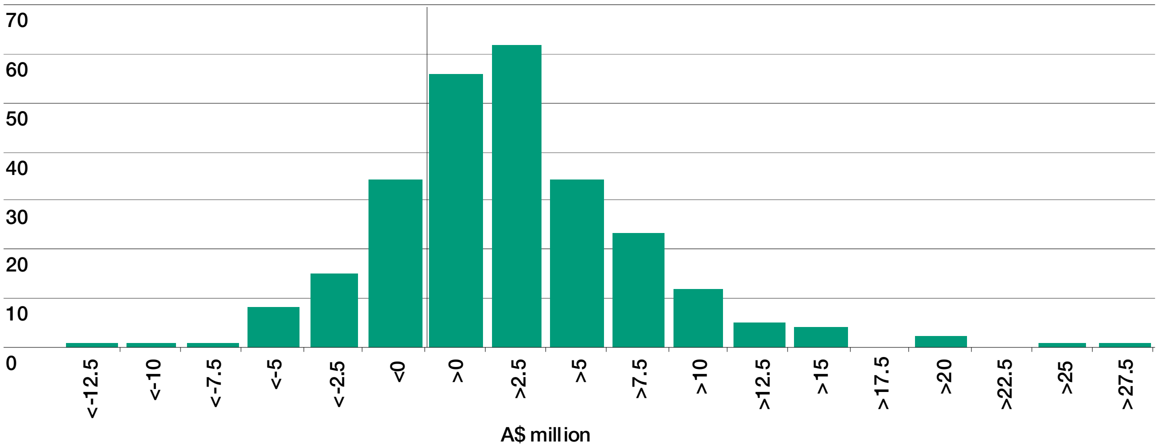
The focus on customer flow has shown consistent profits and low volatility in trading results whilst allowing growth in those markets where significant gains can be realised. This is evident in the histogram below which shows that Macquarie made profit on 200 out of the 260 trading days.

Non-Trading market risk

Macquarie also has exposure to non-traded interest rate risk, generated by banking products such as loans and deposits. Interest rate exposures, where possible, are transferred into the trading books of Group Treasury and managed under market risk limits. However, some residual interest rate risks remain in the banking book due to factors outside the interest rate market, or due to timing differences in accumulating exposures large enough to hedge. These residual risks in the banking book are not material but are nevertheless monitored and controlled by RMG and reported to senior management regularly.

Daily trading profit and loss

Number of days



Economic capital

Macquarie has developed an economic capital model that is used to quantify Macquarie's aggregate level of risk.

The economic capital framework complements the management of specific risk types such as equity, credit, market and operational risk by providing an aggregate view of the risk profile of Macquarie.

The economic capital model is used to support business decision-making, and has three main applications:

- capital adequacy assessment
- risk appetite setting
- risk-adjusted performance measurement.

Capital adequacy assessment

Macquarie assesses capital adequacy for both Macquarie Group Limited and Macquarie Bank Limited. In each case, capital adequacy is assessed on a regulatory basis and on an economic basis, with capital requirements assessed as follows:

	Economic	Regulatory
Macquarie Bank Limited	Internal model, covering just exposures of the Banking Group	Capital to cover risk-weighted assets and regulatory deductions, according to APRA's banking prudential standards
Macquarie Group Limited	Internal model, covering all exposures of Macquarie	Bank regulatory capital requirement as above plus economic capital requirement of the Non-Banking entities

Economic capital adequacy means an internal assessment of capital adequacy, designed to ensure Macquarie has sufficient capital to absorb all but the most extreme losses, thereby providing creditors with the required degree of protection.

Potential losses are quantified using the Economic Capital Adequacy Model (ECAM). These potential losses are compared to the capital resources available to absorb loss, consisting of book equity and eligible hybrid equity. Earnings are also available to absorb losses, however only a fraction of potential earnings is recognised as a buffer against losses.

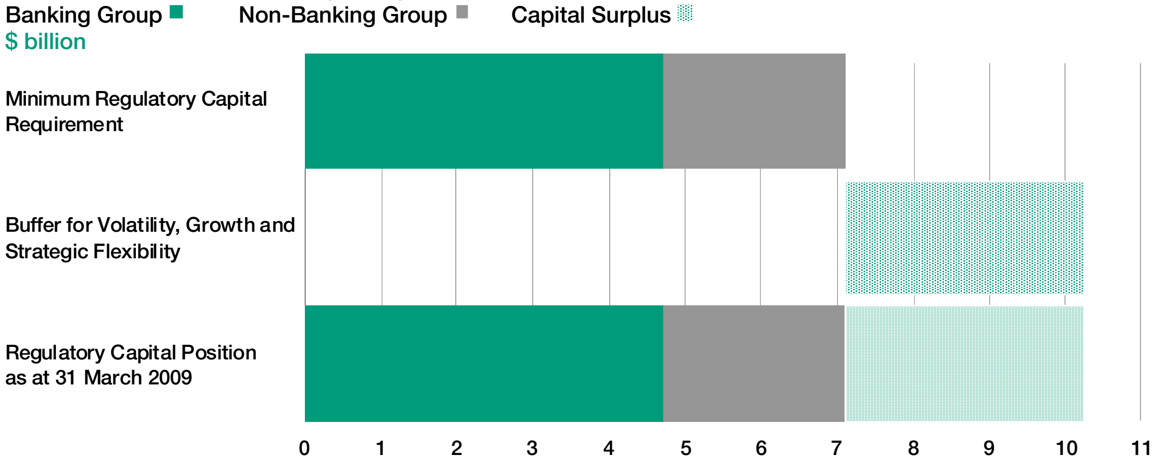
The ECAM quantifies the following types of risk:

- equity risk
- credit risk
- operational risk
- traded market risk

It also measures the risk of decline in value of assets held as part of business operations, e.g. fixed assets, goodwill, capitalised expenses and certain minority stakes in associated companies or stakes in joint ventures as well as non-trading interest rate risks.

The overall regulatory capital requirement of the non-banking entities within Macquarie agreed with the Australian Prudential Regulation Authority (APRA) is determined by the ECAM, as noted in the preceding table. The regulatory capital adequacy of Macquarie as at March 2009 is set out below.

Macquarie Group Limited – Regulatory capital position 31 March 2009



Risk Management Report
continued

Macquarie is currently well capitalised – a substantial regulatory capital surplus exists. An element of this surplus is set aside as a buffer against volatility in the drivers of capital adequacy. The remaining surplus is available to support growth and provide strategic flexibility. Capital raisings in 2006, 2007 and 2008, significant retained earnings and the contributions of dividend reinvestment plans and other schemes have contributed to the strong capital position.

The Tier 1 and total capital ratios for the Banking Group as at 31 March 2009 were 11.4 per cent and 14.4 per cent respectively.

The capital adequacy results are reported to Board and senior management on a regular basis, together with projections of capital adequacy under a range of scenarios.

Risk appetite setting

Macquarie's risk appetite is expressed through the risk limit framework. This consists of the specific risk limits given to various businesses and products or industry sectors and also a Global Risk Limit which constrains the aggregate level of risk. The Global Risk Limit is set to protect earnings and ensure we emerge from a downturn with sufficient capital to operate.

Aggregate risk is broken down into two categories:

- *Business risk*, meaning decline in earnings through deterioration in volumes and margins due to market conditions
- *Potential losses*, meaning potential credit losses, write-downs of equity investments, operational risk losses and losses on trading positions.

Potential losses are quantified using a version of the economic capital model.

Business risk is captured via a Macquarie-wide scenario analysis process that produces an assessment of earnings capacity in a severe downturn scenario.

In the Risk Appetite Test, potential losses are compared to the underlying earnings. Macquarie is likely to generate even in a severe downturn plus surplus regulatory capital.

A principal use of the risk appetite test is in setting the Equity Risk Limit (ERL). This limit constrains Macquarie's aggregate level of risk arising from principal equity positions, managed fund holdings, property equity investments, lease residuals and other equity investments. Any increases in the ERL are sized to ensure that even under full utilisation of this limit, and allowing for growth in other risk types, the requirements of the Risk Appetite Test will be met.

Risk-adjusted performance measurement

At Macquarie, proposals for all significant new deals, products and businesses must contain an analysis of risk-adjusted returns, using methodology set out by RMG. These returns are considered together with other relevant factors by the Executive Committee and Board in assessing these proposals and thus are one element of discipline in the risk acceptance process.

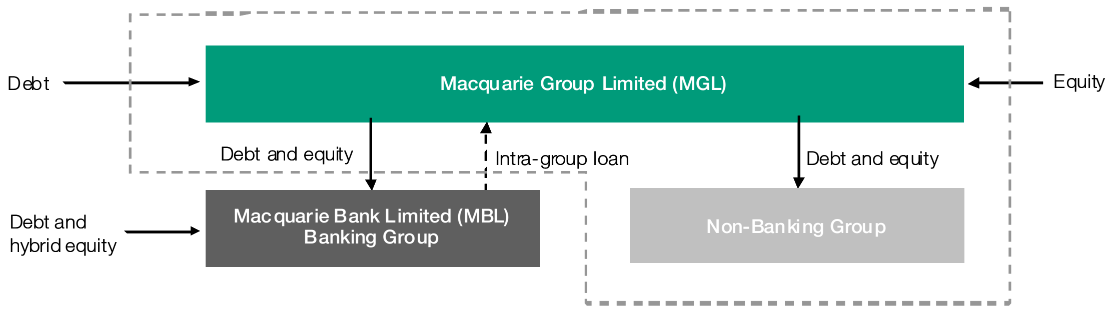
Risk-adjusted performance metrics for each business unit are prepared on a regular basis and distributed to Operations Review Committee and the Board as well as to business units. Risk-adjusted performance metrics for each business unit are a significant input into performance based remuneration.

Liquidity Risk

Liquidity management

The two primary external funding vehicles for Macquarie are Macquarie Group Limited (MGL) and Macquarie Bank Limited (MBL). MGL provides funding principally to the Non-Banking Group and limited funding to some MBL Group subsidiaries. MBL provides funding to the Banking Group and as part of Macquarie's restructure provides an intra-group loan to MGL.

The high level funding relationships of Macquarie are shown below:



Macquarie's liquidity risk management framework ensures that both MGL and MBL are able to meet their 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 MGL and MBL Board and RMG. MGL Group and MBL Group's liquidity policies are approved by their respective 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 and Principles

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its repayment obligations for the next 12 months with no access to funding markets.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding. MGL has no short term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its repayment obligations for the next 12 months through a period of constrained access to wholesale funding markets.

MBL is funded mainly by capital, long term liabilities and deposits.

The liquidity management principles apply to both MGL and MBL and include the following:

Liquidity and Funding Management

- All liquidity requirements are managed centrally by Group Treasury
- Liquidity risk is managed through setting limits on the maturity profile of assets and liabilities
- A Liquidity Contingency Plan is approved by the Board and reviewed periodically
- A funding plan is prepared annually and the funding position is monitored throughout the year
- Diversity and stability of funding sources is a key priority.

Liquidity Limits

- Term assets must be funded by term liabilities
- Cash and liquid assets are sufficient to cover a twelve month stress scenario
- Cash and liquid assets held to meet stress scenarios must be unencumbered, high quality liquid assets and cash
- Short term assets exceed short term wholesale liabilities.

Scenario Analysis

Scenario analysis is central to Macquarie's 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 MGL and MBL's ability 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.

Risk Management Report
continued

Liquid asset holdings

Group Treasury maintains a portfolio of highly liquid unencumbered assets in both MGL and MBL to ensure adequate liquidity is available in all funding environments, including worst case conditions. The minimum liquid asset requirement is calculated from scenario projections and also complies with regulatory minimum requirements.

To determine the minimum level of liquid assets, reference is made to the expected minimum cash requirement during a combined market-wide and firm-specific crisis scenario over a twelve month timeframe. This scenario assumes no access to new funding sources, a significant loss of deposits and contingent funding outflows resulting from 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.

The liquid asset portfolio contains only unencumbered assets that can be relied on to maintain their liquidity in a crisis scenario. At least 90% of the liquid assets portfolio must be repo eligible with a central bank. The remaining 10% must be approved by Group Treasury and RMG before inclusion in the liquid asset portfolio. As at 31 March 2009, 97% of the liquid asset portfolio was eligible for repurchase with central banks.

The liquid asset portfolio typically includes unencumbered cash and central bank repo eligible Government, Semi-Government, Supranational, government guaranteed bank and unguaranteed bank securities and AAA rated Australian residential mortgage backed securities. In addition, the portfolio includes other very short dated, high quality liquid assets such as A-1+ rated Australian residential mortgage backed commercial paper.

The liquid asset portfolio is largely denominated and held in Australian dollars and to a lesser extent in US dollars or other currencies where appropriate.

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 Macquarie. 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.

Credit ratings

Credit ratings at 31 March 2009 are detailed below.

	Macquarie Group Limited			Macquarie Bank Limited		
	Short-term rating	**Long-term rating**	**Long-term rating outlook**	**Short-term rating**	**Long-term rating**	**Long-term rating outlook**
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Services	P-1	A2	Negative	P-1	A1	Negative
Standard and Poor's	A-2	A-	Negative	A-1	A	Negative

Legal and compliance risk

Macquarie actively manages legal and compliance risks to its businesses. Legal and compliance risks include the risk of breaches of applicable laws and regulatory requirements, actual or perceived breaches of obligations to clients and counterparties, unenforceability of counterparty obligations and the inappropriate documentation of contractual relationships.

Each of Macquarie's businesses is responsible for developing and implementing its own legal risk management and compliance procedures. RMG assesses compliance risk from a Macquarie-wide perspective and works closely with legal, compliance and prudential teams throughout Macquarie to ensure compliance risks are identified and appropriate standards are applied consistently to manage these compliance risks. The development of new businesses and regulatory changes, domestically and internationally, are key areas of focus within this role.

RMG performs an oversight role to the divisional compliance staff to ensure appropriate standards are adhered to.

Reputational risk

All activities have elements of reputation risk embedded. Managing reputation risk is an essential role of senior management as it has the potential to impact earnings and access to capital. Macquarie seeks to manage and minimise reputation risk through its corporate governance structure and risk management framework.

Macquarie operates under a strong corporate governance structure consistent with the regulatory requirements of various regulators including the Australian Securities & Investments Commission (ASIC) and APRA. Goals and Values incorporating a clear code of ethics are communicated to all staff and Integrity Officers are in place to deal with potential issues of integrity.

Business units take ownership of risk, including reputation risk. In addition, a robust, independent risk management framework incorporates active management and monitoring of risks arising within Macquarie. The implementation of this framework by RMG is a major mitigant to reputation risk.

The various policies, procedures and practices in place aim to minimise reputation risk and regular reporting to the Executive Committees and Boards includes detail on reputational risk issues as appropriate.

The direct losses arising from reputational risk (such as loss of mandates and regulatory fines) are taken into account in the operational risk capital model.

Internal Audit

Internal Audit provides independent assurance to senior management and the Board on the adequacy and effectiveness of Macquarie's financial and risk management framework. Internal Audit forms an independent and objective assessment as to whether risks have been adequately identified, adequate internal controls are in place to manage those risks and those controls are working effectively. Internal Audit is independent of both business management and of the activities it reviews. The Head of Internal Audit is jointly accountable to the BACC and the Head of RMG and has free access at all times to the BACC.

Basel II

Macquarie Bank is accredited under the Foundation Internal Ratings Based Approach ('FIRB') for credit risk, the Advanced Measurement Approach ('AMA') for operational risk, the internal model approach for market risk[1] and the internal model approach for interest rate risk in the banking book.

These advanced approaches place a higher reliance on a bank's internal capital measures and therefore require a more sophisticated level of risk management and risk measurement practices.

[1] Standard approach applied for specific risk on debt securities

Directors' Report
for the financial year ended 31 March 2009

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

Directors

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

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

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

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

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

(2) Mr Moore was appointed to the Board in February 2008 and assumed the roles of Managing Director and Chief Executive Officer on 24 May 2008 upon Mr A.E. Moss' retirement.

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

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

Mr A.E. Moss was Managing Director and Chief Executive Officer from the beginning of the financial year until his retirement on 24 May 2008.

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

Directors' meetings

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

Board meetings

	Monthly Board meetings (12)		Special Board Meetings (8)	
	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke[(1)]	12	7	8	5
N.W. Moore	12	12	8	8
L.G. Cox	12	12	7	6
P.M. Kirby	12	12	8	7
C.B. Livingstone	12	11	8	8
H.K. McCann	12	12	8	8
J.R. Niland	12	12	8	7
H.M. Nugent	12	12	8	8
P.H. Warne	12	12	8	7
A.E. Moss[(2)]	1	1	1	1

Board committee meetings

	Board Audit and Compliance Committee meetings (8)		Board Corporate Governance Committee meetings (4)		Board Nominating Committee meetings (3)		Board Remuneration Committee meetings (8)		Board Risk Committee meetings (4)	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
D.S. Clarke[(1)]	-	-	-	-	3	1	8	4	4	2
N.W. Moore	-	-	-	-	-	-	-	-	4	4
L.G. Cox	-	-	-	-	-	-	-	-	4	4
P.M. Kirby	8	8	4	4	-	-	-	-	4	4
C.B. Livingstone	8	8	-	-	3	3	-	-	4	3
H.K. McCann	8	7	4	4	2	2	4	2	4	4
J.R. Niland	-	-	4	4	-	-	8	8	4	4
H.M. Nugent	-	-	-	-	3	3	8	8	4	4
P.H. Warne	8	8	-	-	-	-	8	8	4	4

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

(2) Mr Moss retired as Managing Director and Chief Executive Officer on 24 May 2008.

There were two Board Sub-Committee meetings to review and then approve the issue of Macquarie Convertible Preference Securities. The first meeting was attended by all of its members, being Mr Clarke, Mr Moss, Mr Cox, Mr Moore, Mr Kirby, Ms Livingstone, Mr McCann, Dr Niland and Mr Warne. The second meeting was also attended by all of its members, being Mr Clarke, Mr Moore, Mr Cox, Mr Kirby, Dr Niland and Mr Warne.

There was a special purpose Board Sub-Committee to approve certain public statements. This Sub-Committee comprised of Mr McCann, Ms Livingstone and Mr Moore and met twice with all members in attendance.

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

Principal activities

The principal activity of the Company during the financial year ended 31 March 2009 was to act as a non-operating holding company (NOHC) for the consolidated entity. The activities of the consolidated entity were those of a financial services provider of banking, financial, advisory, investment and funds management services. In the opinion of the 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 2009 and 31 March 2008, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated profit from ordinary activities after income tax attributable to ordinary equity holders for the financial year ended 31 March 2009 was $871 million (2008: $1,803 million).

Dividends and distributions

Subsequent to year end, the Directors have announced a final ordinary dividend of $0.40 per share franked at 60 per cent, in relation to the financial year ended 31 March 2009. The final ordinary dividend is payable on 3 July 2009.

On 30 January 2009 the Group paid an interim ordinary dividend of $1.45 per share ($410 million in aggregate) in respect of the financial year ended 31 March 2009.

On 4 July 2008 the Group paid the final dividend of $2.00 per share ($552 million in aggregate) in respect of the financial year ended 31 March 2008.

The final dividend declared of $0.40 per share brings the total dividends for the year to $1.85 per share, and the dividend payout ratio to 60 per cent, consistent with the previously stated policy.

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

State of affairs

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

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

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

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 after-tax profit attributable to ordinary equity holders of the consolidated entity for the year ended 31 March 2009 was $871 million, a decrease of 52 per cent from $1,803 million in the previous year.

The effective tax rate for the year of 1.7 per cent is also well down on the prior year. Whilst the level of permanent differences on underlying income has been relatively consistent with the prior year, significant impairment charges on equity investments recognised in the year to 31 March 2009 has reduced profit before tax, resulting in a significant reduction in the overall effective tax rate.

Earnings per share were $3.10 for the year, a decrease of 54 per cent from $6.71 in the prior year.

Return on equity for the year to 31 March 2009 was 9.9 per cent, down from 23.7 per cent for the prior year. The decrease in the current year result combined with capital growth initiatives in recent years are the main drivers. In July 2008 Macquarie further increased its regulatory capital base through the $600 million issue of Macquarie Convertible Preference Securities (Macquarie CPS).

Net operating income for the year to 31 March 2009 was $5,526 million, a 33 per cent decrease on the prior year. Reasonable corporate finance deal flow, and increased contribution from energy markets particularly US gas and electricity trading were offset by a significant decline in Macquarie Securities and retail broking income, especially in the second half of the year as global equity markets were severely impacted.

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

Income from asset and equity investments was a net loss for the year to 31 March 2009 due to a significant decrease in asset realisations during the year combined with equity accounted losses and an increase in impairments on equity investments.

Assets under management at 31 March 2009 were $243 billion, a 5 per cent increase since March 2008. Although assets under management have shown an overall net increase, the result was largely due to the weakening of the Australian dollar against major global currencies, which in turn increased the value of assets under management denominated in foreign currencies. This increase offset reductions in assets under management in non-specialist funds as falling equity indices impacted the values of listed securities, especially those funds managed by Macquarie Funds Group. Consequently, base management fees were marginally down on the prior year. Performance fees were down 39 per cent on the prior year, from $384 million to $234 million.

During the year Macquarie sold the majority of its Italian Mortgages portfolio, recognising a loss on the sale of $189 million in addition to operating losses and other restructuring and redundancy costs for the business.

International income amounted to 52 per cent of Macquarie's total operating income for the year to 31 March 2009.

Operating expenses were down 25 per cent on the prior year to $4,537 million. Employment expenses, the largest contributor to operating expenses, were down 44 per cent on the prior corresponding period to $2,359 million. The decrease in employment expenses was primarily driven by lower performance-related profit share. The overall compensation ratio reduced from 47.0 per cent in the prior year to 40.7 per cent for the year to 31 March 2009.

The expense to income ratio for the year to 31 March 2009 was 82.1 per cent, up from 73.3 per cent in the prior year. The expense to income ratio has been adversely impacted by the significant impairment charges recognised in the current year.

Additional information, including discussion and analysis relating to each of Macquarie's operating Groups' performance, is set out in the Chairman's and Managing Director's Report in the Annual Report on pages 4-9.

Review of financial position

Macquarie's liquidity risk management framework operated effectively throughout the year ensuring funding requirements were met and sufficient liquidity was maintained, despite the challenging credit market conditions. Cash and liquid assets increased from $21 billion at 31 March 2008 to $30 billion at 31 March 2009. Cash and liquid asset holdings now represent over 40 per cent of Macquarie'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.

As an Australian Prudential Regulation Authority (APRA) authorised and regulated NOHC, Macquarie is required to hold adequate regulatory capital to cover the risks for the whole Macquarie Group, including the Non-Banking Group. APRA is still developing its policy framework for supervising NOHCs. Macquarie and APRA have agreed an interim capital adequacy framework for Macquarie, based on Macquarie's Board-approved Economic Capital Model and APRA's capital standards for ADIs. This will apply until APRA's capital rules for NOHCs are finalised and implemented.

Macquarie's capital adequacy framework requires it to maintain minimum regulatory capital requirements ('Level 3 MCR') calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of risk weighted assets (RWAs) plus Tier 1 deductions (using prevailing APRA ADI Prudential Standards);
- The Non-ADI Group capital requirement, using Macquarie's Economic Capital Adequacy Model adjusted for the capital impact of transactions internal to the Macquarie Group.

The consolidated entity has satisfied its externally imposed capital requirements throughout the year. At 31 March 2009, the Macquarie Bank consolidated entity had a Tier 1 Capital Ratio of 11.4 per cent and a total capital ratio of 14.4 per cent. The Macquarie consolidated entity remains well capitalised with $3.1 billion of eligible capital in excess of the Level 3 MCR.

Events subsequent to balance date

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

Likely developments in operations and expected outcomes

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

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

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

Contents

Executive Summary

Macquarie's remuneration framework drives superior shareholder returns over the long-term by aligning the short and long-term interests of staff and shareholders, and by attracting and retaining high quality people. This approach, and its consistency over time, has contributed to Macquarie's growth in earnings, return on equity and resilience relative to peers in current market conditions.

Over previous years, this has led to strong shareholder returns. This year, the global financial crisis resulted in a disappointing deterioration in financial performance for shareholders. While Macquarie Group Limited (Macquarie) outperformed peers to report a profit for the year, overall performance declined on prior years. Overall at risk remuneration declined accordingly.

The Macquarie Board (the Board) considers that Macquarie's remuneration approach helped drive outperformance in a difficult period. Long-term profit performance, return on equity and total shareholder return compared favourably with peers during a period in which several international investment banks and global financial institutions failed or reported significant losses.

The global financial crisis has resulted in remuneration practices, particularly in the financial services industry, coming under closer scrutiny from governance groups, regulators, governments, politicians and the broader community. Macquarie's existing remuneration practices measure up well against the changes generally recommended by these groups. Nonetheless, Macquarie proposes to adapt its remuneration approach consistent with emerging global trends.

In March, the Board announced changes to Macquarie's remuneration arrangements, subject to shareholder approval at the July 2009 Annual General Meeting (AGM). The proposed changes reflect global remuneration and regulatory trends. The changes are also consistent with Macquarie's longstanding approach where staff profit share is linked to profitability and factors including contribution to profit, use of capital, funding and risk. The proposals expand on changes to remuneration introduced in 2008. Those changes included an increase in the portion of performance-based profit share deferred and allocated as equity for Executive Committee members, including the Managing Director and Chief Executive Officer.

Specifically, the Board proposes:

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

The foundation of Macquarie's remuneration structure will continue to emphasise performance-based remuneration, with an appropriate balance between short and longer-term incentives as well as risks. The proposed changes place an even greater emphasis on longer-term incentives. If adopted, the changes enhance the alignment of staff and shareholders' interests and Macquarie's ability to attract and retain high quality staff.

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

Fixed remuneration, in the form of base salary, is low relative to senior roles in other Australian corporations. This is still considered appropriate, encouraging executives to take a more performance-oriented approach. In 2009, fixed remuneration for Macquarie's nine Executive Committee members comprised, on average, only 13 per cent of total remuneration. This is higher than the proportion in 2008 due to lower profit share allocation. The remaining 87 per cent of their remuneration was entirely at risk.

Performance-based remuneration is truly variable. Performance-based profit share is allocated to businesses and, in turn, to individuals based on performance. Performance is primarily assessed as relative contribution to profits while taking into account capital usage and risk management. This results in businesses and individuals being motivated to increase earnings and use shareholder funds efficiently. In addition, other qualitative measures are used in assessing individual performance, such as: how business is done; risk management; governance and compliance; long-term sustainability; people leadership and adherence to Macquarie's Goals and Values. Staff are motivated to work co-operatively given their profit share will reflect Macquarie's overall performance, the relative performance of their business and their individual contribution.

The Board and management seek to ensure remuneration for staff in prudential roles (including the Chief Risk Officer) preserves the independence of the function and maintains Macquarie's robust risk management framework.

Outcomes of using net profit after tax (NPAT) and return on equity (ROE) as drivers of performance are that:

– for a given level of NPAT, other things being equal, total profit share is less if more capital is used to generate it
– for a given level of capital employed, total profit share rises or falls with NPAT. Macquarie's total profit share pool increases with performance and no maximum ceiling is imposed. This aligns staff and shareholders' interests and provides the strongest incentive to staff to continuously strive to maximise long-term profitability.

Profit share is delivered in ways that encourage a longer-term perspective, alignment with shareholders' longer-term interests and staff retention. In turn, this encourages staff to maximise profit without exposing Macquarie to risk or behaviours that jeopardise long-term profitability or reputation.

Currently, the Managing Director and Chief Executive Officer and other Executive Committee Members have 20 per cent of each annual profit share allocation retained for 10 years, subject to vesting and forfeiture conditions. It is notionally invested in an investment portfolio of Macquarie-managed fund equity. An additional 20 per cent (35 per cent for the Managing Director and Chief Executive Officer) of profit share is invested in Macquarie ordinary shares and retained for three years. All Executive Directors are required to hold the deemed after-tax equivalent of 10 per cent of their profit share over the last five years, or ten years in the case of Executive Committee members, in Macquarie ordinary shares (for Executive Committee members this is satisfied by the shares held under the Executive Committee Share Plan).

Under the proposed changes, 50 per cent (55 per cent for the Managing Director and Chief Executive Officer) of each Executive Director's annual gross profit share allocation will be withheld and will vest from years three to seven, subject to restrictions. Retained amounts will be fully invested in a combination of Macquarie ordinary shares and Macquarie-managed fund equity to reflect an individual executive's responsibilities and to strengthen alignment with Macquarie and Fund securityholders' interests.

Options grants will be substantially reduced going forward. The Board considers retaining profit share and investing it in Macquarie ordinary shares to be the most effective way to deliver equity to staff in the current environment.

Executive Committee members are the only staff receiving options in 2009 and in the future. This addresses the issue of option dilution which has previously concerned some investors. Executive Committee options will continue to vest in three tranches after two, three and four years and may only be exercised if a challenging performance hurdle is met. The performance hurdle requires Macquarie's three year average return on ordinary equity to be above the 65th percentile of that measure for those companies in the S&P/ASX Index.

Macquarie prohibits staff from hedging:

– unvested options
– shares held to meet the minimum shareholding requirement
– shares held in the Executive Committee Share Acquisition Plan.

Hedging unvested retained profit share delivered in Macquarie ordinary shares will also be forbidden.

Executives are required to conduct trading in Macquarie ordinary shares only during designated trading windows.

Currently on leaving Macquarie, Executive Directors may receive their vested retained profit share (assuming there are no disqualifying events). Subject to regional variations, they may be entitled to other contractual or statutory payments, including notice, accrued service related benefits and/or pension or superannuation benefits. They may also exercise vested options for up to six months after termination. There are no other contractual termination entitlements.

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

The remuneration approach is managed via strong governance structures and processes. Conflicts of interest are managed proactively and assiduously. The Board Remuneration Committee (BRC) makes recommendations to the Non-Executive Directors of the Board on key decisions that have not been delegated to the Board Remuneration Committee.

Non-Executive Director fees are set in line with market rates for relevant Australian financial organisations and reflect the time commitment and responsibilities involved within the shareholder approved aggregate limit.

This overall approach to remuneration has contributed to strong shareholder returns over time.

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

Introduction

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

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Voting Directors. The Board has established the BRC which annually reviews the remuneration strategy to ensure it delivers the best outcomes for Macquarie and shareholders.

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

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

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

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

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

– financial information for Macquarie relating to the years ended 31 March 2006, 31 March 2007, 31 March 2008 and 31 March 2009 has been presented in accordance with Australian Accounting Standards equivalent to International Financial Reporting Standards (AIFRS)
– financial information for Macquarie 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 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 While overall performance declined, Macquarie is outperforming peers

The overarching goal of the remuneration framework is to drive superior shareholder returns over the long term. Macquarie's remuneration approach and its consistency over time have contributed to maximising growth in earnings and return on equity. Over previous years, this has led to strong shareholder returns.

The global financial crisis, unprecedented in Macquarie's history, is affecting firms globally, particularly those in financial services. Macquarie's performance over the year has deteriorated and shareholders have suffered through a significant decline in the value of their shares and a reduced final dividend. The Board believes that while overall performance declined as a result of the economic climate, Macquarie's remuneration approach has contributed to significant relative outperformance. The following tables and commentary provide further details.

Performance over past five years 2004-2009

	$	2004	2005	2006	2007	2008	**2009**	5 year Growth
Earnings								
Net profit after tax attributable to ordinary equityholders	millions	494	812	916	1,463	1,803	**871**	76%
Basic Earnings per Share	cents per share	233.0	369.6	400.3	591.6	670.6	**309.6**	33%
Return on equity								
Return on average ordinary shareholders' funds		22.3%	29.8%	26.0%	28.1%	23.7%	**9.9%**	
Total shareholder returns								
Dividend – Interim and Final	cents per share	122	161	215	315	345	**185**	52%
Dividend – Special	cents per share	–	40	–	–	–	**–**	
Share price at 31 March	$	35.80	48.03	64.68	82.75	52.82	**27.05**	(24)%
Annual Total Shareholder Return*	%	52.8	39.0	40.2	32.6	(33.6)	**(44.1)**	
Five-Year Total Shareholder Return							**(4)%**	
10 year Total Shareholder Return							**117%**	

* Throughout this Report, Total Shareholder Return (TSR) represents the accumulated share price return when all cash dividends are reinvested at the ex-dividend date.

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

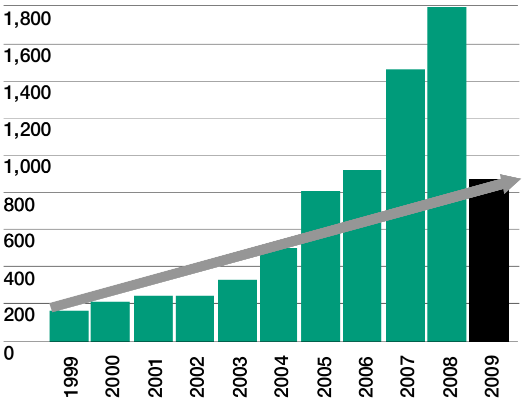
1.1 Overall performance has declined

While Macquarie has remained profitable amid unprecedented market volatility, overall performance declined on prior years.

NPAT grew strongly from 1999 to 2008. In 2009, NPAT fell from $1,803 million (2008) to $871 million. The 10-year compound annual growth rate is 18 per cent.

Net profit after tax attributable to ordinary equity holders
$ million

Growth: 428 %;
Ten year compound annual growth rate 18%



Similarly, while Macquarie's shareholder returns have historically outperformed the All Ordinaries Accumulation Index since listing, these returns have fallen sharply over the past two years.

1.2 Relative performance has been satisfactory

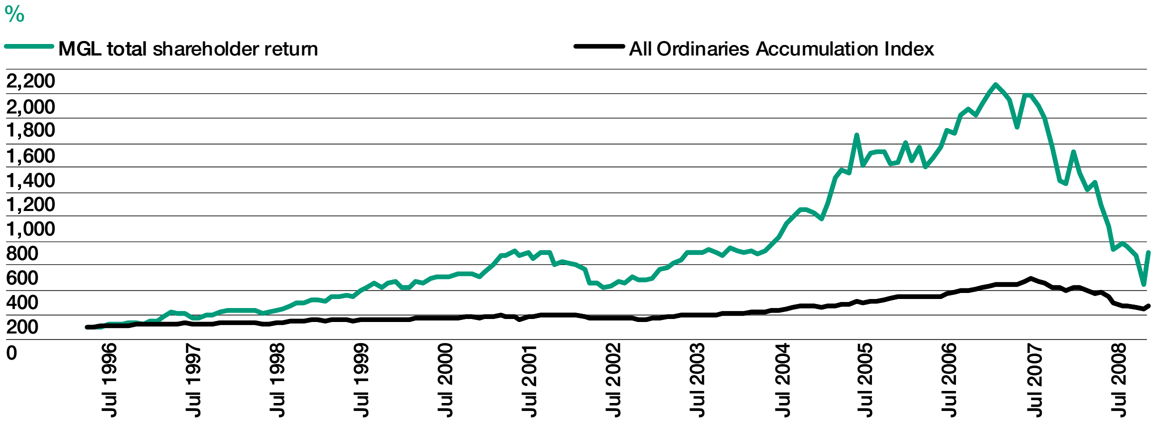
The global financial crisis began in 2007, accelerating in 2008 and into 2009 when share prices plunged and liquidity issues arose for many financial institutions throughout the world. Several of Macquarie's peers and other major US and European financial institutions faltered or failed, while other peers and major US and European financial institutions experienced significant losses.

While Macquarie's overall performance has declined, Macquarie outperformed all competitor peers on a relative basis.

Competitor comparisons are complicated by the distinct nature of Macquarie's business mix. It is difficult to determine which peers are appropriate for comparison purposes. Macquarie's business mix is a hybrid of international investment banks and private equity firms. Private equity firms, however, are not required to publicly disclose aggregate or individual remuneration details. As a result the best available comparisons are international investment banks, despite significant business mix differences.

Where possible, the same global investment banking competitor peer group as last year has been consistently used throughout the Remuneration Report for comparison purposes. This peer group comprises Babcock & Brown (to which a voluntary administrator has been appointed), Credit Suisse, Deutsche Bank, Goldman Sachs, Lehman Brothers (until 12 September 2008, the last day of trading prior to its collapse on 15 September 2008), Merrill Lynch, Morgan Stanley and UBS. As Bear Stearns is not able to be used this year since its collapse and subsequent acquisition by JP Morgan Chase, JP Morgan Chase has been included as a peer. Where appropriate, segment information has been used as disclosed throughout the Report. Competitor information is presented in the same order throughout the Report. Gaps are left in exhibits and tables where information for a particular competitor is not available or cannot be used for the particular measure in the chart.

Macquarie total shareholder return versus the All Ordinaries Accumulation Index
29 July 1996 to 31 March 2009



Indexed to 100 on 29 July 1996. The "*All Ordinaries Accumulation Index*" line in the above chart is based on the S&P/ASX 500 Accumulation Index from 31 March 2000. Prior to this, it was based on the All Ordinaries Accumulation Index. Macquarie TSR calculations here and throughout this Report assume continuous listing. Hence, they are based on Macquarie Bank Limited (ASX code: MBL) data up to and including 2 November 2007, the last day of trading of Macquarie Bank Limited shares, and Macquarie Group Limited (ASX code: MQG) data from the commencement of trading Macquarie Group Limited shares on 5 November 2007 onwards.

The table below shows competitors used in charts or tables in the Remuneration Report:

Table/Chart	Babcock & Brown	Bear Stearns	Credit Suisse	Deutsche Bank	Goldman Sachs	JP Morgan Chase	Lehman Brothers	Merrill Lynch	Morgan Stanley	UBS
Compensation ratio	×[d]	×[d]	✓	✓	✓	IB	×[d]	×[d]	✓	✓
NPAT 10 year growth table	×[a]	✓	✓	✓	✓	✓	✓	✓	✓	✓
NPAT 10 year growth chart	×[a] ×[c]	×[c]	×[b]	×[b]	✓	✓	×[c]	×[b]	✓	×[b]
ROE table	×[c]	×[c]	✓	✓	✓	✓	×[c]	✓	✓	✓
ROE chart	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
TSR since listing	×[a]	✓	✓	✓	×[a]	✓	✓	✓	✓	✓
Share utilisation	×[c]	×[c]	✓	✓	✓	✓	×[c]	✓	✓	✓

IB= Information based on the Investment Banking Segment (or equivalent) only (only possible where segment information is presented in sufficient detail).

a = Excluded because not available for 10 years.

b = Excluded because a loss made in the current year.

c = Excluded as information not publicly available. These companies are no longer extant entities.

d = Excluded for current year as information is either not publicly available for current year or not meaningful. In these cases, prior year data is included.

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

Overall, Macquarie outperformed relative to its peers on four key indicators of performance. The conclusions are as follows:

- Macquarie's compensation to expense ratio is lower than peers
- Macquarie's long-term NPAT is higher than peers
- Macquarie's ROE performance is higher than peers
- Although Macquarie's TSR has declined, it is higher than global peers.

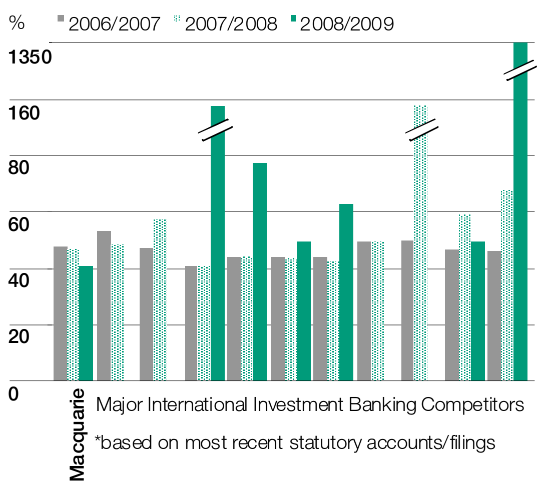
Each indicator is discussed below.

Macquarie's compensation to expense ratio is better than peers

One guideline used to evaluate overall remuneration levels is the organisation's compensation expense to income ratio (compensation ratio). The compensation ratio is widely used within the investment banking industry to broadly review comparative remuneration levels. **It is not, however, the basis on which Macquarie's profit share pool is created.**

Macquarie's compensation ratio is compared with that of a group of peers in the chart below. Given the recent turmoil in global financial services markets, information has been provided for the last three years (or two years in the case of Babcock & Brown, Bear Stearns and Lehman Brothers). Macquarie's analysis shows that its overall compensation ratio is lower than all of its peers for 2009. The lower ratio reflects the extraordinary market conditions of 2009. It is anticipated that Macquarie's compensation ratio will be more in line with historic levels in 2010.

Compensation ratio: 2007-2009*



* Competitors comprise Babcock & Brown, Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase (Investment Banking segment), Lehman Brothers, Merrill Lynch, Morgan Stanley and UBS.

Data has been calculated by Macquarie. The information is based only on publicly available information for the peer firms.

While the profit of a number of global peers over the past three years has declined significantly as a result of the global financial crisis, in some cases remuneration levels have remained high, as indicated by some of the comparator compensation ratios.

This compensation ratio analysis supports Macquarie's overall belief that its remuneration policies, including the approach to determining the profit share pool, operate in a manner that is related to profit (rather than revenue) and that they are sound.

However, while the compensation ratio effectively adjusts for differences in size between organisations, it is not an entirely satisfactory measure to use in assessing compensation levels because it does not take into account factors such as:

- differences in the business mix between comparator organisations
- performance differences between organisations, including such factors as capital usage and quality of earnings
- variations in accounting practices used by comparator organisations
- the extent of outsourcing activities
- differences in appetite to risk and assumptions made in regards to risk.

Long-term profit performance compares favourably

A second measure used to compare relative performance is long-term profit performance. Macquarie's analysis shows long-term profit performance is still favourable when compared with international peers. Because of losses incurred, the compound annual growth rate can only be calculated for three peer organisations.

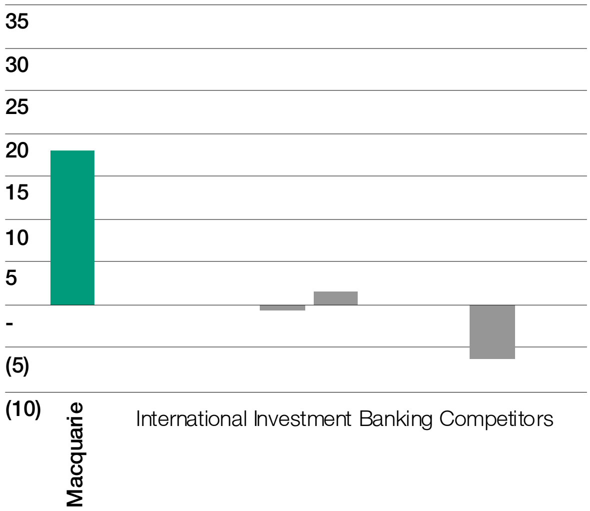
Peers relative 10 year Growth in Net Profit after Tax: 1999 - 2009

	Compound 10 year Annual Growth Rate %
Macquarie	18
Competitor	N/M
Competitor	N/M
Competitor	N/M
Competitor	<1
Competitor	2
Competitor	N/M
Competitor	N/M
Competitor	(7)
Competitor	N/M

* The N/M references above refer to where competitors have recorded a loss for the current year and the compound 10 year annual growth rate cannot be calculated.

** Competitors comprise Bear Stearns, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley and UBS.

Net profit after tax 10 year compound annual growth rate
Macquarie versus international investment banking competitors



* Competitors are Goldman Sachs, JP Morgan Chase and Morgan Stanley. Competitors which have been included in comparative analysis elsewhere in this Report (but which have not continuously reported results over 10 years or have reported a loss either 10 years ago or in the current year) have been excluded from this chart, i.e. Babcock & Brown, Merrill Lynch, Credit Suisse, Deutsche Bank and UBS. Bear Stearns and Lehman Brothers have also been excluded from this analysis as there is no profit information publicly available for the period of their operation.

Return on equity performance compares favourably

Macquarie's ROE over the past 10 years has been sustained at a high level, an average of 23.2 per cent. Despite a significant reduction in the past year, Macquarie's ROE remains higher than peers and generally less volatile than competitors over the same period.

Competitor return on equity over 10 years 1999-2009*
Macquarie versus international investment banking competitors

	Return on Ordinary Equity			
	1 year %	3 year Average %	5 year Average %	10 year Average %
Macquarie	9.9	20.6	23.5	23.2
Average of Competitors	(23.6)	(0.8)	5.3	10.3
Competitor	(21.8)	7.5	10.7	7.9
Competitor	(11.3)	8.8	9.6	10.7
Competitor	4.7	22.7	21.9	20.5
Competitor	3.8	9.9	8.7	10.4
Competitor	(156.5)	(53.5)	(26.0)	(5.2)
Competitor	5.1	12.8	14.5	18.3
Competitor	(60.0)	(14.7)	3.0	9.4

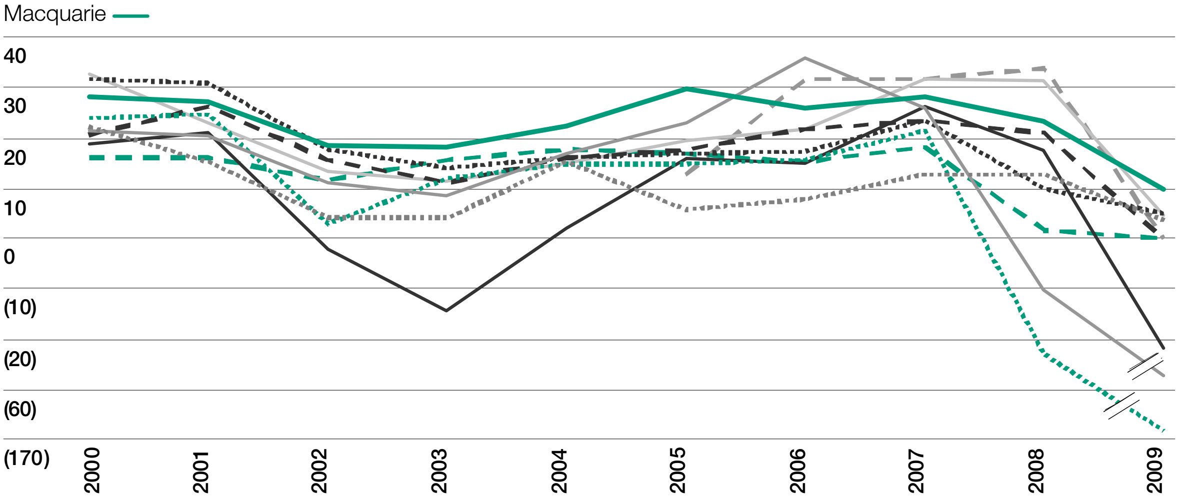
* Average of most recent 10 years, except in cases where 10 years of continuous data is not available for a competitor, in which case the longest time period for which continuous data is available for that competitor has been used.

Competitors comprise Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Merrill Lynch, Morgan Stanley and UBS. In previous years, Babcock & Brown, Bear Stearns and Lehman Brothers have been used in this analysis but these companies are no longer extant entities.

Source: Peer underlying data from Bloomberg.

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

10 Year return on ordinary equity
Macquarie versus international investment banking competitors

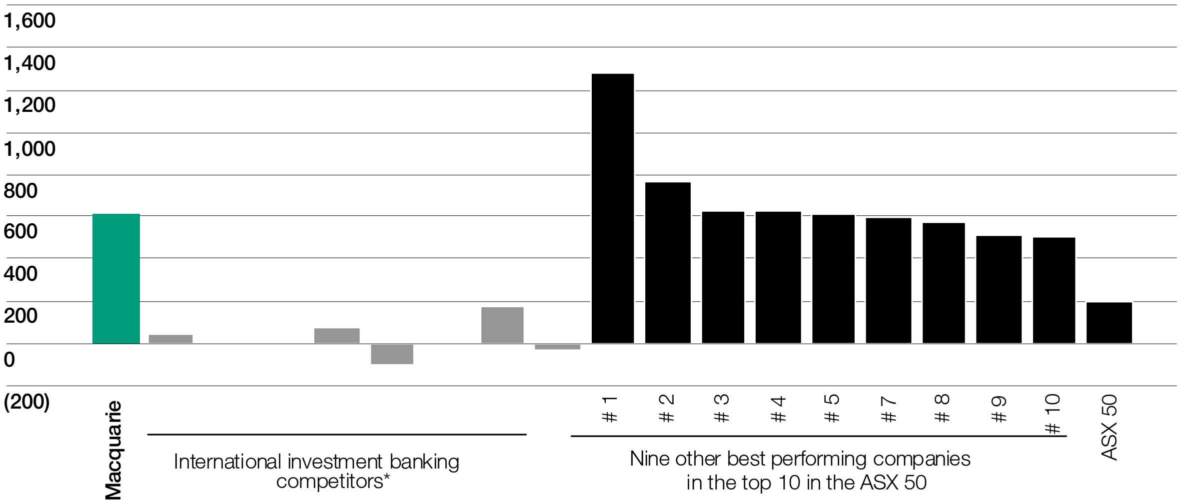


Total Shareholder Return compares favourably

Macquarie's shareholder returns over the long term have been positive and higher than international investment banking competitors, although the global financial crisis has disproportionately adversely affected stocks in the financial services market.

Total shareholder return since July 1996

Macquarie Group Limited, international investment banking competitors, other top performing ASX 50 companies



* International Investment Banking Competitors comprise Credit Suisse, Deutsche Bank, JP Morgan Chase, Lehman Brothers (up to 12 September 2008), Merrill Lynch, Morgan Stanley and UBS. Competitors which have been included in comparative analysis elsewhere in this Report but which have not been continuously listed since Macquarie Bank Limited's date of listing (29 July 1996) have been excluded from this chart, i.e. Babcock & Brown and Goldman Sachs.

1.3 Staff are motivated and focused on generating shareholder value

A key goal of Macquarie's remuneration arrangements is to attract, motivate and retain high quality people and ensure they are focused on generating shareholder value by remunerating them commensurate with their performance and Macquarie's overall performance. The Board's view is that Macquarie is still attracting and retaining the people it needs to meet its business goals and that taking into account overall profitability of Macquarie, they are being rewarded commensurate with their personal and the organisation's performance.

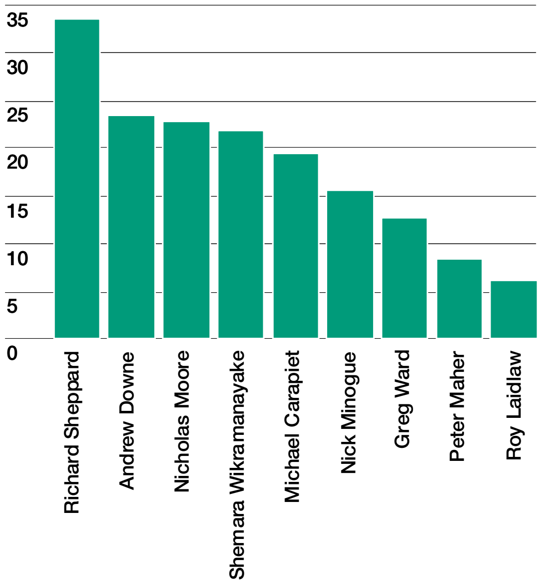
Macquarie attracting and retaining staff

Macquarie's remuneration arrangements have allowed Macquarie to attract, motivate and retain high quality people.

The global financial crisis has had a significant impact on financial institutions' staffing levels, with significant staff reductions being recently announced. While Macquarie has not been immune from this trend, in most areas, Macquarie has not experienced the same level of reductions as other global financial institutions. Businesses across Macquarie have reviewed their staffing levels. Some low return businesses have been exited and other businesses have merged, which has also had an impact on staffing levels. However, in other areas, the number of people employed has increased. In addition, the current climate has provided the opportunity selectively to recruit strong performers in international offices.

Macquarie also has a highly experienced senior management team. The average tenure of Macquarie's Executive Committee is over 18 years.

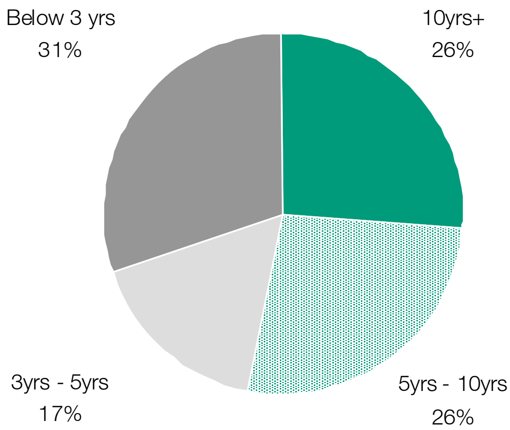
Tenure of Executive Committee members
Number of Years at Macquarie



This trend is repeated outside of the Executive Committee.

Macquarie has a good track record of retaining senior people, with voluntary Director level turnover of approximately six per cent in 2009, which is better than last year. As at 31 March 2009, 26 per cent of Director level staff have at least 10 years' experience with Macquarie, and a further 26 per cent have between five and 10 years' experience*:

Directors' tenure as at 31 March 2009



* This measure includes accumulated service at acquired companies, for example ING's Asian Equities business.

Compensation is in line with performance

Macquarie has to balance its goal of retaining and motivating people through remuneration against ensuring staff are paid commensurate with Macquarie's overall performance. This aligns staff and shareholder interests. As overall performance has declined, so has staff compensation. This is shown by an analysis of the annual movement in key executive remuneration measures compared with Macquarie's key financial performance measures.

Directors' Report – Remuneration Report
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Comparison of performance measures and executive remuneration measures: 2008 and 2009

		2008	2009	Increase/ (Decrease)
Performance measures				
Net profit after tax attributable to ordinary equity holders (NPAT)	$m	1,803	**871**	(52)%
Basic Earnings per Share	cents per share	670.6	**309.6**	(54)%
Return on average ordinary shareholders' funds		23.7%	**9.9%**	
Executive remuneration measures				
Total Compensation Expense	$m	3,878	**2,247**	(42)%
Remuneration – Executive Key Management Personnel (excluding Mr A.E. Moss, Mr R. Laidlaw, Ms S. Wikramanayake)*	$m	99.99	**11.04**	(89)%
Remuneration excluding earnings on restricted profit share – Executive Key Management Personnel (excluding Mr A.E. Moss, Mr R. Laidlaw, Ms S. Wikramanayake)*	$m	110.56	**29.77**	(73)%

* Refer Appendix 2 below.

2 Response to emerging global remuneration trends

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

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

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

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

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

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

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

Macquarie's profit share pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above its 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 and the outcome are reviewed annually by the BRC and the Non-Executive Directors of the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

Trend: The deferred element should be linked to future performance

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

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

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

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

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

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

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

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

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

Trend: Increased focus on governance and risk management

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

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

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

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

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

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

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

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

3.1 Remain focused on delivering shareholder value as the key objective

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

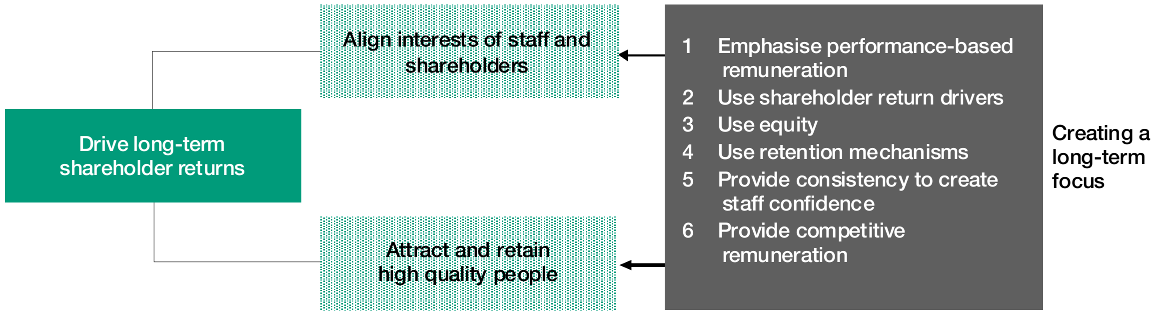
The overall objective is to deliver long-term shareholder value. This is delivered through two key drivers. The first is to attract and retain high quality people by offering a competitive performance driven remuneration package that encourages both long-term commitment and superior performance. The 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 NPAT and sustain a high relative ROE.

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

- emphasising performance-based remuneration (refer section 3.2.1)
- linking rewards to shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (refer section 3.2.2)
- using equity to provide rewards mostly in the form of shares and to some extent options to create alignment with shareholder interests (refer section 3.2.3)
- designing retention mechanisms to encourage long-term commitment to Macquarie and hence to shareholders (refer section 3.2.3)
- using broadly consistent arrangements over time to ensure staff are confident that efforts over multiple years will be rewarded (refer section 3.2.3)
- ensuring arrangements are competitive on a global basis with Macquarie's international peers (refer section 1.2).

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

Key elements of remuneration framework



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

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

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

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

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

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

	Current arrangements	Proposed arrangements
Managing Director and Chief Executive Officer (1)	– Profit Share: 55 per cent is retained. – 35 per cent of retained profit share vests in year three and is retained in the form of Macquarie ordinary shares. – 20 per cent of retained profit share vests from five to ten years and is notionally invested in Macquarie-managed fund equity under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a ten year period.	– Profit Share: 55 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests. – Investment mix may include Macquarie ordinary shares as well as Macquarie-managed fund equity.
	– Minimum Shareholding: satisfied through the equity retention arrangements.	– Minimum Shareholding: satisfied through the new equity retention arrangements.
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.
Executive Committee members (8)	– Profit Share: 40 per cent is retained. – 20 per cent of retained profit share vests in year three and is retained in the form of Macquarie ordinary shares. – 20 per cent of retained profit share vests from five to ten years and is notionally invested, to varying degrees, depending on role, in Macquarie-managed fund equity and cash under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a ten year period.	– Profit Share: 50 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests. – Investment mix may include Macquarie ordinary shares as well as Macquarie-managed fund equity.
	– Minimum Shareholding: satisfied through the equity retention arrangements.	– Minimum Shareholding: satisfied through the new equity retention arrangements.
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.

	Current arrangements	Proposed arrangements
Executive Directors (319)	– Profit Share: 20 per cent is retained – 20 per cent of retained profit share vests from five to ten years and is notionally invested, to varying degrees, depending on role, in Macquarie-managed fund equity and cash under the DPS Plan. Assuming continued employment, retained amounts are released at the end of a ten year period.	– Profit Share: 50 per cent of profit share is retained and vests from three to seven years. – Profit share is released when it vests. – Investment mix may include Macquarie ordinary shares* as well as Macquarie-managed fund equity.
	– Minimum Shareholding: required to hold shares to the value of at least five per cent of total profit share over the last five years.	– Minimum Shareholding: satisfied through the new equity retention arrangements.
	– Options: eligible for options with a performance hurdle. Vesting in years two, three and four.	– No options: 50 per cent of profit share will be retained in the form of Macquarie ordinary shares* and Macquarie-managed fund equity.
Division Directors/ Associate Directors (2,371)	– Retention of 25 per cent of annual profit share amounts above certain thresholds. Vests and is released in years two, three and four.	– Retention of 25 per cent of annual profit share above certain thresholds delivered via Macquarie ordinary shares*. No change to thresholds, vesting period or time of release.
	– Eligible for options for promotion and performance.	– No options: Up to 25 per cent of profit share will be retained in the form of Macquarie ordinary shares*. – Replace with Macquarie ordinary shares* for promotion and new hires.
Non-Director Staff (10,017)	– Retention of 25 per cent of annual profit share amounts above certain thresholds. Vests and is released in years two, three and four.	– Retention of 25 per cent of annual profit share above certain thresholds delivered via Macquarie ordinary shares*. No change to thresholds, vesting period or time of release.

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

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

The primary focus of section 3.2 is on Executive Director remuneration, in particular, Executive Committee members. However, comments are made in relation to other staff where relevant. Macquarie's Executive Committee has responsibility for the management of Macquarie as delegated by the Macquarie Board, and is made up of a central group comprising the Managing Director and Chief Executive Officer, Deputy Managing Director, the Head of Risk Management, the Chief Financial Officer and the heads of Macquarie's major Operating Groups. The current members of the Executive Committee are identified in Appendix 1.

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

– **emphasises** performance-based remuneration (refer section 3.2.1)

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

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

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

Link between the remuneration principles and the remuneration arrangements

	Principle	Features of the current remuneration system	Proposed changes
1	There is an emphasis on performance-based remuneration (Refer discussion in section 3.2.1)	– Levels of fixed remuneration are relatively low. – Profit share allocations and option grants provide substantial incentives for superior performance, but low or no participation for less satisfactory performance. – Profit share allocations are highly variable. – Performance-based remuneration can comprise a high proportion of total remuneration in the case of superior performance (approximately 92 per cent in the case of the Managing Director and Chief Executive Officer).	– Emphasis on performance-based remuneration remains. No change with the exception that options will only be allocated to Executive Committee members.
2	Rewards are linked to shareholder value through the use of shareholder return drivers, namely profitability and returns in excess of the cost of capital (Refer discussion in section 3.2.2)	– The overall profit share pool is determined as a function of net profit after tax and excess return on ordinary equity. – The allocation of the pool to individual businesses is based primarily, but not exclusively, on relative contribution to profits, taking into account capital usage. – Allocation to an individual is determined by individual performance and contribution over the year, based primarily on outcomes contributing to net profit after tax and return on ordinary equity*. – Return on ordinary equity is used as a performance hurdle for Executive Director options.	– To complement the existing approach and methodology, the Chief Risk Officer will report to the BRC on capital allocation in respect of risks assumed and its impact on the overall profit share pool, and the profit share allocated to individual Operating Groups.
3	Equity is used to provide rewards partly in the form of shares and options to create identification with shareholder interests (Refer discussion in section 3.2.3)	– Option allocations to Director level staff occur at promotion and annually (with performance hurdles for Executive Directors).	– Options allocated only to Executive Committee with performance hurdles. – Macquarie ordinary shares issued for promotion and new hires.
		– Executive Directors retained profit share is notionally invested in specialist funds managed by Macquarie.	– For Executive Directors, 50 per cent (55 per cent for the Managing Director and Chief Executive Officer) of profit share will be retained in the form of Macquarie ordinary shares and Macquarie-managed fund equity. The investment mix will depend on the nature of an individual's role and responsibility.
		– Executive Directors are required to acquire and hold a minimum number of shares calculated based on their profit share.	– Minimum Shareholding: will be satisfied through the new equity retention arrangements.
		– For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in Macquarie ordinary shares.	– Discontinued. Replaced with arrangements outlined above.
		– Staff share plans are available to encourage broader staff equity participation.	– No changes.

	Principle	Features of the current remuneration system	Proposed changes
4	Retention mechanisms encourage a long-term commitment to Macquarie and hence to shareholders (Refer discussion in section 3.2.3)	– 20 per cent of Executive Director annual profit share is withheld and vests equally between five and ten years of service as an Executive Director. – For 2008 and onwards, a portion of Executive Committee members' annual profit share will be allocated to invest in Macquarie ordinary shares.	– 50 per cent (55 per cent for Managing Director and Chief Executive Officer) of Executive Director annual profit share is withheld and vests from years three to seven.
		– Time based vesting rules apply to options.	– Time based vesting rules with hurdles apply to Executive Committee options.
5	Arrangements provide consistency over time to ensure staff have the confidence that efforts over multiple years will be rewarded (Refer discussion in section 3.2.3)	– Macquarie's remuneration approach has been in place since it was founded with incremental changes over time as appropriate.	– Incremental changes.
6	Arrangements are competitive on a global basis with international peers (Refer discussion in section 1.2)	– Board reviews remuneration arrangements at least annually to ensure that they are equitable and competitive with peers. – Compensation ratio is used as a general guide to consideration of the overall competitiveness of remuneration levels, but is not the basis on which the profit share pool is created.	– Review was undertaken to determine the proposed changes. – No change.

* Refer also commentary in section 3.2.2 in relation to staff who have fund responsibilities under the heading of "Allocation of the Profit share pool".

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

3.2.1 Emphasising performance-based remuneration

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

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

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

3.2.2 Linking remuneration to the drivers of shareholder returns

For most Executive Directors, the largest component of their remuneration is delivered as an annual profit share allocation, based on their performance over the year. Macquarie's approach to measuring performance for the purpose of determining annual profit share is to utilise 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, TSR, whether absolute or relative, is not regarded as a satisfactory measure in assessing performance over just one year. Globally, regulators are increasingly recognising this.

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

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TSR, on the other hand, is influenced by many external factors over which executives have limited control

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

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

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

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

Overview of profit share arrangements

The profit share arrangements are designed to encourage superior performance by motivating executives to focus on maximising earnings and return on ordinary equity, while having appropriate regard for risk, thereby driving long-term 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 pool is determined annually by reference to Macquarie's after-tax profits and its earnings over and above the estimated cost of capital. A portion of Macquarie's profits earned accrues to the staff profit share pool. Once the cost of equity capital is met, an additional portion of the excess profits is accrued to the profit share pool. The proportion of after-tax profit and the proportion of earnings in excess of Macquarie's cost of equity capital used to calculate the pool are reviewed at least annually. The cost of equity capital is also reviewed annually and has been increased for 2009. Changes to the methodology are reviewed by the BRC and the Non-Executive Directors of the Board.

The Non-Executive Directors of the Board have discretions:

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

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

Allocation of the profit share pool

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

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

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

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

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

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

For executives with specific fund responsibilities, the performance of the relevant funds is important in determining that individual's profit share allocation. For example, in the case of the Macquarie Capital Funds business the following factors are relevant:

– the earnings that business contributes to Macquarie Capital's share of the profit share pool in which fund staff participate. These earnings are aligned to the performance of the funds through base management and performance fees
– in evaluating each executive's contribution to determine their individual profit share allocation, the performance of the fund or funds for which they are responsible, and in particular the underlying factors influencing fund performance such as management and leadership, the operational performance of the underlying assets, and effective capital management
– in the case of Executive Directors with fund responsibilities (in particular Fund Chief Executive Officers), retained profit share amounts are notionally invested in the relevant funds, as discussed in section 3.2.3.1.1, giving these individuals a further ongoing incentive to seek to grow the security price.

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

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

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

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

Commentary on allocation to the Managing Director

In approving the profit share and option allocations to the Managing Director, 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.

3.2.3 Emphasis on direct long-term alignment with shareholder interests

The remuneration arrangements are also structured to deliver remuneration in a manner which ensures that 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.

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

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

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

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

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

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Under the existing structure, from a retention perspective, these various arrangements are designed to interact with one another. For example, options vest over two to four years, retained amounts under the DPS Plan vest over five to ten years and the Executive Committee's Share Acquisition Plan vests at year three. For Executive Committee members, the *current vesting continuum* is represented as follows:

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

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

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

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

Under the proposed arrangements, the average vesting schedule is maintained for the Managing Director and Chief Executive Officer as well as for other members of the Executive Committee. For Executive Committee members, the *proposed vesting continuum* is represented as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2.3.1 Profit share arrangements – delivery of profit share

The following table sets out how each annual profit share allocation will be delivered to the Managing Director and Chief Executive Officer, other Executive Committee members and other Executive Directors for 2007, 2008 and 2009. The 2009 amounts refer to the amounts that will be retained under the proposed new arrangements which are subject to shareholder approval at the 2009 AGM. Under the current arrangements for 2009, 45 per cent, 60 per cent and 80 per cent would be otherwise available be for the Managing Director and Chief Executive Officer, other Executive Committee Members and Other Executive Directors respectively.

Percentage Allocations	Managing Director and Chief Executive Officer			Other Executive Committee Members			Other Executive Directors		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Annual profit share allocation split as follows:									
Retained under DPS Plan	20	20		20	20		20	20	
Allocated to Macquarie Group Limited Shares*	-	10	**55****	-	10	**50****	-	-	**50****
Otherwise available***	80	70	**45**	80	70	**50**	80	80	**50**
Total	100	100	**100**	100	100	**100**	100	100	**100**

* Subject to minimum shareholding requirement.

** The investment mix will depend on the nature of an individual's role and responsibility.

*** Eligible Australian Executive Directors have the opportunity to voluntarily invest additional amounts in equity from this remaining component, for example by electing to invest in Macquarie Group Limited shares pursuant to the Macquarie Group Staff Share Acquisition Plan.

3.2.3.1.1 Directors' Profit Share retention arrangements

Current arrangements

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

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

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

Proposed arrangements

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

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

– *a notional investment in Macquarie-managed fund equity through the DPS Plan*
– *a physical investment in Macquarie ordinary shares under the Macquarie Group Employee Retained Equity Plan (Equity Plan).*

Forfeiture rules

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

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

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

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

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

Investment of retained profit share - current arrangements

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

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

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

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

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

Investment of retained profit share – proposed arrangements

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

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

Former Directors' Profit Share arrangements

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

3.2.3.1.2 Executive Committee Share Acquisition Plan

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

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

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

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

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

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

3.2.3.1.3 Minimum shareholding requirement for Executive Directors

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

These shares cannot be hedged.

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

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

3.2.3.1.4 Staff share plans: encouraging broader staff equity participation

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

Staff share acquisition plan

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

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

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

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

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

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

Employee share plan

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

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

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

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

3.2.3.2 Options

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

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

Promoted or newly hired Directors will receive Macquarie ordinary shares.

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

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

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

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

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

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

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

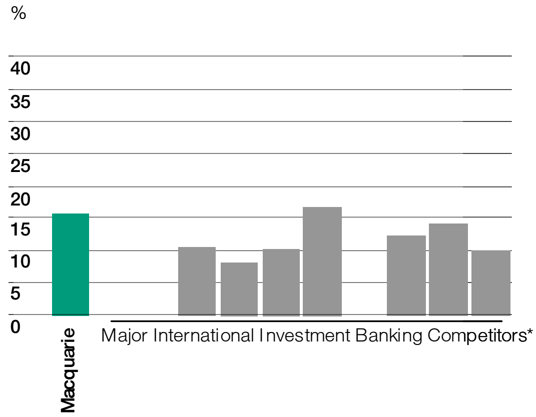
Executive Directors are forbidden from hedging unvested options.

3.2.3.2.1 Determination and allocation of the options pool

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

The majority of these options are allocated to individual executives in broadly the same manner as annual profit share allocations (refer section 3.2.2),i.e. it is performance-based. The share utilisation chart below demonstrates that the use of options puts Macquarie at the higher end of the range compared with its peer group. Going forward, Macquarie has been mindful of this in its decision to limit option grants to Executive Committee members.

Options/Shares under Equity Plans as a Percentage of Overall Diluted Capital: 2008/2009



Based on most recent statutory accounts, public filings

* Competitors comprise Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan Chase, Merrill Lynch, Morgan Stanley and UBS. In previous years, Babcock & Brown, Bear Stearns and Lehman Brothers have been used in this analysis, but these companies are no longer extant entities.

3.2.3.2.2 General terms of option arrangements

The Plan

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

Key Option Terms

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

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

3.2.3.2.3 Performance hurdles for Executive Director options

Description of performance hurdles for Executive Director options

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

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

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

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

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

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

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

In 2009, it is expected that some prior year option grants to Executive Committee members will not vest. It is expected that the first tranche of the 2007 options grant and the second tranche of the 2006 options grant will not vest on 1 July 2009 as a result of the performance hurdle not being met.

For accounting purposes, any prior year options expense in relation to these tranches (and corresponding income to the Key Management Personnel) has been reversed.

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

3.2.4 No special contractual termination payments

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

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

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

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

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

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

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

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

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

Effective governance is central to Macquarie's remuneration strategy and approach. A stronger focus on governance and risk management are two global trends that are emerging. The 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 oversight
– assessment of risk as part of the profit share allocation process
– independent remuneration review.

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

3.3.1 Strong Board oversight to ensure sound overall remuneration governance

The Board of Directors has oversight of Macquarie's remuneration arrangements. The Board has established a Board Remuneration Committee (BRC or Committee) whose objective is to assist the Macquarie Board and the Board of Macquarie Bank Limited (Macquarie Bank), a key operating subsidiary, with Macquarie's remuneration policies and practices.

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

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

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

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

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

The Committee has a regular meeting cycle and holds additional meetings as needed. The Committee met eight times over the last financial year. Attendance at the meetings is set out in the Corporate Governance Statement of 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 Committee are set out in a formal charter which is available on Macquarie's website. Board oversight of the approval framework for remuneration recommendations can be summarised as follows:

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

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

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

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

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

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

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

The BRC approves the following matters on behalf of both the Macquarie Board and Macquarie Bank's 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 promotion/performance options grants to staff other than those designated above
- the specific notional portfolio allocations of retained DPS amounts for individual Executive Directors.

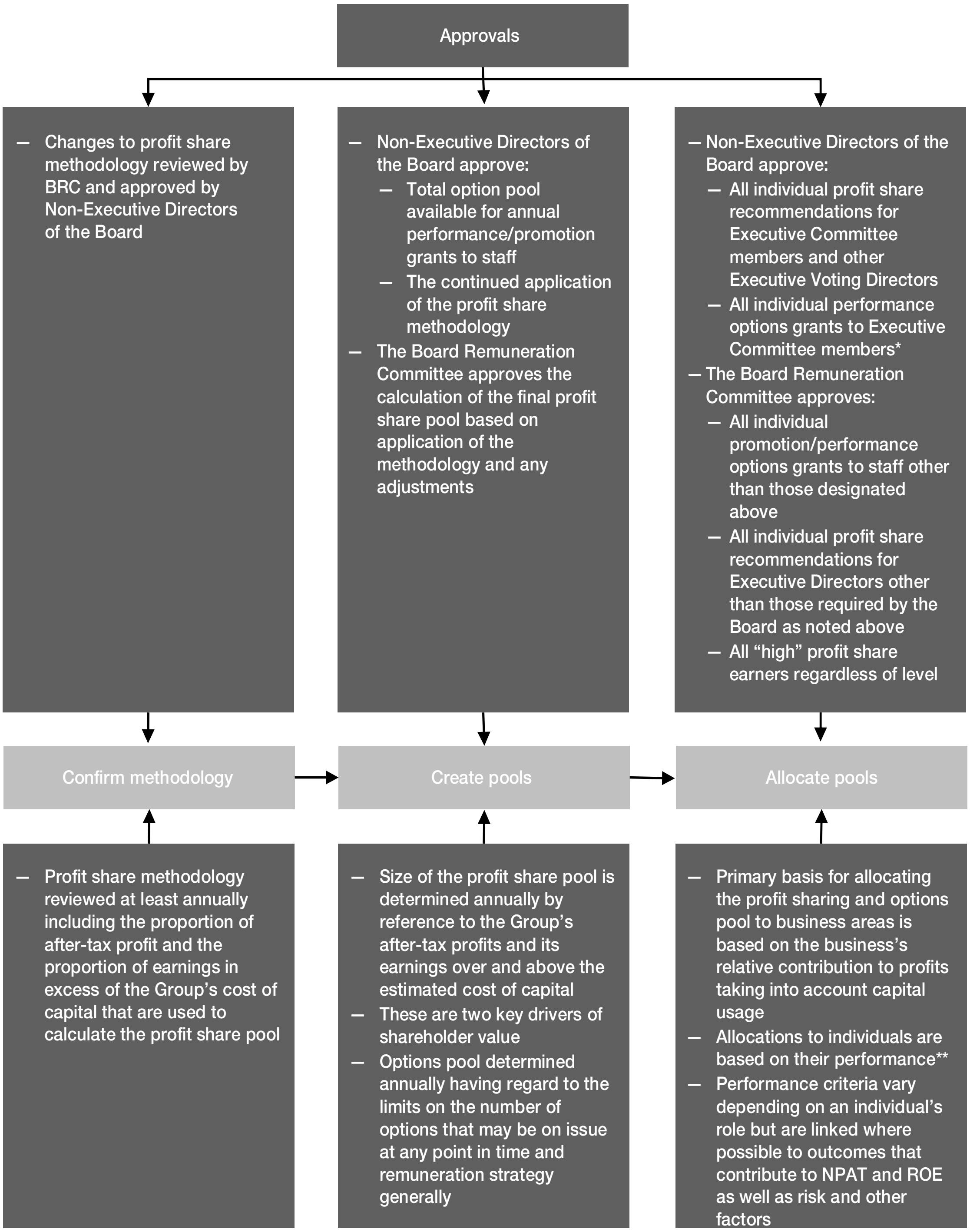
The BRC also has the authority to monitor the implementation of the executive remuneration policy, including an annual review of compliance with the Executive Director minimum shareholding requirements.

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

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

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

Board oversight of remuneration decisions



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

** Refer also to the commentary in section 3.2.2 in relation to staff who have fund responsibilities.

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

3.3.2 Assessment of risk as part of the profit share allocation process

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

The Board's approach to risk is to make risk decisions at multiple levels.

The 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 to vest is linked to return on equity, not TSR or EPS
– the performance hurdle for existing Executive Director options looks at Macquarie's three year average ROE.

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

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

– Remuneration outcomes must be symmetrical 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 company-wide level is determined by reference to both profit and earnings over and above the estimated cost of capital ensures that there is no available profit share in the event of a loss at a Macquarie level.

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

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

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

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

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

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

3.3.3 Independent Remuneration Review

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

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

Towers Perrin'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
- 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
- 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 options and Macquarie ordinary shares for Executive Committee members and Macquarie ordinary shares for other senior staff) is used as a long-term incentive for executives
  - Macquarie imposes a long vesting period on the portion of profit share deferred
  - Macquarie uses performance hurdles on its options for Executive Directors whereas traditional US practice is either to have options vest solely after the fulfilment of service requirements or to use restricted shares which also typically vest solely based on service
  - Macquarie's total remuneration as a percentage of income is the lowest relative to investment bank peers
  - additionally, Macquarie's remuneration ratios are meaningfully lower than many peers who had weak 2008 performance years.

Towers Perrin has also made the following observations in relation to the proposed changes to Macquarie's remuneration arrangements that are subject to shareholder approval at the 2009 AGM:

- removing performance-based options (except for Executive Committee members) is consistent with the recent trends, among banks, toward:
  - granting restricted stock units instead of stock options, and
  - when options are granted, limiting awards to senior executives.
- replacing promotion/new Director hire options by Macquarie equity is consistent with the trend toward granting restricted stock units instead of stock options
- having a greater proportion of performance-based remuneration deferred for Executive Directors will position Macquarie in line with peer practices
- having a greater percentage of performance-based remuneration delivered in equity for all Director level staff will mean that equity delivered under this proposal will be close to peer practice in a typical performance year
- the proposed vesting and payout profile for retained DPS for Executive Directors over years three to seven is more onerous than typical investment banking peer vesting provisions of three to five years.

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

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

3.4 Continuing to recognise Non-Executive Directors for their role

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

3.4.1 Non-Executive Director remuneration policy

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

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

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

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

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

3.4.2 Board and Committee fees

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

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

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

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

As a result of the review undertaken this year, no change has been made to the per annum rates for Non-Executive Directors of Macquarie Group Limited (Macquarie) and Macquarie Bank Limited (Macquarie Bank), except for some minor adjustments for the incremental workload of Committee Chairmen. The current per annum rates are set out in the table as follows:

Macquarie and Macquarie Bank Fees	Macquarie fees		Macquarie Bank fees		Total fees	
	Chairman	Member	Chairman	Member	Chairman	Member
Board	$515,000	$140,000	$240,000	$65,000	$755,000	$205,000
Board Risk Committee	$36,000	$18,000	N/A**	N/A**	$36,000	$18,000
Board Audit and Compliance Committee	$70,000	$30,000	N/A**	N/A**	$70,000	$30,000
Board Remuneration Committee	$70,000	$25,000	N/A**	N/A**	$70,000	$25,000
Board Corporate Governance Committee	$36,000*	$18,000	N/A**	N/A**	$36,000*	$18,000
Board Nominating Committee	N/A***	$8,000	N/A**	N/A**	N/A***	$8,000

* This role is currently filled by the Acting Non-Executive Chairman who is not separately remunerated for Committee responsibilities.

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

*** No separate fee is paid for this role as it is filled by the Chairman (currently by the Acting Chairman).

Base and Committee fees are paid quarterly. Non-Executive Directors may elect to receive their remuneration, in part, in the form of superannuation contributions and by way of Macquarie ordinary shares issued via the Macquarie Group Non-Executive Director Share Acquisition Plan (NEDSAP), a mechanism for the Non-Executive Directors to acquire additional 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 are acquired on-market at prevailing market prices.

Information on the frequency of Board and Committee meetings is included on page [53] of the Directors' Report.

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

3.4.3 Minimum shareholding requirement for Non-Executive Directors

To encourage long-term commitment and to more closely align the interests of the 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. A share plan is available to Non-Executive Directors to allocate a portion of their Board and Committee fees to acquire Macquarie equity.

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

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

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

Appendices: Key Management Personnel disclosures

Appendix 1: Key Management Personnel

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

Directors:		Changes during 2008 & 2009 (except as noted below)
Executive		
N.W. Moore*	Managing Director and Chief Executive Officer	Appointed to the Board on 22 February 2008 and as Managing Director and Chief Executive Officer on 24 May 2008
A.E. Moss, AO		Retired 24 May 2008
L.G. Cox, AO		
Non-Executive		
D.S. Clarke, AO	Non- Executive Chairman	On leave of absence from 27 November 2008
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		

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 2009 and 31 March 2008, unless otherwise indicated:

Executives:	
J.K. Burke	Former Joint Group Head, Macquarie Securities Group (retired on 26 February 2009)
M. Carapiet*	Group Head, Macquarie Capital
A.J. Downe*	Group Head, Treasury and Commodities Group
R.S. Laidlaw*	Group Head, Macquarie Securities Group (appointed 10 June 2008)
P.J. Maher*	Group Head, Banking and Financial Services Group
N.R. Minogue*	Group Head, Risk Management Group
W.R. Sheppard*	Deputy Managing Director
G.C. Ward*	Chief Financial Officer
S. Wikramanayake*	Group Head, Macquarie Funds Group (appointed 10 June 2008)

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

The composition of the Macquarie Group Limited Board changed on 30 August 2007 and therefore the Directors above were appointed on that date unless otherwise indicated. For the period from incorporation until 30 August 2007, W.R. Sheppard, G.C. Ward and S.J Dyson were Directors of Macquarie Group Limited. During this time, the company was dormant. W.R. Sheppard, G.C. Ward and S.J Dyson did not receive any remuneration for their services as Directors. J.G Allpass and M.R.G. Johnson were directors of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group until their retirements on 19 July 2007.

A.E. Moss, L.G. Cox, D.S. Clarke, P.M. Kirby, C.B. Livingstone, H.K. McCann, J.R. Niland, H.M. Nugent and P.H. Warne were appointed as Directors of Macquarie Group Limited on 30 August 2007.

P.H. Warne was appointed as a Director of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group, on 1 July 2007.

The remuneration and other related party disclosures included in the Remuneration Report have been prepared in compliance with AASB 124: *Related Party Disclosures*. In addition, for information purposes, a pro forma Executive Remuneration disclosure table has been prepared under the proposed remuneration changes. Within this table, prior year comparatives for 2008 have not been restated.

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

Appendix 2: Remuneration disclosures

Executive remuneration

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

The individuals identified above as Key Management Personnel include the five highest remunerated 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 year ended 31 March 2009 and the year ended 31 March 2008, only include remuneration relating to the portion of the relevant periods that each individual was a Key Management Person.

As explained in section 3.2.3.1.1 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 98 to 99. 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.

The table below highlights the underlying remuneration trend by adjusting the disclosed remuneration to exclude these earnings on retained DPS amounts for Key Management Personnel.

The information is also presented with Mr A.E. Moss, Mr R.S. Laidlaw and Ms S. Wikramanayake. Because the above named Executives either retired from Executive duties, or became a Key Management Personnel for the first time in 2009 they have been excluded from this analysis to provide a meaningful year-on-year comparison of data.

	2008 $	**2009** **$**	Increase/ (Decrease)
All Executive Key Management Personnel			
Total disclosed remuneration	124,746,718	**11,364,969**	(90.9)%
Less/(Add): Earnings/(Loss) on restricted profit share amounts	(15,447,287)	**(25,345,764)**	
Total underlying remuneration	140,194,005	**36,710,733**	(73.8)%
Executive Key Management Personnel excluding Mr A.E. Moss (2008), Mr R.S Laidlaw, Ms S. Wikramanayake			
Total disclosed remuneration	99,991,274	**11,037,226**	(89.0)%
Less/(Add): Earnings/(Loss) on restricted profit share amounts	(10,569,440)	**(18,736,776)**	
Total underlying remuneration	110,560,714	**29,774,002**	(73.1)%

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

Executive remuneration disclosure

		Short-Term Employee Benefits		
		Salary (including superannuation $	Performance related remuneration (a) $	Total short-term employee benefits $
Executive Directors				
L.G. Cox	**2009**	**396,567**	**228,289**	**624,856**
	2008	396,270	1,000,912	1,397,182
N.W. Moore	**2009**	**517,611**	**2,120,641**	**2,638,252**
	2008	517,573	18,726,921	19,244,494
Other Executives				
M. Carapiet	**2009**	**383,415**	**2,544,769**	**2,928,184**
	2008	383,387	13,189,505	13,572,892
A.J. Downe	**2009**	**479,269**	**3,958,530**	**4,437,799**
	2008	479,234	11,738,659	12,217,893
R.S. Laidlaw (g)	**2009**	**310,695**	**1,374,645**	**1,685,340**
	2008	–	–	–
P.J. Maher	**2009**	**455,306**	**961,357**	**1,416,663**
	2008	455,273	3,297,376	3,752,649
N.R. Minogue	**2009**	**431,342**	**1,555,137**	**1,986,479**
	2008	431,311	3,462,245	3,893,556
W.R. Sheppard	**2009**	**517,611**	**282,752**	**800,363**
	2008	517,573	3,363,324	3,880,897
G.C. Ward	**2009**	**431,342**	**1,979,265**	**2,410,607**
	2008	431,311	3,528,193	3,959,504
S. Wikramanayake (g)	**2009**	**310,695**	**687,322**	**998,017**
	2008	–	–	–
Former Executive Directors and Executives				
J.K. Burke (h)	**2009**	**348,556**	**–**	**348,556**
	2008	383,387	12,200,292	12,583,679
A.E. Moss (i)	**2009**	**100,748**	**1,515,978**	**1,616,726**
	2008	670,928	27,223,798	27,894,726
Total Remuneration – Executive Key Management Personnel	**2009**	**4,683,157**	**17,208,685**	**21,891,842**
	2008	4,666,247	97,731,225	102,397,472

Long-Term Employee Benefits			Share Based Payments				
Restricted profit share (b) $	Earnings on prior year restricted profit share (c) $	Total long-term employee benefits $	Shares (d) $	Options (e), (f) $	Total share-based payments $	Total remuneration $	Percentage of remuneration that consists of options %
57,072	**(200,085)**	**(143,013)**	**–**	**13,893**	**13,893**	**495,736**	**2.80**
250,228	(54,098)	196,130	–	85,394	85,394	1,678,706	5.09
942,507	**(5,840,183)**	**(4,897,676)**	**1,649,387**	**900,793**	**2,550,180**	**290,756**	**309.81**
5,350,549	(2,194,999)	3,155,550	2,675,274	1,676,580	4,351,854	26,751,898	6.27
848,256	**(3,873,197)**	**(3,024,941)**	**848,256**	**472,382**	**1,320,638**	**1,223,881**	**38.60**
3,768,430	(1,449,207)	2,319,223	1,884,215	1,371,250	3,255,465	19,147,580	7.16
1,319,510	**(3,698,929)**	**(2,379,419)**	**1,319,510**	**334,093**	**1,653,603**	**3,711,983**	**9.00**
3,353,903	(3,203,246)	150,657	1,676,951	801,132	2,478,083	14,846,633	5.40
458,215	**(1,145,138)**	**(686,923)**	**458,215**	**787,201**	**1,245,416**	**2,243,833**	**35.08**
–	–	–	–	–	–	–	–
320,452	**(887,238)**	**(566,786)**	**320,452**	**172,891**	**493,343**	**1,343,220**	**12.87**
942,107	(729,050)	213,057	471,054	300,718	771,772	4,737,478	6.35
518,379	**(1,100,155)**	**(581,776)**	**518,379**	**133,538**	**651,917**	**2,056,620**	**6.49**
989,213	(932,937)	56,276	494,606	370,303	864,909	4,814,741	7.69
94,251	**(1,842,620)**	**(1,748,369)**	**94,251**	**175,241**	**269,492**	**(678,514)**	**(25.83)**
960,950	(1,621,746)	(660,796)	480,475	488,419	968,894	4,188,995	11.66
659,755	**(794,746)**	**(134,991)**	**659,755**	**187,564**	**847,319**	**3,122,935**	**6.01**
1,008,055	(677,098)	330,957	504,028	320,316	824,344	5,114,805	6.26
229,107	**(711,775)**	**(482,668)**	**229,107**	**418,713**	**647,820**	**1,163,169**	**36.00**
–	–	–	–	–	–	–	–
–	**(499,623)**	**(499,623)**	**–**	**(378,324)**	**(378,324)**	**(529,391)**	**71.46**
3,485,798	292,941	3,778,739	1,742,899	605,121	2,348,020	18,710,438	3.23
–	**(4,752,075)**	**(4,752,075)**	**–**	**56,090**	**56,090**	**(3,079,259)**	**(1.82)**
–	(4,877,847)	(4,877,847)	–	1,738,565	1,738,565	24,755,444	7.02
5,447,504	**(25,345,764)**	**(19,898,260)**	**6,097,312**	**3,274,075**	**9,371,387**	**11,364,969**	
20,109,233	(15,447,287)	4,661,946	9,929,502	7,757,798	17,687,300	124,746,718	

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

Notes on elements of executive remuneration

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

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

(c) This is the notional earnings / (loss) on prior year restricted profit share allocations described on page 97 in this Appendix.

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

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

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

Notes on individuals

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

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

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

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 98 to 99, the majority of the remuneration for the named Group executives is performance based (ranging from 55.5 per cent to 93.5 per cent for individuals who were Executive Committee members during the year ended 31 March 2009, 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 profitability, but low or no participation for less satisfactory performance. The mechanism provides significant alignment of their interests with those of shareholders.

Future amounts payable for Executive Voting Directors

Under the current remuneration arrangements, for each Executive Committee member named in the remuneration table above, with the exception of Mr A.E. Moss and Mr J.K. Burke, 60 per cent (45 per cent for the Managing Director and Chief Executive Officer) of the annual profit share entitlement was paid or payable in relation to the reported financial year. These amounts are indicated in the column headed "Performance related remuneration" in the table. Of the amounts held, 20 per cent (35 per cent for the Managing Director and Chief Executive Officer) is invested in Macquarie ordinary shares for at least three years as set out in section 3.2.3.1.2 and disclosed in the column headed 'Shares' on page [99]. The remainder of this section discusses the 20 per cent that is retained under the DPS Plan.

It has been a fundamental condition of the DPS arrangements that 20 per cent of the annual profit share entitlement is held subject to restrictions. Except in the case of Mr A.E. Moss and Mr J.K. Burke, these amounts are indicated in the column headed "Restricted profit share" in the remuneration table above. These restricted amounts begin to vest after five years of service as an Executive Director and fully vest after ten years of service as an Executive Director, subject to any disqualifying events. As described in section 3.2.3.1.1 above, vested amounts will begin to be released to Executive Directors at the earlier of the end of the ten year period or on ceasing employment (up to six months after departure) provided that no disqualifying events have occurred.

No person named in the remuneration table above forfeited any restricted profit share entitlements during the financial year.

For Macquarie executives named in the remuneration table above:

- subject to future notional investment earnings on the amounts retained, the maximum future value of their restricted profit share entitlements is reflected by the amounts in the 'Restricted profit share' column of that table (with the exception of Mr A.E. Moss for 2008, and Mr J.K. Burke for 2009, for whom it is equal to 20 per cent of the amount in the 'Performance related remuneration' column, subject to future notional investment earnings); and
- the minimum future value of their restricted profit share entitlements is zero in the event that certain defined disqualifying events occur and the amounts are forfeited.

The amount of DPS allocations of the Executive Voting Directors that are held subject to restrictions is shown in the table below. The amounts in this table have been presented inclusive of on-costs. In contrast, the DPS amounts disclosed in the table above as performance related remuneration and restricted profit share are exclusive of on-costs.

Future amounts payable for Executive Voting Directors:

Name and position	Balance of restricted profit share at 31 March 2008 plus 2008 DPS retention $	Amounts released from restricted profit share during the financial year (a) $	Actual balance of restricted profit share at 31 March 2009 $	Amount to be credited to restricted profit share in relation to the DPS allocation for the financial year (b) $	Negative notional earnings for the 12 months to 31 March 2009 $	Balance of restricted profit share at 31 March 2009 plus 2009 DPS retention $
Executive Directors						
N.W. Moore	27,263,336	(858,592)	26,404,744	1,000,000	(5,840,183)	21,564,561
L.G. Cox	938,239	–	938,239	60,000	(200,085)	798,154

(a) As outlined in section 3.2.3.1.1 above, retained DPS amounts are released to an Executive Director after ten years. During the financial year amounts retained from 1998 DPS allocations were released.

(b) Technically these amounts relating to 2009 DPS allocations are not credited until after 31 March 2009. However, they are added into the balance as at 31 March 2009 because that is the end of the financial year to which they relate.

The whole of the profit sharing provision, including amounts held subject to restrictions, for each financial year is charged against earnings in that year.

Under the proposed remuneration changes, executive remuneration would be as set out in the following table. This table has been prepared merely to illustrate the split between short and long-term benefits as well as the total amount that will be retained in the form of Macquarie ordinary shares. This table will differ to the information that will be presented in the remuneration report for the year ending 31 March 2010, should the changes be approved by shareholders. This table has not been presented in accordance with prescribed accounting rules, where retained profit share that is allocated as Macquarie ordinary shares, will be expensed evenly over the vesting period for each tranche of shares.

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

Executive remuneration disclosure under proposed remuneration arrangements subject to shareholder approval at the 2009 AGM

		Short-Term Employee Benefits		
		Salary (including superannuation $	Performance related remuneration (a) $	Total short-term employee benefits $
Executive Directors				
L.G. Cox	**2009**	**396,567**	**142,680**	**539,247**
	2008	396,270	1,000,912	1,397,182
N.W. Moore	**2009**	**517,611**	**2,120,641**	**2,638,252**
	2008	517,573	18,726,921	19,244,494
Other Executives				
M. Carapiet	**2009**	**383,415**	**2,120,641**	**2,504,056**
	2008	383,387	13,189,505	13,572,892
A.J. Downe	**2009**	**479,269**	**3,298,776**	**3,778,045**
	2008	479,234	11,738,659	12,217,893
R.S. Laidlaw (g)	**2009**	**310,695**	**1,145,537**	**1,456,232**
	2008	-	-	-
P.J. Maher	**2009**	**455,306**	**801,130**	**1,256,436**
	2008	455,273	3,297,376	3,752,649
N.R. Minogue	**2009**	**431,342**	**1,295,948**	**1,727,290**
	2008	431,311	3,462,245	3,893,556
W.R. Sheppard	**2009**	**517,611**	**235,627**	**753,238**
	2008	517,573	3,363,324	3,880,897
G.C. Ward	**2009**	**431,342**	**1,649,387**	**2,080,729**
	2008	431,311	3,528,193	3,959,504
S. Wikramanayake (g)	**2009**	**310,695**	**572,768**	**883,463**
	2008	-	-	-
Former Executive Directors and Executives				
J.K. Burke (h)	**2009**	**348,556**	**–**	**348,556**
	2008	383,387	12,200,292	12,583,679
A.E. Moss (i)	**2009**	**100,748**	**1,515,978**	**1,616,726**
	2008	670,928	27,223,798	27,894,726
Total Remuneration – Executive Key Management Personnel	**2009**	**4,683,157**	**14,899,113**	**19,582,270**
	2008	4,666,247	97,731,225	102,397,472

Long-Term Employee Benefits			Share Based Payments				
Restricted profit share (b) $	Earnings on prior year restricted profit share (c) $	Total long-term employee benefits $	Shares (d) $	Options (e) (f) $	Total share-based payments $	Total remuneration $	Percentage of remuneration that consists of options %
14,269	**(200,085)**	**(185,816)**	**128,412**	**13,893**	**142,305**	**495,736**	**2.80**
250,228	(54,098)	196,130	–	85,394	85,394	1,678,706	5.09
518,378	**(5,840,183)**	**(5,321,805)**	**2,073,516**	**900,793**	**2,974,309**	**290,756**	**309.81**
5,350,549	(2,194,999)	3,155,550	2,675,274	1,676,580	4,351,854	26,751,898	6.27
742,223	**(3,873,197)**	**(3,130,974)**	**1,378,417**	**472,382**	**1,850,799**	**1,223,881**	**38.60**
3,768,430	(1,449,207)	2,319,223	1,884,215	1,371,250	3,255,465	19,147,580	7.16
329,877	**(3,698,929)**	**(3,369,052)**	**2,968,897**	**334,093**	**3,302,990**	**3,711,983**	**9.00**
3,353,903	(3,203,246)	150,657	1,676,951	801,132	2,478,083	14,846,633	5.40
114,554	**(1,145,138)**	**(1,030,584)**	**1,030,984**	**787,201**	**1,818,185**	**2,243,833**	**35.08**
-	-	-	-	-	-	-	-
80,113	**(887,238)**	**(807,125)**	**721,018**	**172,891**	**893,909**	**1,343,220**	**12.87**
942,107	(729,050)	213,057	471,054	300,718	771,772	4,737,478	6.35
129,595	**(1,100,155)**	**(970,560)**	**1,166,352**	**133,538**	**1,299,890**	**2,056,620**	**6.49**
989,213	(932,937)	56,276	494,606	370,303	864,909	4,814,741	7.69
23,563	**(1,842,620)**	**(1,819,057)**	**212,064**	**175,241**	**387,305**	**(678,514)**	**(25.83)**
960,950	(1,621,746)	(660,796)	480,475	488,419	968,894	4,188,995	11.66
164,939	**(794,746)**	**(629,807)**	**1,484,449**	**187,564**	**1,672,013**	**3,122,935**	**6.01**
1,008,055	(677,098)	330,957	504,028	320,316	824,344	5,114,805	6.26
57,276	**(711,775)**	**(654,499)**	**515,492**	**418,713**	**934,205**	**1,163,169**	**36.00**
-	-	-	-	-	-	-	-
–	**(499,623)**	**(499,623)**	**–**	**(378,324)**	**(378,324)**	**(529,391)**	**71.46**
3,485,798	292,941	3,778,739	1,742,899	605,121	2,348,020	18,710,438	3.23
–	**(4,752,075)**	**(4,752,075)**	**–**	**56,090**	**56,090**	**(3,079,259)**	**(1.82)**
–	(4,877,847)	(4,877,847)	–	1,738,565	1,738,565	24,755,444	7.02
2,174,787	**(25,345,764)**	**(23,170,977)**	**11,679,601**	**3,274,075**	**14,953,676**	**11,364,969**	
20,109,233	(15,447,287)	4,661,946	9,929,502	7,757,798	17,687,300	124,746,718	

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

Notes on elements of executive remuneration

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

(b) This is the retained amount relating to current year profit share allocations, which is deferred to future periods and held as a notional investment in Macquarie-managed fund equity as described in section 3.2.3.1.1 under the "Proposed arrangements" heading. For 2009 and 2008, in the case of Mr A.E. Moss (because he retired), the retained amount is included within "Performance related remuneration" as it was paid within twelve months of the end of the reporting period.

(c) This is the notional earnings / (loss) on prior year restricted profit share allocations described on page 97 in this Appendix.

(d) This is the amount of the current year profit share allocation, which is deferred to future periods and invested in Macquarie ordinary shares as disclosed in 3.2.3.1.1 under the "Proposed arrangements" heading. Should shareholders approve the proposed changes, in 2010 this amount will be calculated and disclosed in accordance with prescribed accounting standards as described in Note 2 xxi) Share based payments to the 2009 Financial Statements.

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

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

Notes on individuals

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

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

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

Non-Executive Director remuneration

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

		Directors Fees $	Other Benefits (a) $	Total Compensation $
D.S. Clarke (b)	**2009**	**567,083**	**33,000**	**600,083**
	2008	736,250	40,000	776,250
J.G. Allpass (c)	**2009**	**–**	**–**	**–**
	2008	77,727	27,218	104,945
M.R.G. Johnson (d)	**2009**	**–**	**–**	**–**
	2008	66,818	60,606	127,424
P.M. Kirby	**2009**	**271,000**	**–**	**271,000**
	2008	257,958	–	257,958
C.B. Livingstone	**2009**	**298,500**	**16,350**	**314,850**
	2008	286,000	45,600	331,600
H.K. McCann (e)	**2009**	**448,217**	**–**	**448,217**
	2008	282,875	26,700	309,575
J.R. Niland	**2009**	**266,000**	**–**	**266,000**
	2008	262,542	–	262,542
H.M. Nugent	**2009**	**296,000**	**–**	**296,000**
	2008	273,500	–	273,500
P.H. Warne (f)	**2009**	**284,150**	**–**	**284,150**
	2008	206,417	–	206,417
Total Remuneration – Non-Executive Key Management Personnel	**2009**	**2,430,950**	**49,350**	**2,480,300**
	2008	2,450,087	200,124	2,650,211

(a) Other benefits for Non-Executive Directors include due diligence committee fees paid to Ms Livingstone of $16,350 (2008: $32,100), Mr McCann of $26,700 in 2008 and Mr Allpass of $7,000 in 2008; fees paid to Mr Allpass and Mr Johnson for Compliance Committee duties for certain related entities in 2008 (Macquarie Infrastructure Group, Macquarie Infrastructure Group International Limited, Macquarie Infrastructure Investment Management Limited, Macquarie Investment Management Limited, Macquarie Investment Services Limited and Macquarie Private Portfolio Management Limited), and fees paid to Mr Allpass and Ms Livingstone in 2008 for work performed in relation to the Basel II Board Sub-Committee.

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

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

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

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

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

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

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

Appendix 3: Share and option disclosures

Shares

Shareholding of Key Management Personnel and their related parties

The following table sets out details of Macquarie fully paid ordinary shares held during the year by the Key Management Personnel including their related parties.

For the year ended 31 March 2009

Name and position	Number of shares held at 1 April 2008	Shares issued on exercise of options	Other changes (a)	Number of shares held at 31 March 2009 (b)
Executive Directors				
L.G. Cox	269,812	–	–	269,812
N.W. Moore	1,030,510	–	166,901	1,197,411
Non-Executive Directors				
D.S. Clarke	704,868	–	46	704,914
P.M. Kirby	9,772	–	9,224	18,996
C.B. Livingstone	8,432	–	548	8,980
H.K. McCann	11,359	–	–	11,359
J.R. Niland	7,959	–	1,600	9,559
H.M. Nugent	20,613	–	–	20,613
P.H. Warne	9,077	–	6,744	15,821
Executives				
M. Carapiet	531,274	32,500	116,976	680,750
A.J. Downe	176,036	–	(51,934)	124,102
R.S. Laidlaw (c)	28,124	10,351	–	38,475
P.J. Maher	125,323	–	(19,148)	106,175
N.R. Minogue	157,312	–	(20,692)	136,620
W.R. Sheppard	261,313	–	6,477	267,790
G.C. Ward	56,620	–	(41,275)	15,345
S. Wikramanayake (c)	252,546	9,300	65,021	326,867
Former				
A.E. Moss (d)	404,236	–	–	404,236
J.K. Burke (e)	31,657	–	30,902	62,559

(a) Includes on-market acquisitions and disposals.

(b) Or date of retirement if earlier.

(c) Mr Laidlaw and Ms Wikramanayake were appointed to the Executive Committee on 10 June 2008. The opening balance on 1 April 2008 represents holdings at the date of appointment.

(d) Mr Moss retired from the Board of Directors and the Executive Committee on 24 May 2008. Balance at 31 March 2009 represents holdings at date of retirement.

(e) Mr Burke retired from the Executive Committee on 26 February 2009. Balance at 31 March 2009 represents holdings at date of retirement.

Shares

Shareholding of Key Management Personnel and their related parties continued

As a result of the corporate restructure that took place on 13 November 2007, shareholders of Macquarie Bank Limited obtained one Macquarie Group Limited ordinary share for each ordinary share they held in Macquarie Bank Limited prior to implementation of the restructure.

For the year ended 31 March 2008

Name and position	Number of shares held at 1 April 2007	Shares issued on exercise of options	Other changes (a)	Number of shares held at 31 March 2008 (b)
Executive Directors				
L.G. Cox	269,812	–	–	269,812
N.W. Moore	843,113	216,001	(28,604)	1,030,510
A.E. Moss	404,336	–	(100)	404,236
Non-Executive Directors				
J.G. Allpass (c)	18,513	–	–	18,513
D.S. Clarke	651,113	53,734	21	704,868
M.R.G. Johnson (d)	293,803	–	–	293,803
P.M. Kirby	9,772	–	–	9,772
C.B. Livingstone	7,550	–	882	8,432
H.K. McCann	11,359	–	–	11,359
J.R. Niland	5,959	–	2,000	7,959
H.M. Nugent	19,762	–	851	20,613
P.H. Warne (e)	8,790	–	287	9,077
Executives				
J.K. Burke	25,000	6,657	–	31,657
M. Carapiet	525,934	99,771	(94,431)	531,274
A.J. Downe	121,035	55,001	–	176,036
P.J. Maher	60,153	64,999	171	125,323
N.R. Minogue	110,811	46,501	–	157,312
W.R. Sheppard	259,271	–	2,042	261,313
G.C. Ward	29,211	27,409	–	56,620

(a) Includes on-market acquisitions and disposals.

(b) Or date of retirement if earlier.

(c) Mr Allpass retired from the Board of Directors on 19 July 2007. Balance at 31 March 2008 represents holdings at date of retirement.

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

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

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

Options

Option holdings of Key Management Personnel and their related parties

The following table sets out details of options held during the year for the Key Management Personnel including their related parties. The options are over fully paid unissued ordinary shares of Macquarie Group Limited.

For the year ended 31 March 2009

Name and position	Number of options held at 1 April 2008	Options granted during the financial year	Options exercised during the financial year	Other changes (a)	Number of options held at 31 March 2009 (b)	Number of options vested during the financial year	Number of options vested at 31 March 2009 (b)	Value of options granted as part of remuneration and that are exercised or sold during the financial year $ (c)
Executive Directors								
L.G. Cox	32,265	–	–	–	32,265	7,754	15,227	–
N.W. Moore	532,734	243,900	–	–	776,634	158,333	214,999	–
Non-Executive Directors								
D.S. Clarke	–	–	–	–	–	–	–	–
P.M. Kirby	–	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–	–
P.H. Warne	–	–	–	–	–	–	–	–
Executives								
M. Carapiet	383,067	200,000	(32,500)	–	550,567	120,889	88,389	625,300
A.J. Downe	248,334	178,000	–	–	426,334	73,333	89,999	–
R.S. Laidlaw (d)	247,725	135,000	(10,351)	–	372,374	62,586	87,075	137,151
P.J. Maher	85,001	50,000	–	–	135,001	31,667	31,667	–
N.R. Minogue	118,334	52,500	–	–	170,834	36,666	48,332	–
W.R. Sheppard	193,334	51,000	–	(20,000)	224,334	48,334	81,666	432,800
G.C. Ward	103,334	53,500	–	–	156,834	33,334	43,334	–
S. Wikramanayake (d)	107,575	80,000	(9,300)	–	178,275	30,828	21,528	128,247
Former								
A.E. Moss (e)	670,400	–	–	–	670,400	–	170,400	–
J.K. Burke (f)	224,678	–	–	(173,012)	51,666	70,000	51,666	1,304,555

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

(b) Or date of retirement if earlier.

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

(d) Mr Laidlaw and Ms Wikramanayake were appointed to the Executive Committee on 10 June 2008. The opening balance at 1 April 2008 represents holdings at date of appointment.

(e) Mr Moss retired from the Board of Directors and the Executive Committee on 24 May 2008.

(f) Mr Burke retired from the Executive Committee on 26 February 2009, whereupon 108,334 unvested options lapsed.

Options

Option holdings of Key Management Personnel and their related parties continued

As a result of the corporate restructure that took effect on 13 November 2007, optionholders of Macquarie Bank Limited obtained one option over unissued Macquarie ordinary shares for each option they held in Macquarie Bank Limited prior to implementation of the restructure.

For the year ended 31 March 2008

Name and position	Number of options held at 1 April 2007	Options granted during the financial year	Options exercised during the financial year	Other changes (a)	Number of options held at 31 March 2008 (b)	Number of options vested during the financial year	Number of options vested at 31 March 2008 (b)	Value of options granted as part of remuneration and that are exercised or sold during the financial year $ (c)
Executive Directors								
L.G. Cox	23,265	9,000	–	–	32,265	4,673	7,473	–
N.W. Moore	594,335	154,400	(216,001)	–	532,734	138,333	56,666	9,604,962
A.E. Moss	511,000	159,400	–	–	670,400	115,200	170,400	–
Non-Executive Directors								
J.G. Allpass (d)	–	–	–	–	–	–	–	–
D.S. Clarke (e)	53,734	–	(53,734)	–	–	–	–	2,125,687
M.R.G. Johnson (f)	84,795	–	–	–	84,795	–	36,366	–
P.M. Kirby	–	–	–	–	–	–	–	–
C.B. Livingstone	–	–	–	–	–	–	–	–
H.K. McCann	–	–	–	–	–	–	–	–
J.R. Niland	–	–	–	–	–	–	–	–
H.M. Nugent	–	–	–	–	–	–	–	–
P.H. Warne (g)	–	–	–	–	–	–	–	–
Executives								
J.K. Burke	181,335	50,000	(6,657)	–	224,678	53,001	46,344	275,961
M. Carapiet	356,838	126,000	(99,771)	–	383,067	99,771	–	2,238,423
A.J. Downe	218,335	85,000	(55,001)	–	248,334	71,667	16,666	2,719,486
P.J. Maher	125,000	25,000	(64,999)	–	85,001	31,666	–	2,827,387
N.R. Minogue	129,835	35,000	(46,501)	–	118,334	36,667	11,666	2,196,873
W.R. Sheppard	148,334	45,000	–	–	193,334	53,332	53,332	–
G.C. Ward	100,743	30,000	(27,409)	–	103,334	31,667	10,000	1,473,361

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

(b) Or date of retirement if earlier.

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

(d) Mr Allpass retired on 19 July 2007. Balance at 31 March 2008 represents holdings at date of retirement.

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

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

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

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

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

Details of options granted and their fair value at grant date

For the year ended 31 March 2009

Name and position	Date options granted	Number of options granted	Options exercise price $	Fair value at grant date* $	Value of options granted as part of remuneration during the year $	Date first tranche can be exercised	Expiry date
Executive Directors							
N.W. Moore	15 August 2008	243,900	53.91	10.74	2,619,486	1 July 2010	15 August 2013
Executives							
M. Carapiet	15 August 2008	200,000	53.91	10.74	2,148,000	1 July 2010	15 August 2013
A.J. Downe	15 August 2008	178,000	53.91	10.74	1,911,720	1 July 2010	15 August 2013
R.S. Laidlaw	15 August 2008	135,000	53.91	10.74	1,449,900	1 July 2010	15 August 2013
P.J. Maher	15 August 2008	50,000	53.91	10.74	537,000	1 July 2010	15 August 2013
N.R. Minogue	15 August 2008	52,500	53.91	10.74	563,850	1 July 2010	15 August 2013
W.R. Sheppard	15 August 2008	51,000	53.91	10.74	547,740	1 July 2010	15 August 2013
G.C. Ward	15 August 2008	53,500	53.91	10.74	574,590	1 July 2010	15 August 2013
S. Wikramanayake	15 August 2008	80,000	53.91	10.74	859,200	1 July 2010	15 August 2013
For the year ended 31 March 2008							
Executive Directors							
L.G. Cox	15 August 2007	9,000	71.41	11.16	100,440	1 July 2009	15 August 2012
N.W. Moore	15 August 2007	154,400	71.41	11.16	1,723,104	1 July 2009	15 August 2012
A.E. Moss	15 August 2007	159,400	71.41	11.16	1,778,904	1 July 2009	15 August 2012
Executives							
J.K. Burke	15 August 2007	50,000	71.41	11.16	558,000	1 July 2009	15 August 2012
M. Carapiet	15 August 2007	126,000	71.41	11.16	1,406,160	1 July 2009	15 August 2012
A.J. Downe	15 August 2007	85,000	71.41	11.16	948,600	1 July 2009	15 August 2012
P.J. Maher	15 August 2007	25,000	71.41	11.16	279,000	1 July 2009	15 August 2012
N.R. Minogue	15 August 2007	35.000	71.41	11.16	390,600	1 July 2009	15 August 2012
W.R. Sheppard	15 August 2007	45,000	71.41	11.16	502,200	1 July 2009	15 August 2012
G.C. Ward	15 August 2007	30,000	71.41	11.16	334,800	1 July 2009	15 August 2012

* Refer to notes on fair value below.

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

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

Options granted during the financial year were issued subject to the exercise conditions noted above and are only exercisable in three equal tranches on or after 1 July 2010, 1 July 2011 and 1 July 2012. Allocation of these options were in respect of performance for Macquarie's 2008 financial year.

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

- risk free interest rate: 6.77 per cent (weighted average)
- expected life of options: four years
- volatility of share price: 24 per cent per annum
- dividend yield: 3.47 per cent per annum

The exercise price of the options granted to Executive Directors and Executives in the current financial year was based on the weighted average market price of Macquarie's ordinary shares traded on ASX during the one week up to and including 15 August 2008 (adjusted for special trades and any cum-dividend trading).

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

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

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

For the year ended 31 March 2009

Name and position	Number of options exercised during the financial year (a)	Number of shares issued on exercise of options	Exercise price paid in full per share $
Executives			
M. Carapiet	32,500	32,500	33.11
R.S. Laidlaw	10,351	10,351	32.75
S. Wikramanayake	9,300	9,300	32.26

(a) Or the period until date of retirement if earlier than 31 March 2009.

For the year ended 31 March 2008

Name and position	Number of options exercised during the financial year (a)	Number of shares issued on exercise of options	Exercise price paid in full per share $
Executive Directors			
N.W. Moore	52,668	52,668	30.51
	66,667	66,667	28.74
	96,666	96,666	32.26
Executives			
J.K. Burke	4,668	4,668	28.74
	1,989	1,989	33.11
M. Carapiet	26,668	26,668	28.74
	32,500	32,500	33.11
	40,603	40,603	63.34
A.J. Downe	26,668	26,668	28.74
	28,333	28,333	32.75
P.J. Maher	30,000	30,000	28.74
	26,666	26,666	35.28
	8,333	8,333	63.34
N.R. Minogue	11,668	11,668	28.74
	21,500	21,500	30.51
	13,333	13,333	33.11
G.C. Ward	14,076	14,076	28.74
	13,333	13,333	33.11

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

Appendix 4: Loan disclosures

Loans to Key Management Personnel

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

		Opening balance at 1 April $'000	Interest charged (a) $'000	Write-down $'000	Closing balance at 31 March $'000	Number in group 31 March $'000
Total for Key Management Personnel and their related parties	**2009**	**62,518**	**4,512**	**–**	**42,861**	**10**
	2008	57,545	4,486	–	62,540	14
Total for Key Management Personnel	**2009**	**44,506**	**2,504**	**–**	**22,729**	**5**
	2008	41,862	3,014	–	44,525	9

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

Certain loans are provided under zero cost collars secured over Macquarie 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 2009

Name and position	Balance at 1 April 2008 $'000	Interest charged (a) $'000	Write-down $'000	Balance at 31 March 2009 (b) $'000	Highest in period $'000
Executive Directors					
L.G. Cox	–	–	–	–	–
N.M. Moore	12,259	376	–	5,313	12,570
Non-Executive Directors					
D.S. Clarke (c)	34,826	3,352	–	37,290	37,798
Executives					
A.J. Downe	1,847	105	–	–	1,847
R.S. Laidlaw (d)	238	10	–	238	238
P.J. Maher	4,912	499	–	20	5,572
N.R. Minogue	4,249	42	–	–	4,339
G.C. Ward	4,406	127	–	–	4,406

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

(b) Or date of retirement if earlier.

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

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

Directors' Report – Remuneration Report
for the financial year ended 31 March 2009 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 2008

Name and position	Balance at 1 April 2007 $'000	Interest charged (a) $'000	Write-down $'000	Balance at 31 March 2008 (b) $'000	Highest in period $'000
Executive Directors					
L.G. Cox	200	7	–	–	765
N.M. Moore	12,891	618	–	12,259	12,891
Non-Executive Directors					
D.S. Clarke (c)	29,937	2,606	–	34,826	35,050
Executives					
M. Carapiet	5,286	137	–	19	5,286
A.J. Downe	–	49	–	1,847	1,847
P.J. Maher	2,866	416	–	4,912	5,769
N.R. Minogue	4,618	341	–	4,249	4,939
G.C. Ward	1,727	311	–	4,406	4,561

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

(b) Or date of retirement if earlier.

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

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Appendix 5: Other disclosures

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

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

	Consolidated 2009 $'000	Consolidated 2008 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**14,538**	13,481

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

Executive Directors
L.G. Cox, N.W. Moore

Non-Executive Directors
D.S. Clarke (2008 only), P.M. Kirby

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

Former
J.K. Burke

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

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

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

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

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

This is the end of the Remuneration Report.

Directors' equity participation

At 30 April 2009, the Directors have relevant interests, as notified by the Directors to the Australian Securities Exchange in accordance with the Corporations Act 2001 (Cth), in the following shares and share options of Macquarie:

	Fully paid ordinary shares held at 30 April 2009	Share options held at 30 April 2009[(1)]
D.S. Clarke	704,363	-
L.G. Cox	269,812	32,265
N.W. Moore	1,197,411	776,634
P.M. Kirby	18,996	-
C.B. Livingstone	8,980	-
H.K. McCann	11,359	-
J.R. Niland	9,559	-
H.M Nugent	12,443	-
P.H. Warne	15,821	-

(1) 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 38 – Employee equity participation.

During the financial year, Directors received dividends relating to their shareholdings in Macquarie at the same rate as other shareholders.

The relevant interests of Directors as at 30 April 2009 in managed investment schemes made available by subsidiaries of Macquarie and contracts that confer a right to call for or deliver shares in Macquarie are listed on pages 119-120.

Directors' and Officers' indemnification and insurance

Under Macquarie's Constitution, Macquarie indemnifies all past and present Directors and Secretaries of Macquarie (including at this time the Directors named in this report and the Secretaries), and its wholly-owned subsidiaries, against certain liabilities and costs incurred by them in their respective capacities. The indemnity covers the following liabilities and legal costs (subject to the exclusions described below):

- every liability incurred by the person in their respective capacity;
- all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings in which the person becomes involved because of their respective capacity; and
- legal costs incurred by the person in good faith in obtaining legal advice on issues relevant to the performance and discharge of their duties as an officer of Macquarie or of a wholly-owned subsidiary of Macquarie, if that has been approved in accordance with Macquarie policy.

This indemnity does not apply to the extent that:

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

Macquarie has also entered into a Deed of Access, Indemnity, Insurance and Disclosure (Deed) with each of the Voting Directors. Under the Deed, Macquarie, inter alia, agrees to:

- indemnify the Voting Director to the full extent of the indemnity given in relation to officers of Macquarie under its Constitution in force from time to time;
- take out and maintain an insurance policy against liabilities incurred by the Voting Director acting as an officer of Macquarie or a wholly-owned subsidiary of Macquarie, or acting as an officer of another company at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. The insurance policy must be in an amount and on terms and conditions appropriate for a reasonably prudent company in Macquarie's position. The insurance policy must also be maintained for seven years after the Voting Director ceases to be a Voting Director or until any proceedings commenced during that period have been finally resolved (including any appeal proceedings); and
- grant access to the Voting Director to all company papers (including Board papers and other documents) of Macquarie or a subsidiary.

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

In addition, Macquarie made an Indemnity and Insurance Deed Poll on 12 September 2007 (Deed Poll). The benefit of the undertakings made by Macquarie under the Deed Poll have been given to each of the Directors, Secretaries, persons involved in the management and certain other persons, of Macquarie, its wholly-owned subsidiaries and other companies where the person is acting as such at the specific request of Macquarie or a wholly-owned subsidiary of Macquarie. 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, Insurance and Disclosure described above. However, the Deed Poll does not provide for access to company documents of Macquarie or any subsidiary of Macquarie.

The indemnities and insurance arrangements provided for under the Macquarie Constitution, the Deed and the Deed Poll, are broadly consistent with the corresponding indemnities and insurance arrangements provided under the Macquarie Bank Constitution and deeds entered into by Macquarie Bank, and were adopted by Macquarie upon the Consolidated entity restructure, under which Macquarie replaced Macquarie Bank as the parent company of the Group.

Macquarie maintains a Directors' and Officers' insurance policy 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 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 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 and any of these companies. Transactions between Macquarie 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 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 or of a related entity) by reason of a contract made by Macquarie 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 38 to the full financial report - Employee equity participation.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other corporation. No unissued shares, other than those referred to above, are under option as at the date of this report.

Directors' other relevant interests

The relevant interests of Directors as at 30 April 2009 in managed investment schemes made available by subsidiaries of Macquarie and other disclosable relevant interests are listed in the table below.

Name and position	Direct interests	Indirect interests
Executive Directors		
N.W. Moore	– 710,838 Macquarie Airports stapled securities – 483,674 Macquarie Global Infrastructure Fund (B) units – 2,531,935 Macquarie Media Group stapled securities – 5,000,000 Macquarie Reflexion Trusts June 2006 units – 50,000 Macquarie Nine Film & Television Investment Fund ordinary shares – 50 Macquarie Timber Land Trust 2004 units – 75 Macquarie Timber Land Trust 2006 units	– 957,382 Macquarie Infrastructure Group stapled securities – 200,000 Macquarie Technology Fund - 1A ordinary shares – 293,455 Macquarie Communications Infrastructure Group stapled securities – 64,177 Macquarie Global Infrastructure Fund (B) units – 3,586,365 Macquarie Airports stapled securities – 623,565 Macquarie Media Group stapled securities – 2,000,000 Macquarie Global Infrastructure Fund III (B) units
L.G. Cox	– 1,047 Macquarie Cash Management Trust units	– 189,236 Macquarie Airports stapled securities – 70 Macquarie Cash Management Trust units
Non-Executive Directors		
D.S. Clarke	– 285,575 Zero Cost Collars(2)	– 391,617 Macquarie Balanced Growth Fund units – 5,000 Macquarie Office Trust units – 213,517 Cash Settled Put Options(1) – 100,784 Zero Cost Collars(3)
Independent Directors		
P.M. Kirby	– 170,562 ConnectEast Group stapled securities – 121,563 Macquarie Infrastructure Group stapled securities – 30,000 Macquarie Media Group stapled securities	– 42,800 Macquarie Infrastructure Group stapled securities – 61,400 Macquarie Airports stapled securities – 56,009 Macquarie Cash Management Trust units – 500 Macquarie Airports Reset Exchange Securities Trust units
C.B. Livingstone		– 18,813 Macquarie CountryWide Trust units – 23,485 Macquarie Cash Management Trust units
H.K. McCann		– 103,000 Macquarie Martin Place Trust units – 50,819 Macquarie Communications Infrastructure Group stapled securities – 112,415 Macquarie CountryWide Trust units – 1,500 Macquarie Airports Reset Exchange Securities Trust units

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

Name and position	Direct interests	Indirect interests
Independent Directors continued		
J.R. Niland		– 20,291 Macquarie Infrastructure Group stapled securities – 101,750 Macquarie Office Trust units – 7,500 Macquarie Airports stapled securities
H.M. Nugent		– 28,611 Macquarie Airports stapled securities
P.H Warne		– 3,175 Macquarie Airports stapled securities – 218,884 Macquarie Infrastructure Group stapled securities – 106,557 Macquarie Office Trust units – 70,418 Macquarie CountryWide Trust units – 1,333 Macquarie Airports Reset Exchange Securities Trust units

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

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

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

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

Environmental regulations

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

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

Non-audit services

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

Macquarie's external auditor policy, which is discussed in the Corporate Governance Statement, 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, 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 Committee 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 Corporations Act 2001 (Cth) (the Act). This has been formally advised to the Board of Directors. Consequently, the Directors are satisfied that the provision of non-audit services during the year by the auditor and its related practices did not compromise the auditor independence requirements of the Act.

Auditor's independence declaration

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

Rounding of amounts

In accordance with Australian Securities & Investments Commission Class Order 98/0100 (as amended), amounts in the full Financial Report and Concise Report have been rounded off to the nearest million dollars unless otherwise indicated.

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

H Kevin McCann, AM
Non-Executive Director and Acting Chairman

Nicholas Moore
Managing Director and Chief Executive Officer

Sydney
30 April 2009

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

Directors' experience and special responsibilities

David S Clarke, AO, BEc (Hons), Hon DScEcon (Syd), MBA (Harv) (age 67)
Non-Executive Chairman – joined the Board in August 2007 (Currently on Leave of Absence)
Chairman of the Board Nominating Committee
Chairman of the Board Risk Committee
Member of the Board Remuneration Committee

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

Nicholas W Moore, BCom LLB (UNSW), FCA (age 50)
Managing Director and Chief Executive Officer since 24 May 2008
Executive Voting Director – joined the Board in February 2008
Member of the Board Risk Committee

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

Laurence G Cox, AO, BCom (Melb), FCPA, SF Fin (age 70)
Executive Voting Director – joined the Board in August 2007
Member of the Board Risk Committee

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

Peter M Kirby, BEc (Rhodes), BEc (Hons) (Natal), MA (Manch), MBA (Wits) (age 61)
Independent Voting Director – joined the Board in August 2007
Member of the Board Audit and Compliance Committee
Member of the Board Corporate Governance Committee
Member of the Board Risk Committee

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

Catherine B Livingstone, AO, BA (Hons) (Macquarie), FCA, FTSE (age 53)
Independent Voting Director – joined the Board in August 2007
Chairman of the Board Audit and Compliance Committee
Member of the Board Nominating Committee
Member of the Board Risk Committee

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

H Kevin McCann, AM, BA LLB (Hons) (Syd), LLM (Harv), FAICD (age 68)
Independent Voting Director – joined the Board in August 2007 (Acting Chairman since 27 November 2008)
Lead Independent Voting Director
Chairman of the Board Corporate Governance Committee
Member of the Board Audit and Compliance Committee
Acting Member of the Board Nominating Committee (Acting Chairman since 27 November 2008)
Acting Member of the Board Remuneration Committee (since 27 November 2008)
Member of the Board Risk Committee

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

John R Niland, AC, BCom, MCom, HonDSc (UNSW), PhD (Illinois), DUniv (SCU), FAICD (age 68)
Independent Voting Director – joined the Board in August 2007
Member of the Board Corporate Governance Committee
Member of the Board Remuneration Committee
Member of the Board Risk Committee

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

Helen M Nugent, AO, BA (Hons), PhD (Qld), MBA (Harv) (age 60)
Independent Voting Director – joined the Board in August 2007
Chairman of the Board Remuneration Committee
Member of the Board Nominating Committee
Member of the Board Risk Committee

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

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

Peter H Warne BA (Macquarie) (age 53)
Independent Voting Director – joined the Board in August 2007
Member of the Board Audit and Compliance Committee
Member of the Board Remuneration Committee
Member of the Board Risk Committee (Acting Chairman since 27 November 2008)

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

Company secretaries' qualifications and experience

Dennis Leong, BSc BE (Hons) (Syd), MCom (UNSW), CPA, FCIS
Company Secretary since 12 October 2006

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

Paula Walsh, ACIS
Assistant Company Secretary since 29 May 2008

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

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

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

Directors' Report Schedule 2
Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

Auditor's Independence Declaration

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

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

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

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

DH Armstrong
Partner
PricewaterhouseCoopers

Sydney
30 April 2009

Liability is limited by scheme approved under Professional Standards Legislation

Macquarie Group Limited
2009 Financial Report
Contents

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

Income statements
for the financial year ended 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[1]
Interest and similar income		**6,420**	6,698	**842**	381
Interest expense and similar charges		**(5,482)**	(5,881)	**(839)**	(375)
Total net interest income	3	**938**	817	**3**	6
Fee and commission income	3	**4,045**	4,645	**-**	-
Net trading income	3	**1,157**	1,835	**-**	-
Share of net profits of associates and joint ventures using the equity method	3	**74**	156	**-**	-
Other operating income and charges	3	**(688)**	795	**(12,305)**	16,633
Net operating income		**5,526**	8,248	**(12,302)**	16,639
Employment expenses	3	**(2,359)**	(4,177)	**(3)**	(1)
Brokerage and commission expenses	3	**(685)**	(702)	**(6)**	-
Occupancy expenses	3	**(393)**	(264)	**-**	-
Non-salary technology expenses	3	**(263)**	(214)	**-**	-
Other operating expenses	3	**(837)**	(686)	**(29)**	(16)
Total operating expenses		**(4,537)**	(6,043)	**(38)**	(17)
Operating profit/(loss) before income tax		**989**	2,205	**(12,340)**	16,622
Income tax (expense)/benefit	6	**(15)**	(317)	**12**	5
Profit/(loss) from ordinary activities after income tax		**974**	1,888	**(12,328)**	16,627
Distributions paid or provided on:					
Macquarie Income Preferred Securities	7	**(45)**	(50)	**-**	-
Macquarie Income Securities	7	**(33)**	(34)	**-**	-
Other minority interests		**(25)**	(1)	**-**	-
Profit attributable to minority interests		**(103)**	(85)	**-**	-
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited		**871**	1,803	**(12,328)**	16,627
		Cents per share			
Basic earnings per share	8	**309.6**	670.6		
Diluted earnings per share	8	**308.6**	653.5		

[1] Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

Balance sheets
as at 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[1]
Assets					
Cash and balances with central banks		**141**	7	**-**	-
Due from banks	9	**12,271**	10,110	**-**	-
Cash collateral on securities borrowed and reverse repurchase agreements	10	**5,096**	22,906	**-**	-
Trading portfolio assets	11	**9,260**	15,807	**-**	-
Loan assets held at amortised cost	12	**44,751**	52,407	**-**	-
Other financial assets at fair value through profit or loss	14	**7,910**	4,131	**-**	-
Derivative financial instruments – positive values	42	**27,428**	21,136	**-**	-
Other assets	15	**10,640**	10,539	**95**	1
Investment securities available for sale	16	**18,123**	16,454	**-**	-
Intangible assets	17	**759**	494	**-**	-
Life investment contracts and other unit holder investment assets	18	**4,314**	5,699	**-**	-
Due from subsidiaries	36	**-**	-	**10,390**	13,891
Interest in associates and joint ventures using the equity method	19	**6,123**	5,500	**-**	-
Property, plant and equipment	20	**605**	375	**-**	-
Investments in subsidiaries	21	**-**	-	**11,391**	23,512
Deferred income tax assets	22	**1,186**	718	**368**	1
Non-current assets and assets of disposal groups classified as held for sale	23	**537**	967	**-**	-
Total assets		**149,144**	167,250	**22,244**	37,405
Liabilities					
Due to banks	24	**11,858**	10,041	**7,393**	4,864
Cash collateral on securities lent and repurchase agreements	25	**3,953**	13,781	**-**	-
Trading portfolio liabilities	26	**2,161**	11,825	**-**	-
Derivative financial instruments – negative values	42	**27,371**	21,399	**-**	-
Deposits		**21,868**	15,783	**104**	-
Debt issued at amortised cost	27	**48,270**	57,115	**-**	-
Other financial liabilities at fair value through profit or loss	28	**6,203**	6,288	**-**	-
Other liabilities	29	**10,342**	12,210	**-**	-
Current tax liabilities		**187**	193	**-**	49
Life investment contracts and other unit holder liabilities		**4,312**	5,689	**-**	-
Due to subsidiaries	36	**-**	-	**3,919**	8,855
Provisions	30	**189**	179	**-**	-
Deferred income tax liabilities	22	**4**	121	**-**	-
Liabilities of disposal groups classified as held for sale	23	**328**	215	**-**	-
Total liabilities excluding loan capital		**137,046**	154,839	**11,416**	13,768
Loan capital					
Macquarie Convertible Preference Securities		**591**	-	**-**	-
Subordinated debt at amortised cost		**1,496**	1,704	**-**	-
Subordinated debt at fair value through profit or loss		**451**	646	**-**	-
Total loan capital	32	**2,538**	2,350	**-**	-
Total liabilities		**139,584**	157,189	**11,416**	13,768
Net assets		**9,560**	10,061	**10,828**	23,637

[1] Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

	Notes	**Consolidated 2009 $m**	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m[1]
Equity					
Contributed equity					
Ordinary share capital	33	**4,906**	4,534	**7,729**	7,364
Treasury shares	33	**(2)**	(12)	**-**	-
Exchangeable shares	33	**116**	133	**-**	-
Reserves	34	**17**	456	**153**	42
Retained earnings	34	**3,627**	3,718	**2,946**	16,231
Total capital and reserves attributable to ordinary equity holders of Macquarie Group Limited		**8,664**	8,829	**10,828**	23,637
Minority interests					
Macquarie Income Preferred Securities	34	**398**	752	**-**	-
Macquarie Income Securities	34	**391**	391	**-**	-
Other minority interests	34	**107**	89	**-**	-
Total equity		**9,560**	10,061	**10,828**	23,637

[1] Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

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

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[1]
Total equity at the beginning of the financial year		**10,061**	7,519	**23,637**	-
Available for sale investments, net of tax	34	**(226)**	(5)	**-**	-
Cash flow hedges, net of tax	34	**(251)**	24	**-**	-
Share of reserves of associates and joint ventures	34	**(58)**	(6)	**-**	-
Exchange differences on translation of foreign operations		**21**	(109)	**-**	-
Net expense recognised directly in equity		**(514)**	(96)	**-**	-
Profit/(loss) from ordinary activities after income tax for the financial year		**974**	1,888	**(12,328)**	16,627
Total recognised income and expense for the financial year		**460**	1,792	**(12,328)**	16,627
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	33	**355**	1,388	**348**	7,350
Dividends paid	7	**(962)**	(880)	**(957)**	(396)
Minority interests:					
Increase in equity	34	**10**	73	**-**	-
Financing of Macquarie Income Preferred Securities	34	**(382)**	-	**-**	-
Distributions paid or provided		**(103)**	(85)	**-**	-
Other equity movements:					
Net movement on exchangeable shares	33	**(17)**	133	**-**	-
Share based payments	34	**128**	126	**128**	56
Net sale/(purchase) of treasury shares	33	**10**	(5)	**-**	-
Total equity at the end of the financial year		**9,560**	10,061	**10,828**	23,637
Total recognised income and expense for the year is attributable to:					
Ordinary equity holders of Macquarie Group Limited		**321**	1,796	**(12,328)**	16,627
Macquarie Income Preferred Securities holders		**73**	(39)	**-**	-
Macquarie Income Securities holders		**33**	34	**-**	-
Other minority interests		**33**	1	**-**	-
Total recognised income and expense for the financial year		**460**	1,792	**(12,328)**	16,627

(1) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

Cash flow statements

for the financial year ended 31 March 2009

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[(1)]
Cash flows from operating activities					
Interest received		**6,077**	5,894	**842**	381
Interest and other costs of finance paid		**(5,490)**	(5,788)	**(838)**	(358)
Dividends and distributions received		**568**	407	**857**	16,635
Fees and other non-interest income received		**4,704**	4,858	**-**	-
Fees and commissions paid		**(742)**	(704)	**-**	-
Net receipts from trading portfolio assets and other financial assets/liabilities		**4,503**	8,289	**-**	-
Payments to suppliers		**(2,089)**	(1,877)	**(36)**	(19)
Employment expenses paid		**(4,155)**	(3,531)	**(3)**	(1)
Income tax paid		**(333)**	(365)	**(155)**	(66)
Life investment contract income		**265**	497	**-**	-
Life investment contract premiums received and other unit holder contributions		**3,745**	3,225	**-**	-
Life investment contract payments		**(4,201)**	(2,773)	**-**	-
Non-current assets and disposal groups classified as held for sale – net receipts from operations		**265**	164	**-**	-
Net loan assets repaid/(granted)		**3,553**	(6,675)	**3,231**	(13,767)
Loan facility (repaid to)/provided by a subsidiary	36	**-**	-	**(5,000)**	8,800
Recovery of loans previously written off		**10**	6	**-**	-
Net (decrease)/increase in amounts due to other financial institutions, deposits and other borrowings		**(1,555)**	16,984	**2,633**	4,847
Net cash flows from operating activities	35	**5,125**	18,611	**1,531**	16,452
Cash flows from investing activities					
Net payments for financial assets available for sale and at fair value through profit or loss		**(3,826)**	(3,254)	**-**	-
Payments for interests in associates		**(1,411)**	(2,954)	**-**	-
Proceeds from the disposal of associates		**444**	1,008	**-**	-
Payments for the acquisition of assets and disposal groups classified as held for sale, net of cash acquired		**(103)**	(812)	**-**	-
Proceeds from the disposal of non-current assets and disposal groups classified as held for sale, net of cash disposed		**745**	1,562	**-**	-
Net cash inflow from/(payments for) the acquisition of subsidiaries, excluding disposal groups, net of cash acquired		**65**	(931)	**-**	(19,240)
Proceeds from the disposal of subsidiaries and businesses excluding disposal groups, net of cash deconsolidated		**3,354**	107	**-**	-
Payments for life investment contracts and other unit holder investment assets		**(6,950)**	(7,031)	**-**	-
Proceeds from the disposal of life investment contracts and other unit holder investment assets		**7,208**	6,037	**-**	-
Payments for property, plant and equipment		**(299)**	(164)	**-**	-
Proceeds from the disposal of property, plant and equipment		**33**	52	**-**	-
Return of capital from/(injection of capital to) a subsidiary		**-**	-	**(870)**	3,000
Net cash flows used in investing activities		**(740)**	(6,380)	**(870)**	(16,240)

(1) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

Cash flow statements
for the financial year ended 31 March 2009 continued

	Notes	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[1]
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**116**	1,089	**82**	70
(Payments to)/proceeds from minority interests		**(348)**	62	**-**	-
Repayment of subordinated debt		**(235)**	(225)	**-**	-
Issue of Macquarie Convertible Preference Securities		**600**	-	**-**	-
Payment of issue costs on Macquarie Convertible Preference Securities		**(9)**	-	**(9)**	-
Dividends and distributions paid		**(829)**	(668)	**(734)**	(282)
Net cash flows (used in)/from financing activities		**(705)**	258	**(661)**	(212)
Net increase in cash and cash equivalents		**3,680**	12,489	**-**	-
Cash and cash equivalents at the beginning of the financial year		**20,815**	8,326	**-**	-
Cash and cash equivalents at the end of the financial year	35	**24,495**	20,815	**-**	-

(1) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

Note 1. Macquarie Group Restructure

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

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

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

Under the restructure, following MBL becoming a legal subsidiary of MGL, MBL sold certain subsidiaries and assets to the Non-Banking Group for fair value at the restructure date. The majority of MBL's profits on sale of these subsidiaries were distributed by MBL via dividends to MGL. MBL also obtained shareholder approval to reduce its capital by $3,000 million. The funds received by MGL from these transactions were contributed to the capital base of the Non-Banking Group and assisted in financing the acquisition of the subsidiaries and assets from MBL by the Non-Banking Group. MBL also paid a dividend to MGL of $2,250 million and MGL simultaneously subscribed the same amount to MBL as a capital injection. These transactions occurred on 16 November 2007. On 19 November 2007, a new holding company (Macquarie B.H. Pty Limited) was introduced between MGL and MBL. All of these transactions were internal to the Macquarie Group and did not impact MGL ordinary shareholders.

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

Note 2. Summary of significant accounting policies

i) Basis of preparation

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

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

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 MGL and its subsidiaries (the consolidated entity) and the consolidated financial report such as:

– fair value of financial instruments (note 46);
– impairment of loan assets held at amortised cost, investment securities available for sale, associates and joint ventures and held for sale investments (notes 2(xii), 2(xiii), 13 and 43.1);
– acquisitions and disposals of subsidiaries, associates and joint ventures and assets and disposal groups classified as held for sale (notes 2(ii), 2(xii), 19, 21 and 23);
– determination of control of special-purpose entities (notes 2(ii), 12 and 27); and
– recoverability of deferred tax assets (notes 2(vii), 6 and 22).

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

Note 2. Summary of significant accounting policies continued

i) Basis of preparation continued

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes 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.

Early adoption of amendments to Accounting Standards

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

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

AASB 2008-7 also amends the Company's accounting policy applied to group reorganisations where a new parent is established as part of the reorganisation. In the previous financial year, the Company had acquired Macquarie Bank Limited as part of the Macquarie Group Restructure (described in note 1) at fair value of $23,982 million. With the adoption of AASB 2008-7, the initial cost of the investment in MBL is changed from fair value of $23,982 million to the carrying values of the equity items that MBL had reported at the date of the reorganisation of $7,166 million. A consequence of restating the investment in MBL is that dividends paid by MBL after the reorganisation of $16,635 million are now recognised in the Company's income statement rather than as a reduction of the cost of the investment. This change in accounting policy is accounted for retrospectively by restating the comparative information. The net impact of these restatements is to decrease investments in subsidiaries and ordinary share capital by $181 million and $16,816 million respectively, and to increase retained earnings by $16,635 million (dividend income increases by $16,635 million).

There was no impact on the consolidated entity's financial statements or earnings per share as disclosed in note 8.

The effect of the application of AASB 2008-7 in the financial year ended 31 March 2008 is to increase other operating income and charges and correspondingly, investments in subsidiaries by $16,635 million and $181 million respectively.

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

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

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

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

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

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

These Standards will be initially applied in the financial year beginning 1 April 2010 on a prospective basis. As such, the impact that initial application of these Standards is expected to have on the consolidated entity's financial report is not known or reasonably estimable at this time:

- Interpretation 16 *Hedges of a Net Investment* in a Foreign Operation was issued in August 2008 and is mandatory from 1 April 2009. Interpretation 16 provides guidance on net investment hedging, and its application is not expected to have any material impact; and
- AASB 2008-5 *Amendments to Australian Accounting Standards* arising from the Annual Improvements Project (mandatorily applicable from 1 January 2009) and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* (mandatorily applicable from 1 July 2009) were issued in July 2008. These Standards make a number of amendments, the more relevant ones for the consolidated entity being:
  - clarifying under AASB 5 *Non-current assets held for sale and discontinued operations* that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control;
  - clarifying under AASB 128 *Investments in associates* that an investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases; and
  - amending AASB 139 *Financial instruments: Recognition and measurement* to clarify that it is possible for there to be reclassifications into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

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

ii) Principles of consolidation

Subsidiaries

The consolidated financial report comprises the financial report of the Company and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) over which the Company 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 Company'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 Company owns less than 100 per cent of the issued capital, are shown separately in the consolidated income statement and balance sheet, respectively.

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

The Company 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 under law.

Subsidiaries held by the Company are carried in its separate financial statements at cost in accordance with AASB 127 *Consolidated and Separate Financial Statements (as amended)*. When the Consolidated entity restructured, the Company's cost of investment in subsidiaries was determined at the fair value of the investment received ($23,982 million). Following the release of AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, the accounting treatment for the Macquarie Group Restructure in the Company's separate financial statement was changed. The impact of the change is disclosed in note 2(i).

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 investments 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.

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

Note 2. Summary of significant accounting policies continued

ii) Principles of consolidation continued

Securitisations

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

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

– a majority of the benefits of an SPEs activities are obtained;
– a 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 2(xii)). 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 Company 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 under law.

Associates and joint ventures held by the Company 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 on 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 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.

Reverse acquisition for Macquarie Group Restructure

The restructure of the consolidated entity in the financial year ended 31 March 2008, had been accounted for as a reverse acquisition in the consolidated financial statements, with Macquarie Bank Limited identified as the acquirer in accordance with AASB 3 *Business Combinations.* Consequently, the consolidated financial statements as at 31 March 2008 had been presented as a continuation of the Macquarie Group that includes both the Banking and Non-Banking groups.

iv) Segment reporting

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

v) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

Subsidiaries and other entities

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

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

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

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

vi) Revenue recognition

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

Interest income

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

Fee and commission income

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

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

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

Net trading income

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

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

Note 2. Summary of significant accounting policies continued

vi) Revenue recognition continued

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 Company's right to receive the dividend is established. Refer to note 2(i) for the impact of the change in accounting policy from adopting AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*

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 there is a legally enforceable right to offset and an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company 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 tax consolidated group in Australia or groups of entities in overseas jurisdictions, the nature of the tax loss, the length of time that tax losses are eligible for carry forward to offset against future taxable profits and whether future taxable profits are expected to be sufficient to allow recovery of deferred tax assets.

Tax consolidation

The consolidated entity's Australian tax liabilities are determined according to tax consolidation legislation. The Company together with all eligible Australian resident wholly-owned subsidiaries of the Company comprise a tax consolidated group with the Company as the head entity. As a consequence, the relevant subsidiaries are not liable to make income tax payments and do not recognise any current tax balances or any deferred tax assets arising from unused tax losses. Under the terms and conditions of a tax funding agreement, the Company 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.

Should the Company be in default of its tax payment obligations, or a default is probable, the current tax balances of the subsidiaries will be determined in accordance with the terms and conditions of a tax sharing agreement between the Company and entities in the consolidated entity.

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

As part of its trading activities, the consolidated entity 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 consolidated entity purchases securities under an agreement to resell, and repurchase transactions, where the consolidated entity 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) 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 Company and consolidated entity have short-sold and are actively traded.

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

The consolidated entity uses trade date accounting when recording regular way purchases and sales of financial assets. At the date the transaction is entered into (trade date), the consolidated entity recognises 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 consolidated entity becomes party to a sale contract of a financial asset, it derecognises the asset and recognises a trade receivable until settlement date.

x) Derivative instruments

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

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

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

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

xi) Hedge accounting

The consolidated entity designates certain derivatives or financial instruments as hedging instruments in qualifying hedge relationships. On initial designation of the hedge, the consolidated entity documents the hedging relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether hedging relationships have been and will continue to be highly effective. Derivatives or financial instruments can be designated in one of 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 42. Movements in the cash flow hedging reserve in equity are shown in note 34.

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

Note 2. Summary of significant accounting policies continued

xii) 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 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 other financial assets at fair value through profit or loss, is re-evaluated at each reporting date.

Loans and receivables

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

Other financial assets at fair value through profit or loss

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

Investment securities available for sale

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

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

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

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

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

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

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

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

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

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

Note 2. Summary of significant accounting policies continued

xiv) 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 includes the assets, liabilities, income and expenses of the life insurance business conducted by a subsidiary of the Company in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 1038 *Life Insurance Contracts* to investment contracts and assets backing insurance liabilities, respectively. These amounts represent the total life insurance business of the subsidiary, including underlying amounts that relate to both policyholders and shareholders of the life insurance business.

Investment assets

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

Restriction on assets

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

Policy liabilities

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

xv) 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
Infrastructure assets	5 to 20 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 an 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 recognised in the income statement.

xvi) Goodwill and other identifiable intangible assets

Goodwill

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

Other identifiable intangible assets

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

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

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

Software

Certain internal and external costs directly incurred in acquiring and developing certain software are capitalised and amortised over the 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.

xvii) Financial liabilities

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

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

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

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

Other financial liabilities at fair value through profit or loss

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

xviii) Provisions

Employee benefits

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

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made. In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using 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 is transferred to another entity and the Company 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 Company are recognised on the balance sheet as a liability and a reduction in retained earnings when the dividend has been declared.

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

Note 2. Summary of significant accounting policies continued

xix) Funds under management

Within the consolidated entity certain subsidiaries, jointly controlled entities and associates act as a custodian and/or a single responsible entity for a number of investment funds and trusts. As at 31 March 2009, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the consolidated entity (measured based on the gross assets of the individual funds) is $243 billion (31 March 2008: $232 billion). Other investment funds and trusts have not been consolidated in the financial report because individual entities within the consolidated entity do not have control of the funds and trusts.

xx) Earnings per share

Basic earnings per share is calculated by dividing the consolidated entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the consolidated entity's profit attributable to ordinary equity holders by the weighted average number of ordinary shares that would be issued on the exchange of all the dilutive potential ordinary shares into ordinary shares.

Refer to note 8 for information concerning the classification of securities.

xxi) Performance based remuneration

Share based payments

The consolidated entity operates share-based compensation plans, which include options granted to employees and shares granted to employees under share acquisition plans. Information relating to these schemes is set out in note 38. The consolidated entity recognises an expense (and equity reserve) for its shares and options granted to employees. The shares and options are measured at the grant dates based on their fair value and in the case of options, using the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

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

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

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

Where options are issued by the Company to employees of subsidiaries and is not subsequently reimbursed by those subsidiaries, the Company recognises the equity provided as a capital contribution to the subsidiaries.

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

Profit share remuneration

The consolidated entity recognises a liability and an expense for profit share remuneration 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.

xxii) Cash and cash equivalents

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

xxiii) Leases

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

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

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

xxiv) Offsetting financial instruments

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

xxv) Loan capital

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

xxvi) Contributed equity

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

xxvii) Transactions with minorities

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

xxviii) Comparatives

Certain comparative amounts in the Company's financial statements have been restated as a result of a change in the accounting treatment for the Macquarie Group Restructure, following the adoption of AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* in advance of the Standard's mandatory application date. Refer to note 2(i) for the impact of the change.

Other comparative amounts have been reclassified where necessary to conform with changes in classification of certain items in the financial report.

xxix) Rounding of amounts

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

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 3. Profit for the financial year				
Net interest income				
Interest and similar income received/receivable:				
Other entities	6,420	6,698	-	-
Subsidiaries (note 36)	-	-	842	381
Interest expense and similar charges paid/payable:				
Other entities	(5,482)	(5,881)	(315)	(96)
Subsidiaries (note 36)	-	-	(524)	(279)
Total net interest income	938	817	3	6
Fee and commission income				
Fee and commission income	3,990	4,610	-	-
Income from life investment contracts and other unit holder investment assets (note 18)	55	35	-	-
Total fee and commission income	4,045	4,645	-	-
Net trading income[1]				
Equities	144	1,167	-	-
Commodities	583	394	-	-
Foreign exchange products	132	255	-	-
Interest rate products	298	19	-	-
Total net trading income	1,157	1,835	-	-
Share of net profits of associates and joint ventures accounted for using the equity method	74	156	-	-

[1] Included in net trading income are fair value changes of $64 million for the year ending 31 March 2009 (31 March 2008: $26 million expense) relating to financial assets and financial liabilities designated as held at fair value through profit or loss. This includes $274 million (2008: $72 million) profit as a result of changes in own credit spread on issued debt and subordinated debt carried at fair value. Fair value changes relating to derivatives are also reported in net trading income which partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. This also includes fair value changes on derivatives used to hedge the consolidated entity's economic interest rate risk where hedge accounting requirements are not met - refer to note 2(xi).

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m[1]
Note 3. Profit for the financial year continued				
Other operating income and charges				
Net gains on sale of investment securities available for sale	**143**	123	**-**	-
Impairment charge on investment securities available for sale	**(306)**	(120)	**-**	-
Net gains on sale of associates (including associates held for sale) and joint ventures	**81**	560	**-**	-
Impairment charge on investments in associates (including associates held for sale) and joint ventures	**(714)**	(300)	**-**	-
Net income/(expense) from disposal groups held for sale[2]	**91**	(28)	**-**	-
Impairment charge on disposal groups held for sale	**(192)**	-	**-**	-
Gain on acquiring, disposing and change in ownership interest in subsidiaries and businesses held for sale	**323**	293	**-**	-
Impairment charge on subsidiaries	**-**	-	**(13,163)**	-
Impairment charge on non-financial assets	**(75)**	-	**-**	-
Dividends/distributions received/receivable:				
Equity investments and investment securities available for sale	**49**	91	**-**	-
Subsidiaries (note 36)	**-**	-	**858**	16,635
Management fees, group service charges and cost recoveries - subsidiaries	**-**	-	**-**	(2)
Collective allowance for credit losses during the financial year (note 12)	**(90)**	(37)	**-**	-
Specific provisions:				
Loan assets provided for during the financial year (note 12)	**(344)**	(85)	**-**	-
Other receivables provided for during the financial year	**(40)**	-	**-**	-
Recovery of loans previously provided for (note 12)	**17**	35	**-**	-
Loan losses written-off	**(54)**	(27)	**-**	-
Recovery of loans previously written off	**10**	6	**-**	-
Other income[3]	**413**	284	**-**	-
Total other operating income and charges	**(688)**	795	**(12,305)**	16,633
Net operating income	**5,526**	8,248	**(12,302)**	16,639

(1) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

(2) Included within net income/(expense) from disposal groups held for sale are the net income and expenses arising from the activities of the disposal groups. Refer to note 23 – Non-current assets and disposal groups classified as held for sale for the name of each group.

(3) Included within other income is rental income of $466 million (2008: $282 million) less depreciation of $283 million (2008: $180 million) in relation to operating leases where the consolidated entity is the lessor.

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 3. Profit for the financial year continued				
Employment expenses				
Salary and salary related costs including commissions, superannuation and performance-related profit share	**(2,098)**	(3,720)	**(3)**	(1)
Share based payments	**(128)**	(126)	**-**	-
Provision for annual leave	**(19)**	(21)	**-**	-
Provision for long service leave	**(2)**	(11)	**-**	-
Total compensation expense	**(2,247)**	(3,878)	**(3)**	(1)
Other employment expenses including on-costs, staff procurement and staff training	**(112)**	(299)	**-**	-
Total employment expenses	**(2,359)**	(4,177)	**(3)**	(1)
Brokerage and commission expenses				
Brokerage expenses	**(466)**	(561)	**-**	-
Other fee and commission expenses	**(219)**	(141)	**(6)**	-
Total brokerage and commission expenses	**(685)**	(702)	**(6)**	-
Occupancy expenses				
Operating lease rental	**(224)**	(152)	**-**	-
Depreciation: furniture, fittings and leasehold improvements (note 20)	**(95)**	(60)	**-**	-
Other occupancy expenses	**(74)**	(52)	**-**	-
Total occupancy expenses	**(393)**	(264)	**-**	-
Non-salary technology expenses				
Information services	**(121)**	(82)	**-**	-
Depreciation: computer equipment (note 20)	**(60)**	(53)	**-**	-
Other non-salary technology expenses	**(82)**	(79)	**-**	-
Total non-salary technology expenses	**(263)**	(214)	**-**	-
Other operating expenses				
Professional fees	**(301)**	(228)	**(1)**	-
Auditor's remuneration (note 47)	**(24)**	(18)	**(1)**	-
Travel and entertainment expenses	**(204)**	(200)	**-**	-
Advertising and promotional expenses	**(45)**	(46)	**-**	-
Communication expenses	**(43)**	(40)	**-**	-
Depreciation: communication equipment (note 20)	**(4)**	(7)	**-**	-
Other expenses	**(216)**	(147)	**(27)**	(16)
Total other operating expenses	**(837)**	(686)	**(29)**	(16)
Total operating expenses	**(4,537)**	(6,043)	**(38)**	(17)

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 4. Revenue from operating activities				
Interest and similar income	**6,420**	6,698	**842**	381
Fee and commission income	**3,990**	4,610	**-**	-
Premium income, investment revenue and management fees from life investment contracts and other unit holder investment assets (note 18)	**342**	211	**-**	-
Net trading income	**1,157**	1,835	**-**	-
Profit on the disposal of investment securities available for sale and associates and joint ventures	**224**	683	**-**	-
Other income (excluding net gains on the sale of investment securities available for sale, associates and joint ventures)	**950**	796	**858**	16,633
Total revenue from operating activities	**13,083**	14,833	**1,700**	17,014

Note 5. Segment reporting

(i) Operating segments

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

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

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

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

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

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

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

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

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

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

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

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

	Macquarie Funds Group $m	Banking and Financial Services $m	Real Estate Banking Division $m	Corporate and Asset Finance $m
Note 5. Segment reporting continued				
Revenues from external customers	**726**	**3,443**	**304**	**733**
Inter-segmental (expense)/revenue[(1)]	**(36)**	**(418)**	**(211)**	**(194)**
Interest revenue	**212**	**2,693**	**173**	**652**
Interest expense	**(42)**	**(1,902)**	**(6)**	**(252)**
Depreciation and amortisation	**(3)**	**(16)**	**(2)**	**(265)**
Share of net (losses)/profits of associates and joint ventures using the equity method	**(12)**	**(7)**	**4**	**(1)**
Net operating (expense)/income from disposal groups held for sale	**-**	**-**	**-**	**-**
Reportable segment profit/(loss)	**45**	**(99)**	**(356)**	**66**
Reportable segment assets	**8,832**	**32,080**	**3,061**	**9,078**
Revenues from external customers	865	3,593	438	627
Inter-segmental revenue/(expense)[(1)]	(106)	(524)	(257)	(210)
Interest revenue	135	2,751	203	485
Interest expense	(10)	(1,890)	(15)	(182)
Depreciation and amortisation	(1)	(20)	(1)	(156)
Share of net profits/(losses) of associates and joint ventures using the equity method	3	(8)	107	-
Net operating (expense)/income from disposal groups held for sale	-	-	-	-
Reportable segment profit/(loss)	307	238	(130)	112
Reportable segment assets	10,777	41,192	3,748	7,683

(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.

Treasury and Commodities Group $m	Macquarie Securities Group $m	Macquarie Capital $m	Corporate $m	Total $m
				Consolidated 2009
1,902	**1,611**	**2,524**	**1,675**	**12,918**
(111)	**107**	**(322)**	**1,185**	**-**
782	**545**	**142**	**1,221**	**6,420**
(539)	**(376)**	**(53)**	**(2,312)**	**(5,482)**
(9)	**(15)**	**(55)**	**(76)**	**(441)**
69	**3**	**11**	**7**	**74**
(3)	**-**	**94**	**-**	**91**
509	**275**	**251**	**180**	**871**
45,994	**18,145**	**9,104**	**22,850**	**149,144**
				Consolidated 2008
1,942	3,117	3,412	711	14,705
(202)	(140)	(158)	1,597	-
895	1,233	236	760	6,698
(695)	(816)	(44)	(2,229)	(5,881)
(8)	(11)	(36)	(60)	(293)
30	7	26	(9)	156
-	-	(28)	-	(28)
602	1,217	2,237	(2,780)	1,803
38,521	38,304	9,395	17,630	167,250

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

Note 5. Segment reporting continued

(ii) Products and services

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

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

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

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

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

	Asset and Wealth Management $m	Financial Markets $m	Capital Markets $m	Lending $m	Total $m
					Consolidated 2009
Revenues from external customers	**3,166**	**3,999**	**1,952**	**3,801**	**12,918**
					Consolidated 2008
Revenues from external customers	2,811	4,626	3,518	3,750	14,705

(iii) Geographical areas

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

	Revenues $m	Non-current Assets[(1)] $m
		Consolidated 2009
Australia	**7,130**	**240**
Asia Pacific	**1,264**	**108**
Europe, Middle East and Africa	**2,512**	**93**
North America	**2,012**	**923**
Total	**12,918**	**1,364**
		Consolidated 2008
Australia	8,686	183
Asia Pacific	2,284	81
Europe, Middle East and Africa	2,189	55
North America	1,546	550
Total	14,705	869

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

(iv) Major Customers

The consolidated entity does not rely on any major customer.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008[2] $m
Note 6. Income tax (expense)/benefit				
(a) Income tax (expense)/benefit				
Current tax (expense)/benefit	**(417)**	(536)	**(355)**	4
Deferred tax benefit	**402**	219	**367**	1
Total income tax (expense)/benefit	**(15)**	(317)	**12**	5
Deferred income tax revenue/(expense) included in income tax (expense)/benefit comprises:				
Increase in deferred tax assets	**284**	260	**367**	1
Decrease/(increase) in deferred tax liabilities	**118**	(41)	**-**	-
Total deferred tax benefit	**402**	219	**367**	1
(b) Reconciliation of income tax expense to prima facie tax payable				
Prima facie income tax (expense)/benefit on operating profit[1]	**(297)**	(661)	**3,702**	(4,986)
Tax effect of amounts which are (non-deductible)/non-assessable in calculating taxable income:				
Rate differential on offshore income	**242**	303	**3**	1
Distribution provided on Macquarie Income Preferred Securities and similar distributions	**13**	15	**-**	-
Non-deductible share based payments expense	**(38)**	(38)	**-**	-
Intra-group dividends	**-**	-	**257**	4,990
Impairment charge on subsidiary	**-**	-	**(3,950)**	-
Other items	**65**	64	**-**	-
Total income tax (expense)/benefit	**(15)**	(317)	**12**	5
(c) Amounts recognised directly in equity				
Aggregate deferred tax arising in the financial year and not recognised in the income statement but recognised directly in equity:				
Net deferred tax – (credited)/debited directly to equity	**(185)**	2	**-**	-
Total	**(185)**	2	**-**	-

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

(2) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 7. Dividends paid and distributions paid or provided				
(i) Dividends paid				
Ordinary share capital				
Interim dividend paid ($1.45 (2008: $1.45) per share) (1)	**410**	398	**408**	396
2008 Final dividend paid ($2.00 (2007: $1.90) per share) (2)	**552**	482	**549**	-
Total dividends paid	**962**	880	**957**	396

All dividends were 100 per cent franked at the 30 per cent corporate tax rate, except for the interim dividend paid during the financial year and the dividends paid to the holders of exchangeable shares. This interim dividend was 80 per cent franked at the 30 per cent corporate tax rate. The dividends paid to the holders of exchangeable shares were not franked.

(1) Interim dividend paid by the consolidated entity includes $2 million (2008:$2 million) of dividends paid to the holders of exchangeable shares as detailed in note 33 – Contributed equity.

(2) Final dividend paid by the consolidated entity includes $3 million (2008: $nil) of dividends paid to the holders of exchangeable shares as detailed in note 33 – Contributed equity.

The Company's Dividend Reinvestment Plan (DRP) remains activated. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs, at a 2.5 per cent discount to the prevailing market value. A shareholder can elect to participate in or terminate their involvement in the DRP at any time. Details of fully paid ordinary shares issued pursuant to the DRP are included in note 33.

(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 the 2009 final dividend of $0.40 per fully paid ordinary share, 60 per cent franked based on tax paid at 30 per cent. The aggregate amount of the proposed dividend expected to be paid on 3 July 2009 from retained profits at 31 March 2009, but not recognised as a liability at the end of the financial year, is $114 million (including $1 million to be paid by a subsidiary to the holders of the exchangeable shares – refer to note 33 for further details of these instruments). This amount has been estimated based on the number of shares eligible to participate as at 31 March 2009.

			Dividend per ordinary share	
Cash dividends per ordinary share (distribution of current year profits)	**$1.85**	$3.45	**$1.85**	$3.45

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Franking credits available for the subsequent financial year at a corporate tax rate of 30 per cent (2008: 30 per cent)	**11**	133	**11**	133

The franked portion of dividends proposed as at 31 March 2009 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax payable at the end of the financial year.

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year; and
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m

Note 7. Dividends paid and distributions paid or provided continued

(iii) Distributions paid or provided

Macquarie Income Preferred Securities				
Distributions paid (net of distributions previously provided)	**33**	28	**-**	-
Distributions provided	**12**	22	**-**	-
Total distributions paid or provided	**45**	50	**-**	-

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

Macquarie Income Securities				
Distributions paid (net of distributions previously provided)	**28**	27	**-**	-
Distributions provided	**5**	7	**-**	-
Total distributions paid or provided	**33**	34	**-**	-

The Macquarie Income Securities (MIS) represent the minority interest of a subsidiary. Accordingly, the distributions paid/provided in respect of the MIS are recorded as movements in minority interest, as disclosed in note 34 – Reserves, retained earnings and minority interests. No dividends are payable under the preference shares until MBL, a consolidated entity, 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 MBL Directors' discretion. Refer to note 34 - Reserves, retained earnings and minority interest for further details on these instruments.

	Consolidated 2009	Consolidated 2008
Note 8. Earnings per share		
	Cents per share	
Basic earnings per share	**309.6**	670.6
Diluted earnings per share	**308.6**	653.5
Reconciliation of earnings used in the calculation of basic and diluted earnings per share	**$m**	$m
Profit from ordinary activities after income tax	**974**	1,888
Profit attributable to minority interests:		
Macquarie Income Preferred Securities	**(45)**	(50)
Macquarie Income Securities	**(33)**	(34)
Other minority interests	**(25)**	(1)
Total earnings used in the calculation of basic and diluted earnings per share	**871**	1,803
	Number of shares	
Total weighted average number of ordinary shares used in the calculation of basic earnings per share	**281,373,310**	268,854,950
Weighted average number of shares used in the calculation of diluted earnings per share		
Weighted average fully paid ordinary shares	**281,373,310**	268,854,950
Potential ordinary shares:		
Weighted average options	**953,793**	7,023,038
Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**282,327,103**	275,877,988

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

Note 8. Earnings per share continued

Information concerning the classification of securities

Options

Options granted to employees under the Macquarie Group Employee Share Option Plan (MGESOP) are considered to be potential ordinary shares and have been included in the calculation of diluted earnings per share to the extent to which they are dilutive. The issue price, which is equivalent to the fair value of the options granted, and exercise price used in this assessment incorporate both the amounts recognised as an expense up to the reporting date as well as the fair value of options yet to be recognised as an expense in the future.

Included in the balance of weighted average options are 379,687 (2008: 1,775,747) options that were converted, lapsed or cancelled during the financial year. There are a further 48,576,394 (2008: 13,590,312) options that have not been included in the balance of weighted average options on the basis that their adjusted exercise price was greater than the average market price of the Company's fully paid ordinary shares for the financial year ended 31 March 2009 and consequently, they are not considered to be dilutive.

On 13 November 2007, the date of the restructure of the Macquarie Group, all MBL options were cancelled and reissued by MGL, the new ultimate parent entity. This action has had no financial impact on the consolidated entity as the MGL options were issued with the same terms, conditions and vesting dates as the original MBL options.

Exchangeable shares

The exchangeable shares on issue (refer note 33 - Contributed Equity) are considered to be ordinary shares and have been included in the determination of basic and diluted earnings per share from their date of issue.

Macquarie Convertible Preference Securities

Macquarie Convertible Preference Securities issued during the financial year (refer note 32 – Loan Capital) have the potential to be ordinary shares and have been included in the determination of diluted earnings per share from their date of issue to the extent to which they are dilutive. These securities have not been included in the determination of basic earnings per share.

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Note 9. Due from banks				
Cash at bank[(1)]	**3,227**	3,136	**-**	-
Overnight cash at bank	**5,669**	2,652	**-**	-
Other loans to banks	**3,034**	3,516	**-**	-
Due from clearing houses	**341**	806	**-**	-
Total due from banks	**12,271**	10,110	**-**	-

(1) Included within this balance is $44 million (2008: $15 million) provided as security over payables to other financial institutions.

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Note 10. Cash collateral on securities borrowed and reverse repurchase agreements				
Central banks	**13**	14	**-**	-
Governments[(1)]	**709**	225	**-**	-
Financial institutions	**4,027**	22,136	**-**	-
Other	**347**	531	**-**	-
Total cash collateral on securities borrowed and reverse repurchase agreements	**5,096**	22,906	**-**	-

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 11. Trading portfolio assets				
Trading securities				
Equities[1]				
Listed	**3,149**	8,723	**-**	-
Unlisted	**43**	3,379	**-**	-
Commonwealth government bonds[1]	**3,017**	807	**-**	-
Corporate bonds	**1,117**	734	**-**	-
Other government securities	**995**	258	**-**	-
Foreign government bonds[1]	**510**	256	**-**	-
Certificates of deposit[1]	**174**	198	**-**	-
Bank bills	**77**	45	**-**	-
Treasury notes	**7**	-	**-**	-
Promissory notes	**-**	1,303	**-**	-
Total trading securities	**9,089**	15,703	**-**	-
Other trading assets				
Commodities	**171**	104	**-**	-
Total other trading assets	**171**	104	**-**	-
Total trading portfolio assets	**9,260**	15,807	**-**	-

(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 $108 million (2008: $1,348 million).

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 12. Loan assets held at amortised cost				
Due from clearing houses	1,449	1,558	-	-
Due from governments	144	219	-	-
Due from other entities				
Other loans and advances	40,197	47,827	-	-
Less specific provisions for impairment	(416)	(110)	-	-
	39,781	47,717	-	-
Lease receivables	3,617	3,042	-	-
Less specific provisions for impairment	(15)	(1)	-	-
Total due from other entities	43,383	50,758	-	-
Total gross loan assets	44,976	52,535	-	-
Less collective allowance for credit losses	(225)	(128)	-	-
Total loan assets held at amortised cost[1][2]	44,751	52,407	-	-

[1] Included within this balance are loans of $20,390 million (2008: $24,078 million) held by consolidated SPEs, which are available as security to note holders and debt providers.

[2] Included within this balance are other loans of $831 million (2008: $522 million) provided as security over issued notes and payables to other external investors and financial institutions.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Specific provisions for impairment				
Balance at the beginning of the financial year	111	71	-	-
Provided for during the financial year (note 3)	344	85	-	-
Loan assets written-off, previously provided for	(24)	(9)	-	-
Recovery of loans previously provided for (note 3)	(17)	(35)	-	-
Attributable to foreign currency translation	17	(1)	-	-
Balance at the end of the financial year	431	111	-	-
Specific provisions as a percentage of total gross loan assets	0.96%	0.21%	-	-
Collective allowance for credit losses				
Balance at the beginning of the financial year	128	91	-	-
Provided for during the financial year (note 3)	90	37	-	-
Attributable to acquisitions during the financial year	7	-	-	-
Balance at the end of the financial year	225	128	-	-

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 13. Impaired financial assets				
Impaired debt investment securities available for sale before impairment charge	**188**	264	**-**	-
Less impairment charge	**(137)**	(56)	**-**	-
Debt investment securities available for sale after impairment charge	**51**	208	**-**	-
Impaired loan assets and other financial assets with specific provisions for impairment	**1,428**	285	**-**	-
Less specific provisions for impairment	**(476)**	(120)	**-**	-
Loan assets and other financial assets after specific provisions for impairment	**952**	165	**-**	-
Total net impaired assets	**1,003**	373	**-**	-

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

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

Investment securities	**3,248**	684	**-**	-
Loan assets	**4,662**	3,447	**-**	-
Total other financial assets at fair value through profit or loss(1)	**7,910**	4,131	**-**	-

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

Note 15. Other assets

Debtors and prepayments(1)	**4,588**	4,099	**95**	1
Security settlements(2)	**3,694**	4,682	**-**	-
Assets under operating leases(3)	**1,999**	1,508	**-**	-
Property held for sale and development(4)	**313**	232	**-**	-
Other(5)	**46**	18	**-**	-
Total other assets	**10,640**	10,539	**95**	1

(1) Included within this balance is $116 million (2008: $6 million) of debtors and prepayments provided as security over amounts payable to other financial institutions.

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

(3) Assets under operating leases are stated net of accumulated depreciation of $621 million (2008: $394 million). Included within this balance is $1,157 million (2008: $1,053 million) provided as security over payables to other financial institutions.

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

(5) Included within this balance is $8 million (2008: $nil) of other assets provided as security over amounts payable to other financial institutions.

Note 16. Investment securities available for sale

Equity securities				
Listed(1)	**272**	736	**-**	-
Unlisted	**542**	338	**-**	-
Debt securities(2) (3)	**17,309**	15,380	**-**	-
Total investment securities available for sale	**18,123**	16,454	**-**	-

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

(2) Included within this balance are debt securities of $293 million (2008: $412 million) which are recognised as a result of total return swaps which meet the pass through test of AASB 139. The consolidated entity does not have legal title to these assets but has full economic exposure to them.

(3) Includes $8,712 million (2008: $10,121 million) of Negotiable Certificates of Deposit (NCD) due from financial institutions and $238 million (2008: $368 million) of bank bills.

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 17. Intangible assets				
Goodwill	495	376	-	-
Other identifiable intangible assets	248	118	-	-
Software	16	-	-	-
Total intangible assets	759	494	-	-

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

	Goodwill $m	Other identifiable intangible assets $m	Software $m	Total $m
Balance at the beginning of the financial year	376	118	-	494
Acquisitions during the financial year	33	50	36	119
Reclassifications during the year[1]	(29)	28	1	-
Adjustments to purchase consideration[1]	28	3	-	31
Transferred from held for sale[2]	25	49	-	74
Disposals during the financial year	-	(1)	-	(1)
Impairment during the financial year	(3)	(2)	-	(5)
Amortisation expense for the financial year	-	(18)	(17)	(35)
Currency translation difference arising during the financial year	65	21	(4)	82
Balance at the end of the financial year	495	248	16	759

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

(2) During March 2009 Taurus Aerospace Group Inc. transferred out of assets classified as held for sale. This resulted in goodwill of $25 million and other identifiable intangible assets of $49 million transferring out of assets of disposal groups classified as held for sale.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 18. Life investment contracts and other unit holder investment assets				
Life investment contracts and other unit holder investment assets				
Cash and due from banks	106	81	-	-
Debt securities	714	787	-	-
Units in unit trusts	3,372	4,640	-	-
Equity securities	122	191	-	-
Total life investment contracts and other unit holder investment assets	4,314	5,699	-	-

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Income from life investment contracts and other unit holder investment assets				
Premium income, investment revenue and management fees (note 4)	342	211	-	-
Life investment contract claims, reinsurance and changes in policy liabilities	(266)	(166)	-	-
Direct fees	(21)	(10)	-	-
Total income from life investment contracts and other unit holder investment assets (note 3)	55	35	-	-

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

As at 31 March 2009, the life investment contracts business had investment assets in excess of policy holder liabilities of $2 million (2008: $10 million).

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 19. Interests in associates and joint ventures using the equity method				
Loans and investments without provisions for impairment	**3,852**	5,039	**-**	-
Loans and investments with provisions for impairment	**3,349**	766	**-**	-
Less provision for impairment	**(1,078)**	(305)	**-**	-
Loans and investments at recoverable amount	**2,271**	461	**-**	-
Total interests in associates and joint ventures using the equity method	**6,123**	5,500	**-**	-

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

The fair values of certain interests in material associates and joint ventures, for which there are public quotations, are below their carrying value by $954 million (2008: exceeded their carrying value by $199 million).

	Consolidated 2009 $m	Consolidated 2008 $m
(a) Reconciliation of movement in the consolidated entity's interests in associates and joint ventures using the equity method:		
Balance at the beginning of the financial year	**5,500**	4,071
Associates acquired/equity contributed	**1,455**	3,068
Share of pre-tax profits of associates and joint ventures	**105**	223
Share of tax expense of associates and joint ventures	**(31)**	(67)
Dividends received/receivable from associates	**(472)**	(315)
Associates disposed of	**(396)**	(936)
Investments in associates provided for/written-off	**(714)**	(300)
Foreign exchange and other adjustments	**471**	(104)
Transferred from/(to) other asset categories	**205**	(140)
Balance at the end of the financial year	**6,123**	5,500

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

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

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

Name of entity	Country of incorporation	Reporting date	Ownership interest 2009 %	Ownership interest 2008 %
Diversified CMBS Investments Inc.[c] [1]	USA	31 March	**57**	57
European Directories SA[d] [2]	Luxembourg	31 December	**14**	13
Macquarie AirFinance Limited[a]	Bermuda	31 December	**38**	34
Macquarie Airports [a][3]	Australia	31 December	**21**	20
Macquarie Capital Alliance Group [c] [3] [4]	Australia	30 June	**-**	18
Macquarie Communications Infrastructure Group [a] [3]	Australia	30 June	**19**	17
Macquarie Countrywide Trust [b] [3]	Australia	30 June	**11**	10
Macquarie Diversified Treasury (AA) Fund[c]	Australia	30 June	**-**	19
Macquarie Energy Holdings LLC[f]	USA	31 December	**49**	-
Macquarie European Infrastructure Fund LP[a] [3]	UK	31 March	**5**	5
Macquarie Goodman Japan Limited[b] [5]	Singapore	31 March	**50**	50
Macquarie Infrastructure Group[a] [3]	Australia	30 June	**14**	8
Macquarie MEAG Prime REIT[b]	Singapore	31 December	**-**	26
Macquarie Media Group[e] [2]	Australia	30 June	**22**	22
Macquarie Office Trust[b] [3]	Australia	30 June	**14**	7
MAIP International Holdings Ltd[a] [4]	Bermuda	31 December	**25**	-
MEO Holdings Limited[g] [6] [7]	Bermuda	30 June	**59**	59
MGPA Limited[b] [6]	Bermuda	30 June	**56**	49
Redford Australian Investment Trust[a]	Australia	31 December	**27**	27

(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) Significant influence arises due to the consolidated entity's voting power and board representation.

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

(4) Macquarie Capital Alliance Group was delisted from the ASX and was incorporated into a new unlisted fund, MAIP International Holdings Ltd during the financial year ended 31 March 2009.

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

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

(7) The investment was reclassified from associates held for sale during the financial year ended 31 March 2009.

(a) Infrastructure
(b) Property development/ management entity
(c) Funds management and investing
(d) Directories business
(e) Media, television, gaming and internet investments
(f) Oil and gas services
(g) Metals, mining & energy

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
(c) Contingent liabilities of associates and joint ventures are as follows:				
Share incurred jointly with other investors	**9**	1	**-**	-
For which the consolidated entity is severally liable	**96**	-	**-**	-

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 19. Interests in associates and joint ventures using the equity method continued				
(d) Financial information of interests in associates and joint ventures are as follows:				
Consolidated entity's share of:				
Assets	**18,793**	16,300	**-**	-
Liabilities	**12,307**	10,724	**-**	-
Revenues	**3,342**	1,809	**-**	-
Profit after tax	**92**	156	**-**	-
Note 20. Property, plant and equipment				
Furniture, fittings and leasehold improvements				
Cost	**745**	449	**-**	-
Less accumulated depreciation	**(262)**	(172)	**-**	-
Total furniture, fittings and leasehold improvements	**483**	277	**-**	-
Communication equipment				
Cost	**35**	33	**-**	-
Less accumulated depreciation	**(27)**	(25)	**-**	-
Total communication equipment	**8**	8	**-**	-
Computer equipment				
Cost	**374**	293	**-**	-
Less accumulated depreciation	**(282)**	(219)	**-**	-
Total computer equipment	**92**	74	**-**	-
Infrastructure assets				
Cost	**24**	17	**-**	-
Less accumulated depreciation	**(2)**	(1)	**-**	-
Total infrastructure assets	**22**	16	**-**	-
Total property, plant and equipment	**605**	375	**-**	-

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	277	8	74	16	375
Acquisitions	197	3	81	28	309
Disposals	(7)	-	(10)	(31)	(48)
Reclassification[1]	59	-	-	-	59
Foreign exchange movements	52	1	7	9	69
Depreciation expense	(95)	(4)	(60)	-	(159)
Balance at the end of the financial year	483	8	92	22	605

(1) From March 2009 Taurus Aerospace Group Inc, a wholly owned subsidiary of the consolidated entity, was transferred out of held for sale, resulting in $59 million transferring into property, plant and equipment.

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $178 million (2008: $nil).

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 21. Investments in subsidiaries				
Investments at cost without provision for impairment	-	-	7,691	23,512
Investments at cost with provisions for impairment	-	-	16,863	-
Less provisions for impairment	-	-	(13,163)	-
Investments at recoverable amount	-	-	3,700	-
Total investments in subsidiaries	-	-	11,391	23,512

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

- Diversified CMBS Australia Holdings Pty Limited
- Infrastructure Investment No. 2 Limited (Cayman Islands)
- M&I Debt Investments Pty Limited
- Macquarie Funding Holdings Inc (United States)
- Macquarie Acceptances Limited
- Macquarie Africa (Proprietary) Limited (South Africa)
- Macquarie Airports Management Limited
- Macquarie Alternative Assets Management Limited
- Macquarie Americas Corp (United States)
- Macquarie Americas Holdings Pty Limited
- Macquarie Asia Real Estate Management Limited
- Macquarie Australia Securities Limited
- Macquarie B.H. Pty Limited
- Macquarie Bank International Limited (United Kingdom)
- Macquarie Bank Limited
- Macquarie Capital (Hong Kong) Limited (Hong Kong)
- Macquarie Capital Advisers Limited
- Macquarie Capital Alliance Management Limited
- Macquarie Capital Funding L.P. (Jersey)
- Macquarie Capital Funds (Europe) Limited (formerly Macquarie Investment Management (UK) Limited) (United Kingdom)
- Macquarie Capital Funds Limited
- Macquarie Capital Group Limited
- Macquarie Capital International Holdings Pty Limited
- Macquarie Capital Loans Management Limited
- Macquarie CLO Investments No.1 Pty Limited
- Macquarie Commercial Real Estate Debt Fund GP Limited (Cayman Islands)
- Macquarie Communications Infrastructure Management Limited
- Macquarie Corporate Finance Limited
- Macquarie Countrywide Management Limited
- Macquarie CPS Management Limited
- Macquarie Direct Property Management Limited
- Macquarie Dynamic Management Pty Limited
- Macquarie Equities (US) Holdings Pty Limited
- Macquarie Equity Capital Markets Limited
- Macquarie Finance Korea Co Limited (formerly Macquarie Capital Korea Co Limited)
- Macquarie Finance Limited
- Macquarie Financial Holdings Limited
- Macquarie Financial Products Management Limited
- Macquarie Funds Management Holdings Pty Limited
- Macquarie Global Debt Investments No.1 Pty Limited
- Macquarie Global Finance Services (Mauritius) Limited (Mauritius)
- Macquarie Global Investments (UK) Limited (United Kingdom)
- Macquarie Group Services Australia Pty Limited
- Macquarie Holdings (USA) Inc. (United States)

Note 21. Investments in subsidiaries continued

- Macquarie Hong Kong Finance Limited (Cayman Islands)[1]
- Macquarie Inc (United States)
- Macquarie Infrastructure Investment Management Limited
- Macquarie Infrastructure Management (Asia) Pty Limited
- Macquarie Infrastructure Management (USA) Inc (United States)
- Macquarie International Finance Limited
- Macquarie Investment Holdings No.2 Pty Limited
- Macquarie Investment Management Limited
- Macquarie Investment Services Limited
- Macquarie Investments (UK) Limited (United Kingdom)
- Macquarie Investments Australia Pty Limited
- Macquarie Leisure Management Limited
- Macquarie Managed Investments Limited
- Macquarie Pastoral Management Limited
- Macquarie Principal Pty Limited
- Macquarie Property Investment Management 2 Limited
- Macquarie Property Investment Management 5 Limited
- Macquarie Property Investment Management 6 Limited
- Macquarie Real Estate Korea Limited (Korea)
- Macquarie Securities (Australia) Limited (formerly Macquarie Capital Securities (Australia) Limited)
- Macquarie Securities South Africa (Proprietary) Limited (South Africa)
- Macquarie Securitisation (Hong Kong) Limited (Hong Kong)
- Macquarie Securitisation Limited
- Macquarie Specialised Asset Management 2 Limited
- Macquarie Specialised Asset Management Limited

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

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

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 22. Deferred income tax assets/(liabilities)				
The balance comprises temporary differences attributable to:				
Provisions and accrued expenses	**1,217**	904	**-**	1
Tax losses	**511**	70	**368**	-
Tax effect of reserves	**104**	(81)	**-**	-
Set-off of deferred tax liabilities	**(646)**	(175)	**-**	-
Total deferred income tax assets	**1,186**	718	**368**	1
Financial instruments	**(498)**	(172)	**-**	-
Investments in subsidiaries, associates and joint ventures	**(143)**	(154)	**-**	-
Fixed assets	**(9)**	30	**-**	-
Set-off of deferred tax assets	**646**	175	**-**	-
Total deferred income tax liabilities	**(4)**	(121)	**-**	-
Net deferred income tax assets	**1,182**	597	**368**	1

Potential tax assets of approximately $52 million (2008: $68 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 within the same tax paying entity.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 23. Non-current assets and disposal groups classified as held for sale				
Non current assets and assets of disposal groups classified as held for sale				
Associates	**35**	582	**-**	-
Other non-current assets[1]	**56**	74	**-**	-
Assets of disposal groups classified as held for sale[2] [3]	**446**	311	**-**	-
Total non-current assets and assets of disposal groups classified as held for sale	**537**	967	**-**	-
Liabilities of disposal groups classified as held for sale				
Total liabilities of disposal groups classified as held for sale[3]	**328**	215	**-**	-

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

[2] Included within this balance are assets with a carrying value of $nil (2008: $243 million) provided as security over payables to other financial institutions.

[3] The balance at 31 March 2009 represents the assets and liabilities of Macquarie International Investments Holdings L.P. & Cies S.E.N.C.

The balance at 31 March 2008 represents the assets and liabilities of Taurus Aerospace Group Inc. and Longview Oil and Gas.

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

(a) Summarised information of material associates and joint ventures classified as held for sale is as follows:

Name of entity	Country of incorporation	Reporting date	Ownership interest 2009 %	2008 %
US Senior Living Trust[a]	USA	31 December	**50**	50
International Infrastructure Holdings Limited[b][1]	Australia	31 December	**-**	25
MEO Holdings Limited[c][1][2]	Bermuda	30 June	**-**	59
New World Gaming Partners Holdings British Columbia Limited[d][1]	Canada	31 December	**-**	50

All associates and joint ventures classified as held for sale are unlisted companies.

Voting power is equivalent to ownership interest unless otherwise stated.

[1] The consolidated entity's interest in this entity was reclassified from held for sale to interests in associates and joint ventures during the financial year.

[2] The consolidated entity has joint control because neither the consolidated entity nor its joint investor has control in their own right.

[a] Retirement homes

[b] Infrastructure

[c] Offshore marine support operations

[d] Gambling infrastructure

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 23. Non-current assets and disposal groups classified as held for sale continued				
(b) For associates and joint ventures classified as held for sale, the consolidated entity's share of contingent liabilities, is as follows:				
Share incurred jointly with other investors	-	-	-	-
For which the consolidated entity is severally liable	-	-	-	-
(c) For associates and joint ventures classified as held for sale, financial information is as follows:				
Consolidated entity's share of:				
Assets	61	1,263	-	-
Liabilities	37	870	-	-
Revenues	12	79	-	-
Profit/(loss) after tax	1	(53)	-	-
Note 24. Due to banks				
OECD banks	9,505	8,537	7,393	4,864
OECD central banks	-	131	-	-
Clearing houses[1]	90	373	-	-
Other	2,263	1,000	-	-
Total due to banks	11,858	10,041	7,393	4,864

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 25. Cash collateral on securities lent and repurchase agreements				
Central banks	729	317	-	-
Governments	101	68	-	-
Financial institutions	3,067	12,397	-	-
Other	56	999	-	-
Total cash collateral on securities lent and repurchase agreements	3,953	13,781	-	-
Note 26. Trading portfolio liabilities				
Equity securities				
Listed	2,059	6,858	-	-
Unlisted	-	746	-	-
Commonwealth government securities	78	4,053	-	-
Other government securities	12	154	-	-
Corporate securities	12	14	-	-
Total trading portfolio liabilities	2,161	11,825	-	-
Note 27. Debt issued at amortised cost				
Debt issued at amortised cost[1]	48,270	57,115	-	-
Total debt issued at amortised cost	48,270	57,115	-	-

(1) Included within this balance are amounts payable to SPE note holders of $20,131 million (2008: $23,958 million).

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 28. Other financial liabilities at fair value through profit or loss				
Debt issued at fair value	**2,265**	254	**-**	-
Equity linked notes	**3,938**	6,034	**-**	-
Total other financial liabilities at fair value through profit or loss	**6,203**	6,288	**-**	-
Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit or loss by major currency:				
Australian dollars	**27,227**	42,143	**-**	-
United States dollars	**16,416**	7,730	**-**	-
Euro	**4,155**	5,170	**-**	-
Canadian dollars	**3,607**	2,547	**-**	-
Great British pounds	**905**	2,133	**-**	-
Japanese yen	**683**	1,624	**-**	-
Hong Kong dollars	**626**	896	**-**	-
Singapore dollars	**492**	621	**-**	-
South African rand	**171**	20	**-**	
Other currencies	**191**	519	**-**	-
Total by currency	**54,473**	63,403	**-**	-

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

Note 29. Other liabilities

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Due to brokers and customers[1]	**4,629**	5,016	**-**	-
Creditors	**3,464**	3,010	**-**	-
Accrued charges and sundry provisions	**2,054**	3,993	**-**	-
Other	**195**	191	**-**	-
Total other liabilities	**10,342**	12,210	**-**	-

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

Note 30. Provisions

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Provision for annual leave	**94**	78	**-**	-
Provision for long service leave	**66**	64	**-**	-
Provision for other employee entitlements	**12**	8	**-**	-
Provision for dividends	**17**	29	**-**	-
Total provisions	**189**	179	**-**	-

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

Note 31. Capital management strategy

The Company 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 the internal and external measures of capital. Internally, an economic capital model (ECM) has been developed to quantify consolidated entity's aggregate level of risk. The ECM is used in the consolidated entity 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 and on 1 January 2008, a subsidiary of the Company, MBL, was 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 at three levels of consolidation within the consolidated entity. MBL and certain subsidiaries which meet the APRA definition of extended licensed entities are reported as "Level 1". "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. "Level 3" consists of Level 2 group plus the Non-Banking Group. APRA requires ADIs to have a minimum ratio of capital to risk weighted assets (RWAs) of 8 per cent at both Level 1 and Level 2, with at least 4 per cent of this capital in the form of Tier 1 capital. In addition, APRA imposes ADI specific minimum capital ratios which may be higher than these levels. Macquarie internal capital policy set by the Board requires capital floors above this regulatory required level. Under the Non-Operating Holding Company structure, APRA has imposed minimum regulatory capital requirements calculated as the sum of the dollar value of:

- MBL's minimum Tier 1 capital requirement, based on a percentage of RWAs plus Tier 1 deductions using prevailing APRA ADI Prudential Standards; and
- The non-ADI group capital requirement, using the consolidated entity's ECM. Transactions internal to the consolidated entity are excluded.

The overall Level 3 capital position is reported as an excess over the regulatory imposed minimum capital adequacy requirement.

The consolidated entity's Level 3 eligible capital is defined by APRA as Group Capital (ordinary equity plus reserves plus hybrids) less regulatory adjustments required for the Banking Group, less certain reserves of the Non-Banking Group.

The consolidated entity has satisfied its externally imposed capital requirements at Level 1, Level 2 and Level 3 throughout the year.

Note 32. Loan capital

Macquarie Convertible Preference Securities

In July 2008, Macquarie CPS Trust, a subsidiary of the Company issued six million Macquarie Convertible Preference Securities (Macquarie CPS) at face value of $100 each. These instruments are non-cumulative and unsecured and may be resold, mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013. The CPS bear fixed-rate coupons at 11.095 per cent per annum, paid semi-annually until 30 June 2013, whereby a floating rate will apply.

Subordinated debt

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

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

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
At call	**6**	6	**-**	-
30 March 2009	**-**	7	**-**	-
15 September 2009	**3**	-	**-**	-
2 May 2013	**-**	25	**-**	-
20 June 2013	**-**	346	**-**	-
30 June 2013	**600**	-	**-**	-
15 September 2014	**301**	301	**-**	-
18 September 2015	**489**	383	**-**	-
19 September 2016	**176**	372	**-**	-
6 December 2016	**667**	605	**-**	-
31 May 2017	**305**	305	**-**	-
Total subordinated debt and Macquarie Convertible Preference Securities[(1)]	**2,547**	2,350	**-**	-
Reconciliation of subordinated debt by major currency:				
Euro	**668**	951	**-**	-
Australian dollars	**968**	569	**-**	-
Great British pounds	**413**	434	**-**	-
United States dollars	**492**	383	**-**	-
Canadian dollars	**6**	13	**-**	-
Total subordinated debt and Macquarie Convertible Preference Securities by currency[(1)]	**2,547**	2,350	**-**	-

(1) Balance excludes $9 million (2008: $nil) of directly attributable costs related to the issue of Macquarie CPS.

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

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

In accordance with APRA guidelines, Macquarie Bank Limited, a subsidiary, includes the applicable portion of its loan capital principal as Tier 2 capital.

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

	Consolidated 2009 Number of shares	Consolidated 2008 Number of shares	Consolidated 2009 $m	Consolidated 2008 $m
Note 33. Contributed equity				
Ordinary share capital				
Opening balance of fully paid ordinary shares	**274,570,840**	253,941,205	**4,534**	3,103
Issue of 8,620,690 ordinary shares on 21 May 2007 at $87.00 per share	**-**	8,620,690	**-**	745
On-market purchase of shares pursuant to the Macquarie Bank Staff Share Acquisition Plan (MBSSAP) and Non-Executive Director Share Acquisition Plan (NEDSAP) at $88.67 per share	**-**	(313,615)	**-**	(28)
Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at $88.67 per share	**-**	313,615	**-**	28
On-market purchase of shares pursuant to the Macquarie Group Staff Share Acquisition Plan (MGSSAP) and NEDSAP at $75.99 per share	**-**	(12,664)	**-**	(1)
Allocation of shares to employees pursuant to the MGSSAP and NEDSAP at $75.99 per share	**-**	12,664	**-**	1
On-market purchase of 20,919 shares pursuant to the MGSSAP at $47.52 per share	**(20,919)**	-	**(1)**	-
Allocation of 20,919 shares to employees pursuant to the MGSSAP at $47.52 per share	**20,919**	-	**1**	-
On-market purchase of 4,028 shares pursuant to the NEDSAP at $50.96 per share	**(4,028)**	-	**-**	-
Allocation of 4,028 shares to employees pursuant to the NEDSAP at $50.96 per share	**4,028**	-	**-**	-
On-market purchase of 126,446 shares pursuant to the MGSSAP at $50.96 per share	**(126,446)**	-	**(6)**	-
Allocation of 126,446 shares to employees pursuant to the MGSSAP at $50.96 per share	**126,446**	-	**6**	-
On-market purchase of 6,874 shares pursuant to the NEDSAP at $28.35 per share	**(6,874)**	-	**-**	-
Allocation of 6,874 shares to employees pursuant to the NEDSAP at $28.35 per share	**6,874**	-	**-**	-
Issue of 603,028 shares on 2 July 2008 pursuant to the MGSSAP at $56.40 per share	**603,028**	-	**34**	-
Issue of 9,590 shares on 8 December 2008 pursuant to the MGSSAP at $25.61 per share	**9,590**	-	**-**	-
Issue of shares on exercise of options	**2,638,177**	7,260,989	**81**	263
Issue of shares on 25 June 2007 pursuant to the Share Purchase Plan at $87.00 per share	**-**	912,076	**-**	79
Issue of shares on 11 January 2008 pursuant to the Employee Share Plan (ESP) effectively at $70.39 per share	**-**	24,290	**-**	2
Issue of shares at 19 January 2009 pursuant to the ESP effectively at $29.36 per share	**48,348**	-	**1**	-
Issue of shares on 4 July 2007 pursuant to the Dividend Reinvestment Plan (DRP) at $86.44 per share	**-**	2,146,392	**-**	185
Issue of shares on 30 January 2008 pursuant to the DRP at $68.38 per share	**-**	1,665,095	**-**	114
Issue of shares on 22 February 2008 pursuant to the DRP at $68.38 per share	-	103	**-**	-
Issue of 3,077,178 shares on 4 July 2008 pursuant to the DRP at $50.95 per share	**3,077,178**	-	**157**	-
Issue of 2,287,266 shares on 19 December 2008 pursuant to the DRP at $29.06 per share	**2,287,266**	-	**66**	-
Issue of 196,573 shares on retraction of exchangeable shares at $80.30 per share	**196,573**	-	**16**	-
Issue of 7,000 shares on 31 December 2008 for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc employees	**7,000**	-	**-**	-
Transfer from share based payments reserve for expensed options that have been exercised	-	-	**17**	43
Closing balance of fully paid ordinary shares	**283,438,000**	274,570,840	**4,906**	4,534

As at 31 March 2009, 51,675,990 (2008: 39,035,761) options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 38 - Employee equity participation. Disclosures regarding the Company's DRP are included in note 7 - Dividends paid and distributions paid or provided.

	Company 2009 Number of shares	Company 2008 Number of shares	Company 2009 $m	Company 2008[(1)] $m
Note 33. Contributed equity continued				
Ordinary share capital				
Opening balance of fully paid ordinary shares	**274,570,840**	2	**7,364**	-
Redemption of share capital via reverse acquisition on 13 November 2007 (note 1)	**-**	(2)	**-**	-
Issue of ordinary shares to Macquarie Bank Limited shareholders on a one-for-one basis on 13 November 2007 (note 1)	**-**	271,086,657	**-**	23,982
On-market purchase of shares pursuant to the MGSSAP and NEDSAP at $75.99 per share	**-**	(12,664)	**-**	(1)
Allocation of shares to employees pursuant to the MGSSAP and NEDSAP at $75.99 per share	**-**	12,664	**-**	1
On-market purchase of 20,919 shares pursuant to the MGSSAP at $47.52 per share	**(20,919)**	-	**(1)**	-
Allocation of 20,919 shares to employees pursuant to the MGSSAP at $47.52 per share	**20,919**	-	**1**	-
On-market purchase of 4,028 shares pursuant to the NEDSAP at $50.96 per share	**(4,028)**	-	**-**	-
Allocation of 4,028 shares to employees pursuant to the NEDSAP at $50.96 per share	**4,028**	-	**-**	-
On-market purchase of 126,446 shares pursuant to the MGSSAP at $50.96 per share	**(126,446)**	-	**(6)**	-
Allocation of 126,446 shares to employees pursuant to the MGSSAP at $50.96 per share	**126,446**	-	**6**	-
On-market purchase of 6,874 shares pursuant to the NEDSAP at $28.35 per share	**(6,874)**	-	**-**	-
Allocation of 6,874 shares to employees pursuant to the NEDSAP at $28.35 per share	**6,874**	-	**-**	-
Issue of 603,028 shares on 2 July 2008 pursuant to the MGSSAP at $56.40 per share	**603,028**	-	**34**	-
Issue of 9,590 shares on 8 December 2008 pursuant to the MGSSAP at $25.61 per share	**9,590**	-	**-**	-
Issue of shares on exercise of options	**2,638,177**	1,794,695	**81**	68
Issue of shares on 11 January 2008 pursuant to the ESP effectively at $70.39 per share	**-**	24,290	**-**	2
Issue of shares on 19 January 2009 pursuant to the ESP effectively at $29.36 per share	**48,348**	-	**1**	-
Issue of shares on 30 January 2008 pursuant to the DRP at $68.38 per share	**-**	1,665,095	**-**	114
Issue of shares on 22 February 2008 pursuant to the DRP at $68.38 per share	**-**	103	**-**	-
Issue of 3,077,178 shares on 4 July 2008 pursuant to the DRP at $50.95 per share	**3,077,178**	**-**	**157**	**-**
Issue of 2,287,266 shares on 19 December 2008 pursuant to the DRP at $29.06 per share	**2,287,266**	**-**	**66**	**-**
Issue of 196,573 shares on retraction of exchangeable shares at in the range of $16.98 to $55.99 per share	**196,573**	**-**	**9**	**-**
Issue of 7,000 shares on 31 December 2008 for nil cash consideration pursuant to the retention agreements entered into with key Orion Financial Inc employees	**7,000**	**-**	**-**	**-**
Transfer from share based payments reserve for expensed options that have been exercised	**-**	-	**17**	14
Restatement of cost of investment in MBL (note 2(i))	**-**	-	**-**	(16,816)
Closing balance of fully paid ordinary shares	**283,438,000**	274,570,840	**7,729**	7,364

(1) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

On 13 November 2007, the date of the implementation of the Macquarie Group Restructure, MBL shareholders received shares in MGL on a one-for-one basis (with the exception of ineligible foreign shareholders). This resulted in the issue of 271,086,657 MGL ordinary shares.

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 33. Contributed equity continued				
Treasury shares	**(2)**	(12)	**-**	-
Exchangeable shares				
Balance at the beginning of the financial year	**133**	-	**-**	-
Issue of 1,659,504 exchangeable shares at $80.30 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis	**-**	133	**-**	-
Retraction of 196,573 exchangeable shares at $80.30 per share, exchangeable to shares in Macquarie Group Limited on a one-for-one basis	**(16)**	-	**-**	-
Cancellation of 12,347 exchangeable shares at $80.30 per share	**(1)**	-	**-**	-
Total exchangeable shares at the end of the financial year	**116**	133	**-**	-

The exchangeable shares were issued by a subsidiary in November 2007 as cash consideration for the acquisition of Orion Financial Inc and are classified as equity in accordance with AASB 132 *Financial Instruments: Presentation*. They are eligible to be exchanged on a one-for-one basis for shares in Macquarie Group Limited (subject to staff trading restrictions) or cash at the Company's discretion and will pay dividends equal to the Macquarie Group Limited dividends during their legal life. The exchangeable shares will expire in November 2017 and carry no Macquarie Group Limited voting rights.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m [1]
Note 34. Reserves, retained earnings and minority interests				
Reserves				
Foreign currency translation reserve				
Balance at the beginning of the financial year	**(19)**	1	**-**	-
Currency translation differences arising during the financial year, net of hedge	**(15)**	(20)	**-**	-
Balance at the end of the financial year	**(34)**	(19)	**-**	-
Available for sale reserve				
Balance at the beginning of the financial year	**223**	228	**-**	-
Revaluation movement for the financial year, net of tax	**(294)**	33	**-**	-
Transfer to income statement for impairment	**118**	-	**-**	-
Transfer to profit on realisation	**(50)**	(38)	**-**	-
Balance at the end of the financial year	**(3)**	223	**-**	-
Share-based payments reserve				
Balance at the beginning of the financial year	**227**	144	**42**	-
Option expense for the financial year	**128**	126	**-**	-
Options issued to subsidiary employees (note 36)	**-**	-	**128**	56
Transfer to share capital on exercise of expensed options	**(17)**	(43)	**(17)**	(14)
Balance at the end of the financial year	**338**	227	**153**	42
Cash flow hedging reserve				
Balance at the beginning of the financial year	**34**	10	**-**	-
Revaluation movement for the financial year, net of tax	**(251)**	24	**-**	-
Balance at the end of the financial year	**(217)**	34	**-**	-
Share of reserves of associates and joint ventures using the equity method				
Balance at the beginning of the financial year	**(9)**	(3)	**-**	-
Share of reserves during the financial year	**(58)**	(6)	**-**	-
Balance at the end of the financial year	**(67)**	(9)	**-**	-
Total reserves at the end of the financial year	**17**	456	**153**	42

[1] Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m [4]
Note 34. Reserves, retained earnings and minority interests continued				
Retained earnings				
Balance at the beginning of the financial year	**3,718**	2,795	**16,231**	-
Profit/(loss) attributable to ordinary equity holders of Macquarie Group Limited	**871**	1,803	**(12,328)**	16,627
Dividends paid on ordinary share capital (note 7)	**(962)**	(880)	**(957)**	(396)
Balance at the end of the financial year	**3,627**	3,718	**2,946**	16,231
Minority interests				
Macquarie Income Preferred Securities[1]				
Proceeds on issue of Macquarie Income Preferred Securities	**894**	894	**-**	-
Less issue costs	**(10)**	(10)	**-**	-
	884	884	**-**	-
Less securities financed[2]	**(382)**	-	**-**	-
	502	884	**-**	-
Current year profit	**45**	50	**-**	-
Distribution provided on Macquarie Income Preferred Securities	**(45)**	(50)	**-**	-
Foreign currency translation reserve	**(104)**	(132)	**-**	-
Total Macquarie Income Preferred Securities	**398**	752	**-**	-
Macquarie Income Securities[3]				
4,000,000 Macquarie Income Securities of $100 each	**400**	400	**-**	-
Less costs for original placement	**(9)**	(9)	**-**	-
Total Macquarie Income Securities	**391**	391	**-**	-
Other minority interests				
Ordinary share capital	**57**	84	**-**	-
Preference share capital	**5**	6	**-**	-
Foreign currency translation reserve	**8**	-	**-**	-
Accumulated profits/(losses)	**37**	(1)	**-**	-
Total other minority interests	**107**	89	**-**	-
Total minority interests	**896**	1,232	**-**	-

(1) On 22 September 2004, Macquarie Capital Funding LP, a subsidiary of the Company, issued £350 million of MIPS. MIPS – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177 per cent semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at MGL's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35 per cent per annum above the then five-year benchmark sterling gilt rate. MIPS may be redeemed on each fifth anniversary thereafter at MGL's discretion. The first coupon was paid on 15 April 2005. 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 10 February 2009, Macquarie Hong Kong Finance Limited, a subsidiary of the Company, financed another subsidiary (Macquarie Capital Finance (Dubai) Limited) to acquire a portion of the MIPS. The financing arrangement is accounted for as a reduction of minority interest equity.

(3) The Macquarie Income Securities issued by MBL, a subsidiary, were listed for trading on the Australian Stock Exchange (now Australian Securities Exchange) on 19 October 1999 and became redeemable (in whole or in part) at MBL's discretion on 19 November 2004. Interest is paid quarterly at a floating rate of BBSW plus 1.7 per cent p.a. Payment of interest to holders is subject to certain conditions, including the profitability of MBL. They are a perpetual instrument with no conversion rights.

These instruments are classified as equity in accordance with AASB 132*: Financial Instruments: Presentation* and reflected in the consolidated entity's financial statements as minority interest, with distribution entitlements being included with minority interests' share of profit after tax.

Distribution policies for these instruments are included in note 7 to the financial statements.

(4) Prior year comparatives for the Company have been restated for the effect of early adopting AASB 2008-7. Refer to note 2(i) - Summary of significant accounting policies.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 35. Notes to the cash flow statements				
Reconciliation of cash and cash equivalents				
Cash and cash equivalents at the end of the financial year as shown in the cash flow statements is reconciled to related items in the balance sheet as follows:				
Cash and balances with central banks	**141**	7	**-**	-
Due from other financial institutions			**-**	
Due from banks[1]	**12,208**	10,090	**-**	-
Trading securities[2]	**12,146**	10,718	**-**	-
Cash and cash equivalents at the end of the financial year	**24,495**	20,815	**-**	-
Reconciliation of profit/(loss) from ordinary activities after income tax to net cash flows from operating activities				
Profit/(loss) from ordinary activities after income tax	**974**	1,888	**(12,328)**	16,627
Adjustments to profit/(loss) from ordinary activities				
Accretion of interest on available for sale financial assets	**(617)**	(548)	**-**	-
Amortisation of capitalised software and other identifiable intangible assets	**35**	25	**-**	-
Depreciation on assets under operating leases	**283**	180	**-**	-
Depreciation on property, plant and equipment	**159**	120	**-**	-
Dividends received from associates	**472**	315	**-**	-
Fair value changes on available for sale financial assets transferred to income statement on realisation	**(50)**	(38)	**-**	-
Fair value changes on financial assets and liabilities at fair value through profit or loss	**(61)**	37	**-**	-
Gain on acquiring, disposing, and change in ownership interest in subsidiaries and businesses held for sale	**(323)**	(293)	**-**	-
Impairment charge on disposal groups held for sale	**192**	-	**-**	-
Impairment charge on associates and joint ventures	**714**	300	**-**	-
Impairment charge on investment securities available for sale	**306**	120	**-**	-
Impairment charge on subsidiaries	**-**	-	**13,163**	-
Impairment charge on non-financial assets	**75**	-	**-**	-
Loss/(gain) on disposal of property, plant and equipment	**16**	(19)	**-**	-
Net gains on sale of associates (including associates held for sale) and joint ventures	**(81)**	(560)	**-**	-
Net gains on sale of investment securities available for sale	**(143)**	(123)	**-**	-
Provisions for impairment on loan assets and other receivables	**509**	115	**-**	-
Share based payment expense	**128**	126	**-**	-
Share of net profits of associates and joint ventures using the equity method	**(74)**	(156)	**-**	-
Changes in assets and liabilities				
Decrease in dividends receivable	**47**	1	**-**	-
Decrease/(increase) in amount due from subsidiaries under tax contribution agreement	**-**	-	**334**	(119)
Decrease/(increase) in fees and commissions receivable	**110**	(192)	**-**	-
(Decrease)/increase in fees and commissions payable	**(57)**	(2)	**-**	-
Increase/(decrease) in current tax liabilities	**10**	170	**(134)**	49
Increase in deferred tax assets	**(211)**	(261)	**(367)**	(1)
(Decrease)/Increase in deferred tax liabilities	**(117)**	43	**-**	-
Decrease/(increase) in interest receivable	**274**	(256)	**-**	-
(Decrease)/increase in interest payable	**(8)**	93	**-**	17
Increase in provisions for employment entitlements	**8**	28	**-**	-
Decrease/(increase) in loan assets granted	**3,553**	(6,675)	**3,231**	(13,767)
(Decrease)/increase in loan payable to a subsidiary	**-**	-	**(5,000)**	8,800
(Increase)/decrease in debtors, prepayments, accrued charges and creditors	**(3,625)**	210	**(1)**	(1)
Decrease in financial instruments, foreign exchange and commodities	**4,432**	6,069	**-**	-
(Decrease)/increase in amounts due to other financial institutions, deposits and other borrowings	**(1,555)**	16,984	**2,633**	4,847
(Increase)/decrease in life investment contract receivables	**(250)**	910	**-**	-
Net cash flows from operating activities	**5,125**	18,611	**1,531**	16,452

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

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

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 35. Notes to the cash flow statements continued				
Non cash investing activities				
Capitalisation of amount receivable from a subsidiary	-	-	-	50
Total non cash investing activities	-	-	-	50

During the previous financial year, the Company capitalised an amount owing from a subsidiary, Macquarie Group Services Australia Pty Limited, with an issue of new shares by the subsidiary. This increased the Company's cost of investment in the subsidiary without a corresponding outflow of cash and cash equivalents.

Note 36. Related party information

Subsidiaries

During the previous financial year, the Macquarie Group was restructured which resulted in the Company being established as the ultimate parent entity of the Macquarie Group.

Transactions between the Company and its subsidiaries principally arise from the granting of loans and the provision of management and administration services.

All transactions with subsidiaries are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with subsidiaries are eliminated in the consolidated financial statements. Amounts due from and due to subsidiaries are presented separately in the balance sheet of the Company except when offsetting reflects the substance of the transaction or event.

Balances arising from lending and borrowing activities between the Company and its subsidiaries are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised.

In the previous financial year the Company received a $10.1 billion loan from MBL of which $3,800 million (2008: $8,800 million) remained outstanding at the balance sheet date. This facility, which is an unsecured amortising two-year committed term loan, provides funding to MGL whilst MGL establishes its profile in the term funding markets.

A list of material subsidiaries is set out in note 21 – Investments in subsidiaries.

Subsequent to the restructure described above, the Company as the ultimate parent entity of the Macquarie Group, became the head entity of the tax consolidated group and entered into a tax funding agreement with its eligible Australian resident subsidiaries. The terms and conditions of this agreement are set out in note 2(vii) – Summary of significant accounting policies. As at 31 March 2009, the amount payable by the Company under the tax funding agreement with the tax consolidated entities is $214 million (2008: $119 million receivable). This balance is included in "Due to subsidiaries" in the Company's separate balance sheet.

Note 36. Related party information continued

Subsidiaries continued

During the financial year, the following transactions occurred with subsidiaries:

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Interest income received/receivable (note 3)	**-**	-	**842**	381
Interest expense paid/payable (note 3)	**-**	-	**(524)**	(279)
Management fees, group service charges and cost recoveries	**-**	-	**-**	15
Options issued to employees of subsidiaries (note 34)	**-**	-	**(128)**	(56)
Dividends and distributions (note 3)	**-**	-	**858**	16,635
The following balances with subsidiaries were outstanding as at financial year end:				
Amounts receivable	**-**	-	**10,390**	13,891
Amounts payable	**-**	-	**(3,919)**	(8,855)

Outstanding balances are unsecured and are repayable in cash. The maturities and weighted average interest rate charged on outstanding balances receivable/payable are disclosed in note 45 – Maturity analysis of monetary assets and liabilities.

Associates and joint ventures

Transactions between the consolidated entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the consolidated entity, in the consolidated income statement.

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

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Interest income received/receivable	**21**	26	**-**	-
Interest expense paid/payable	**-**	(1)	**-**	-
Fee and commission income[1]	**969**	1,522	**-**	-
Other income	**7**	3	**-**	-
Gains on sale of securities[2]	**48**	85	**-**	-
Dividends and distributions[3] (note 19)	**472**	315	**-**	-
Brokerage and commission expense	**(19)**	(22)	**-**	-

(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 income but are recorded as a reduction of the carrying amount of the investment.

The following balances with associates and joint ventures were outstanding as at financial year end (these exclude amounts which in substance form part of the consolidated entity's net investment in associates, disclosed in note 19):

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Amounts receivable	**711**	799	**-**	-
Amounts payable	**(650)**	(41)	**-**	-

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 2009 continued

Note 37. Key Management Personnel disclosure

Key Management Personnel

The following persons were Voting Directors of MGL during the financial years ended 31 March 2009 and 31 March 2008, unless indicated.

Executive Directors

L.G. Cox, AO	
N.W. Moore[1]	Managing Director and Chief Executive Officer (appointed 22 February 2008)
A.E. Moss, AO	(retired 24 May 2008)

Non-Executive Directors

D.S. Clarke, AO[2]	Non-Executive Chairman
P.M. Kirby	
C.B. Livingstone, AO	
H.K. McCann, AM[3]	
J.R. Niland, AC	
H.M. Nugent, AO	
P.H. Warne[4]	

The composition of the MGL Board changed on 30 August 2007 and therefore the Directors above were appointed on that date unless otherwise indicated. For the period from incorporation until 30 August 2007, W.R. Sheppard, G.C. Ward and S.J. Dyson were Directors of Macquarie Group Ltd. During this time, the Company was dormant and these Directors did not receive any remuneration for their services as Director. J.G. Allpass and M.R.G. Johnson were directors of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group until their retirements on 19 July 2007.

In addition to the Executive Directors listed above, the following persons also had authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries during the past two financial years ended 31 March 2009 and 31 March 2008, unless otherwise indicated.

Executives

J.K. Burke	(retired 26 February 2009)
M. Carapiet[1]	Group Head, Macquarie Capital
A.J. Downe[1]	Group Head, Treasury 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[1]	Group Head, Risk Management Group
W.R. Sheppard[1]	Deputy Managing Director
G.C. Ward[1]	Chief Financial Officer
S. Wikramanayake[1]	Group Head, Macquarie Funds Group (appointed 10 June 2008)

(1) Members of the consolidated entity's Executive Committee as at 30 April 2009.

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

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

(4) P.H. Warne was appointed as a Director of Macquarie Bank Limited, the former ultimate parent of the Macquarie Group, on 1 July 2007.

It is important to note that the Company'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 on pages 56 to 116.

Note 37. Key Management Personnel disclosure continued

Key Management Personnel remuneration

The following tables detail the aggregate remuneration for Key Management Personnel.

				Short-term employee benefits	**Long-term[(1)] employee benefits**	**Share based payments**	
	Salary and fees (including superannuation) $	Performance related remuneration $	Other benefits $	Total short-term employee benefits $	Restricted profit share $	Shares/ options $	Total remuneration $
Executive Remuneration							
2009	**4,683,157**	**17,208,685**	**-**	**21,891,842**	**(19,898,260)**	**9,371,387**	**11,364,969**
2008	4,666,247	97,731,225	-	102,397,472	4,661,946	17,687,300	124,746,718
Non-Executive Remuneration							
2009	**2,430,950**	**-**	**49,350**	**2,480,300**	**-**	**-**	**2,480,300**
2008	2,450,087	-	200,124	2,650,211	-	-	2,650,211

(1) Includes earnings or losses on restricted profit share.

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

Note 37. Key Management Personnel disclosure continued

Option holdings of Key Management Personnel and their related parties

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. Further details in relation to the MGESOP are disclosed in note 38 – Employee equity participation.

For the financial year ended 31 March 2009

Name and position	Number of options held at 1 April 2008[(b)]	Options granted during the financial year	Options exercised during the financial year	Other changes[(a)]	Number of options held at 31 March 2009[(b)]	Number of options vested during the financial year	Number of options vested at 31 March 2009[(b)]
Executive Directors							
L.G. Cox	32,265	-	-	-	32,265	7,754	15,227
N.W. Moore	532,734	243,900	-	-	776,634	158,333	214,999
A.E. Moss[(c)]	670,400	-	-	-	670,400	-	170,400
Non-Executive Directors							
D.S. Clarke	-	-	-	-	-	-	-
P.M. Kirby	-	-	-	-	-	-	-
C.B. Livingstone	-	-	-	-	-	-	-
H.K. McCann	-	-	-	-	-	-	-
J.R. Niland	-	-	-	-	-	-	-
H.M. Nugent	-	-	-	-	-	-	-
P.H. Warne	-	-	-	-	-	-	-
Executives							
J.K. Burke[(d)]	224,678	-	-	(173,012)	51,666	70,000	51,666
M. Carapiet	383,067	200,000	(32,500)	-	550,567	120,889	88,389
A.J. Downe	248,334	178,000	-	-	426,334	73,333	89,999
R. Laidlaw[(e)]	247,725	135,000	(10,351)	-	372,374	62,586	87,075
P.J. Maher	85,001	50,000	-	-	135,001	31,667	31,667
N.R. Minogue	118,334	52,500	-	-	170,834	36,666	48,332
W.R. Sheppard	193,334	51,000	-	(20,000)	224,334	48,334	81,666
G.C. Ward	103,334	53,500	-	-	156,834	33,334	43,334
S. Wikramanayake[(e)]	107,575	80,000	(9,300)	-	178,275	30,828	21,528

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

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Moss retired as a Key Management Personnel on 24 May 2008. His balance at 31 March 2009 represents holdings at date of retirement.

(d) Mr Burke forfeited 108,334 options on his retirement date 26 February 2009.

(e) Mr Laidlaw and Ms Wikramanayake were both appointed to the Executive Committee on 10 June 2008. The opening balance at 1 April 2008 represents holdings at date of appointment.

Note 37. Key Management Personnel disclosure continued

The following tables set out details of options held during the year for the Key Management Personnel including their related parties, on a consolidated entity basis. The options are over fully paid unissued ordinary shares of Macquarie Group Limited. The opening balance relates to holdings over MBL options. As detailed in note 1, option holders of MBL obtained one MGL ordinary option for each ordinary option they held in MBL at the date of the restructure. Further details in relation to the MGESOP are disclosed in note 38 – Employee equity participation.

For the financial year ended 31 March 2008

Name and position	Number of options held at 1 April 2007[(b)]	Options granted during the financial year	Options exercised during the financial year	Other changes[(a)]	Number of options held at 31 March 2008[(b)]	Number of options vested during the financial year	Number of options vested at 31 March 2008[(b)]
Executive Directors							
L.G. Cox	23,265	9,000	-	-	32,265	4,673	7,473
N.W. Moore	594,335	154,400	(216,001)	-	532,734	138,333	56,666
A.E. Moss	511,000	159,400	-	-	670,400	115,200	170,400
Non-Executive Directors							
J.G. Allpass[(c)]	-	-	-	-	-	-	-
D.S. Clarke[(d)]	53,734	-	(53,734)	-	-	-	-
M.R.G. Johnson[(e)]	84,795	-	-	-	84,795	-	36,366
P.M. Kirby	-	-	-	-	-	-	-
C.B. Livingstone	-	-	-	-	-	-	-
H.K. McCann	-	-	-	-	-	-	-
J.R. Niland	-	-	-	-	-	-	-
H.M. Nugent	-	-	-	-	-	-	-
P.H. Warne[(f)]	-	-	-	-	-	-	-
Executives							
J.K. Burke	181,335	50,000	(6,657)	-	224,678	53,001	46,344
M. Carapiet	356,838	126,000	(99,771)	-	383,067	99,771	-
A.J. Downe	218,335	85,000	(55,001)	-	248,334	71,667	16,666
P.J. Maher	125,000	25,000	(64,999)	-	85,001	31,666	-
N.R. Minogue	129,835	35,000	(46,501)	-	118,334	36,667	11,666
W.R. Sheppard	148,334	45,000	-	-	193,334	53,332	53,332
G.C. Ward	100,743	30,000	(27,409)	-	103,334	31,667	10,000

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

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Allpass retired from the Macquarie Group on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.

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

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

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

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

Note 37. Key Management Personnel disclosure continued

Shareholdings of Key Management Personnel and their related parties

The following tables set out details of fully paid ordinary shares of the Company held during the financial year by Key Management Personnel including their related parties, on a consolidated entity basis. The opening balance at 1 April 2007 relates to holdings over MBL shares. As detailed in note 1, shareholders of MBL obtained one MGL ordinary share for each ordinary share they held in MBL at the date of the Macquarie Group Restructure.

For the financial year ended 31 March 2009

Name and position	Number of shares held at 1 April 2008[b]	Shares received on exercise of options	Other changes[a]	Number of shares held at 31 March 2009 [b]
Executive Directors				
L.G. Cox	269,812	-	-	269,812
N.W. Moore	1,030,510	-	166,901	1,197,411
A.E. Moss[c]	404,236	-	-	404,236
Non-Executive Directors				
D.S. Clarke	704,868	-	46	704,914
P.M. Kirby	9,772	-	9,224	18,996
C.B. Livingstone	8,432	-	548	8,980
H.K. McCann	11,359	-	-	11,359
J.R. Niland	7,959	-	1,600	9,559
H.M. Nugent	20,613	-	-	20,613
P.H. Warne	9,077	-	6,744	15,821
Executives				
J.K. Burke[d]	31,657	-	30,902	62,559
M. Carapiet	531,274	32,500	116,976	680,750
A.J. Downe	176,036	-	(51,934)	124,102
R. Laidlaw[e]	28,124	10,351	-	38,475
P.J. Maher	125,323	-	(19,148)	106,175
N.R. Minogue	157,312	-	(20,692)	136,620
W.R. Sheppard	261,313	-	6,477	267,790
G.C. Ward	56,620	-	(41,275)	15,345
S. Wikramanayake[d]	252,546	9,300	65,021	326,867

(a) Includes on-market acquisitions and disposals.

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

(c) Mr Moss retired as Key Management Personnel on 24 May 2008. His balance at 31 March 2009 represents holdings at date of retirement.

(d) Mr Burke retired on 26 February 2009. His balance at 31 March 2009 represents holdings at date of retirement.

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

Note 37. Key Management Personnel disclosure continued

For the financial year ended 31 March 2008

Name and position	Number of shares held at 1 April 2007[b]	Shares received on exercise of options	Other changes[a]	Number of shares held at 31 March 2008[b]
Executive Directors				
L.G. Cox	269,812	-	-	269,812
N.W. Moore	843,113	216,001	(28,604)	1,030,510
A.E. Moss	404,336	-	(100)	404,236
Non-Executive Directors				
J.G. Allpass[c]	18,513	-	-	18,513
D.S. Clarke	651,113	53,734	21	704,868
M.R.G. Johnson[d]	293,803	-	-	293,803
P.M. Kirby	9,772	-	-	9,772
C.B. Livingstone	7,550	-	882	8,432
H.K. McCann	11,359	-	-	11,359
J.R. Niland	5,959	-	2,000	7,959
H.M. Nugent	19,762	-	851	20,613
P.H. Warne[e]	8,790	-	287	9,077
Executives				
J.K. Burke	25,000	6,657	-	31,657
M. Carapiet	525,934	99,771	(94,431)	531,274
A.J. Downe	121,035	55,001	-	176,036
P.J. Maher	60,153	64,999	171	125,323
N.R. Minogue	110,811	46,501	-	157,312
W.R. Sheppard	259,271	-	2,042	261,313
G.C. Ward	29,211	27,409	-	56,620

[a] Includes on-market acquisitions and disposals.

[b] Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

[c] Mr Allpass retired on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.

[d] Mr Johnson retired from the Executive Committee on 31 March 2007. He continued as a Non-Executive Director until he retired on 19 July 2007. His balance at 31 March 2008 represents holdings at date of retirement.

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

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

Note 37. Key Management Personnel disclosure continued

Loans to Key Management Personnel and their related parties

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

		Opening balance at 1 April $'000	Interest charged $'000	Write-down $'000	Closing balance at 31 March $'000	Number in consolidated entity at 31 March
Total for Key Management Personnel and their related parties	**2009**	**62,518**	**4,512**	**-**	**42,861**	**10**
	2008	57,545	4,486	-	62,540	14
Total for Key Management Personnel	**2009**	**44,506**	**2,504**	**-**	**22,729**	**5**
	2008	41,862	3,014	-	44,525	9

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

Certain loans are provided under zero cost 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 are as follows:

For the financial year ended 31 March 2009

Name and position	Balance at 1 April 2008[(b)] $'000	Interest charged[(a)] $'000	Write-downs $'000	Balance at 31 March 2009[(b)] $'000	Highest balance during financial year $'000
Executive Directors					
N.W. Moore	**12,259**	**376**	**-**	**5,313**	**12,570**
Non-Executive Directors					
D.S. Clarke	**34,826**	**3,352**	**-**	**37,290**	**37,798**
Executives					
A.J. Downe	**1,847**	**105**	**-**	**-**	**1,847**
R. Laidlaw[(c)]	**238**	**10**	**-**	**238**	**238**
P.J. Maher	**4,912**	**499**	**-**	**20**	**5,572**
N.R. Minogue	**4,249**	**42**	**-**	**-**	**4,339**
G.C. Ward	**4,406**	**127**	**-**	**-**	**4,406**

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

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

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

Note 37. Key Management Personnel disclosure continued

For the financial year ended 31 March 2008

Name and position	Balance at 1 April 2007[(b)] $'000	Interest charged[(a)] $'000	Write-down $'000	Balance at 31 March 2008[(b)] $'000	Highest balance during financial year $'000
Executive Directors					
L.G. Cox	200	7	-	-	765
N.W. Moore	12,891	618	-	12,259	12,891
Non-Executive Directors					
D.S. Clarke[(c)]	29,937	2,606	-	34,826	35,050
Executives					
M. Carapiet	5,286	137	-	19	5,286
A.J. Downe	-	49	-	1,847	1,847
P.J.Maher	2,866	416	-	4,912	5,769
N.R. Minogue	4,618	341	-	4,249	4,939
G.C. Ward	1,727	311	-	4,406	4,561

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

(b) Or date of appointment/retirement for Key Management Personnel who were appointed or retired during the year.

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

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

Note 37. Key Management Personnel disclosure continued

Other transactions with Key Management Personnel and their related parties

Certain Key Management Personnel and their related parties have acquired Infrastructure Bonds and similar products from subsidiaries within the consolidated entity, 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 consolidated entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

	Consolidated 2009 $'000	Consolidated 2008 $'000
Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products	**14,538**	13,481

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

Executive Directors
L.G. Cox, N.W. Moore

Non-Executive Directors
D.S. Clarke (2008 only), P.M. Kirby

Executives
J.K. Burke (retired 26 February 2009), M. Carapiet, A.J. Downe, R. Laidlaw (2009 only), P.J. Maher, N.R. Minogue, W.R. Sheppard, G.C. Ward

Note 37. Key Management Personnel disclosure continued

The following Key Management Personnel (including related parties) have entered a zero cost collar transaction with the consolidated entity 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 nominated levels and disposing of the benefit of any share price movement above the nominated level.

		Transactions with the consolidated entity	
		Number of shares	Number of shares
Name and position	**Description**	**2009**	2008
Non-Executive Directors			
D.S. Clarke	Maturing May 2008	**-**	260,379
	Maturing June 2008	**-**	100,784
	Maturing May 2009	**361,163**	-
	Maturing August 2009	**25,196**	25,196
	Maturing June 2010	**213,517**	213,517
M.R.G Johnson[1]	Maturing July 2008	**-**	25,000
Executives			
A.J. Downe	Maturing August 2008	**-**	36,382
	Maturing December 2008	**-**	55,001
G.C. Ward	Maturing July 2008	**-**	5,742
	Maturing July 2008	**-**	40,373

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

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

Note 38. Employee equity participation

Option Plan

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).

Staff eligible to participate in the MGESOP are those of Associate Director level and above and consultants to the consolidated entity. At 31 March 2009 there were 3,052 (2008: 2,595) participants of the MGESOP.

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

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

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

Note 38. Employee equity participation continued

Option Plan continued

Options, currently for five years, over fully paid unissued ordinary shares in the Company are 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. Prior to 21 November 2003, the exercise price of new options granted was generally based on the weighted average market price during the month prior to acceptance of employment for new employees or during the calendar month of June in respect of options granted as a result of annual promotions and compensation reviews. From 21 November 2003 until 25 November 2004, the exercise price of new options granted was generally based on the weighted average market price during the one week period prior to the date of grant of the options. From 26 November 2004, the exercise price of new options granted is generally based on the weighted average market price during the one week up to and including the date of grant of the options.

The following is a summary of options which have been granted pursuant to the MGESOP:

	Number of options 2009	Weighted average exercise price 2009 $	Number of options 2008	Weighted average exercise price 2008 $
Outstanding at the beginning of the financial year	**39,035,761**	**61.23**	34,358,273	51.63
Granted during the financial year	**19,488,263**	**53.11**	13,431,739	72.26
Forfeited during the financial year	**(3,975,064)**	**63.64**	(1,493,262)	61.38
Exercised during the financial year	**(2,638,177)**	**30.74**	(7,260,989)	36.16
Lapsed during the year	**(234,793)**	**64.32**	-	-
Outstanding at the end of the financial year	**51,675,990**	**59.57**	39,035,761	61.23
Exercisable at the end of the financial year	**13,245,119**	**55.32**	5,897,912	44.27

For options exercised during the financial year the weighted average share price at the date of exercise was $50.66 (2008: $81.95).

The range of exercise prices for options outstanding at the end of the financial year was $17.10 to $94.48 (2008: $21.66 to $94.48).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2009 was 3.02 years (2008: 3.13 years). The weighted average remaining contractual life when analysed by exercise price range is:

Exercise price range ($)	Number of options 2009	Remaining life (years) 2009	Number of options 2008	Remaining life (years) 2008
10 - 20	**21,000**	**4.94**	-	-
20 – 30	**113,000**	**4.72**	1,490,161	0.42
30 – 40	**3,798,928**	**0.91**	4,532,811	1.37
40 – 50	**981,009**	**2.69**	617,604	2.35
50 – 60	**17,195,829**	**4.36**	216,503	3.96
60 – 70	**17,918,231**	**1.96**	19,000,370	2.95
70 – 80	**10,711,442**	**3.34**	11,977,534	4.34
80 – 90	**762,963**	**3.16**	977,778	4.15
90-100	**173,588**	**3.21**	223,000	4.22
	51,675,990	**3.02**	39,035,761	3.13

The weighted average fair value of options granted during the financial year was $10.60 (2008: $11.99).

The market value of shares issued during the year as a result of the exercise of these options was $133 million (2008: $594 million).

Note 38. Employee equity participation continued

Option Plan continued

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2009 was $1,410 million (2008: $2,062 million). No unissued shares, other than those referred to above, are under option 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 2009, compensation expense relating to the MGESOP totalled $128 million (2008: $126 million).

Since 31 March 2009, an additional 319,000 options have been issued, no options have been exercised, 11,638 options have been forfeited and 65,553 options have lapsed.

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 Company's agreement towards the end of a vesting period, the Company'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.

In respect of options granted from mid-2002 to 25 November 2004, in respect of each tranche of vested options granted to members of MBL's Executive Committee, Executive Voting Directors and other Executive Directors of MBL, options are only exercisable if the Company's average annual return on ordinary equity for the three previous financial years is at or 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 300 Industrials Index, with the conditions examined quarterly from vesting until expiry.

For options granted to the members of MBL's and MGL'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 the Company'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 the Company's then issued ordinary shares plus the number of shares which the Company would have to issue if all rights to require the Company to issue shares, which the Company has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has a second limitation on the number of options, being effectively the same calculation as in the MGESOP Rules except that any exercised options granted less than five years ago, where the Executive is still with the Company, 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.

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 Company is aware of circumstances which, in the reasonable opinion of the Company, indicate that the relevant Executive may have acted fraudulently, dishonestly or in a manner which is in breach of his/her obligations to the Company 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 Company or a related entity or if they carry out or fail to carry out an act which brings the Company or an associated entity into disrepute.

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

– an employee's resignation from the Company or a related company;
– 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.

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

Note 38. Employee equity participation continued

Employee Share Plan

Following shareholder approval at the 1997 Annual General Meeting, MBL introduced the Macquarie Bank Employee Share Plan whereby each financial year, eligible employees are offered up to $1,000 worth of fully paid ordinary Company shares for no cash payment. MGL has since introduced the Macquarie Group Employee Share Plan (ESP) on the same terms.

The Company's staff profit sharing pools and for certain staff, future commissions, are adjusted downwards by the aggregate market value of the shares issued under the ESP.

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

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

The employees who are eligible for an offer are those permanent or fixed term contract employees who have been continuously employed by the Company or a subsidiary of the Company since 1 April of the relevant year, are still employed by the Company or a subsidiary of the Company on the relevant allotment date and are Australian residents on both the closing date of an offer and on the relevant allotment date. Persons who are ineligible include all non-permanent staff, staff seconded to the Company from external companies, staff leaving Australia for an overseas posting prior to the allotment date, staff who have been given notice of dismissal from employment by the Company or subsidiary of the Company or who have tendered their resignation to avoid such a dismissal (even if they would, but for this requirement, be eligible to acquire shares) and any staff member that a Group Head believes should be ineligible based on poor performance.

The latest offer under the ESP was made during December 2008. A total of 1,422 staff participated in this offer. On 19 January 2009, the participants were each issued with 34 fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $29.36, a total of 48,348 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 Company shares (Shares) on-market. MGL has since introduced the Macquarie Group Staff Share Acquisition Plan (MGSSAP) on the same terms.

The total number of Shares purchased under the MGSSAP is limited in any financial year to three per cent of the Company's Shares as at the beginning of that financial year.

The MGSSAP includes the ability to issue new shares as an alternative to acquire existing shares on-market, at the option of MGL. In 2009, most participation is expected to be in the form of newly issued shares. Any applicable brokerage expenses, workers' compensation premiums and payroll tax charges are applied to the employee's account.

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 Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company into disrepute.

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

– an employee's resignation from the Company 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, shares rank equally with all other fully paid ordinary shares then on issue.

Eligible employees are Australian based permanent full-time or part-time employees or fixed term contract employees of the Company or a related company who either receive available profit share in the relevant year of at least $1,000 in total or allocate 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. No further offers under the MBEDSAP are currently proposed. MGL has since introduced a Macquarie Group Executive Director Share Acquisition Plan (MGEDSAP) on the same terms but no offers have been made under the plan.

Recently a further sub-plan of the MGSSAP has been created, the Macquarie Group Executive Committee Acquisition Plan, whereby members of the MGL Executive Committee must 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.

Offers under the MGSSAP were made during May 2008. A total of 705 staff participated in the MGSSAP. In July 2008, 603,028 MGL shares were issued based on the issue price of $56.40. In July 2008, 126,448 shares were acquired on-market and in December 2008, 9,590 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.

NEDs may subsequently apply to reduce their previous allocations provided that the relevant buying period has not commenced. If NEDs wish to participate there is a minimum contribution of $1,000 of NED remuneration per buying period to go towards the NEDSAP.

Shares are acquired at prevailing market prices. Brokerage fees are 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 are 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 Company or a related company or if they carry out an act or fail to do an act which brings the Company or a related company 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 2008. A total of three NEDs participated in the NEDSAP. In July 2008 4,028 MGL shares were acquired on-market and in December 2008 6,874 MGL shares were acquired on-market.

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

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 39. Contingent liabilities and commitments				
The following details of contingent liabilities and commitments exclude derivatives.				
Contingent liabilities exist in respect of:				
Guarantees	**253**	281	**1,260**	213
Indemnities	**6**	78	**-**	-
Letters of credit	**120**	178	**-**	-
Performance related contingents	**101**	88	**-**	175
Total contingent liabilities[1]	**480**	625	**1,260**	388
Commitments exist in respect of:				
Undrawn credit facilities	**2,771**	4,381	**-**	-
Undrawn credit facilities – revocable at any time	**509**	1,502	**-**	-
Forward asset purchase	**695**	935	**-**	-
Total commitments[2]	**3,975**	6,818	**-**	-
Total contingent liabilities and commitments	**4,455**	7,443	**1,260**	388

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

(2) Total commitments also represent contingent assets. Such commitments to provide credit may convert to loans and other assets in the ordinary course of business.

	Consolidated 2009 $m	Consolidated 2008 $m	Company 2009 $m	Company 2008 $m
Note 40. Capital and other expenditure commitments				
Not later than one year	**40**	216	**-**	-
Later than one year and not later than five years	**52**	69	**-**	-
Later than five years	**13**	12	**-**	-
Total capital and other expenditure commitments	**105**	297	**-**	-
Note 41. Lease commitments				
Non-cancellable operating leases expiring:				
Not later than one year	**265**	159	**-**	-
Later than one year and not later than five years	**1,039**	573	**-**	-
Later than five years	**815**	178	**-**	-
Total operating lease commitments	**2,119**	910	**-**	-

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

Note 42. Derivative financial instruments

Objectives of holding and issuing derivative financial instruments

The consolidated entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the consolidated entity's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The consolidated entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 2 (xi)-Summary of significant accounting policies:

Cash flow hedges

The consolidated entity is exposed to volatility in future interest cash flows arising from floating rate issued debt used to fund fixed rate asset positions. 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.

At 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as cash flow hedges was $80 million negative value (2008: $673 million negative value).

In 2009, the consolidated entity recognised a $5 million loss (2008: $nil) in the income statement due to hedge ineffectiveness on cash flow hedges.

Fair value hedges

The consolidated entity's fair value hedges consist of:

– interest rate swaps used to hedge against changes in the fair value of fixed rate issued debt as a result of movements in benchmark interest rates; and
– foreign exchange forward contracts used to hedge against changes in the fair value of foreign denominated equity instruments as a result of movements in market foreign exchange rates.

As at 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as fair value hedges was $139 million negative value (2008: $76 million positive value).

During the period fair value losses on the hedging instruments of $245 million have been recognised, offset by $229 million (2008: $nil) of gains on the hedged item.

Net investment in foreign operations hedges

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

At 31 March 2009, the fair value of outstanding derivatives held by the consolidated entity and designated as net investment in foreign operations hedges was $34 million negative value (2008: $148 million positive value). In 2009, the consolidated entity recognised $nil (2008: $nil) in the income statement due to hedge ineffectiveness on net investment hedges.

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.

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

Note 42. Derivative financial instruments continued

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

	Consolidated 2009				Consolidated 2008			
	Notional amount $m	**Asset revaluations $m**	**Liability revaluations $m**	**Net fair value $m**	Notional amount $m	Asset revaluations $m	Liability revaluations $m	Net fair value $m
Interest rate contracts								
Exchange traded	**28,427**	**126**	**141**	**(15)**	16,934	186	153	33
Forwards	**19,678**	**8**	**8**	**-**	16,366	26	13	13
Swaps	**172,182**	**4,780**	**4,280**	**500**	139,526	1,879	1,605	274
Options	**321**	**6**	**-**	**6**	2,812	16	10	6
Total interest rate contracts	**220,608**	**4,920**	**4,429**	**491**	175,638	2,107	1,781	326
Foreign exchange contracts								
Forwards	**78,322**	**2,121**	**1,982**	**139**	48,518	2,554	1,739	815
Swaps	**16,607**	**541**	**957**	**(416)**	110,949	2,047	2,399	(352)
Options	**2,604**	**776**	**759**	**17**	103,852	884	678	206
Total foreign exchange contracts	**97,533**	**3,438**	**3,698**	**(260)**	263,319	5,485	4,816	669
Equity contracts								
Exchange traded	**17,500**	**360**	**145**	**215**	266,694	338	455	(117)
Swaps	**1,850**	**322**	**1,292**	**(970)**	526	193	1,764	(1,571)
Options	**8,648**	**704**	**1,245**	**(541)**	36,553	2,078	1,704	374
Other	**3,020**	**25**	**55**	**(30)**	3,337	54	65	(11)
Total equity contracts	**31,018**	**1,411**	**2,737**	**(1,326)**	307,110	2,663	3,988	(1,325)
Commodity contracts								
Exchange traded	**55,902**	**3,361**	**3,469**	**(108)**	48,019	3,095	4,136	(1,041)
Forwards	**44,396**	**4,234**	**3,384**	**850**	26,828	3,098	1,594	1,504
Swaps	**39,692**	**5,625**	**4,828**	**797**	17,996	2,084	2,092	(8)
Options	**70,912**	**4,439**	**4,826**	**(387)**	207,183	2,604	2,992	(388)
Total commodity contracts	**210,902**	**17,659**	**16,507**	**1,152**	300,026	10,881	10,814	67
Total derivatives contracts outstanding	**560,061**	**27,428**	**27,371**	**57**	1,046,093	21,136	21,399	(263)

Note 43. Financial risk management

Risk Management Group

Risk is an integral part of the consolidated entity's businesses. The main risks faced by the consolidated entity are market risk, equity risk, credit risk, liquidity risk, operation risk, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group (RMG) to ensure appropriate assessment and management of these risks.

RMG is independent of all other areas of the Macquarie Group, reporting directly to the Managing Director. The Head of RMG is a member of the Executive Committee of MGL and MBL. RMG authority is required for all material risk acceptance decisions. RMG identifies, quantifies and assesses all material risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.

Note 43.1. Credit risk

Credit risk is the risk of a counterparty failing to complete its contractual obligations when they fall due. Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract at any stage. The resultant credit exposure is a function of the movement of prices over the term of the underlying contract and systems for the assessment of potential credit exposures exist for each of the consolidated entity's trading activities.

The consolidated entity's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above specified limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG.

All counterparties are rated on the Macquarie rating scale which is similar to that used by public ratings agencies. Each rating is associated with a Probability of Default and an assessment is also made of the Loss Given Default. This classification enables effective application of resources to the management, pricing and monitoring of credit exposures.

No material credit exposures are assumed without appropriate analysis. After this analysis is undertaken, limits are set for an acceptable level of potential exposure. All limits and ratings are reviewed at least once a year, or more frequently if necessary, to ensure that the most current information available on counterparties is taken into account.

All credit exposures are monitored regularly against limits. Credit exposures which fluctuate through the duration of the transaction are monitored daily. These include exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

All counterparties with credit exposures are regularly monitored to ensure any deterioration is identified and reflected in an adjustment to their rating. Where counterparties are under stress they are monitored on a more frequent basis and counterparties with a deteriorating credit risk profile are monitored formally on a monthly basis through Credit Watch and Irregulars reporting. The business remains responsible for the management of the counterparty and of the risk position, but RMG oversight is increased to ensure that positions are managed for optimal outcomes. When counterparties default, RMG and the business work together to resolve the issues and to manage the facilities through the impairment and provisioning process.

To mitigate credit risk, the consolidated entity makes increasing use of margining and other forms of collateral or credit enhancement techniques (including guarantees, letters of credit, the purchase of credit default swaps and mortgage insurance) where appropriate.

The consolidated entity's policies to control credit risk include avoidance of unacceptable concentrations of risk either to any economic sector or to an individual counterparty. Policies are in place to regulate large exposures to single counterparties or groups of counterparties.

The consolidated entity has a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

The balances disclosed in the credit risk tables below exclude financial assets that are subject to risks other than credit risk, such as equity investments, interests in associates and joint ventures or bank notes and coin.

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

Note 43.1. Credit risk continued

Maximum exposure to credit risk

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

Consolidated 2009	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[(1)] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	-	1,433	4,001	74
Financial institutions	2,694	587	666	3,046
Other	-	-	137	27,877
Total Australia	2,694	2,020	4,804	30,997
New Zealand				
Governments	-	-	-	4
Financial institutions	61	5	2	11
Other	-	-	-	74
Total New Zealand	61	5	2	89
Europe				
Governments	-	2	462	1
Financial institutions	5,273	1,900	-	2,330
Other	-	219	-	1,128
Total Europe	5,273	2,121	462	3,459
North America				
Governments	-	17	7	58
Financial institutions	2,616	531	493	1,680
Other	-	56	-	7,702
Total North America	2,616	604	500	9,440
Asia				
Governments	-	-	-	-
Financial institutions	1,462	49	30	230
Other	-	-	31	243
Total Asia	1,462	49	61	473
Other				
Governments	-	265	14	-
Financial institutions	165	11	42	18
Other	-	21	12	275
Total other	165	297	68	293
Total	12,271	5,096	5,897	44,751
Total gross credit risk				

(1) Classified based on the exposure to the underlying security borrowed.

(2) Included in Australia-Governments, are holdings of $1.4 billion debt investment securities issued by Australian Banks which are subject to the Australian Government Guarantee.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100% (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale[2] $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
-	411	208	2,060	-	8	8,195
560	4,772	6	9,381	739	408	22,859
4,711	655	1,514	140	81	1,433	36,548
5,271	5,838	1,728	11,581	820	1,849	67,602
-	-	1	-	-	-	5
-	3	-	-	-	-	82
-	-	21	-	-	2	97
-	3	22	-	-	2	184
-	-	241	-	-	-	706
369	6,658	-	3,437	-	136	20,103
-	1,733	1,697	98	-	323	5,198
369	8,391	1,938	3,535	-	459	26,007
-	18	113	-	-	9	222
31	3,484	23	1,667	-	171	10,696
-	8,413	1,107	524	-	1,519	19,321
31	11,915	1,243	2,191	-	1,699	30,239
-	53	58	-	-	-	111
-	375	-	-	-	-	2,146
1	229	2,396	2	-	251	3,153
1	657	2,454	2	-	251	5,410
-	-	1	-	-	-	280
43	299	-	-	-	89	667
-	325	415	-	-	106	1,154
43	624	416	-	-	195	2,101
5,715	27,428	7,801	17,309	820	4,455	131,543
						131,543

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

Note 43.1 Credit risk continued

Maximum exposure to credit risk continued

Consolidated 2008	Due from banks $m	Cash collateral on securities borrowed and reverse repurchase agreements[1] $m	Trading portfolio assets $m	Loan assets held at amortised cost $m
Australia				
Governments	-	5,852	890	161
Financial institutions	1,295	1,637	1,959	2,503
Other	-	18	236	42,840
Total Australia	1,295	7,507	3,085	45,504
New Zealand				
Governments	-	11	-	3
Financial institutions	96	8	3	36
Other	-	-	-	86
Total New Zealand	96	19	3	125
Europe				
Governments	-	-	-	10
Financial institutions	5,188	13,106	66	1,049
Other	-	167	-	1,020
Total Europe	5,188	13,273	66	2,079
North America				
Governments	-	166	-	26
Financial institutions	1,508	885	99	1,602
Other	-	486	3	2,156
Total North America	1,508	1,537	102	3,784
Asia				
Governments	-	-	254	-
Financial institutions	1,141	14	29	116
Other	-	-	-	322
Total Asia	1,141	14	283	438
Other				
Governments	-	73	2	-
Financial institutions	882	473	43	21
Other	-	10	17	456
Total other	882	556	62	477
Total	10,110	22,906	3,601	52,407
Total gross credit risk				

(1) Classified based on the exposure to the underlying security borrowed.

The following provides detail around the active management of credit risk by the consolidated entity:

The consolidated entity enters into master netting agreements with certain counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Stock borrowing and reverse repurchase arrangements entered into by the consolidated entity with external counterparties normally require collateral in excess of 100% (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit.

Other financial assets at fair value through profit or loss $m	Derivative financial instruments – positive values $m	Other assets $m	Debt investment securities available for sale $m	Life investment contracts and other unit holder investment assets $m	Credit commitments and contingent liabilities $m	Total $m
52	76	160	-	-	56	7,247
220	2,653	-	9,058	608	1,192	21,125
3,491	8,201	3,055	365	260	2,799	61,265
3,763	10,930	3,215	9,423	868	4,047	89,637
-	-	4	-	-	-	18
-	-	-	-	-	-	143
-	-	50	-	-	19	155
-	-	54	-	-	19	316
-	-	242	175	-	-	427
116	2,192	-	3,671	-	101	25,489
-	5,465	1,136	4	-	590	8,382
116	7,657	1,378	3,850	-	691	34,298
-	9	73	-	-	29	303
26	796	-	1,231	-	8	6,155
-	809	362	-	-	2,317	6,133
26	1,614	435	1,231	-	2,354	12,591
-	-	55	-	-	-	309
-	542	-	214	-	4	2,060
-	255	3,226	9	-	103	3,915
-	797	3,281	223	-	107	6,284
-	-	4	-	-	-	79
20	94	-	653	-	92	2,278
25	44	111	-	-	133	796
45	138	115	653	-	225	3,153
3,950	21,136	8,478	15,380	868	7,443	146,279
						146,279

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

Note 43.1. Credit risk continued

Maximum exposure to credit risk continued

Company 2009	Other assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
Australia				
Governments	85	-	-	85
Other	-	10,382	302	10,684
Total Australia	85	10,382	302	10,769
New Zealand				
Other	-	-	28	28
Total New Zealand	-	-	28	28
Europe				
Other	-	-	216	216
Total Europe	-	-	216	216
North America				
Other	-	8	216	224
Total North America	-	8	216	224
Asia				
Other	-	-	498	498
Total Asia	-	-	498	498
Total	85	10,390	1,260	11,735
Total gross credit risk				11,735

Company 2008	Other assets $m	Due from subsidiaries $m	Credit commitments and contingent liabilities $m	Total $m
Australia				
Other	1	13,885	61	13,947
Total Australia	1	13,885	61	13,947
North America				
Other	-	6	268	274
Total North America	-	6	268	274
Asia				
Other	-	-	59	59
Total Asia	-	-	59	59
Total	1	13,891	388	14,280
Total gross credit risk				14,280

Note 43.1. **Credit risk** continued

Credit quality of financial assets

The table below shows the credit quality by class of financial asset (based upon ultimate risk counterparty) for credit exposures, based on the consolidated entity's credit rating system.

Credit Quality – Consolidated 2009

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	12,252	19	-	-	-	12,271
Cash collateral on securities borrowed and reverse repurchase agreements						5,096
Governments	1,522	195	-	-	-	1,717
Financial institutions	2,998	85	-	-	-	3,083
Other	277	19	-	-	-	296
Trading portfolio assets						5,897
Governments	4,484	-	-	-	-	4,484
Financial institutions	1,195	38	-	-	-	1,233
Other	81	99	-	-	-	180
Loan assets held at amortised cost						44,751
Governments	62	-	-	-	75	137
Financial institutions	5,235	1,922	38	-	120	7,315
Other	24,098	9,815	845	-	2,541	37,299
Other financial assets at fair value through profit or loss						5,715
Governments	-	-	-	-	-	-
Financial institutions	1,003	-	-	-	-	1,003
Other	4,084	568	-	-	60	4,712
Derivative financial instruments – positive values						27,428
Governments	478	4	-	-	-	482
Financial institutions	14,889	702	-	-	-	15,591
Other	9,299	2,056	-	-	-	11,355
Other assets						7,801
Governments	622	-	-	-	-	622
Financial institutions	-	-	24	-	5	29
Other	4,126	2,757	-	106	161	7,150
Debt investment securities available for sale						17,309
Governments	2,060	-	-	-	-	2,060
Financial institutions	14,321	164	-	-	-	14,485
Other	455	258	-	-	51	764
Life investment contracts and other unit holder assets						820
Financial institutions	739	-	-	-	-	739
Other	81	-	-	-	-	81
Total						127,088

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

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

Note 43.1. Credit risk continued

Credit quality of financial assets continued

Credit Quality – Consolidated 2008

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Due from banks	10,046	64	-	-	-	10,110
Cash collateral on securities borrowed and reverse repurchase agreements						22,906
Governments	6,030	72	-	-	-	6,102
Financial institutions	16,093	30	-	-	-	16,123
Other	671	10	-	-	-	681
Trading portfolio assets						3,601
Governments	1,144	2	-	-	-	1,146
Financial institutions	2,193	3	-	-	3	2,199
Other	246	10	-	-	-	256
Loan assets held at amortised cost						52,407
Governments	198	2	-	-	-	200
Financial institutions	5,159	167	-	-	1	5,327
Other	31,978	13,037	225	-	1,640	46,880
Other financial assets at fair value through profit or loss						3,950
Governments	52	-	-	-	-	52
Financial institutions	379	-	-	-	3	382
Other	512	3,000	-	-	4	3,516
Derivative financial instruments – positive values						21,136
Governments	82	3	-	-	-	85
Financial institutions	5,213	1,053	-	-	11	6,277
Other	10,656	4,118	-	-	-	14,774
Other assets						8,478
Governments	538	-	-	-	-	538
Other	4,703	2,701	-	160	376	7,940
Debt investment securities available for sale						15,380
Governments	175	-	-	-	-	175
Financial institutions	14,827	-	-	-	-	14,827
Other	92	76	1	-	209	378
Life investment contracts and other unit holder investment assets						868
Financial institutions	608	-	-	-	-	608
Other	260	-	-	-	-	260
Total						138,836

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

Note 43.1. Credit risk continued

Credit quality of financial assets continued

The table below shows 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 – Company 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**
Other assets						**85**
Governments	**85**	**-**	**-**	**-**	**-**	**85**
Due from subsidiaries						**10,390**
Other	**10,374**	**-**	**-**	**16**	**-**	**10,390**
Total						**10,475**

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

Credit Quality – Company 2008

	Neither past due nor impaired					
	Investment Grade $m	Below Investment Grade $m	Default $m	Unrated $m	Past due or individually impaired $m	Total $m
Other assets						1
Other	1	-	-	-	-	1
Due from subsidiaries						13,891
Other	13,885	-	-	6	-	13,891
Total						13,892

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

Financial assets whose terms have been renegotiated

The table below includes the carrying value, as at the reporting date, of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

	Consolidated 2009 $m	Consolidated 2008 $m	**Company 2009 $m**	Company 2008 $m
Loans assets held at amortised cost				
Other	**29**	24	**-**	-

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

Note 43.1. Credit risk continued

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

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
						Consolidated 2009	
Loan assets held at amortised cost							
Governments	22	14	15	24	-	75	18
Financial institutions	25	31	1	22	41	120	16
Other	789	225	221	431	875	2,541	2,871
Other financial assets at fair value through profit or loss							
Other	27	10	9	14	-	60	21
Other assets							
Financial institutions	-	-	-	-	5	5	-
Other	62	14	11	43	31	161	-
Debt investment securities available for sale							
Other	-	-	-	-	51	51	-
Total	925	294	257	534	1,003	3,013	2,926

A facility is considered to be past due when a contractual payment falls overdue by one or more days. When a facility is classified as past due, the entire facility balance is disclosed in the past due analysis.

The factors taken into consideration by the consolidated entity when determining whether an asset is impaired are set out in note 2(xiii).

Of the collateral held against past due and impaired balances for loan assets held at amortised cost, $1,293 million (2008: $1,692 million) relates to collateral held against past due balances on residential mortgage facilities that are covered by mortgage insurance. A mortgage insurance claim will only be made in an instance where there is an outstanding balance on the mortgage facility after the receipt of proceeds on the disposal of the property held as security. The remaining collateral is made up of assets held as collateral against other loan and receivable balances.

The collateral held against past due and impaired balances for other assets, represents equity securities held as security against failed trade settlements.

Repossessed collateral

In the event of customer default on a residential mortgage facility, any loan security is usually held as mortgagee in possession and therefore the consolidated entity does not usually hold any real estate or other assets acquired through the enforcement of security.

During the year, the consolidated entity took possession of fixed assets and property assets with a carrying value of $25 million (2008: $38 million). These assets are in the process of being sold.

Note 43.1. Credit risk continued

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

Class of financial asset	Past due but not impaired: Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	More than 90 days $m	Impaired $m	Total $m	Fair value of collateral held $m
							Consolidated 2008
Trading portfolio assets							
Financial institutions	3	-	-	-	-	3	-
Loan assets held at amortised cost							
Financial institutions	-	-	-	-	1	1	-
Other	1,007	94	191	228	120	1,640	2,325
Other financial assets at fair value through profit or loss							
Financial institutions	-	-	-	3	-	3	-
Other	2	1	1	-	-	4	4
Derivative financial instruments – positive values							
Financial institutions	11	-	-	-	-	11	-
Other assets							
Other	207	60	31	34	44	376	46
Debt investment securities available for sale							
Other	-	-	-	1	208	209	-
Total	1,230	155	223	266	373	2,247	2,375

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

Note 43.2. Liquidity risk

Liquidity management

The consolidated entity's liquidity risk management framework ensures that both MGL and MBL are able to meet their 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 MGL and MBL Board and the Risk Management Group. MGL Group's and MBL Group's liquidity policies are approved by their respective Board after endorsement by the Asset and Liability Committee. The Asset and Liability Committee includes the Chief Executive Officer, the Chief Financial Officer, Head of RMG, Treasurer and Business Group Heads.

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

Liquidity policy

MGL provides funding predominantly to the Non-Banking Group. As such, the MGL liquidity policy outlines the liquidity requirements for the Non-Banking Group. The key requirement of the policy is that MGL is able to meet all of its repayment obligations for the next 12 months with no access to funding markets.

Reflecting the longer term nature of the Non-Banking Group asset profile, MGL is funded predominantly with a mixture of capital and long term wholesale funding.

The MBL liquidity policy outlines the liquidity requirements for the Banking Group. The key requirement of the policy is that MBL is able to meet all of its repayment obligations for the next 12 months through a period of constrained access to wholesale funding markets.

The MBL liquidity policy was revised in July 2008. The revised policy requires additional scenario analysis and has extended the timeframes over which scenarios are modelled.

Scenario analysis

Scenario analysis is central to the consolidated entity's 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 MGL and MBL's ability 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 both MGL and MBL 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 twelve 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 the Risk Management Group and is submitted to the Board for approval.

Funding transfer pricing

An internal funding transfer pricing system is in place which aims to align businesses with the overall funding strategy of the consolidated entity. Under this system the costs of long- and short-term funding are charged out, and credits are made to Business Units that provide long-term stable funding.

Note 43.2. **Liquidity risk** continued

Credit ratings

As at 31 March 2009, the credit ratings for each of our funding vehicles were as follows:

	Macquarie Group Limited			Macquarie Bank Limited		
	Short–term	**Long–term**	**Outlook**	**Short-term**	**Long-term**	**Outlook**
Fitch Ratings	F-1	A	Stable	F-1	A+	Stable
Moody's Investors Service	P-1	A2	Negative	P-1	A1	Negative
Standard & Poor's	A-2	A-	Negative	A-1	A	Negative

Contractual undiscounted cash flows

The table below summarises the maturity profile of the consolidated entity's financial liabilities as at 31 March based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the consolidated entity expects that many customers will not request repayment on the earliest date the consolidated entity could be required to pay and the table does not reflect the expected cash flows indicated by the consolidated entity's deposit retention history.

Derivatives (other than those designated in a hedging relationship) and trading portfolio liabilities are included in the less than 3 months column at their fair value. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

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

Note 43.2. Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
					Consolidated 2009	
Due to banks	**1,266**	**240**	**598**	**9,495**	**1,611**	**13,210**
Cash collateral on securities lent and repurchase agreements	**1,930**	**1,650**	**509**	**-**	**-**	**4,089**
Trading portfolio liabilities	**-**	**2,161**	**-**	**-**	**-**	**2,161**
Derivative financial instruments (trading)	**-**	**25,747**	**-**	**-**	**-**	**25,747**
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	**243**	**9,326**	**7,049**	**5,600**	**46**	**22,264**
Contractual amounts receivable	**(227)**	**(9,408)**	**(6,795)**	**(5,380)**	**(26)**	**(21,836)**
Deposits	**13,108**	**7,040**	**1,637**	**165**	**-**	**21,950**
Debt issued at amortised cost(1)	**1**	**6,944**	**11,377**	**31,051**	**4,895**	**54,268**
Other liabilities(2)	**-**	**8,058**	**-**	**-**	**-**	**8,058**
Other financial liabilities at fair value through profit or loss	**115**	**1,992**	**1,170**	**2,199**	**1,898**	**7,374**
Life investment contracts and other unit holder liabilities	**-**	**4,312**	**-**	**-**	**-**	**4,312**
Macquarie Convertible Preference Securities	**-**	**33**	**33**	**833**	**-**	**899**
Subordinated debt	**-**	**15**	**276**	**1,797**	**6**	**2,094**
Total undiscounted cash flows	**16,436**	**58,110**	**15,854**	**45,760**	**8,430**	**144,590**
					Consolidated 2008	
Due to banks	2,599	1,554	548	5,947	516	11,164
Cash collateral on securities lent and repurchase agreements	3,437	3,128	7,323	-	-	13,888
Trading portfolio liabilities	-	11,825	-	-	-	11,825
Derivative financial instruments (trading)	-	20,492	-	-	-	20,492
Derivative financial instruments (hedging relationship)						
Contractual amounts payable	-	2,730	2,508	4,139	796	10,173
Contractual amounts receivable	-	(2,610)	(2,166)	(3,621)	(887)	(9,284)
Deposits	8,936	4,802	830	476	833	15,877
Debt issued at amortised cost(1)	823	15,807	24,617	18,414	3,049	62,710
Other liabilities(2)	-	7,991	-	-	-	7,991
Other financial liabilities at fair value through profit or loss	1,340	575	818	3,701	341	6,775
Life investment contracts and other unit holder liabilities	-	5,689	-	-	-	5,689
Subordinated debt	6	34	110	1,112	2,047	3,309
Total undiscounted cash flows	17,141	72,017	34,588	30,168	6,695	160,609

(1) Included in this balance are amounts payable to SPE note holders. The contractual maturity of the notes are dependant 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.

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

Note 43.2. Liquidity risk continued

Contractual undiscounted cash flows continued

	On demand $m	Less than 3 months $m	3 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
						Company 2009
Due to banks	**-**	**52**	**-**	**8,125**	**-**	**8,177**
Deposits	**-**	**104**	**-**	**-**	**-**	**104**
Due to subsidiaries	**119**	**34**	**3,870**	**-**	**-**	**4,023**
Total undiscounted cash flows	**119**	**190**	**3,870**	**8,125**	**-**	**12,304**
						Company 2008
Due to banks	-	83	198	5,464	-	5,745
Due to subsidiaries	56	2,683	1,862	4,989	-	9,590
Total undiscounted cash flows	56	2,766	2,060	10,453	-	15,335

Note 43.3. 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: changes in the level, shape and volatility of yield curves, the basis between different debt securities and derivatives and credit margins;
- equities: changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity;
- commodities 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 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 consolidated entity 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.

MGL is not directly exposed to any material market risk.

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

Note 43.3. Market risk continued

Value-at-Risk (VaR) figures

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

Consolidated	2009 Average $m	2009 Maximum $m	2009 Minimum $m	2008 Average $m	2008 Maximum $m	2008 Minimum $m
Equities	**5.79**	**16.41**	**3.27**	7.45	15.30	4.37
Interest rates	**5.25**	**10.04**	**2.52**	3.22	5.51	2.12
Foreign exchange and bullion	**5.00**	**14.97**	**1.49**	3.15	7.77	1.25
Commodities	**9.03**	**17.04**	**0.20**	10.80	17.70	3.73
Aggregate	**13.01**	**24.17**	**9.28**	13.55	19.54	8.69

Value-at-Risk

The VaR model uses a Monte Carlo simulation to generate normally distributed price and volatility paths, based on three to ten years of historical data. VaR focuses on unexceptional price moves, it does not account for losses that could occur beyond the 99% level of confidence. These factors can limit the effectiveness of VaR in predicting future price moves when changes to future risk factors deviate from the movements expected by the above assumptions. For capital adequacy purposes, debt-specific risk is measured using APRA's standard method, whilst all other exposures are captured by the VaR model. This combined approach has been approved by APRA and is subject to periodic review.

Interest rate risk

The consolidated entity also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate marketable parcels of interest rate risk. Wherever possible, these interest rate risks are transferred to the consolidated entity's Treasury and Commodities business and managed within traded market risk limits and are included within the VaR figures presented above. Some residual interest rate risks remain in the banking book as an unavoidable consequence of doing business. Residual risks have independent limits that are monitored by RMG.

Certain interest rate derivative transactions are undertaken to economically hedge interest rate risk associated with the MIPS. As the MIPS are classified as equity for accounting and the hedge accounting requirements cannot be met, the volatility arising from recognising these derivatives at fair value is reflected in the income statement. Interest rate sensitivity on these derivatives is not reflected in the VaR numbers above. Indicatively, a 50 basis point increase/decrease in interest rates would result in a decrease/increase in profit before tax of $20 million (2008: $34 million) respectively.

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

Foreign currency risk

The consolidated entity is exposed to foreign currency risk arising from transactions entered into in its normal course of business and as a result of the consolidated entity's investments in foreign operations. Movements in foreign currency exchange rates will result in gains or losses in the income statement due to the revaluation of certain balances or in movements in the Foreign Currency Translation Reserve due to the revaluation of foreign operations.

In order to appropriately manage this risk it is consolidated entity policy that non-trading foreign currency exposures are appropriately hedged unless specifically approved by RMG, and trading foreign currency exposures remain within trading limits set by RMG.

Responsibility for monitoring and managing foreign currency exposures arising from transactions rests with individual businesses which will enter into internal transactions as necessary to transfer the underlying foreign exchange risk to our trading businesses. Any residual foreign exchange risk residing in non-trading business units is included in the internal model capital calculation by RMG.

Foreign currency exposures arise on the consolidated entity's net investment in foreign operations with functional currencies other than the Australian dollar for both the consolidated entity and the Company. Forward foreign exchange contracts, or borrowings in the same currency as the exposure, are designated as hedges under Australian accounting standards and offset movements on the net assets within foreign operations and are transferred to the Foreign Currency Translation Reserve.

As a result of the operation of the consolidated entity's foreign exchange policy, the consolidated entity is not exposed to any material residual foreign currency risk.

Note 43.3. **Market risk** continued

Equity price risk

The table below indicates the equity markets to which the consolidated entity 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:

	2009			2008		
Geographic region	**Movement in equity price %**	**Sensitivity of profit before tax $m**	**Sensitivity of equity after tax $m**	Movement in equity price %	Sensitivity of profit before tax $m	Sensitivity of equity after tax $m
Listed						**Consolidated**
Australia	**+10**	**0.6**	**11.4**	+10	7.5	26.6
America	**+10**	**2.1**	**2.1**	+10	9.5	7.9
Europe	**+10**	**-**	**0.9**	+10	3.3	6.0
Asia	**+10**	**-**	**4.5**	+10	-	10.0
Other	**+10**	**-**	**0.2**	+10	-	2.1
Unlisted	**+10**	**0.1**	**36.3**	+10	0.7	22.0
Listed						
Australia	**-10**	**(0.4)**	**(11.4)**	-10	(7.1)	(26.6)
America	**-10**	**(2.1)**	**(2.1)**	-10	(9.2)	(7.9)
Europe	**-10**	**-**	**(0.9)**	-10	(3.2)	(6.0)
Asia	**-10**	**-**	**(4.5)**	-10	-	(10.0)
Other	**-10**	**-**	**(0.2)**	-10	-	(2.1)
Unlisted	**-10**	**(0.1)**	**(36.3)**	-10	(0.7)	(22.0)

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

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

	Consolidated 2009			Consolidated 2008		
	Average Balance $m	**Income/ (expense) $m**	**Average rate %**	Average Balance $m	Income/ (expense) $m	Average rate %
Assets						
Interest bearing assets						
Due from banks	**11,392**	**394**	3.5	10,565	541	5.1
Cash collateral on securities borrowed and reverse repurchase agreements	**14,956**	**449**	3.0	26,104	1,221	4.7
Trading portfolio assets	**3,947**	**271**	6.9	3,994	258	6.5
Loan assets held at amortised cost	**50,579**	**3,862**	7.6	50,094	3,874	7.7
Other financial assets at fair value through profit or loss	**4,710**	**397**	8.4	943	72	7.6
Other assets	**-**	**-**	-	22	2	7.8
Investment securities available for sale	**16,707**	**1,030**	6.2	10,287	719	7.0
Net interest in associates and joint ventures using the equity method	**402**	**17**	4.2	227	11	5.0
Total interest bearing assets	**102,693**	**6,420**		102,236	6,698	
Total non-interest bearing assets	**69,078**			59,782		
Total assets	**171,771**			162,018		
Liabilities						
Interest bearing liabilities						
Due to banks	**10,672**	**(520)**	4.9	6,834	(473)	6.9
Cash collateral on securities lent and repurchase agreements	**9,679**	**(333)**	3.4	10,991	(593)	5.4
Trading portfolio liabilities	**2,052**	**(126)**	6.2	3,027	(189)	6.2
Deposits	**19,109**	**(970)**	5.1	16,992	(861)	5.1
Debt issued at amortised cost	**51,633**	**(3,188)**	6.2	56,442	(3,521)	6.2
Other financial liabilities at fair value through profit or loss	**3,637**	**(209)**	5.7	1,124	(56)	5.0
Other liabilities	**110**	**(6)**	7.4	568	(37)	6.5
Loan capital						
Macquarie Convertible Preference Securities	**435**	**(32)**	7.4	-	-	-
Subordinated debt	**1,960**	**(98)**	5.0	2,584	(151)	5.8
Total interest bearing liabilities	**99,287**	**(5,482)**		98,562	(5,881)	
Total non-interest bearing liabilities	**62,549**			54,335		
Total liabilities	**161,836**			152,897		
Net assets	**9,935**			9,121		
Equity						
Contributed equity						
Ordinary share capital	**4,759**			4,177		
Treasury shares	**(4)**			(11)		
Exchangeable shares	**124**			-		
Reserves	**230**			458		
Retained earnings	**3,632**			3,270		
Total capital and reserves attributable to equity holders of Macquarie Group Limited	**8,741**			7,894		
Minority interest	**1,194**			1,227		
Total equity	**9,935**			9,121		

Note 45. Maturity analysis of monetary assets and liabilities

The table below details the maturity distribution of selected monetary assets and liabilities. Maturities represent the remaining contractual maturity as at 31 March 2009 to the repayment date.

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets						Consolidated 2009	
Cash and balances with central banks	141	-	-	-	-	-	141
Due from banks	9,048	3,161	15	37	10	-	12,271
Cash collateral on securities borrowed and reverse repurchase agreements	1,902	3,149	35	10	-	-	5,096
Trading portfolio assets	-	9,260	-	-	-	-	9,260
Loan assets held at amortised cost	3,101	1,553	1,879	13,323	4,505	-	24,361
Other financial assets at fair value through profit or loss	6	1,965	1,766	3,135	1,038	-	7,910
Debt investment securities available for sale	1,731	10,316	2,582	1,903	777	-	17,309
Life investment contracts and other unit holder investment assets[(1)]	106	497	186	36	-	3,489	4,314
Sub-total monetary assets	16,035	29,901	6,463	18,444	6,330	3,489	80,662
Loan assets held at amortised cost by SPEs[(2)]	-	1,549	4,028	10,793	4,020	-	20,390
Total monetary assets	16,035	31,450	10,491	29,237	10,350	3,489	101,052
Liabilities							
Due to banks	990	277	482	8,564	1,545	-	11,858
Cash collateral on securities lent and repurchase agreements	1,610	921	1,422	-	-	-	3,953
Trading portfolio liabilities	-	2,161	-	-	-	-	2,161
Deposits	12,746	5,968	1,568	834	752	-	21,868
Debt issued at amortised cost	4	5,045	6,727	16,349	14	-	28,139
Other financial liabilities at fair value through profit or loss	-	485	1,002	3,172	1,544	-	6,203
Life investment contracts and other unit holder liabilities	-	-	-	-	-	4,312	4,312
Macquarie Convertible Preference Securities[(3)]	-	-	-	591	-	-	591
Subordinated debt at amortised cost[(4)]	-	-	-	-	1,496	-	1,496
Subordinated debt at fair value through profit or loss[(4)]	-	-	-	-	451	-	451
Sub-total monetary liabilities	15,350	14,857	11,201	29,510	5,802	4,312	81,032
Debt issued at amortised cost by SPEs[(2)]	-	2,452	8,571	6,537	2,571	-	20,131
Total monetary liabilities	15,350	17,309	19,772	36,047	8,373	4,312	101,163

(1) The life business offers an investment linked product. Policy holders are primarily exposed to the liquidity risk on life investment contract assets. The members are subject to liquidity risk on the surplus in the life investment contract statutory funds.

(2) Loan assets held at amortised cost by SPEs are shown at expected repayment maturities and debt issued at amortised cost by SPEs are shown at expected extinguishment maturities.

(3) Macquarie Convertible Preference Securities are mandatorily converted into Macquarie ordinary shares (subject to certain conditions being satisfied) or redeemed on 30 June 2013.

(4) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the consolidated entity and subject to APRA approval.

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Note 45. Maturity analysis of monetary assets and liabilities continued

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets						Consolidated 2008	
Cash and balances with central banks	7	-	-	-	-	-	7
Due from banks	6,566	-	-	3,544	-	-	10,110
Cash collateral on securities borrowed and reverse repurchase agreements	8,745	13,879	282	-	-	-	22,906
Trading portfolio assets	-	15,807	-	-	-	-	15,807
Loan assets held at amortised cost	5,896	4,626	2,474	4,983	10,350	-	28,329
Other financial assets at fair value through profit or loss	422	111	217	3,230	151	-	4,131
Debt investment securities available for sale	1,808	10,125	1,060	1,717	670	-	15,380
Life investment contracts and other unit holder investment assets[1]	75	630	160	-	-	4,834	5,699
Sub-total monetary assets	23,519	45,178	4,193	13,474	11,171	4,834	102,369
Loan assets held at amortised cost by SPEs[2]	-	1,763	4,570	12,232	5,513	-	24,078
Total monetary assets	23,519	46,941	8,763	25,706	16,684	4,834	126,447
Liabilities							
Due to banks	2,005	601	1,185	5,842	408	-	10,041
Cash collateral on securities lent and repurchase agreements	5,713	852	7,216	-	-	-	13,781
Trading portfolio liabilities	-	11,825	-	-	-	-	11,825
Deposits	8,931	4,765	814	449	824	-	15,783
Debt issued at amortised cost	832	13,163	13,024	4,419	1,719	-	33,157
Other financial liabilities at fair value through profit or loss	214	579	1,909	3,342	244	-	6,288
Life investment contracts and other unit holder liabilities	-	-	-	-	-	5,689	5,689
Subordinated debt at amortised cost[3]	-	-	-	-	1,704	-	1,704
Subordinated debt at fair value through profit or loss[3]	-	-	-	-	646	-	646
Sub-Total Monetary Liabilities	17,695	31,785	24,148	14,052	5,545	5,689	98,914
Debt issued at amortised cost by SPEs[2]	-	2,028	11,205	10,600	125	-	23,958
Total monetary liabilities	17,695	33,813	35,353	24,652	5,670	5,689	122,872

(1) The life investment contract business offers an investment linked product. Policy holders are primarily exposed to the liquidity risk on life investment contract assets. The members are subject to liquidity risk on the surplus in the life investment contract statutory funds.

(2) Loan assets held at amortised cost by SPEs are shown at expected repayment maturities and debt issued at amortised cost by SPEs are shown at expected extinguishment maturities.

(3) Subordinated debt is shown at contractual maturities, although call options available may lead to earlier repayment at the discretion of the consolidated entity and subject to APRA approval.

Note 45. Maturity analysis of monetary assets and liabilities continued

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets							**Company 2009**
Due from subsidiaries	**-**	**1,305**	**2,500**	**6,585**	**-**	**-**	**10,390**
Total monetary assets	**-**	**1,305**	**2,500**	**6,585**	**-**	**-**	**10,390**
Liabilities							
Due to banks	**-**	**-**	**-**	**7,393**	**-**	**-**	**7,393**
Deposits	**-**	**104**	**-**	**-**	**-**	**-**	**104**
Due to subsidiaries	**119**	**1,300**	**2,500**	**-**	**-**	**-**	**3,919**
Total monetary liabilities	**119**	**1,404**	**2,500**	**7,393**	**-**	**-**	**11,416**

	At call $m	3 months or less $m	3 months to 12 months $m	1 year to 5 years $m	Over 5 years $m	No maturity specified $m	Total $m
Assets							Company 2008
Due from subsidiaries	5,089	1,202	3,800	3,800	-	-	13,891
Total monetary assets	5,089	1,202	3,800	3,800	-	-	13,891
Liabilities							
Due to banks	-	-	-	4,864	-	-	4,864
Due to subsidiaries	53	1,202	3,800	3,800	-	-	8,855
Total monetary liabilities	53	1,202	3,800	8,664	-	-	13,719

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Note 46. Fair values of financial assets and liabilities

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted prices or rates are used to determine fair value where an active market exists. If the market for a financial instrument is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

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

The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit or loss, derivative financial instruments and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;
- Investment securities classified as available for sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the available for sale reserve in equity until the asset is sold, collected or otherwise disposed of;
- Fair values of fixed rate loans and issued debt classified as at fair value through profit or loss is estimated by reference to current market rates offered on similar loans;
- For financial instruments carried at fair value the determination of fair value includes credit risk (i.e. the premium over the basic interest rate). Counterparty credit risk inherent in these instruments is factored into their valuations via credit valuation adjustments (CVA). This amount represents the estimated market value of protection required to hedge credit risk from counterparties, taking into account expected future exposures, collateral, and netting arrangements. CVA is determined when the market price (or parameter) is not indicative of the credit quality of the specific counterparty. Where financial instruments are valued using an internal model that utilises 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 valuations 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 (eg it affects the value at which liabilities could be repurchased or settled, the observed market price of quoted debt securities and the contract interest rate offered when debt is initially raised). Consequently, changes in the credit quality of the consolidated entity are reflected in valuations where the credit risk would be considered by market participants and excludes fully collateralised transactions and other instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The methodology to determine the adjustment is consistent with CVA and incorporates the consolidated entity's credit spread, for the term of the liability measured, as observed through the credit default swap market. This amount represents the estimated difference in the market value of identical obligations.

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated periodically to test that outputs reflect prices from observable current market transactions in the same instrument or other available observable market data. To the extent possible, models use only observable market data (e.g. for OTC derivatives), however management is required to make assumptions for certain inputs that are not supported by prices from observable current market transactions in the same instrument, such as, volatility and correlation. Changing these assumptions to reasonably possible alternative assumptions, for those financial instruments for which fair values were determined in whole or in part using valuation techniques based on such assumptions (e.g. for certain exotic or structured financial instruments), would not significantly change the fair values recognised in the financial statements.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments which are carried at amortised cost:

- The fair values of liquid assets and other instruments maturing within 3 months approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of demand deposits with no fixed maturity is approximately their carrying amount as they are short term in nature or are payable on demand;

Note 46. Fair values of financial assets and liabilities continued

- The fair values of variable rate financial instruments, including loan assets and liabilities carried at amortised cost, cash collateral on securities borrowed/cash collateral on securities lent and reverse repurchase/repurchase agreements, are approximated by their carrying amounts. The fair value of loan assets repayable without penalty is approximated by their carrying value;
- The fair value of fixed rate loans and debt carried at amortised cost is estimated by reference to current market rates offered on similar loans and the creditworthiness 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 cashflows 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
- In the separate financial statements of the Company, the fair value of balances due from/to subsidiaries is approximated by their carrying amount as the balances are generally receivable/payable on demand.

The tables below summarise the carrying value and fair value of all financial assets and liabilities held at amortised cost of the consolidated entity and Company at 31 March 2009:

	2009 Carrying amount $m	2009 Fair value $m
	Consolidated	
Assets		
Due from banks	12,271	12,271
Loan assets held at amortised cost	44,751	44,984
Total financial assets	57,022	57,255
Liabilities		
Due to banks	11,858	11,004
Deposits	21,868	21,868
Debt issued at amortised cost	48,270	47,687
Macquarie Convertible Preference Securities	591	553
Subordinated debt at amortised cost	1,496	725
Total financial liabilities	84,083	81,837

	2009 Carrying amount $m	2009 Fair value $m
	Company	
Assets		
Due from subsidiaries	10,390	10,390
Total financial assets	10,390	10,390
Liabilities		
Due to banks	7,393	6,443
Deposits	104	104
Due to subsidiaries	3,919	3,760
Total financial liabilities	11,416	10,307

The fair value equivalent of financial assets and financial liabilities held at amortised cost at 31 March 2008 has not been disclosed on the basis that the fair value was not materially different from the carrying value.

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

Note 47. Audit and other services provided by PricewaterhouseCoopers

During the year, the auditor of the Company and consolidated entity, PwC, and its related practices earned the following remuneration:

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
PwC – Australian firm				
Audit and review of financial reports of the Company or any subsidiary of the Company	**6,993**	5,745	**16**	15
Other audit-related work	**1,855**	1,374	**-**	31
Other assurance services	**862**	904	**552**	288
Total audit and other assurance services	**9,710**	8,023	**568**	334
Advisory services	**1,283**	76	**-**	-
Taxation	**620**	836	**-**	-
Total remuneration paid to PwC - Australian firm	**11,613**	8,935	**568**	334
Related practices of PwC – Australian firm (including PwC – overseas firms)				
Audit and review of financial reports of the Company or any subsidiary of the Company	**7,117**	5,144	**-**	-
Other audit-related work	**57**	193	**-**	-
Other assurance services	**1,183**	434	**-**	-
Total audit and other assurance services	**8,357**	5,771	**-**	-
Advisory services	**2,422**	1,242	**-**	-
Taxation	**2,070**	1,625	**-**	-
Total remuneration paid to related practices of PwC - Australian firm	**12,849**	8,638	**-**	-
Total remuneration paid to PwC	**24,462**	17,573	**568**	334

Use of PwC's services for engagements other than audit and assurance is restricted in accordance with the Company'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 Company's policy to seek competitive tenders for all major advisory projects.

Note 48. Acquisitions and disposals of subsidiaries and businesses

Significant entities and businesses acquired or consolidated due to acquisition of control:

- **Macquarie Securities (Thailand) Limited**

  On 3 September 2008, a subsidiary of MGL acquired the remaining 51 per cent interest not previously owned of Macquarie Securities (Thailand) Limited, an entity engaged in the business of providing stockbroking services and other equity-related transactions.

- **Chartreuse et Mont Blanc**

  On 12 November 2008, a subsidiary of MGL acquired 49 per cent (99.99 per cent voting rights) of Chartreuse et Mont Blanc, a manufacturer of ski equipment.

- **Constellation Energy**

  On 29 March 2009, a subsidiary of MGL acquired certain trading assets and other assets and liabilities of Constellation Energy's US-based downstream natural gas trading business. In accordance with AASB 3 *Business Combinations*, provisional amounts for the initial accounting for Constellation Energy have been reported in this Financial Report.

Other entities acquired during the financial year are as follows:

Tension Services Germany GmbH, AOG Inc., First China Property Group Limited and its subsidiaries, Globalis Investments LLC, Four Corners Capital Management LLC, Fremantle Energy Holdings LLC, Allegiance Capital LLC, Energy Assets Limited and Olicc Technology Pty Ltd.

Aggregate details of the above entities and businesses (including disposal groups) acquired or consolidated due to acquisition of control are as follows:

	2009 $m	2008 $m
Fair value of net assets acquired		
Cash, other financial assets and other assets	**513**	998
Goodwill and other intangible assets	**45**	449
Property, plant and equipment and assets under operating leases[1]	**10**	300
Assets of disposal groups classified as held for sale	**683**	286
Payables, provisions, borrowings and other liabilities	**(439)**	(550)
Liabilities of disposal groups classified as held for sale	**(274)**	(102)
Minority interests	**-**	(15)
Minority interest in disposal groups classified as held for sale	**(179)**	(5)
Total fair value of net assets acquired	**359**	1,361
Restructure and operating costs – disposal groups classified as held for sale	**(110)**	-
Adjusted net assets	**249**	**1,361**
Purchase consideration		
Cash consideration and costs directly attributable to acquisition	**85**	1,228
Deferred consideration	**74**	133
Total purchase consideration	**159**	1,361
Net cash inflow/(outflow)		
Cash consideration and costs directly attributable to acquisition	**(85)**	(1,228)
Less cash and cash equivalents acquired	**130**	120
Net cash inflow/(outflow)	**45**	(1,108)

[1] The prior year balance includes assets under operating leases of $212 million.

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

The 31 March 2008 comparatives relate to America's Water Heater Rentals LLC, Marine Services Holdings Limited, Orion Financial Inc. and CIT Equipment Leasing, being the material entities acquired or consolidated due to acquisition of control.

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

Note 48. Acquisitions and disposals of subsidiaries continued

Significant entities and businesses disposed of or deconsolidated due to loss of control:

– **Longview Oil and Gas**

On 10 April 2008, a subsidiary of MGL disposed of its 100 per cent interest in Longview Oil and Gas.

– **MQ Japan Market Neutral Fund (Cayman Islands)**

On 1 September 2008, a subsidiary of MGL disposed of its 100 per cent interest in MQ Japan Market Neutral Fund (Cayman Islands).

– **Italian mortgages business**

On 31 October 2008, MBL, a subsidiary of MGL, disposed of its portfolio of Italian mortgages.

– **Margin lending business**

On 8 January 2009, MBL, a subsidiary of MGL, disposed of the bulk of its margin lending portfolio to Leveraged Equities, a wholly owned subsidiary of Bendigo and Adelaide Bank Limited.

– **Macquarie Infrastructure Opportunities Fund Ltd**

Between 31 October and 31 December 2008, a subsidiary of MGL disposed of its 100 per cent interest in Macquarie Infrastructure Opportunities Fund Ltd.

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

ConnectEast Management Limited

Aggregate details of the above entities and businesses disposed of or deconsolidated are as follows:

	2009 $m	2008 $m
Carrying value of assets and liabilities disposed of or deconsolidated		
Cash, other financial assets and other assets	**3,535**	656
Property, plant and equipment	**4**	3
Assets of disposal groups classified as held for sale	**80**	1,291
Payables, provisions, borrowings and other liabilities	**(31)**	(593)
Liabilities of disposal groups classified as held for sale	**(59)**	(1,181)
Minority interests	**-**	(9)
Total carrying value of assets and liabilities disposed of or deconsolidated	**3,529**	167
Net cash inflow		
Cash received	**3,424**	459
Less:		
Investment retained	**(1)**	(47)
Cash and cash equivalents disposed of or deconsolidated	**(17)**	(65)
Net cash inflow	**3,406**	347

The 31 March 2008 comparatives relate to Greater Peterborough Health Investment Plan and Emerging Markets Finance Limited, being the significant entities disposed of or deconsolidated due to loss of control.

Note 49. Events occurring after balance sheet date

There were no material events subsequent to 31 March 2009 that have not been reflected in the financial statements.

Macquarie Group Limited
Directors' declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 126 to 222 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 Company and consolidated entity's financial position as at 31 March 2009 and of their performance, as represented by the results of their operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Macquarie Group 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 56 to 116 of the Directors' Report comply with Australian Accounting Standards and the Corporations Regulations 2001.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

H Kevin McCann, AM
Non-Executive Director and
Acting Chairman

Nicholas Moore
Managing Director and
Chief Executive Officer

Sydney
30 April 2009

Independent audit report
to the members of Macquarie Group Limited

PRICEWATERHOUSECOOPERS

Report on the financial report

We have audited the accompanying financial report of Macquarie Group Limited (the Company), which comprises the balance sheet as at 31 March 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Macquarie Group Limited and the Macquarie Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Macquarie Group Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 March 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 56 to 116 of the directors' report for the year ended 31 March 2009. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Macquarie Group Limited for the year ended 31 March 2009, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Macquarie Group Limited (the Company) for the year ended 31 March 2009 included on the Macquarie Group Limited website. The Company's directors are responsible for the integrity of the Macquarie Group Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this website.

PricewaterhouseCoopers

DH Armstrong
Partner
Sydney
30 April 2009

Macquarie Group Limited
Ten year history

With the exception of 31 March 2005, the financial information presented below has been based on the Australian standards adopted at each balance sheet date. The financial information for the full years ended 31 March 2005-2009 is based on the reported results using the Australian Standards that also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Years ended 31 March	2000	2001	2002	2003	2004	2005	2006	2007	2008	**2009**
Income statement ($ million)										
Total income from ordinary activities	1,337	1,649	1,822	2,155	2,823	4,197	4,832	7,181	8,248	**5,526**
Total expenses from ordinary activities	(1,036)	(1,324)	(1,467)	(1,695)	(2,138)	(3,039)	(3,545)	(5,253)	(6,043)	**(4,537)**
Operating profit before income tax	301	325	355	460	685	1,158	1,287	1,928	2,205	**989**
Income tax expense	(79)	(53)	(76)	(96)	(161)	(288)	(290)	(377)	(317)	**(15)**
Profit for the year	222	272	279	364	524	870	997	1,551	1,888	**974**
Macquarie Income Preferred Securities distributions	-	-	-	-	-	(28)	(51)	(54)	(50)	**(45)**
Other minority interests	-	1	-	(3)	(3)	(1)	(1)	(3)	(1)	**(25)**
Macquarie Income Securities distributions	(12)	(31)	(29)	(28)	(27)	(29)	(29)	(31)	(34)	**(33)**
Profit attributable to ordinary equity holders	210	242	250	333	494	812	916	1,463	1,803	**871**
Balance sheet ($ million)										
Total assets	23,389	27,848	30,234	32,462	43,771	67,980	106,211	136,389	167,250	**149,144**
Total liabilities	22,154	26,510	27,817	29,877	40,938	63,555	100,874	128,870	157,189	**139,584**
Net assets	1,235	1,338	2,417	2,585	2,833	4,425	5,337	7,519	10,061	**9,560**
Total loan assets	6,518	7,785	9,209	9,839	10,777	28,425	34,999	45,796	52,407	**44,751**
Impaired loan assets (net of provisions)	23	31	49	16	61	42	85	88	165	**952**
Share information[(a)]										
Cash dividends per share (cents per share)										
Interim	34	41	41	41	52	61	90	125	145	**145**
Final	52	52	52	52	70	100	125	190	200	**40**
Special[(b)]	-	-	-	50	-	40	-	-	-	**-**
Total	86	93	93	143	122	201	215	315	345	**185**
Basic earnings per share (cents per share)	124.3	138.9	132.8	164.8	233.0	369.6	400.3	591.6	670.6	**309.6**
Share price at 31 March ($)[(a)]	26.40	27.63	33.26	24.70	35.80	48.03	64.68	82.75	52.82	**27.05**
Ordinary share capital (million shares)[(c)]	171.2	175.9	198.5	204.5	215.9	223.7	232.4	253.9	274.6	**283.4**
Market capitalisation at 31 March (fully paid ordinary shares) ($ million)	4,520	4,860	6,602	5,051	7,729	10,744	15,032	21,010	14,503	**7,667**
Net tangible assets per ordinary share ($)[(d)]	5.80	5.15	7.94	8.23	10.72	13.97	16.63	22.86	28.18	**23.72**
Ratios										
Return on average ordinary shareholders' funds	28.1%	27.1%	18.7%	18.0%	22.3%	29.8%	26.0%	28.1%	23.7%	**9.9%**
Dividend payout ratio	70.0%	67.5%	73.6%	87.4%[(b)]	53.2%	53.2%	54.4%	54.3%	52.2%	**60.2%**
Expense/income ratio	77.5%	80.3%	80.5%	78.7%	75.7%	72.4%	73.4%	73.2%	73.3%	**82.1%**
Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds)	0.1%	0.1%	0.2%	0.0%	0.3%	0.2%	0.2%	0.1%	0.3%	**1.87%**
Assets under management ($ billion)[(e)]	26.3	30.9	41.3	52.3	62.6	96.7	140.3	197.2	232.0	**243.1**
Staff numbers[(f)]	4,070	4,467	4,726	4,839	5,716	6,556	8,183	10,023	13,107	**12,716**

(a) The Macquarie Bank Limited (now Macquarie Group Limited) ordinary shares were quoted on the Australian Stock Exchange (now Australian Securities Exchange) on 29 July 1996.

(b) The special dividend for 2003 was paid to release one-off franking credits to shareholders on entry into tax consolidation. Excluding the special dividend of 50 cents per share, the payout ratio would have been 56.8 per cent.

(c) Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.

(d) Net tangible assets include intangibles (net of associated deferred tax assets and deferred liabilities) within assets and disposal groups held for sale.

(e) The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with methodology.

(f) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

Investor information

Shareholder Calendar

Shareholders may wish to note the following dates:

2009

Date	Event
1 May	Full-year result announcement
15 May	Record date for ordinary final dividend
3 July	Payment date for ordinary final dividend
29 July	2009 Annual General Meeting
30 September	First half financial year end
30 October*	Half-year result announcement
13 November*	Record date for ordinary interim dividend
16 December*	Payment of ordinary interim dividend

2010

Date	Event
31 March	Full-year financial year end

2009 Annual General Meeting

This year's meeting will be held at 10.30am on Wednesday, 29 July 2009 at The Westin Sydney, in the Grand Ballroom, Lower Level, No. 1 Martin Place, Sydney NSW. Details of the business of the meeting will be forwarded to shareholders separately.

Stock Exchange Listing

Macquarie Group Limited is quoted on the ASX and its ordinary shares trade under the code MQG.
Macquarie Convertible Preference Securities are quoted on the ASX and trade under the code MQCPA.

Dividend Details

The Group generally pays a dividend on its fully paid ordinary shares twice a year following the final and interim results announcements. The proposed dates for the 2009 final dividend and the 2010 interim dividend are as follows:

Dividend announcement	Record date	Proposed payment date
1 May 2009	15 May 2009	3 July 2009
30 October 2009*	13 November 2009*	19 December 2009*

* These dates are subject to change

Investor information
continued

Dividend Reinvestment Plan (DRP)

The DRP allows shareholders to apply their dividends to acquire new Macquarie shares rather than receiving dividends in cash. Shares are allotted at the market value (as defined by the DRP rules) minus a 2.5 per cent discount.

American Depository Receipt (ADR) Program

In June 2005, Macquarie established an ADR program. The program effectively enables US investors to trade Macquarie Group shares in US dollars.

Macquarie ADRs are negotiable certificates issued by the Bank of New York, with one ADR representing one Macquarie share. They are traded under the symbol MQBKY and are classified as Level 1. They are not listed on any exchanges and are traded over-the-counter via brokers.

The register of ADRS is kept at:
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA

Toll-free telephone number for domestic callers:
1-888-BNY-ADRs

Telephone numbers for international callers:
+1 201-680-6825

Further information can be found at
www.bnymellon.com/shareowner
or by emailing shrrelations@bnymellon.com

Voting Rights

At meetings of members or classes of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has:

(i) one vote for each fully paid share held; and

(i) that proportion of vote for any partly paid ordinary shares calculated in accordance with clause 8.18 of the Macquarie constitution.

A copy of the constitution is available at
www.macquarie.com.au/au/about_macquarie/corporate_governance.htm

Enquiries

Investors who wish to enquire about any matter relating to their Macquarie Group Limited shareholding are invited to contact the Share Registry office below.

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 8060 Australia
Telephone: +61 3 9415 4000
Freecall: 1300 554 096
Facsimile: +61 3 9473 2500
Email: web.queries@computershare.com.au
Website: www.computershare.com

All other enquiries relating to your Macquarie Group Share investment can be directed to:

Investor Relations
Macquarie Group Limited
Level 7, No.1 Martin Place
Sydney New South Wales 2000 Australia
Telephone: +61 2 8232 5006
Facsimile: + 61 2 8232 4330
Email: macquarie.shareholders@macquarie.com
Website: www.macquarie.com.au/shareholdercentre

The Group’s company secretary, Dennis Leong, may be contacted on the above numbers

Website

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

Fully paid ordinary shares

Twenty largest Ordinary Shareholders at 23 April 2009:	Ordinary Shares	% of Ordinary Shares
JP Morgan Nominees Australia Limited	43,039,382	15.18
HSBS Custody Nominees (Australia) Limited	39,145,148	13.81
National Nominees Limited	32,379,624	11.42
Citicorp Nominees Pty Limited	8,505,196	3.00
ANZ Nominees Limited - Cash Income A/C	6,865,133	2.42
AMP Life Limited	4,554,563	1.61
Cogent Nominees Pty Limited	4,133,927	1.46
Argo Investments Limited	3,780,360	1.33
Citicorp Nominees Pty Limited – CFS Wsle Geared Shr Fnd A/C	3,097,440	1.09
HSBC Custody Nominees (Australia) Limited - A/C 2	1,971,276	0.70
Queensland Investment Corporation	1,677,867	0.59
Australian Reward Investment Alliance	1,630,715	0.58
Cogent Nominees Pty Limited - SMP Accounts	1,545,568	0.55
UBS Nominees Pty Ltd	1,430,825	0.50
RBC Dexia Investor Services Australia Nominees Pty Limited	973,650	0.34
HSBC Custody Nominees (Australia) Limited-GSCO ECA	915,000	0.32
Citicorp Nominees Pty Limited - CFS Wsle Imputation Fnd A/C	862,158	0.30
BNP Paribas - BNP Cooper Neff A/C	810,977	0.29
RBC Dexia Investor Services Australia Nominees Pty Limited - MLCI A/C	765,180	0.27
Tasman Asset Management Ltd - Tyndall Australian Share Whole	738,943	0.26
Total	**158,822,932**	**56.03**

Substantial shareholders

At 23 April 2009 the following shareholders were registered by the Company as a substantial shareholder, having declared a relevant interest in accordance with the Corporations Act 2001 (Cth), in the voting shares below:

Holder	Ordinary shares	Date of Notice
AXA Asia Pacific Holdings Limited	16,345,491	20 July 2007
Barclays Group	14,460,231	28 March 2008
Capital Group Companies	14,634,728	20 February 2009

Details of ordinary Shareholding

Details of the spread of ordinary Shareholding at 23 April 2009 are as follows:

Range	Holders	Securities
1–1,000	113,570	34,395,018
1,001–5,000	17,270	34,195,719
5,001–10,000	1,411	9,987,339
10,001–100,000	917	22,694,567
100,001 shares and over	114	182,187,341
	133,282	**283,459,984**

3,922 shareholders (representing 36,881 fully paid shares) held less than a marketable parcel.

All 53,259,101 options on issue at 23 April 2009 are held by participants in the Group's Option Plan.

All 1,428,600 exchangeable shares on issue at 23 April 2009 are held by former key employees of Orion Financial Inc. The exchangeable shares were issued by a controlled entity and are eligible to be exchanged one for one for shares in Macquarie Group Limited. They expire in November 2017 and carry no Macquarie Group Limited voting rights.

There are also retention arrangements in place with key former Orion employees, under which a total of 218,500 new Macquarie Group Limited shares may be allocated within five years from the date of the Orion acquisition.

Investor information
continued

Convertible Preference Securities

Twenty largest Securityholders at 23 April 2009:	Convertible Preference Securities	% of Convertible Preference Securities
Questor Financial Services Limited - TPS RF A/C	320,225	5.34
RBC Dexia Investor Services Australia Nominees Pty Limited - MLCI A/C	250,344	4.17
JP Morgan Nominees Australia Limited	220,288	3.67
BT Portfolio Services Limited - Halcagni Pty Ltd A/C	150,000	2.50
MF Custodians Ltd	64,309	1.07
Citicorp Nominees Pty Limited	64,103	1.07
RBC Dexia Investor Services Australia Nominees Pty Limited - GSENIP A/C	62,145	1.04
JMB Pty Limited	50,000	0.83
RBC Dexia Investor Services Australia Nominees Pty Limited - NMSMT A/C	45,520	0.76
Cogent Nominees Pty Limited	44,753	0.75
Questor Financial Services Limited - TPS PIP A/C	44,100	0.74
Namrog Investments Pty Ltd	40,000	0.67
National Nominees Limited	38,305	0.64
HSBC Custody Nominees (Australia) Limited	37,036	0.62
UBS Wealth Management Australia Nominees Pty Ltd	29,972	0.50
Investment Custodial Services Limited - A/C	25,652	0.43
Mr Lesley Szekely & Mrs Suzaner Szekely & Ms Rachel Szekely & Mr Daniel Szekely - The Szekely Super Fund A/C	25,000	0.42
Cape White Financial Services Pty Ltd - The David Ragland S/F A/C	24,688	0.41
Avanti's Investments Limited - Avanti's Super Fund No 2 A/C	24,120	0.40
Fortis Clearing Nominees P/L - Next Custodian A/C	22,717	0.38
Total	**1,583,277**	**26.39**

Details of Convertible Preference Securities securityholdings

Details of the spread of Convertible Preference Securities at 23 April were as follows:

Range	Holders	Securities
1–1,000	7,410	2,420,090
1,001–5,000	606	1,361,633
5,001–10,000	42	311,895
10,001–100,000	36	965,525
100,001 shares and over	4	940,857
	8,098	**6,000,000**

No securityholders held less than a marketable parcel.

Glossary

AASB	Australian Accounting Standards Board
the Act	Corporations Act 2001 (Cth)
ADI	authorised deposit-taking institution
AGM	Annual General Meeting
AIFRS	Australian International Financial Reporting Standards
APRA	Australian Prudential Regulatory Authority
APS	Annual Profit Share
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange or ASX Limited ABN 98 008 624 691 and the market operated by ASX Limited
ASX Recommendations	ASX Corporate Governance Council Principles & Recommendations
BACC	Board Audit and Compliance Committee
BBSW	Australian Financial Association's bank-bill rate, published daily on AAP Reuters page. The Australian equivalent of LIBOR, SIBOR etc.
BCGC	Board Corporate Governance Committee
BORM	Business Operational Risk Manager
BRC	Board Remuneration Committee
the Company	Macquarie Group Limited
consolidated entity	Macquarie Group Limited and its subsidiaries
CVA	credit valuation adjustments
DESOP	Deferred Exercise Share Option Plan
Directors	the Directors of Macquarie Group Limited (unless the context indicates otherwise)
DPS	Directors' Profit Share
DRP	Dividend Reinvestment Plan
DVA	debit valuation adjustments
ECAM	Economic Capital Adequacy Model
EPS	earnings per share
ERL	Equity Risk Limit
Equity Plan	Macquarie Group Employee Retained Equity Plan
FIRB	Foundation Internal Ratings Based Approach
FSF	Financial Stability Forum
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Macquarie	Macquarie Group Limited ABN 94 122 169 279
Macquarie Bank	Macquarie Bank Limited ABN 46 008 583 542
Macquarie CPS	Macquarie Convertible Preference Securities
Macquarie Group	Consolidated entity
Macquarie ordinary shares	Macquarie Group Limited fully paid ordinary shares
MBL	Macquarie Bank Limited
MCR	minimum capital ratio
MEL	Macro-Economic-Linkages
MGEDSAP	Macquarie Group Executive Director Share Acquisition Plan
MGESOP	Macquarie Group Employee Share Option Plan
MGESP	Macquarie Group Employee Share Plan
MGL	Macquarie Group Limited
MGSSAP	Macquarie Group Staff Share Acquisition Plan
MIPS	Macquarie Income Preferred Securities
MIS	Macquarie Income Securities
NCD	negotiable certificates of deposit
NEDSAP	Non-Executive Director Share Acquisition Plan
NOHC	non-operating holding company
NPAT	net profit after tax
ORMF	Operational Risk Management Framework
RMG	Risk Management Group
ROE	return on equity
RPS	retained profit share
RWA	risk-weighted assets
SPE	special purpose entity
TSR	total shareholder returns
VaR	Volume at Risk

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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 the Macquarie Group.

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eTree

Macquarie is proud to be a Foundation Member of eTree, a Computershare Limited initiative with Landcare Australia which provides shareholders with an environmental incentive to elect to receive shareholder communications electronically. Macquarie shareholders can register to receive their shareholder communications, such as the Annual Report, electronically, by visiting www.etree.com.au/macquarie and registering their email address. For every shareholder who registers an email address Macquarie will donate $1 to Landcare Australia.

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