
# **MACQUARIE BANK**
# 2006 FINANCIAL REPORT

MACQUARIE
BANK

MACQUARIE BANK LIMITED ACN 008 583 542

The Macquarie Bank Group's 2006 annual report consists of two documents – the 2006 Annual Review (incorporating the Concise Report) and the 2006 Financial Report. The Annual Review provides an overview of the Groups' operations and a summary of the financial statements. This Financial Report contains the Bank's risk management report and statutory financial statements.

If you would like a copy of the 2006 Annual Review please call us on +61 2 8232 5006 or visit www.macquarie.com.au/shareholdercentre

**Cover: Dyno Nobel**

In September 2005, Macquarie Bank led a consortium to acquire the international explosives company, Dyno Nobel, for $US1.7 billion.

On acquisition the company was split into two entities, with the Latin American, Asian, European, Middle Eastern and African businesses on-sold to long standing Macquarie client, Orica.

The Australian and North American businesses were retained by the consortium then successfully listed on the Australian Stock Exchange in April 2006.

Transactions such as Dyno Nobel demonstrate Macquarie's trademark innovative approach as well as the Bank's ability to work with and invest alongside clients to help them achieve strategic objectives.

**2006 Annual General Meeting**

Macquarie Bank's 2006 Annual General Meeting will be held at 11.00 am on Thursday, 20 July 2006 at the Westin Sydney, in the Grand Ballroom, Lower Level, No. 1 Martin Place, Sydney.

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

**The Holey Dollar**

In 1813 Governor Lachlan Macquarie overcame an acute currency shortage by purchasing Spanish silver dollars (then worth five shillings), punching the centres out and creating two new coins – the 'Holey Dollar' (valued at five shillings) and the 'Dump' (valued at one shilling and three pence).

This single move not only doubled the number of coins in circulation but increased their worth by 25 per cent and prevented the coins leaving the colony. Governor Macquarie's creation of the Holey Dollar was an inspired solution to a difficult problem and for this reason it was chosen as the symbol for the Macquarie Group.

# Macquarie Bank Limited
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**NOTE: Shading has been used throughout the financial report where classifications have changed as a result of the transition to Australian equivalents to International Financial Reporting Standards.**

The Financial Report was authorised for issue by the Directors on 15 May 2006.
The Bank has the power to amend and reissue the Financial Report.

Risk is an integral part of the Macquarie Bank Group's (Macquarie or the Bank) businesses. Management of that risk is therefore critical to the Bank's continuing profitability. Strong independent prudential management has been a key to Macquarie's success over many years. Where risk is assumed it is within a calculated and controlled framework.

The main risks faced by the Bank are market risk, equity risk, credit risk, liquidity risk, operational risk, and legal compliance and documentation risk. Responsibility for these risks lies with the individual businesses giving rise to them. It is the responsibility of Risk Management Division (RMD) to ensure appropriate assessment and management of these risks within Macquarie. These risks are quantified and aggregated in the economic capital model.

The risk management principles followed by Macquarie are:

- Independence – RMD is independent of all other areas of the Bank, reporting directly to the Managing Director and the Board. The Head of RMD is a member of the Bank's Executive Committee. RMD authority is required for all material risk acceptance decisions. RMD identifies, quantifies and assesses all risks and sets prudential limits. Where appropriate, these limits are approved by the Executive Committee and the Board.
- Centralised prudential management – RMD's responsibility covers the whole of Macquarie, meaning it can assess risks from a Bank-wide perspective and ensure a consistent approach across all areas.
- Approval of all new business activities – Other areas of the Bank cannot undertake new businesses or activities, offer new products or enter new markets without RMD's approval.
- Continuous assessment – RMD continually reviews changes in risks brought about by both external developments and internal circumstances.
- Frequent monitoring – Centralised systems allow RMD to monitor credit and market risks daily. RMD staff liaise closely with other areas of the Bank to ensure that, should any limit breaches occur, they are immediately addressed, and escalated as necessary.

## 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. The Bank is exposed to the following risks in each of the major markets in which it trades:

- foreign exchange markets: changes in spot and forward exchange rates and the volatility of exchange rates;
- interest rate markets: changes in the level, shape and volatility of yield curves, the basis between different interest rate securities and derivatives and credit margins;
- equities markets: changes in the price and volatility of individual equities, equity baskets and equity indices, including the risks arising from equity underwriting activity;
- bullion markets: changes in the price and volatility of gold and silver; and
- commodity markets: changes in the price and volatility of base metals, agricultural commodities and energy products.

RMD measures exposures in all markets for each dealing desk and for markets in aggregate. Risk exposures are measured on derivatives and underlying assets and liabilities in the same market, together.

RMD sets limits for all exposures in all markets. Limits are set for individual markets and trading areas, and for the Bank as a whole. Limits on the Bank's aggregate market risk are approved by Executive Committee. The aggregate exposure to each market is limited to a small percentage of the Bank's shareholders' funds. Trading limits are not targets and actual exposures in normal day-to-day trading tend to be well below limits.

RMD monitors market risks against limits daily and provides a report of market exposures to senior management every day.

Market risk limits are set on three, complementary bases:

- a wide range of price and volatility scenarios, including comprehensive worst case, or stress, scenarios. These scenarios are measured every day and form the cornerstone of the risk management approach. The scenarios are set for movements in individual prices and rates, as well as for simultaneous movements in multiple markets. The worst case scenarios include market movements larger than have occurred historically. Multiple scenarios are set for each market so as to capture the nonlinearity and complexity of exposures arising from derivatives. A wide range of assumptions about the correlations between markets is applied;
- a statistically based Value At Risk (VaR) measure which, to correspond with the Australian Prudential Regulation Authority's (APRA) capital adequacy standard, is based on a 10-day holding period and a 99 per cent confidence level. RMD performs back testing on the VaR results, which represents a comparison of hypothetical daily trading profits and losses against the daily VaR. VaR is calculated using a Monte Carlo simulation approach; and
- 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.

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

**Value at Risk (VaR) figures for year ended March**

| | **2006 Average $Am** | **2006 Maximum $Am** | **2006 Minimum $Am** | 2005 Average $Am | 2005 Maximum $Am | 2005 Minimum $Am |
|---|---|---|---|---|---|---|
| Equities | 5.97 | 10.69 | 2.15 | 6.26 | 17.02 | 0.03 |
| Interest rates | 3.35 | 5.30 | 1.09 | 2.13 | 4.20 | 0.90 |
| Foreign exchange and bullion | 1.49 | 3.48 | 0.51 | 1.28 | 3.57 | 0.18 |
| Commodities | 1.97 | 4.31 | 1.02 | 1.24 | 2.67 | 0.55 |
| Aggregate | 6.90 | 11.32 | 3.34 | 6.84 | 16.89 | 1.89 |

Non-traded market risks also arise in the Bank.

Some interest rate risk arises in the banking book. The raising of liabilities to fund on-balance sheet assets is centrally managed by the Treasury area in the Treasury and Commodities Group. Treasury has the responsibility of managing the mismatch between assets and liabilities. This ensures that business areas that lend can focus on margins rather than on exposures to interest rates.

Treasury must manage its interest rate exposures within interest rate trading book limits. These exposures are included in the VaR figures set out in this report.

As a result of this practice, virtually all of Macquarie's interest rate risk is captured in the trading book. Banking book businesses either have no limit to take interest rate risk, i.e. they must be fully hedged at all times, or are given a small limit to cover residual risks. Residual interest rate risk in the banking book is monitored regularly by RMD.

### Equity risk

Risks arise on equity-like exposures that are taken by Macquarie from time to time. These exposures include:

- Holdings in specialised funds managed by the Bank
- Direct investments in entities external to the Bank
- Property
- Lease residuals
- Holdings of seed assets for funds.

All of the above positions are subject to an aggregate Equity Risk Limit (ERL). The ERL is set by the Board. The exposures arising on each of the positions are calculated on a 'worst case' basis depending on the nature of the asset, and are aggregated to determine a total portfolio risk value, taking into account the correlations between the various asset classes. The limit is monitored by RMD and reported monthly to the Board.

For significant acquisitions, RMD undertakes a comprehensive assessment of the associated risks. Depending on the type of acquisition, this can include an overall transaction review, as well as the identification and assessment of all risks and potential losses associated with the acquisition such as:

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

All material equity risk positions are subject to approval by RMD and by the Managing Director, Executive Committee and the Board, depending on the size and nature of the risk.

## Credit risk

In Macquarie, 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. The resultant credit exposure will be a function of the movement of prices over the term of the underlying contract.

Systems for the assessment of potential credit exposures exist for each of the Bank's trading activities. No credit exposures are assumed without appropriate analysis. Limits are set on the basis of this analysis reflecting the potential exposures considered acceptable for the relevant counterparty.

Macquarie's philosophy on credit risk reflects the principle of separating prudential control from operational management. 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 relatively low limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMD.

Limits 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 time are monitored daily. These include off-balance sheet exposures such as swaps, forward contracts and options, which are assessed using sophisticated valuation techniques.

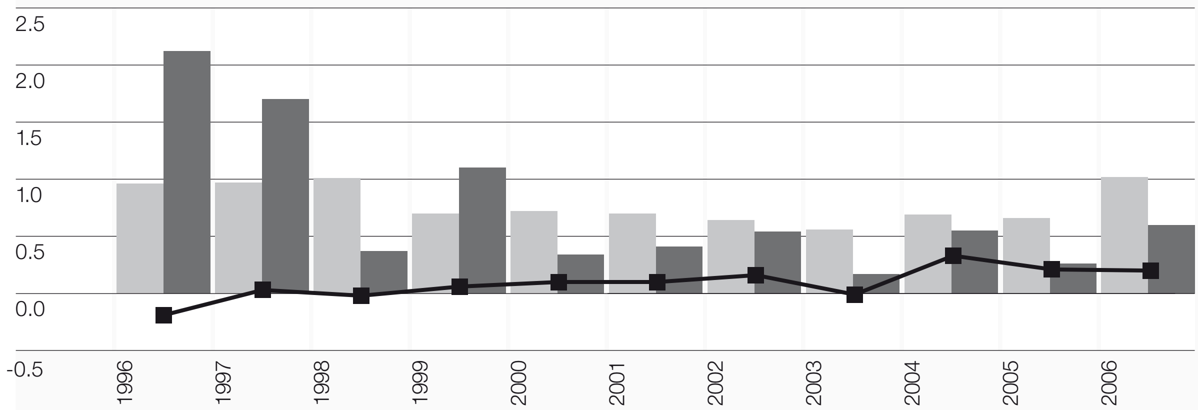
**Ratio of provisions and impaired assets to loans, advances and leases**

Per cent

Provisions for uncertainties to loans, advances and leases (Balance sheet)

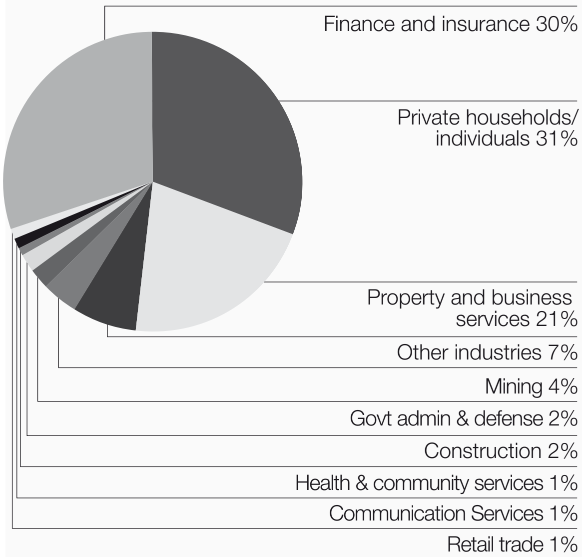
Impaired assets to loans, advances and leases (Balance sheet)

Specific provisions to loans, advances and leases (Income statement)



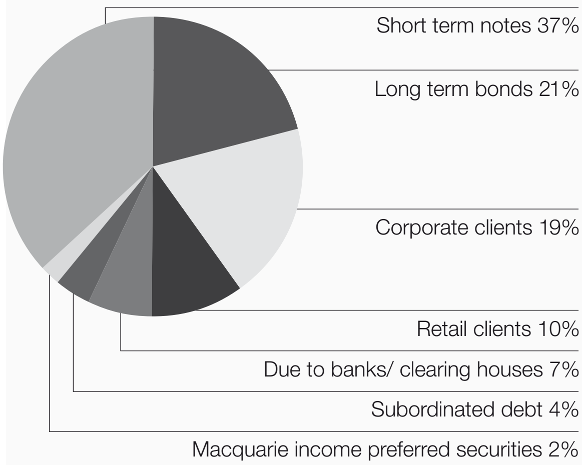

Note: All figures shown under AGAAP (including 2005 and 2006 which are reported under AIFRS elsewhere in this report)

**Loans, advances and leases by sector, $17.0 billion**




Note: This excludes $17.8 billion in SPV securitisation assets in which Macquarie has no underlying economic interest. However, these assets are included on the balance sheet under AIFRS.

**Funding by source, $A38.3 billion**




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

The Bank'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. Such exposures are generally restricted unless the credit is of the highest standard or there is a high level of security.

Offshore exposures continue to grow. These are mainly to OECD countries. Macquarie also has exposures to non-OECD Asia and South America, and limited exposure to African countries. Where appropriate the country risk is covered by political risk insurance.

### Liquidity risk

Responsibility for Macquarie's liquidity policy lies with RMD. It is reviewed regularly and has been agreed with APRA.

Liquidity requirements are managed on a day-to-day basis by the Treasury Division which is responsible for ensuring funding is readily available for all the Bank's transactions, even in a crisis scenario, and for maintaining a diversity of funding sources.

RMD monitors adherence to liquidity policy on a daily basis.

A full description of Macquarie's liquidity policy is contained in note 45 to the Financial Report.

### Operational risk

Macquarie Bank faces operational risks which could lead to reputation damage, financial loss or regulatory consequences as a result of inadequate or failed internal processes, people or systems, or because of external events. Responsibility for management of operational risk lies in the first instance with the area concerned. Business Operational Risk Managers have been appointed to help ensure all areas of the Bank meet this responsibility.

All areas of the Bank perform regular operational risk self assessments, report any internal losses (including expected losses and near misses) and apply Bank-wide and business-specific policies as appropriate. Operational risk is a key factor in the consideration and approval of each new product and new business prior to its implementation.

RMD assesses operational risk across Macquarie as a whole and ensures that an appropriate framework exists to identify, assess and manage operational risk. RMD ensures that operational risk throughout the Bank is identified and that appropriate resources are available to control it.

### 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 the Bank's businesses is responsible for developing and implementing its own legal risk management and compliance procedures. RMD assesses compliance risk from a Bank-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 these compliance risks. The development of new businesses and regulatory changes, domestically and internationally, are key areas of focus within this role.

### Economic capital model

Macquarie's economic capital model calculates risk based on internal models for each major risk type:

- Credit Risk: credit portfolio model based on loss estimates and default probabilities linked to Macquarie's internal ratings system
- Market Risk: worst case multi-market scenario analysis and the value-at-risk model
- Equity Risk: a portfolio model based on worst case risk estimates and correlation assumptions across asset classes
- Operational Risk: statisical model based on scenario analysis for potentially severe losses.

The risks are then aggregated, recognising diversification benefits, and capital is allocated to business areas across the Bank. This is used to calculate return on capital for each of these areas. Economic capital methods allow for assessment of projected returns relative to risk on new business approvals, new product approvals and significant individual transactions.

The aggregate risk is subject to the global risk limit. This limit represents the economic capital resources available to Macquarie to absorb risk.

The economic capital model is managed by RMD with regular reporting to senior management and the Board.

### Basel II

Under the Basel II capital framework, the Bank for International Settlements seeks to secure international convergence on regulations governing the capital adequacy of internationally active banks. In doing this, it aims for more risk-sensitive capital requirements that are conceptually sound and are based on a bank's own assessment of its risks. Banks are able to select approaches that are most appropriate for their operations.

Macquarie has applied to APRA for accreditation under the Foundation Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. In preparing its submission, the Group reviewed its risk management practices against the requirements of the Basel II framework. Some gaps in both credit and operational risk were identified and these have been the subject of further work. Macquarie is preparing for the full implementation of Basel II in 2008.

### 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 business management and of the activities it reviews. The Head of Internal Audit is jointly accountable to the Board Audit and Compliance Committee (BACC) and the Head of RMD and has free access at all times to the BACC.

### International offices

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, RMD analyses the proposed activities, infrastructure, resourcing and procedures to ensure appropriate risk management controls are in place. RMD staff monitor and routinely visit overseas offices to ensure compliance with prudential controls. In addition, RMD staff are located in certain of the larger offices.

Where international offices undertake trading activities, daily reports are produced in Sydney and all exposures, both credit and market, are monitored against established limits.

### RMD resources

Macquarie continues to grow rapidly, and Macquarie recognises the importance of ensuring that this growth is properly managed. As part of this, RMD resources have been increasing faster than Group-wide headcount. RMD has also been expanding its international presence.

**RMD headcount at 31 March**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Credit | 72 | 52 | 36 |
| Compliance | 58 | 38 | 22 |
| Internal Audit | 37 | 34 | 22 |
| Finance [1] | 34 | 23 | 18 |
| Operational Risk [2] | 7 | n/a | n/a |
| Other | 10 | 8 | 3 |
| Total RMD staff | 218 | 155 | 101 |
| Based in Australia | 155 | 123 | 85 |
| Based overseas | 63 | 32 | 16 |
| Total RMD staff | 218 | 155 | 101 |

[1] Finance is the area of RMD which oversees market risk, equity risk, liquidity risk, the economic capital model and the Bank's compliance obligations to APRA.

[2] Until 31 March 2005, internal audit and operational risk functions were combined within an area known as Operational Risk Review. Since 1 April 2005, the areas have been operating separately.

# Income statements
## for the financial year ended 31 March 2006

| | Notes | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|
| Interest and similar income | 2 | **3,136** | 2,565 | **2,017** | 1,545 |
| Interest expense and similar charges | 2 | **(2,544)** | (2,029) | **(1,680)** | (1,479) |
| Net interest income | | **592** | 536 | **337** | 66 |
| Fee and commission income | 2 | **2,842** | 2,250 | **794** | 609 |
| Fee and commission expense | 2 | **(402)** | (429) | **(270)** | (235) |
| Net fee and commission income | | **2,440** | 1,821 | **524** | 374 |
| Net trading income | 2 | **876** | 734 | **709** | 613 |
| Share of net profits of associates and joint ventures using the equity method | 2 | **172** | 17 | **–** | – |
| Other operating income | 2 | **411** | 725 | **1,078** | 1,426 |
| Other operating expenses | 2 | **(98)** | (81) | **(53)** | (70) |
| Net other operating income | | **313** | 644 | **1,025** | 1,356 |
| Total income from ordinary activities | | **4,393** | 3,752 | **2,595** | 2,409 |
| Employment expenses | 2 | **(2,407)** | (2,045) | **(1,591)** | (1,496) |
| Occupancy expenses | 2 | **(139)** | (101) | **(82)** | (65) |
| Non-salary technology expenses | 2 | **(128)** | (104) | **(85)** | (71) |
| Professional fees, travel and communication expenses | 2 | **(237)** | (190) | **(136)** | (114) |
| Other expenses | 2 | **(195)** | (154) | **(120)** | (88) |
| Total expenses from ordinary activities | | **(3,106)** | (2,594) | **(2,014)** | (1,834) |
| **Operating profit before income tax** | | **1,287** | 1,158 | **581** | 575 |
| Income tax (expense)/benefit | 5 | **(290)** | (288) | **4** | 46 |
| **Profit from ordinary activities after income tax** | | **997** | 870 | **585** | 621 |
| Profit attributable to minority interests | 34 | **(52)** | (29) | **–** | – |
| Profit attributable to equity holders of Macquarie Bank Limited | | **945** | 841 | **585** | 621 |
| Distributions paid or provided on: | | | | | |
| Macquarie Income Securities | 6 | **(29)** | (29) | **–** | – |
| Convertible debentures | 6 | **–** | – | **(51)** | (28) |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | | **916** | 812 | **534** | 593 |
| | | | **Cents per share** | | |
| Basic earnings per share | 7 | **400.3** | 369.6 | | |
| Diluted earnings per share | 7 | **382.3** | 361.1 | | |

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

# Balance sheets
as at 31 March 2006

| | Notes | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | | **5** | 4 | **5** | 4 |
| Due from banks | 8 | **6,394** | 3,969 | **4,579** | 3,064 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 9 | **13,570** | 8,927 | **13,565** | 8,916 |
| Trading portfolio assets | 10 | **14,246** | 7,800 | **13,030** | 6,994 |
| Other securities | 11 | | 1,712 | | 83 |
| Loan assets held at amortised cost | 12 | **34,999** | 28,425 | **13,181** | 9,831 |
| Other financial assets at fair value through profit and loss | 14 | **2,104** | | **1,894** | |
| Derivative financial instruments – positive values | 42 | **10,978** | 5,690 | **10,618** | 5,986 |
| Other assets | 15 | **8,452** | 3,691 | **3,213** | 1,322 |
| Investment securities available for sale | 16 | **3,746** | | **2,310** | |
| Intangible assets | 17 | **150** | 371 | **11** | 15 |
| Life investment contracts and other unit holder assets | 18 | **5,183** | 4,473 | **–** | – |
| Due from controlled entities | | **–** | – | **10,241** | 6,667 |
| Equity investments | 19 | | 116 | | 47 |
| Interest in associates and joint ventures using the equity method | 20 | **3,463** | 2,117 | **833** | 600 |
| Property, plant and equipment | 21 | **292** | 148 | **90** | 53 |
| Investments in controlled entities | 22 | **–** | – | **4,087** | 4,152 |
| Deferred income tax assets | 23 | **240** | 203 | **232** | 188 |
| Assets and disposal groups classified as held for sale | 24 | **2,389** | 334 | **18** | 294 |
| **Total assets** | | **106,211** | 67,980 | **77,907** | 48,216 |
| **Liabilities** | | | | | |
| Due to banks | 25 | **2,118** | 1,548 | **1,217** | 896 |
| Cash collateral on securities lent and repurchase agreements | 26 | **6,995** | 1,983 | **6,995** | 1,894 |
| Trading portfolio liabilities | 27 | **10,057** | 7,681 | **10,053** | 7,629 |
| Derivative financial instruments – negative values | 42 | **10,057** | 6,224 | **9,286** | 5,574 |
| Deposits | | **9,267** | 7,240 | **9,094** | 7,187 |
| Notes payable | 28 | | 28,161 | | 13,270 |
| Debt issued at amortised cost | 28 | **39,022** | | **20,567** | |
| Other financial liabilities at fair value through profit and loss | 29 | **5,481** | | **5,058** | |
| Other liabilities | 30 | **9,553** | 4,581 | **4,417** | 2,357 |
| Current tax liabilities | | **97** | 41 | **22** | 14 |
| Life investment contracts and other unit holder liabilities | | **5,130** | 4,429 | **–** | – |
| Due to controlled entities | | **–** | – | **5,275** | 3,976 |
| Provisions | 31 | **132** | 119 | **108** | 98 |
| Deferred income tax liabilities | 23 | **157** | 189 | **129** | 136 |
| Liabilities of disposal groups classified as held for sale | 24 | **1,427** | – | **–** | – |
| **Total liabilities excluding loan capital** | | **99,493** | 62,196 | **72,221** | 43,031 |
| **Loan capital** | | | | | |
| Subordinated debt at amortised cost | 32 | **1,115** | 1,359 | **1,114** | 1,359 |
| Subordinated debt at fair value through profit and loss | 32 | **266** | | **266** | |
| **Total liabilities** | | **100,874** | 63,555 | **73,601** | 44,390 |
| **Net assets** | | **5,337** | 4,425 | **4,306** | 3,826 |

| | Notes | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| Contributed equity | | | | | |
| Ordinary share capital | 33 | **1,916** | 1,600 | **1,916** | 1,600 |
| Treasury shares | 33 | **(2)** | (1) | **–** | – |
| Macquarie Income Securities | 33 | **391** | 391 | **391** | 391 |
| Convertible debentures | 33 | **–** | – | **884** | 884 |
| Reserves | 34 | **250** | 49 | **166** | 1 |
| Retained earnings | 34 | **1,934** | 1,523 | **949** | 950 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | | **4,489** | 3,562 | **4,306** | 3,826 |
| Minority interest | 34 | **848** | 863 | **–** | – |
| **Total equity** | | **5,337** | **4,425** | **4,306** | 3,826 |

*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 2006

| | **Consolidated 2006 $m** | Consolidated 2005 $m | **Bank 2006 $m** | Bank 2005 $m |
|---|---|---|---|---|
| **Total equity at the beginning of the year** | **4,425** | 2,797 | **3,826** | 2,423 |
| Adjustments on adoption of AASB 132 and AASB 139 net of tax: | | | | |
| Retained profits | **16** | | **(14)** | |
| Reserves | **71** | | **61** | |
| Available-for-sale investments, net of tax | **84** | | **45** | |
| Associates and joint ventures | **(2)** | 12 | **–** | – |
| Cash flow hedges, net of tax | **(2)** | | **20** | |
| Exchange differences on translation of foreign operations | **–** | (39) | **(6)** | (38) |
| **Net income recognised directly in equity** | **167** | (27) | **106** | (38) |
| **Profit from ordinary activities after income tax** | **997** | 870 | **585** | 621 |
| **Total recognised income and expense for the year** | **1,164** | 843 | **691** | 583 |
| Transactions with equity holders in their capacity as equity holders: | | | | |
| Contributions of equity, net of transaction costs | **308** | 217 | **308** | 218 |
| Dividends and distributions paid or provided | **(550)** | (314) | **(521)** | (285) |
| Minority interest: | | | | |
| (Reduction)/contribution of equity net of transaction costs | **(12)** | 881 | **–** | – |
| Distributions | **(51)** | (28) | **–** | – |
| Convertible debentures: | | | | |
| Contribution of equity, net of transactions costs | **–** | – | **–** | 884 |
| Distributions | **–** | – | **(51)** | (28) |
| Other equity movements: | | | | |
| Share based payments | **53** | 29 | **53** | 31 |
| **Total equity at the end of the year** | **5,337** | 4,425 | **4,306** | 3,826 |
| Total recognised income and expense for the year is attributable to: | | | | |
| Ordinary equity holders of Macquarie Bank Limited | **1,088** | 823 | **640** | 554 |
| Macquarie Income Securities holders | **29** | 29 | **–** | – |
| Convertible debentures holders | **–** | – | **51** | 29 |
| Minority interest | **47** | (9) | **–** | – |
| **Total recognised income and expense for the year** | **1,164** | 843 | **691** | 583 |

*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 2006

| | Notes | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest received | | **3,069** | 2,573 | **1,980** | 1,501 |
| Interest and other costs of finance (paid) | | **(2,301)** | (2,036) | **(1,530)** | (1,431) |
| Dividends and distributions received | | **230** | 100 | **465** | 692 |
| Fees and other non-interest income received | | **2,644** | 1,727 | **1,403** | 766 |
| Fees and commissions (paid) | | **(443)** | (414) | **(281)** | (187) |
| Net (payments)/receipts from trading securities and other financial instruments | | **(5,257)** | 2,466 | **(4,251)** | 2,368 |
| Payments to suppliers | | **(827)** | (707) | **(1,153)** | (351) |
| Employment expenses paid | | **(1,854)** | (1,379) | **(1,210)** | (931) |
| Income tax paid | | **(353)** | (121) | **(297)** | (64) |
| Life investment contract income | | **193** | 150 | **–** | – |
| Life investment contract premiums received and other unit holder contributions | | **973** | 1,332 | **–** | – |
| Life investment contracts (payments) | | **(1,187)** | (1,458) | **–** | – |
| Assets and disposal groups classified as held for sale – net (payments)/receipts from operations | | **(2)** | 28 | **(9)** | – |
| Loan assets granted | | **(7,777)** | (6,463) | **(6,034)** | (2,845) |
| Recovery of loans previously written-off | | **–** | 5 | **–** | 5 |
| Net increase in money market and other deposit accounts | | **18,510** | 7,179 | **14,350** | 2,698 |
| Net cash flows from operating activities | 35 | **5,618** | 2,982 | **3,433** | 2,221 |
| **Cash flows from investing activities** | | | | | |
| (Payments) for other securities and assets available for sale | | **(7,374)** | (1,101) | **(5,631)** | (243) |
| Proceeds from the realisation of other securities and assets available for sale | | **7,173** | 604 | **6,192** | 132 |
| (Payments) for interests in associates | | **(2,453)** | (513) | **(383)** | (237) |
| Proceeds from the sale of associates | | **1,070** | 46 | **143** | 146 |
| Proceeds from the sale of controlled entities | | **–** | 4 | **–** | – |
| Proceeds on sale of assets and disposal groups classified as held for sale | | **1,238** | 435 | **294** | – |
| (Payments) for acquisition of controlled entities, excluding disposal groups, net of cash acquired | | **(106)** | (510) | **(595)** | (895) |
| (Payments) for the purchase of assets and disposal groups classified as held for sale, net of cash acquired | | **(921)** | (540) | **(26)** | – |
| (Payments) for life investment contracts and other unit holder investments | | **(5,327)** | (5,467) | **–** | – |
| Proceeds from the sale of life investment contract investments | | **5,647** | 5,504 | **–** | – |
| (Payments) for fixed assets | | **(262)** | (83) | **(79)** | (39) |
| Proceeds from the sale of fixed assets | | **5** | 33 | **3** | 16 |
| Net cash flows from investing activities | | **(1,310)** | (1,588) | **(82)** | (1,120) |
| **Cash flows from financing activities** | | | | | |
| Assets and disposal groups classified as held for sale – net proceeds from borrowings | | **–** | 27 | **–** | – |
| Proceeds from the issue of ordinary share capital | | **223** | 167 | **223** | 167 |
| Proceeds from the issue of Macquarie Income Preferred Securities | | **–** | 894 | **–** | 894 |
| (Payment) of issue costs on Macquarie Income Preferred Securities | | **–** | (10) | **–** | (10) |
| (Payments to)/proceeds from other minority interest | | **(2)** | 11 | **–** | – |
| (Repayment) of subordinated debt | | **(26)** | (65) | **(26)** | (65) |
| Issue of subordinated debt | | **–** | 441 | **–** | 441 |
| Dividends and distributions (paid) | | **(520)** | (263) | **(491)** | (234) |
| Net cash flows from financing activities | | **(325)** | 1,202 | **(294)** | 1,193 |
| **Net (decrease)/increase in cash** | | **3,983** | 2,596 | **3,057** | 2,294 |
| Cash and cash equivalents at the beginning of the financial year | | **5,150** | 2,554 | **4,247** | 1,953 |
| Cash and cash equivalents at the end of the financial year | 35 | **9,133** | 5,150 | **7,304** | 4,247 |

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

## Note 1. Summary of significant accounting policies

### i) Basis of preparation

The significant 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 Accounting Standards, Australian Interpretations, the Corporations Act 2001 and the Banking Act 1959. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report complies with International Financial Reporting Standards.

#### Application of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS")

This financial report is the first annual Bank and economic entity financial report to be prepared in accordance with AIFRS. AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1") has been applied in preparing this financial report.

Financial reports of the Bank and economic entity until 31 March 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("previous AGAAP"). Previous AGAAP differs in certain respects from AIFRS. When preparing the Bank and economic entity's annual financial report for the year ended 31 March 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures have been restated to reflect these adjustments. The Bank and economic entity have taken the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation ("AASB 132") and AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139") only from 1 April 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Bank and economic entity's equity and its net income are given in note 52: Explanation of transition to Australian equivalents to IFRSs.

#### 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 accordance with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Bank and economic entity financial report such as:

– fair value of financial instruments (note 47),
– impairment losses on loans and advances (notes 1(xi), 12 and 48),
– acquisitions and disposals of controlled entities, joint ventures and associates, and held for sale investments (notes 1(ii), 1(x), 20, 22 and 24),
– consolidation of special-purpose entities (notes 1(ii), 12 and 28), and
– ability to realise deferred tax (notes 1(vi), 5 and 23).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank and economic entity for accounting periods beginning on or after 1 April 2006 or later periods but which the Bank and economic entity has not yet adopted. The significant ones are as follows:

*AASB 139 (Amendment), The Fair Value Option* (effective from 1 April 2006). This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the circumstances when a financial instrument can be designated as part of this category. This amendment is not expected to have a material impact, as the Bank and economic entity expect to be able to comply with the amended criteria. This amendment will be applied from 1 April 2006.

*AASB 139 and AASB 4 (Amendment), Financial Guarantee Contracts* (effective from 1 April 2006). This amendment requires issued financial guarantees, other than those previously asserted by the economic entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of (a) the unamortised balance of the related fees received that have been deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. This amendment is not expected to have a material impact. This amendment will be applied from 1 April 2006.

*AASB 7, Financial Instruments: Disclosures, and a complementary amendment to AASB 101, Presentation of Financial Statements – Capital Disclosures* (effective from 1 April 2007). AASB 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit, liquidity and market risk, including sensitivity analysis to market risk. The amendment to AASB 101 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank and economic entity expect that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures. This amendment will be applied from 1 April 2007.

### ii) Principles of consolidation

#### Controlled entities

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

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

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

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

Securitisations

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

When assessing whether the economic entity controls (and therefore consolidates) an SPE, judgement is required about risks and rewards as well as the economic entity's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control are whether (a) a majority of the benefits of an SPE's activities are obtained; (b) a majority of the residual ownership risks related to the SPE's assets are obtained; (c) the decision-making powers of the SPE vest with the economic entity; or (d) the SPE's activities are being conducted on behalf of the economic entity and according to its specific business needs.

Interest in associates and joint ventures using the equity method

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

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

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

iii) Foreign currency translations

Functional and presentation currency

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

Transactions and balances

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

Translation differences on non-monetary items (such as equities) held at fair value through profit and loss, are reported as part of the fair value gain or loss in the profit and loss account. Translation differences on non-monetary items (such as equities) classified as available-for-sale financial assets, are included in the fair value reserve in equity unless they form part of fair value hedge relationships.

Controlled and other entities

The results and financial position of all foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, exchange differences from the translation of any net investment in foreign operation, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to the foreign currency translation reserve.

**Note 1. Summary of significant accounting policies** continued

**iv) Segment reporting**

For internal reporting and risk management purposes, the economic entity is divided into six operating groups: Banking & Property, Equity Markets, Financial Services, Funds Management, Investment Banking and Treasury & Commodities. These operating groups do not meet the definition of reportable segments under AASB 114: *Segment Reporting* as they provide certain products to customers which have the same, or similar, risk and return characteristics. For the purposes of segment reporting disclosures, the economic entity's activities are reported within the following segments: Asset and Wealth Management, Financial Markets, Investment Banking and Lending.

**v) Revenue recognition**

Interest income

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

Fee income

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

Dividends and distributions

Dividends and distributions are recognised as income upon declaration.

**vi) Income tax**

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

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

The Bank and its wholly-owned Australian controlled entities implemented the tax consolidation regime in Australia, effective from 1 October 2002. Under the terms and conditions of the tax contribution agreement, the Bank, as the head entity of the tax consolidated group, will charge or reimburse its wholly-owned subsidiaries for current tax liabilities or assets it incurs in connection with their activities. As a consequence, the Bank will recognise the current tax balances of its wholly-owned subsidiaries as if those were its own in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax contribution agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable.

No provision is made for additional taxes which could become payable if certain retained earnings or reserves of foreign controlled entities were to be distributed. It is not expected that any substantial amount will be distributed from these retained earnings or reserves in the foreseeable future.

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

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

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

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

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

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

### viii) Trading portfolio

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

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

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

### ix) Derivative instruments

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

From 1 April 2004 to 31 March 2005

The Bank and economic entity have used the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. They have applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

In accordance with previous AGAAP, transactions entered into for trading purposes or used as hedges of other trading assets or instruments were carried at market value, which approximated their net fair value with resultant gains and losses recognised in the income statement and included within "Derivative financial instruments – positive values" and "Derivative financial instruments – negative values" in the balance sheet. Transactions entered into for hedging purposes or used to modify the interest rate characteristics of specific assets and liabilities were brought to account on the same basis as the income or expense which was recognised on the hedged instrument or the underlying asset or liability.

Adjustments on transition date: 1 April 2005

The nature of the main adjustments to comply with AASB 132 and AASB 139 are that derivatives be measured on a fair value basis. Changes in fair value would have been taken either to the income statement or an equity reserve (refer below). At the date of transition, changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

From 1 April 2005

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

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

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

Cash flow hedges

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

Fair value hedges

For a derivative designated as hedging a fair value exposure arising from a recognised asset or liability (or a firm commitment), the gain or loss on the derivative 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 designated as hedging a net investment in a foreign operation, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in the foreign currency translation reserve and subsequently released to the income statement when the foreign operation is disposed of. The ineffective portion is recognised in the income statement immediately.

### x) Investments and other financial assets

From 1 April 2004 to 31 March 2005

The Bank and economic entity have used the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 April 2005. They have applied previous AGAAP in the comparative information on financial assets within the scope of AASB 132 and AASB 139.

In accordance with previous AGAAP, other securities and equity investments were recorded as the lower of cost and recoverable amount. Where the carrying value of the security was in excess of its recoverable amount, the security was written down to its recoverable amount and the difference recognised as an expense in the income statement.

**Note 1. Summary of significant accounting policies** continued

Adjustments on transition date: 1 April 2005
The nature of the main adjustments to comply with AASB 132 and AASB 139 are that, with the exception of assets classified as held-for-sale and loans and receivables, investments and other financial assets will be measured at fair value. At the date of transition, changes to carrying amounts were recognised directly in retained earnings or reserves (refer below).

From 1 April 2005
With the exception of trading portfolio assets and derivatives which are classified separately in the balance sheet, the remaining investments in financial assets are classified into the following categories: loan assets held at amortised cost, other financial assets at fair value through profit and loss, investment securities available for sale and assets classified as held for sale. The classification depends on the purpose for which the investment was acquired, which is determined at initial recognition and, except for fair value though profit and loss, is re-evaluated at each reporting date.

Loan assets held at amortised cost
Loan assets which are held at amortised cost in the balance sheet are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

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

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

The Bank and economic entity determine that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank and economic entity evaluate among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial condition of the investee, industry and sector performance, operational and financing cash flows or changes in technology.

Assets classified as held for sale
This category includes controlled entities and interests in associates whose carrying amount will be recovered principally through a sale transaction rather than continuing use. The policy of management is to classify these assets as held for sale when it is highly probable that the asset will be sold within the twelve months subsequent to being classified as such.

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

Assets classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale, or included within a disposal group that is classified as held for sale, are not depreciated.

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

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

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

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

### xii) Life business

The following are key accounting policies in relation to the life business:

#### Disclosure

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

#### Investment assets

Investments assets are carried at fair value through profit and 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.

### xiii) Property, plant and equipment

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

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

| | | |
|---|---|---|
| Furniture and fittings | 10% | |
| Leasehold improvements* | 20% | |
| Computer equipment | 33.3% | |
| Plant and equipment | 20% | |
| Personal computers | 50% | |
| Infrastructure assets | 5% to 20% | (depending on nature of underlying assets) |
| Art | 1% | |

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

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

### xiv) Intangible assets

#### Goodwill

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

#### Identifiable intangibles

- Licences and trading rights are carried at cost less accumulated impairment. These assets are not being amortised on the basis that they have indefinite lives.
- Management rights have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of management rights over their estimated useful life not exceeding twenty years.

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

#### Software

Certain internal and external costs directly incurred in acquiring and developing certain software have been capitalised and are being amortised over their useful life, usually for a period of 3 years. Costs incurred on software maintenance are expensed as incurred. The costs of repairs and maintenance are expensed as incurred.

### xv) Financial liabilities

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

#### Other financial liabilities at fair value through profit and loss

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

**Note 1. Summary of significant accounting policies** continued

**xvi) Provisions**

Employee benefits

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet at the salary rates which are expected to be paid when the liability is settled. Provisions for long service leave and other long-term benefits are recognised at the present value of expected future payments to be made. In determining this amount, consideration is given to expected future salary levels and employee service histories. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible to the expected future cash flows.

Dividends

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

**xvii) Funds under management**

Within the economic entity certain controlled entities act as a custodian and/or a single responsible entity for a number of investment funds and trusts. As at 31 March 2006, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the economic entity (measured based on the gross assets of the individual funds) exceeds $140.3 billion (31 March 2005: $96.7 billion). This includes $5.2 billion (31 March 2005: $4.4 billion) in respect of the life business statutory funds and certain other funds that are consolidated in the financial report. Other investment funds and trusts have not been consolidated in the financial report because individual entities within the economic entity do not have control of the funds and trusts.

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

**xviii) Share based payments**

The Bank operates share-based compensation plans, which include options granted to employees and shares granted to employees under share acquisition plans. The Bank and economic entity recognises an expense (and equity reserve) for shares and options granted to employees. The shares and options are measured at their grant dates based on their fair value and in the case of options, using the number expected to vest. This amount is recognised as an expense evenly over the respective vesting periods.

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

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: 5.96%, expected life of options: four years, volatility of share price: 18% and dividend yield: 3.6% p.a.

Where options are issued by the Bank to employees of subsidiaries, the Bank accounts for the equity provided as capital contribution to the subsidiary.

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

These rules are mandatory to options granted after 7 November 2002 that vest after 1 January 2005.

**xix) Cash and cash equivalents**

Cash and cash equivalents include Cash and balances with central banks, short-term amounts included in Due from banks, bank accepted bills and negotiable certificates of deposits issued by a bank, with an original maturity of less than 3 months, included in Trading portfolio assets and Investment securities available for sale.

**xx) Leases**

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

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

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

**xxi) Offsetting financial instruments**

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

**xxii) Rounding of amounts**

The company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 (as amended by Class Order 04/667 dated 15 July 2004 and 05/641 dated 26 July 2005), relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest million dollars unless otherwise indicated.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 2. Profit for the financial year** | | | | |
| **Net interest income** | | | | |
| Interest and similar income received/receivable | | | | |
| Other entities | **3,136** | 2,565 | **1,661** | 1,243 |
| Controlled entities | **–** | – | **356** | 302 |
| Interest expense and similar charges paid/payable | | | | |
| Other entities | **(2,544)** | (2,029) | **(1,508)** | (1,225) |
| Controlled entities | **–** | – | **(172)** | (254) |
| Net interest income | **592** | 536 | **337** | 66 |
| **Net fee and commission income** | | | | |
| Fee and commission income | **2,819** | 2,227 | **794** | 609 |
| Fee and commission expense | **(402)** | (429) | **(270)** | (235) |
| Income from life business and other unit holder businesses (note 18) | **23** | 23 | **–** | – |
| Net fee and commission income | **2,440** | 1,821 | **524** | 374 |
| **Net trading income*** | | | | |
| Equities | **526** | 375 | **430** | 333 |
| Commodities | **197** | 165 | **84** | 91 |
| Foreign exchange products | **152** | 158 | **153** | 159 |
| Interest rate products | **1** | 36 | **42** | 30 |
| Net trading income | **876** | 734 | **709** | 613 |
| **Share of net profits of associates and joint ventures using the equity method** | **172** | 17 | **–** | – |
| **Other operating income** | | | | |
| Net gains on sale of other securities and equity investments | | 34 | | – |
| Net gains on sale of investment securities available for sale | **100** | | **82** | |
| Net gains on sale of associates and joint ventures** | **78** | 558 | **148** | 522 |
| Net loss from disposal groups held for sale*** | **(18)** | – | **–** | – |
| Gain on deconsolidation of previously controlled entities and businesses held for sale | **128** | 53 | **–** | 4 |
| Dividends/distributions received/receivable: | | | | |
| – other securities, equity investments and investment securities available for sale | **42** | 33 | **78** | 41 |
| – controlled entities | **–** | – | **378** | 638 |
| Management fees, group service charges and cost recoveries – controlled entities | **–** | – | **364** | 197 |
| Other income**** | **81** | 47 | **28** | 24 |
| Total other operating income | **411** | 725 | **1,078** | 1,426 |
| **Other operating expenses** | | | | |
| Provision for diminution of investment securities (including investment securities available for sale, associates and joint ventures) | **(25)** | 3 | **(18)** | – |
| Collective allowance for credit losses provided for during the period (refer note 12) | **(11)** | (34) | **(10)** | (34) |
| Specific provisions | | | | |
| – provided for during the period (refer note 12) | **(36)** | (50) | **(26)** | (41) |
| – recovery of loans previously provided for (refer note 12) | **15** | 18 | **9** | 14 |
| – loan losses written-off | **(7)** | (4) | **(1)** | (3) |
| – recovery of loans previously written-off | **3** | 2 | **–** | – |
| Total net charge for provisions | **(61)** | (65) | **(46)** | (64) |
| Other expenses | **(37)** | (16) | **(7)** | (6) |
| Total other operating expenses | **(98)** | (81) | **(53)** | (70) |
| Net other operating income | **313** | 644 | **1,025** | 1,356 |
| **Total income from ordinary activities** | **4,393** | 3,752 | **2,595** | 2,409 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 2. Profit for the financial year** continued | | | | |
| **Employment expenses** | | | | |
| Salary, salary related costs including commissions, superannuation and performance-related profit share | **(2,214)** | (1,900) | **(1,472)** | (1,409) |
| Share based payments | **(53)** | (42) | **(37)** | (30) |
| Provision for annual leave | **(12)** | (9) | **(6)** | (4) |
| Provision for long service leave | **(7)** | (5) | **(5)** | (3) |
| Total compensation expense | **(2,286)** | (1,956) | **(1,520)** | (1,446) |
| Other employment expenses including on-costs, staff procurement and staff training | **(121)** | (89) | **(71)** | (50) |
| Total employment expenses | **(2,407)** | (2,045) | **(1,591)** | (1,496) |
| **Occupancy expenses** | | | | |
| Operating lease rentals | **(91)** | (74) | **(58)** | (49) |
| Depreciation: furniture, fittings and leasehold improvements | **(21)** | (13) | **(10)** | (8) |
| Other occupancy expenses | **(27)** | (14) | **(14)** | (8) |
| Total occupancy expenses | **(139)** | (101) | **(82)** | (65) |
| **Non-salary technology expenses** | | | | |
| Information services | **(54)** | (43) | **(29)** | (22) |
| Depreciation: computer equipment and software | **(34)** | (25) | **(25)** | (20) |
| Other non-salary technology expenses | **(40)** | (36) | **(31)** | (29) |
| Total non-salary technology expenses | **(128)** | (104) | **(85)** | (71) |
| **Professional fees, travel and communication expenses** | | | | |
| Professional fees | **(107)** | (94) | **(71)** | (63) |
| Auditors' remuneration | **(13)** | (8) | **(5)** | (4) |
| Travel expenses | **(83)** | (60) | **(42)** | (31) |
| Communication expenses | **(29)** | (24) | **(14)** | (12) |
| Depreciation: communication equipment | **(5)** | (4) | **(4)** | (4) |
| Total professional fees, travel and communication expenses | **(237)** | (190) | **(136)** | (114) |
| **Other expenses** | | | | |
| Other expenses***** | **(195)** | (154) | **(120)** | (88) |
| Total other expenses | **(195)** | (154) | **(120)** | (88) |
| **Total expenses from ordinary activities** | **(3,106)** | (2,594) | **(2,014)** | (1,834) |

* Included in the net trading income are fair value changes of $15 million for the year ending 31 March 2006 relating to financial assets and liabilities designated as held at fair value through profit and loss. Fair value changes relating to derivatives are also reported in net trading income which offsets the fair value changes relating to financial assets/liabilities designated at fair value.

** Included within net gains on sale of associates and joint ventures for the financial year 31 March 2005 is the profit of $300 million arising from the sale of part of the economic entity's share of Macquarie Goodman Management Limited in exchange for a share in the Macquarie Goodman Group Limited. Macquarie Goodman Group Limited is the stapled entity consisting of Macquarie Goodman Industrial Trust and Macquarie Goodman Management Limited. This amount also includes profits arising on the dilution of the Bank's holdings in its equity accounted associates, Macquarie Communications Infrastructure Group and Macquarie Airports Group, which occurred after further capital raising activities by the associates.

*** Included within net income from disposal groups held for sale are the net income and expenses arising from the activities of the disposal groups. Refer to note 24 – Assets and disposal groups classified as held for sale for the name of each group.

**** Included within other income is rental income of $63 million (2005: $19 million) and depreciation of $44 million (2005: $19 million) in relation to operating leases where the Group is the lessor.

***** Included within other expenses is depreciation of $Nil (2005: $12 million) in relation to infrastructure businesses.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 3. Revenue from operating activities** | | | | |
| Interest and similar income | 3,136 | 2,565 | 2,017 | 1,545 |
| Fee and commission income | 2,819 | 2,227 | 794 | 609 |
| Investment revenue and management fees from life investment contracts and other unit holder businesses (note 18) | 509 | 487 | – | – |
| Net trading income | 876 | 734 | 709 | 613 |
| Profit on the sale of other securities and equity investments, investment securities available for sale and associates and joint ventures | 178 | 592 | 230 | 522 |
| Other income (excluding profit on the sale of other securities and equity investments; investment securities available for sale and associates and joint ventures) | 405 | 150 | 848 | 904 |
| **Total revenue from operating activities** | 7,923 | 6,755 | 4,598 | 4,193 |

### Note 4. Segment reporting

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment or the relevant portion that can be allocated to a segment on a reasonable basis. Segment assets include all assets used by a segment. The carrying amount of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

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

The segment information has been prepared in conformity with the economic entity's accounting policies as disclosed in note 1 – Summary of significant accounting policies.

**Primary segment – business**

For internal reporting and risk management purposes, the economic entity is divided into six operating Groups ("the Groups"). The Groups do not meet the definition of business segment for the purposes of reporting in accordance with AASB 114: *Segment Reporting*, because the Groups provide certain products to customers which have the same, or similar, risk and return characteristics.

For the purposes of determining business segments in which the activities of the economic entity have been divided into four areas:

- Asset and Wealth Management: distribution and manufacture of funds management products;
- Financial Markets: trading in fixed income, equities, currency, commodities and derivative products;
- Investment Banking: 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 | Investment Banking $m | Lending $m | Total $m |
|---|---|---|---|---|---|
| | | | | Consolidated 31 March 2006 | |
| **Income statement** | | | | | |
| Revenue from external customers | 1,702 | 1,968 | 1,887 | 2,212 | 7,769 |
| Net loss from disposal groups held for sale | – | – | (18) | – | (18) |
| Intersegmental revenue/(expense) | 48 | (280) | (138) | 370 | – |
| Share of net profits of associates and joint ventures using the equity method | 155 | 3 | 17 | (3) | 172 |
| Total revenue from ordinary activities | 1,905 | 1,691 | 1,748 | 2,579 | 7,923 |
| Operating profit from ordinary activities before income tax | 345 | 292 | 480 | 170 | 1,287 |
| Income tax (expense) | (104) | (38) | (104) | (44) | (290) |
| Profit from ordinary activities after income tax | 241 | 254 | 376 | 126 | 997 |
| Non-cash expenses: depreciation | (18) | (8) | (25) | (53) | (104) |
| **Balance Sheet** | | | | | |
| Total assets | 8,780 | 50,732 | 12,587 | 34,112 | 106,211 |
| Total liabilities | 7,385 | 63,768 | 5,488 | 24,233 | 100,874 |
| Fixed assets acquired during the financial year | 18 | 54 | 155 | 35 | 262 |
| Intangible assets acquired during the financial year | 33 | 24 | 71 | 2 | 130 |
| Assets and disposal groups classified as held for sale | 24 | – | 2,365 | – | 2,389 |
| Interest in associates and joint ventures using the equity method | 1,070 | 276 | 2,095 | 22 | 3,463 |

**Note 4. Segment reporting** continued
**Primary segment – business**

| | Asset and Wealth Management $m | Financial Markets $m | Investment Banking $m | Lending $m | Total $m |
|---|---|---|---|---|---|
| | | | | Consolidated 31 March 2005 | |
| **Income statement** | | | | | |
| Revenue from external customers | 1,810 | 1,496 | 1,551 | 1,881 | 6,738 |
| Intersegmental revenue/(expense) | 26 | (118) | (97) | 189 | – |
| Share of net profits of associates and joint ventures using the equity method | 37 | 3 | (24) | 1 | 17 |
| Total revenue from ordinary activities | 1,873 | 1,381 | 1,430 | 2,071 | 6,755 |
| Operating profit from ordinary activities before income tax | 439 | 202 | 394 | 123 | 1,158 |
| Income tax (expense) | (134) | (30) | (92) | (32) | (288) |
| Profit from ordinary activities after income tax | 305 | 172 | 302 | 91 | 870 |
| Non-cash expenses: depreciation | (18) | (6) | (21) | (28) | (73) |
| **Balance Sheet** | | | | | |
| Total assets | 6,548 | 26,979 | 6,005 | 28,448 | 67,980 |
| Total liabilities | 5,296 | 35,820 | 2,418 | 20,021 | 63,555 |
| Fixed assets acquired during the financial year | 11 | 4 | 23 | 45 | 83 |
| Intangible assets acquired during the financial year | 12 | – | 339 | – | 351 |
| Assets and disposal groups classified as held for sale | – | – | 334 | – | 334 |
| Interest in associates and joint ventures using the equity method | 1,171 | – | 935 | 11 | 2,117 |

**Secondary segment – geographical**

Geographical segments have been determined based on where the transactions have been booked. The operations of the economic entity are headquartered in Australia. All locations below the reportable segment threshold have been collectively classified as other.

| | **Australia $m** | **Asia Pacific* $m** | **Europe $m** | **North America $m** | **Other $m** | **Total $m** |
|---|---|---|---|---|---|---|
| | | | | | **Consolidated 31 March 2006** | |
| Revenue from external customers | **5,107** | **1,056** | **1,011** | **568** | **27** | **7,769** |
| Total assets | **75,626** | **7,950** | **14,284** | **7,723** | **628** | **106,211** |
| Fixed assets acquired during the financial year | **74** | **31** | **119** | **33** | **5** | **262** |
| Intangible assets acquired during the financial year | **86** | **12** | **8** | **24** | **–** | **130** |
| | | | | | Consolidated 31 March 2005 | |
| Revenue from external customers | 4,912 | 697 | 563 | 538 | 28 | 6,738 |
| Total assets | 48,557 | 6,141 | 7,048 | 5,730 | 504 | 67,980 |
| Fixed assets acquired during the financial year | 31 | 31 | 17 | 4 | – | 83 |
| Intangible assets acquired during the financial year | 351 | – | – | – | – | 351 |

* Excludes Australia as it is disclosed as a separate segment.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 5. Income tax (expense)/benefit** | | | | |
| **a) Income tax (expense)/benefit** | | | | |
| Current tax | **(388)** | (175) | **(37)** | 110 |
| Deferred tax | **98** | (113) | **41** | (64) |
| Total | **(290)** | (288) | **4** | 46 |
| Deferred income tax revenue/(expense) included in income tax (expense)/benefit comprises: | | | | |
| Increase/(decrease) in deferred tax assets | **35** | 4 | **23** | 97 |
| (Increase)/decrease in deferred tax liabilities | **63** | (117) | **18** | (161) |
| Total | **98** | (113) | **41** | (64) |
| **b) Reconciliation of income tax expense to prima facie tax payable** | | | | |
| Prima facie income tax expense on operating profit* | **(387)** | (347) | **(174)** | (172) |
| Tax effect of amounts adjusted in calculating taxable income: | | | | |
| Rate differential on offshore income | **85** | 54 | **55** | 40 |
| Distribution provided on Macquarie Income Preferred Securities and similar distributions | **15** | 8 | **15** | 8 |
| Non-deductible options expense | **(16)** | (8) | **(11)** | (5) |
| Intragroup dividends | **–** | – | **114** | 191 |
| Other items | **13** | 5 | **5** | (16) |
| Total income tax expense | **(290)** | (288) | **4** | 46 |
| **c) Amounts recognised directly in equity** | | | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in profit and loss but directly debited or credited to equity: | | | | |
| Current tax – credited directly to equity | **–** | – | **–** | – |
| Net deferred tax – debited directly to equity | **67** | 5 | **54** | – |
| | **67** | 5 | **54** | – |

* Prima facie income tax on operating profit is calculated at the rate of 30% (31 March 2005: 30%). The consolidated entity has a tax year ending on 30 September.

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

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

During the period, the Bank reached a settlement with the Australian Taxation Office in respect of its review of the economic entity's research and development syndicates. The settlement of this matter did not have a material impact on the group's profit and loss.

Pursuant to litigation finalised during the year, payments of $129 million to holders of Macquarie Income Securities were held to be non-deductible. Resolution of this matter did not impact on the group's profit and loss as the amount was fully provided.

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 6. Dividends paid and distributions paid or provided** | | | | |
| **i) Dividends paid** | | | | |
| **Ordinary share capital** | | | | |
| Interim dividend paid ($0.90 (2005: $0.61) per share) | **208** | 134 | **208** | 134 |
| 2005 Final dividend paid ($1.00 (2004: $0.70) per share) | **224** | 151 | **224** | 151 |
| 2005 Special dividend paid ($0.40 (2004: $nil) per share) | **89** | – | **89** | – |
| **Total dividends paid** | **521** | 285 | **521** | 285 |

All dividends in the above table were 90% franked at the 30% corporate tax rate.

The Bank'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 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 – Contributed equity.

| | | | Cents per ordinary share | |
|---|---|---|---|---|
| **Cash dividends per ordinary share (including interim dividend not provided for)** | **215** | 201 | **215** | 201 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Franking credits available for the subsequent financial year at a corporate tax rate of 30% (2005: 30%)** | **149** | 39 | **149** | 39 |

The franked portion of dividends proposed as at 31 March 2006 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:

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

**ii) Dividends not recognised at the end of the financial year**
In addition to the above dividends, since the end of the financial year the directors have recommended the payment of the 2006 final dividend of $1.25 per fully paid ordinary share, 100% franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 5 July 2006 out of retained profits at 31 March 2006, but not recognised as a liability at the end of the financial year, is $290 million. This amount has been estimated based on the number of shares eligible to participate as at 31 March 2006.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **iii) Distributions paid or provided** | | | | |
| **Macquarie Income Securities** | | | | |
| Distributions paid (net of distributions previously provided) | **23** | 23 | **–** | – |
| Distributions provided | **6** | 6 | **–** | – |
| **Total distributions paid or provided** | **29** | 29 | **–** | – |

The Macquarie Income Security ("MIS") is a stapled arrangement, which includes a perpetual preference share issued by the Bank. No dividends are payable under the preference shares until the Bank exercises its option to receive future payments of interest and principle under the other stapled security. Upon exercise, dividends are payable at the same rate, and subject to similar conditions, as the MIS. Dividends are also subject to directors' discretion. The distributions paid/provided in respect of the MIS are recognised directly in equity in accordance with AASB 132: *Financial Instruments: Disclosure and Presentation*.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Macquarie Income Preferred Securities** | | | | |
| Distributions paid (net of distributions previously provided) | **27** | – | **–** | – |
| Distributions provided | **24** | 28 | **–** | – |
| **Total distributions paid or provided** | **51** | 28 | **–** | – |

The Macquarie Income Preferred Securities represent a minority interest of the consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Preferred Securities are recorded as movements in minority interest, as disclosed in note 34 – Reserves, retained earnings and minority interests. The Bank can redirect the payments of distributions under the convertible debentures to be paid to itself. Each debenture converts for 500 Bank preference shares at the Bank's discretion at any time, in certain circumstances (to meet capital requirements), or on maturity.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 6. Dividends paid and distributions paid or provided** continued | | | | |
| **Convertible Debentures** | | | | |
| Distributions paid (net of distributions previously provided) | **–** | – | **27** | – |
| Distributions provided | **–** | – | **24** | 28 |
| **Total distributions paid or provided** | **–** | – | **51** | 28 |

| | Consolidated 2006 $m | Consolidated 2005 $m |
|---|---|---|
| **Note 7. Earnings per share** | **Cents per share** | |
| **Basic earnings per share** | **400.3** | 369.6 |
| **Diluted earnings per share** | **382.3** | 361.1 |
| **Reconciliation of earnings used in the calculation of basic earnings per share** | | |
| Profit from ordinary activities after income tax | **997** | 870 |
| (Profit) attributable to minority interests: | | |
| Macquarie Income Preferred Securities | **(51)** | (28) |
| Other equity holders | **(1)** | (1) |
| Distributions paid or provided on: | | |
| Macquarie Income Securities | **(29)** | (29) |
| Total earnings used in the calculation of basic earnings per share | **916** | 812 |
| **Reconciliation of earnings used in the calculation of diluted earnings per share** | | |
| Earnings used in calculating basic earnings per share | **916** | 812 |
| Other non-discretionary changes in earnings arising from dilutive potential ordinary shares | **–** | – |
| Total earnings used in the calculation of diluted earnings per share | **916** | 812 |
| | **Number of shares** | |
| **Total weighted average number of ordinary shares used in the calculation of basic earnings per share** | **228,840,495** | 219,698,110 |
| **Weighted average number of shares used in the calculation of diluted earnings per share** | | |
| Weighted average fully paid ordinary shares | **228,840,495** | 219,698,110 |
| Potential ordinary shares: | | |
| Weighted average options | **10,790,865** | 5,169,587 |
| **Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share** | **239,631,360** | 224,867,697 |

**Information concerning the classification of securities**

Options

Options granted to employees under the Employee Option Plan 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 1,563,530 (2005: 1,137,897) options that were converted, lapsed or cancelled during the financial year. There are a further 10,351,358 (2005: 1,552,050) options that have not been included in the balance of weighted average options on the basis that their strike price was greater than the average market price of the Bank's fully paid ordinary shares for the financial year ended 31 March 2006 and consequently, they are not considered to be dilutive.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 8. Due from banks** | | | | |
| Cash at bank* | **2,013** | 543 | **566** | 90 |
| Overnight cash at bank | **1,836** | 575 | **1,823** | 561 |
| Other loans to banks | **2,416** | 2,576 | **2,077** | 2,138 |
| Due from clearing houses | **128** | 273 | **112** | 273 |
| Leases to banks | **1** | 2 | **1** | 2 |
| Total due from banks | **6,394** | 3,969 | **4,579** | 3,064 |

* Included within this balance is $8 million (2005: $5 million) provided as security over payables to other financial institutions.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 9. Cash collateral on securities borrowed and reverse repurchase agreements** | | | | |
| Central bank | **22** | 52 | **22** | 52 |
| Governments | **385** | 327 | **385** | 327 |
| Other financial institutions | **5,001** | 3,198 | **5,001** | 3,198 |
| Other | **8,162** | 5,350 | **8,157** | 5,339 |
| **Total cash collateral on securities borrowed and reverse repurchase agreements** | **13,570** | 8,927 | **13,565** | 8,916 |
| **Note 10. Trading portfolio assets** | | | | |
| **Trading securities** | | | | |
| Equities and other securities | **9,211** | 3,996 | **8,117** | 3,496 |
| Certificates of deposit | **1,597** | 956 | **1,597** | 956 |
| Promissory notes | **1,188** | 262 | **1,188** | 261 |
| Corporate bonds | **995** | 612 | **971** | 612 |
| Other government securities | **612** | 647 | **612** | 448 |
| Commonwealth government bonds | **166** | 137 | **166** | 137 |
| Bank bills | **330** | 424 | **330** | 424 |
| Foreign government bonds | **42** | 79 | **42** | 79 |
| Bills discounted | **–** | 624 | **–** | 577 |
| Total trading securities | **14,141** | 7,737 | **13,023** | 6,990 |
| **Other trading assets** | | | | |
| Other commodities | **105** | 63 | **7** | 4 |
| Total other trading assets | **105** | 63 | **7** | 4 |
| **Total trading portfolio assets** | **14,246** | 7,800 | **13,030** | 6,994 |

**Trading assets pledged as security**
Included in the balance of equities and other securities, certificates of deposit and bank bills are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided is $1,249 million (2005: $832 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 11. Other securities** | | | | |
| **Listed** | | | | |
| Shares and units in unit trusts at cost | | 4 | | 4 |
| Less provision for diminution | | (2) | | (2) |
| Shares and units in unit trusts at recoverable amount | | 2 | | 2 |
| Shares and units in unit trusts at cost requiring no provision for diminution | | 30 | | 29 |
| Total listed other securities | | 32 | | 31 |
| **Unlisted** | | | | |
| Shares and units in unit trusts at cost | | 6 | | 6 |
| Less provision for diminution | | (2) | | (2) |
| Shares and units in unit trusts at recoverable amount | | 4 | | 4 |
| Shares and units in unit trusts at cost requiring no provision for diminution | | 920 | | 3 |
| Debt investment securities | | 756 | | 45 |
| Total unlisted other securities | | 1,680 | | 52 |
| **Total other securities** | | 1,712 | | 83 |

The market value of these investments was not materially different from their book value.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 12. Loan assets held at amortised cost** | | | | |
| **Due from clearing houses** | **2,033** | 653 | **1,906** | 608 |
| **Due from governments*** | **223** | 436 | **156** | 287 |
| **Due from other entities** | | | | |
| Other loans and advances** | **30,845** | 26,200 | **11,208** | 9,036 |
| Less specific provisions | **(52)** | (45) | **(48)** | (39) |
| | **30,793** | 26,155 | **11,160** | 8,997 |
| Lease receivables | **2,030** | 1,290 | **35** | 44 |
| Total due from other entities | **32,823** | 27,445 | **11,195** | 9,041 |
| Total gross loan assets | **35,079** | 28,534 | **13,257** | 9,936 |
| Less collective allowance for credit losses | **(80)** | (109) | **(76)** | (105) |
| **Total loan assets held at amortised cost** | **34,999** | 28,425 | **13,181** | 9,831 |

* Governments include federal, state and local governments and related enterprises in Australia.
** Included within this balance are mortgage special purpose entities' loans of $17,795 million (2005: $14,729 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Specific provisions** | | | | |
| Balance at the beginning of the financial year | **45** | 36 | **39** | 35 |
| Provided for during the financial year | **36** | 50 | **26** | 41 |
| Loan assets written off, previously provided for | **(10)** | (22) | **(10)** | (22) |
| Recovery of loans previously provided for | **(15)** | (18) | **(9)** | (14) |
| Transfer from other provisions and other items | **1** | – | **1** | – |
| Transfer to provision against interest in associates and joint ventures using the equity method | **(6)** | – | **–** | – |
| Attributable to foreign currency translation | **1** | (1) | **1** | (1) |
| **Total specific provisions** | **52** | 45 | **48** | 39 |
| **Specific provisions as a percentage of gross loan assets** | **0.15%** | 0.16% | **0.36%** | 0.40% |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Collective allowance for credit losses** | | | | |
| Balance at the beginning of the financial year | **109** | 75 | **105** | 71 |
| Adjustment on adoption of AASB 139 | **(50)** | – | **(47)** | – |
| Provided for during the financial year | **11** | 34 | **10** | 34 |
| Transfer from trading portfolio assets | **10** | – | **8** | – |
| **Total collective allowance for credit losses** | **80** | 109 | **76** | 105 |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 13. Impaired financial assets** | | | | |
| Impaired financial assets are disclosed using the definitions and categories of the Australian Prudential Regulation Authority. Impaired assets include loan assets and impaired items in respect of derivative financial instruments and unrecognised contingent commitments, which are classified as: | | | | |
| Impaired loans without specific provisions for impairment | 8 | 1 | 1 | 1 |
| Impaired loans with specific provisions for impairment | 137 | 86 | 130 | 63 |
| Less specific provisions | (52) | (45) | (48) | (39) |
| Total impaired loans with specific provisions for impairment | 85 | 41 | 82 | 24 |
| **Total net impaired assets** | 93 | 42 | 83 | 25 |
| **Note 14. Other financial assets at fair value through profit and loss** | | | | |
| Investment securities | 395 | | 185 | |
| Loan assets | 1,709 | | 1,709 | |
| **Total other financial assets at fair value through profit and loss** | 2,104 | | 1,894 | |
| **Note 15. Other assets** | | | | |
| Security settlements* | 4,146 | 1,533 | 156 | – |
| Debtors and prepayments** | 3,434 | 1,380 | 3,054 | 1,169 |
| Property held for sale and development** | 173 | 144 | 2 | – |
| Assets under operating lease*** | 694 | 126 | 1 | – |
| Other | 5 | 508 | – | 153 |
| **Total other assets** | 8,452 | 3,691 | 3,213 | 1,322 |

* Security settlements are receivable within three working days of the relevant trade date.
** Included within these balances is $7 million of debtors and prepayments, and $159 million of property held for sale and development which are provided as security over amounts payable to other financial institutions (2005: $Nil).
*** Assets under operating lease are stated net of accumulated depreciation of $63 million (2005: $19 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 16. Investment securities available for sale** | | | | |
| Equity securities | | | | |
| Listed | 347 | | 168 | |
| Unlisted | 198 | | 89 | |
| Debt securities* | 3,201 | | 2,053 | |
| **Total investment securities available for sale** | 3,746 | | 2,310 | |

* Included within this balance are debt securities of $311 million (2005: $Nil) which are recognised as a result of a total return swap with Macquarie International Infrastructure Fund Limited. The economic entity does not have legal title to these assets but has an economic interest.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 17. Intangible assets** | | | | |
| Goodwill | 83 | 17 | – | – |
| Capitalised software – cost | 45 | 33 | 33 | 33 |
| Accumulated amortisation | (23) | (18) | (22) | (18) |
| Other identifiable intangibles – cost | 47 | 339 | – | – |
| Accumulated amortisation | (2) | – | – | – |
| **Total intangible assets** | 150 | 371 | 11 | 15 |

Reconciliation of the economic entity's intangible assets at their carrying value:

| | Goodwill $m | Capitalised software $m | Other identifiable intangibles $m | Total $m |
|---|---|---|---|---|
| Balance at the beginning of the financial year | 17 | 15 | 339 | 371 |
| Acquisitions during the financial year | 83 | 12 | 35 | 130 |
| Disposals during the financial year | (17) | – | (327) | (344) |
| Amortisation expense for the financial year | – | (5) | (2) | (7) |
| **Balance at the end of the financial year** | 83 | 22 | 45 | 150 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 18. Life investment contracts and other unit holder assets** | | | | |
| **Life investment contracts and other unit holder assets** | | | | |
| Cash and due from banks | **188** | 79 | **–** | – |
| Debt securities | **820** | 1,018 | **–** | – |
| Units in unit trusts | **3,946** | 3,173 | **–** | – |
| Equity securities | **229** | 203 | **–** | – |
| **Total life investment contracts and other unit holder investment assets** | **5,183** | 4,473 | **–** | – |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Income from life investment contracts and other unit holder assets** | | | | |
| Premium income, investment revenue and management fees | **509** | 487 | **–** | – |
| Life investment contract claims, reinsurance and changes in policy liabilities | **(479)** | (456) | **–** | – |
| Direct fees | **(7)** | (8) | **–** | – |
| **Total income from life investment contracts and other unit holder assets** | **23** | 23 | **–** | – |

**Solvency**

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

As at 31 March 2006, the life investment contracts business had investment assets in excess of policy holder liabilities of $59 million (2005: $49 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 19. Equity investments** | | | | |
| **Listed** | | | | |
| Shares and units in unit trusts at cost | | 33 | | 33 |
| Shares and units in unit trusts at cost | | 43 | | 15 |
| Less provision for diminution | | (22) | | (6) |
| Shares and units in unit trusts at recoverable amount | | 21 | | 9 |
| Total listed investments | | 54 | | 42 |
| **Unlisted** | | | | |
| Shares and units in unit trusts at cost | | 59 | | 4 |
| Shares and units in unit trusts at cost | | 13 | | 8 |
| Less provision for diminution | | (10) | | (7) |
| Shares and units in unit trusts at recoverable amount | | 3 | | 1 |
| Total unlisted investments | | 62 | | 5 |
| **Total equity investments** | | 116 | | 47 |

The market value of these investments was not materially different from their book value.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 20. Interest in associates and joint ventures using the equity method** | | | | |
| **Interest in associates and joint ventures using the equity method*** | | | | |
| Loans and investments without provisions for impairment | **3,327** | 2,110 | **786** | 600 |
| Loans and investments | **176** | 25 | **65** | – |
| Less provision for impairment | **(40)** | (18) | **(18)** | – |
| Loans and investments at recoverable amount | **136** | 7 | **47** | – |
| **Total interest in associates and joint ventures using the equity method** | **3,463** | 2,117 | **833** | 600 |

* 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 1(ii)).

Included in this balance is $153 million (2005: $Nil) provided as security over amounts payable to other financial institutions.

(a) Reconciliation of movement in the economic entity's investment in associated entities and joint ventures using the equity method:

| | Consolidated 2006 $m | Consolidated 2005 $m |
|---|---|---|
| Balance at the beginning of the financial year | **2,117** | 631 |
| Associates acquired/ equity contributed during the financial year | **2,728** | 1,790 |
| Share of pre-tax profits of associates and incorporated joint ventures | **246** | 24 |
| Share of tax expense of associates and incorporated joint ventures | **(74)** | (7) |
| Gain on dilution | **–** | 106 |
| Dividends received/receivable from associates during the financial year | **(197)** | (60) |
| Associates disposed of during the financial year | **(1,070)** | (404) |
| Investments in associates provided for/written-off during the financial year | **(18)** | (15) |
| Foreign exchange and other adjustments | **93** | 52 |
| Transferred to/from held for sale, available for sale equity | **(362)** | – |
| **Balance at the end of the financial year** | **3,463** | 2,117 |

**Note 20. Interest in associates and joint ventures using the equity method** continued

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

| Name of entity | Country of Incorporation | Reporting Date | Participating interest 2006 % | Participating interest 2005 % | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|---|---|---|
| Macquarie Airports[(a)]***^ | Australia | 31 December | **14%** | 12% | **564** | 387 | **12** | 154 |
| Macquarie Goodman Group[(b)]**** | Australia | 30 June | **8%** | 9% | **394** | 352 | **393** | 354 |
| Diversified CMBS Investments Inc[(c)]** | USA | 31 March | **57%** | 57% | **365** | 381 | **–** | – |
| Macquarie Diversified (AA) Trust[(c)] | Australia | 28 February | **31%** | – | **198** | – | **195** | – |
| European Directories SA[(d)]**** | Luxembourg | 31 December | **15%** | – | **170** | – | **–** | – |
| Macquarie MEAG Prime REIT[(b)] | Singapore | 31 December | **20%** | – | **160** | – | **–** | – |
| Macquarie Countrywide Trust[(b)]*** | Australia | 30 June | **6%** | 8% | **137** | 173 | **4** | – |
| Macquarie Communications Infrastructure Group[(a)]*** | Australia | 30 June | **11%** | 13% | **136** | 196 | **4** | – |
| Macquarie Infrastructure Group[(a)]***^ | Australia | 30 June | **1%** | 0.4% | **108** | 2 | **16** | – |
| Macquarie Office Trust[(b)]*** | Australia | 30 June | **4%** | 4% | **102** | 79 | **4** | – |
| Macquarie Media Group[(e)]*** | Australia | 30 June | **20%** | – | **90** | – | **–** | – |
| Macquarie Capital Alliance Group[(c)]*** | Australia | 30 June | **10%** | – | **89** | – | ***** | – |
| Macquarie International Infrastructure Fund Limited[(a)]*** | Singapore | 31 December | **8%** | – | **84** | – | **–** | – |
| Dynasty Property Investment Limited[(b)] | Bermuda | 31 December | **24%** | – | **79** | – | **–** | – |
| Macquarie Shinhan Infrastructure Asset Management Co Limited[(c)] | Korea | 31 March | **50%** | – | **60** | 3 | **–** | – |
| Medallist Developments Inc.[(b)]** | USA | 31 March | **80%** | 70% | **58** | 70 | ***** | – |
| Macquarie Infrastructure Company Trust[(a)]****^ | USA | 31 December | **7%** | 9% | **56** | 51 | **–** | – |

* Denotes investment carrying value of less than $1 million.

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

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

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

^ Denotes legal interest is different to participating interest. Legal interest in Macquarie Airports is 16%, 16% in Macquarie Communications Infrastructure Group and 9% in Macquarie Infrastructure Company Trust.

(a) Infrastructure
(b) Property Development/ Management entity
(c) Funds Management and Investment Banking
(d) Directories Business
(e) Media, Television and Internet Investments

**Note 20. Interest in associates and joint ventures using the equity method** continued

(c) The fair values of certain interests in material associates and joint ventures for which there are public quotations are as follows:

| | **Consolidated 2006 $m** | Consolidated 2005 $m | **Bank 2006 $m** | Bank 2005 $m |
|---|---|---|---|---|
| Macquarie Airports | **783** | 579 | **13** | 274 |
| Macquarie Goodman Group | **585** | 410 | **585** | 410 |
| Macquarie MEAG Prime REIT | **153** | – | **–** | – |
| Macquarie Countrywide Trust | **149** | 176 | **4** | – |
| Macquarie Communications Infrastructure Group | **256** | 290 | **4** | – |
| Macquarie Infrastructure Group | **133** | 32 | **15** | – |
| Macquarie Office Trust | **110** | 82 | **4** | – |
| Macquarie Media Group | **110** | – | **–** | – |
| Macquarie Capital Alliance Group | **89** | – | **1** | – |
| Macquarie International Infrastructure Fund Limited | **88** | – | **–** | – |
| Macquarie Infrastructure Company Trust | **82** | 72 | **–** | – |
| (d) Share of associates' and joint ventures' expenditure commitments, other than for the supply of inventories, is as follows: | | | | |
| Capital commitments | **70** | 157 | **25** | 4 |
| Lease commitments | **145** | 99 | **86** | 98 |
| (e) Contingent liabilities of associates and joint ventures are as follows: | | | | |
| Share incurred jointly with other investors | **83** | 5 | **41** | – |
| For which the economic entity is severally liable | **59** | – | **59** | – |
| (f) Aggregated financial information of interests in associates and joint ventures are as follows: | | | | |
| Economic entity's share of: | | | | |
| Assets | **5,676** | 2,842 | **773** | 870 |
| Liabilities | **2,767** | 1,180 | **434** | 423 |
| Revenues | **805** | 343 | **103** | 103 |
| Profit/(loss) | **172** | 17 | **37** | 12 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 21. Property, plant and equipment** | | | | |
| **Furniture, fittings and leasehold improvements** | | | | |
| Cost | 235 | 120 | 118 | 86 |
| Less accumulated depreciation | (97) | (78) | (70) | (61) |
| Total furniture, fittings and leasehold improvements | 138 | 42 | 48 | 25 |
| **Computer equipment** | | | | |
| Cost | 188 | 181 | 168 | 144 |
| Less accumulated depreciation | (140) | (134) | (129) | (118) |
| Total computer equipment | 48 | 47 | 39 | 26 |
| **Communication equipment** | | | | |
| Cost | 26 | 28 | 21 | 20 |
| Less accumulated depreciation | (20) | (22) | (18) | (18) |
| Total communication equipment | 6 | 6 | 3 | 2 |
| **Infrastructure assets** | | | | |
| Cost | 103 | 56 | – | – |
| Less accumulated depreciation | (3) | (3) | – | – |
| Total infrastructure assets | 100 | 53 | – | – |
| **Total property, plant and equipment** | 292 | 148 | 90 | 53 |

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

| | Furniture, fittings and leasehold improvements $m | Computer equipment and software $m | Communication equipment $m | Infrastructure assets $m | Total $m |
|---|---|---|---|---|---|
| Balance at the beginning of the financial year | 42 | 47 | 6 | 53 | 148 |
| Acquisitions during the financial year | 117 | 37 | 5 | 103 | 262 |
| Disposals of during the financial year | (3) | (2) | – | (53) | (58) |
| Depreciation expense for the financial year | (18) | (34) | (5) | (3) | (60) |
| **Balance at the end of the financial year** | 138 | 48 | 6 | 100 | 292 |

**Fixed assets pledged as security**

Included in the balance of property, plant and equipment are assets pledged as security over payables to other financial institutions. The terms preclude these assets from being sold or being used as security for further liabilities without the permission of the financial institution. The carrying value of assets pledged is $132 million (2005: $53 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 22. Investments in controlled entities** | | | | |
| Investments at cost | **–** | – | **4,060** | 4,125 |
| Investments at cost | **–** | – | **71** | 71 |
| Less provision for impairment | **–** | – | **(44)** | (44) |
| Investments at recoverable amount | **–** | – | **27** | 27 |
| **Total investments in controlled entities** | **–** | – | **4,087** | 4,152 |

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

AMT Management Limited
ConnectEast Management Limited (formerly Macquarie Management Company (ISF) Limited)
Macquarie Acceptances Limited
Macquarie Airports Management Ltd
Macquarie Alternative Assets Management Ltd
Macquarie Asia Real Estate Limited (formerly Macquarie Property Investment Management 1 Limited)
Macquarie Capital Alliance Management Limited (formerly Macquarie Alliance Capital Management)
Macquarie Capital Funding L.P. (Jersey)
Macquarie Capital Korea Co Limited (Korea)
Macquarie Communications Infrastructure Management Ltd
Macquarie Countrywide Management Limited
Macquarie Direct Investment A Limited
Macquarie Direct Investment B Limited
Macquarie Direct Property Management Limited
Macquarie Diversified Investments No. 2 Pty Ltd *
Macquarie Equity Capital Markets Limited
Macquarie Finance Limited
Macquarie Financial Products Management Limited
Macquarie Funds Management Holdings Pty Limited *
Macquarie Global Debt Investment No. 1 Pty Limited *
Macquarie Infrastructure Debt Management Limited
Macquarie Infrastructure Investment Management Limited
Macquarie Infrastructure Management (Asia) Pty Limited (Singapore)
Macquarie Infrastructure Management (USA) Inc (USA)
Macquarie International Finance Limited
Macquarie Investment Management (UK) Limited (United Kingdom)
Macquarie Investment Management Limited
Macquarie Investment Services Limited
Macquarie Investments Australia Pty Limited*
Macquarie Investments (UK) Ltd (United Kingdom)
Macquarie Leisure Development Limited
Macquarie Leisure Management Limited
Macquarie Management Company (ISF) 1 Limited (formerly Horizon Energy Investment Management Limited)
Macquarie Office Management Limited
Macquarie Property Advisors Korea Limited (Korea)
Macquarie Property Funds Limited (formerly Macquarie Community Partnerships Funds Management Limited)
Macquarie Property Investments Management 2 Limited
Macquarie Securities (Australia) Limited
Macquarie Securitisation Limited
Macquarie Specialised Asset Management 2 Limited
Macquarie Specialised Asset Management Limited
Real Estate Capital Investments Limited (formerly Macquarie Property Investment Management 3 Limited)
Regional Media Trust

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

Overseas controlled entities carry on business predominantly in their place of incorporation.
Beneficial interest in all entities is 100%, unless otherwise stated.
All entities have a 31 March reporting date, unless otherwise stated.

* With the exception of the entities so marked, all private companies with affix "Pty Limited" qualify as small companies and as such are not required to prepare an audited financial report.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 23. Deferred income tax assets/(liabilities)** | | | | |
| The balance comprises temporary differences attributable to: | | | | |
| Provisions and accrued expenses | **569** | 382 | **440** | 359 |
| Tax losses | **25** | 54 | **–** | – |
| Fixed assets | **21** | 20 | **21** | 18 |
| Investments in associates | **(39)** | (10) | **–** | – |
| Financial instruments | **(336)** | (243) | **(229)** | (189) |
| **Total deferred income tax assets** | **240** | 203 | **232** | 188 |
| Available for sale financial assets | **(63)** | – | **(29)** | – |
| Investments in associates | **(94)** | (147) | **(94)** | (94) |
| Other liabilities | **–** | (42) | **(6)** | (42) |
| **Total deferred income tax liabilities** | **(157)** | (189) | **(129)** | (136) |
| **Net deferred income tax assets** | **83** | 14 | **103** | 52 |

A potential tax asset of approximately $32 million (2005: $25 million) attributable to tax losses carried forward by a controlled entity has not been brought to account in the controlled entity and in the economic entity as the Directors do not believe the realisation of the tax assets is probable.

The economic entity's Australian tax liabilities are determined pursuant to tax consolidation legislation. All eligible Australian resident wholly-owned controlled entities of the Bank represent a Tax Consolidated Group. Under the terms and conditions of a tax contribution agreement, the Bank, as the head entity of the tax consolidated group, will charge or reimburse its wholly-owned subsidiaries for current tax liabilities or assets it incurs in connection with their activities. As a consequence, the Bank has recognised the current tax balances of its wholly-owned subsidiaries as if those were its own in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax contribution agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. The principles of the balance sheet method of tax effect accounting have been adopted whereby the income tax expense for the financial year is the tax payable on the current period's taxable income adjusted for changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses. The tax assets relating to deductible temporary differences and tax losses are not carried forward as an asset unless the benefit is probable of realisation.

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 24. Assets and disposal groups classified as held for sale** | | | | |
| Associates | **586** | 334 | **18** | 294 |
| Total associates | **586** | 334 | **18** | 294 |
| **Assets of disposal groups held for sale** | | | | |
| AHA Holdings Limited | **469** | – | **–** | – |
| Vancouver Health Holdings Limited | **142** | – | **–** | – |
| Macquarie SC Investments Inc. | **400** | – | **–** | – |
| Macquarie Small Cap Roads Holdings, LLC | **195** | – | **–** | – |
| Steam Packet Group | **597** | – | **–** | – |
| Total disposal groups held for sale* | **1,803** | – | **–** | – |
| **Total assets and disposal groups classified as held for sale** | **2,389** | 334 | **18** | 294 |

* Included within this balance are assets with a carrying value of $823 million provided as security over payables to other financial institutions.

(a) Summarised information of associates classified as held for sale is as follows:

| Name of entity | Country of Incorporation | Reporting Date | Participating interest 2006 % | Participating interest 2005 % | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|---|---|---|---|
| TMO Parent LLC trading as Icon Parking[d]* | USA | 31 December | **53%** | – | **174** | – | **–** | – |
| Macquarie Industrial Investments Norway AS[g] | Norway | 31 December | **21%** | – | **110** | – | **–** | – |
| Creative Broadcast Services Limited[b] | United Kingdom | 30 June | **35%** | – | **97** | – | **–** | – |
| AM Office Unit Trust[a]* | United Kingdom | 30 June | **85%** | – | **85** | – | **–** | – |
| Global Retirement Trust[e] | Australia | 30 June | **50%** | – | **58** | – | **–** | – |
| CJ CableNet Yangchon Broadcasting Co. Limited[b]** | Korea | 31 December | **6%** | – | **36** | – | **–** | – |
| Macquarie Direct Property Fund[a]** | Australia | 30 June | **19%** | – | **25** | – | **18** | – |
| Macquarie Global Infrastructure Trust II[c] | Australia | 30 June | **1%** | – | **1** | – | **–** | – |
| Macquarie UK Broadcast Holdings[b] | United Kingdom | 30 June | **–** | 13% | **–** | 106 | **–** | 106 |
| Macquarie UK Broadcast Services Plc[b] | United Kingdom | 30 June | **–** | 13% | **–** | 102 | **–** | 102 |
| Macquarie Airports (Brussels) S.A.[c] | Luxembourg | 31 December | **–** | 5% | **–** | 86 | **–** | 86 |
| Macquarie Renewables Limited[f] | Bermuda | 31 December | **–** | 50% | **–** | 40 | **–** | – |
| Total associates classified as held for sale | | | | | **586** | 334 | **18** | 294 |

All associates classified as held for sale are unlisted companies.

Participation interest is equivalent to ownership interest unless otherwise stated.

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

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

(a) Property Development/Management Entity
(b) Media, Television and Internet Investments
(c) Infrastructure
(d) Retail Parking Stations
(e) Retirement Homes
(f) Energy
(g) Other

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 24. Assets and disposal groups classified as held for sale** continued | | | | |
| (b) Share of associates' expenditure commitments, other than for the supply of inventories, is as follows: | | | | |
| Capital commitments | **8** | 40 | **–** | – |
| Lease commitments | **10** | – | **–** | – |
| (c) Contingent liabilities of associates are as follows: | | | | |
| Share incurred jointly with other investors | **–** | – | **–** | – |
| For which the economic entity is severally liable | **–** | – | **–** | – |
| (d) Aggregated financial information of interests in associates are as follows: | | | | |
| Economic entity's share of: | | | | |
| Assets | **2,059** | 429 | **–** | – |
| Liabilities | **1,491** | 271 | **–** | – |
| Revenues | **351** | 39 | **–** | – |
| Profit/(loss) | **–** | – | **–** | – |
| Liabilities of disposal groups classified as held for sale | | | | |
| AHA Holdings Limited | **473** | – | **–** | – |
| Vancouver Health Holdings Limited | **142** | – | **–** | – |
| Macquarie SC Investments Inc. | **201** | – | **–** | – |
| Macquarie Small Cap Roads Holdings, LLC | **97** | – | **–** | – |
| Steam Packet Group | **514** | – | **–** | – |
| **Total liabilities of disposal groups classified as held for sale** | **1,427** | – | **–** | – |

All of the above investments are expected to be disposed of by way of sale to a Macquarie Fund, trade sale or sale to other investors within twelve months of being classified as held for sale.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 25. Due to banks** | | | | |
| OECD banks | **1,537** | 1,086 | **703** | 571 |
| OECD Central Banks | **373** | 266 | **373** | 266 |
| Clearing houses | **67** | 5 | **67** | 4 |
| Clearing banks | **40** | 55 | **40** | 55 |
| Other | **101** | 136 | **34** | – |
| **Total due to banks** | **2,118** | 1,548 | **1,217** | 896 |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 26. Cash collateral on securities lent and repurchase agreements** | | | | |
| Central banks | **1,039** | 340 | **1,039** | 340 |
| Other financial institutions | **2,328** | 543 | **2,328** | 543 |
| Other | **3,628** | 1,100 | **3,628** | 1,011 |
| **Total cash collateral on securities lent and repurchase agreements** | **6,995** | 1,983 | **6,995** | 1,894 |
| **Note 27. Trading portfolio liabilities** | | | | |
| Listed equity securities | **4,435** | 3,228 | **4,431** | 3,176 |
| Commonwealth government securities | **4,867** | 4,214 | **4,867** | 4,214 |
| Other government securities | **685** | 169 | **685** | 169 |
| Corporate securities | **70** | 70 | **70** | 70 |
| **Total trading portfolio liabilities** | **10,057** | 7,681 | **10,053** | 7,629 |
| **Note 28. Notes payable and debt issued at amortised cost** | | | | |
| Notes payable* | | 28,161 | | 13,270 |
| Debt issued at amortised cost* | **39,022** | | **20,567** | |
| **Total notes payable and debt issued at amortised cost** | **39,022** | 28,161 | **20,567** | 13,270 |

* Included within this balance are amounts payable to mortgage special purpose entities' noteholders of $16,469 million (2005: $14,838 million).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 29. Other financial liabilities at fair value through profit and loss** | | | | |
| Debt issued at fair value | **5,481** | | **5,058** | |
| **Total other financial liabilities at fair value through profit and loss** | **5,481** | | **5,058** | |
| **Reconciliation of notes payable, debt issued at amortised cost and other financial liabilities at fair value through profit and loss by major currency:** | | | | |
| United States dollars | **8,205** | 7,326 | **8,211** | 3,126 |
| Australian dollars | **23,784** | 14,373 | **5,065** | 3,682 |
| Hong Kong dollars | **1,435** | 889 | **1,270** | 889 |
| Great British pounds | **3,844** | 2,035 | **3,844** | 2,035 |
| Japanese yen | **695** | 529 | **695** | 529 |
| Euro | **5,440** | 2,844 | **5,440** | 2,844 |
| Singapore dollars | **340** | 86 | **340** | 86 |
| Korean won | **387** | – | **387** | – |
| Other currencies | **373** | 79 | **373** | 79 |
| **Total by currency** | **44,503** | 28,161 | **25,625** | 13,270 |

The Bank's primary program for domestic and international debt issuance is its multi-currency, multi-jurisdictional Debt Instrument Program. Securities are issued for terms varying from one day to 30 years.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 30. Other liabilities** | | | | |
| Due to brokers and customers* | **4,000** | 1,564 | **174** | 19 |
| Creditors | **3,247** | 1,266 | **2,359** | 785 |
| Accrued charges and sundry provisions | **2,155** | 1,671 | **1,815** | 1,490 |
| Other | **151** | 80 | **69** | 63 |
| **Total other liabilities** | **9,553** | 4,581 | **4,417** | 2,357 |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 31. Provisions** | | | | |
| Provision for annual leave | **57** | 47 | **39** | 33 |
| Provision for long service leave | **45** | 38 | **45** | 37 |
| Provision for dividend | **30** | 34 | **24** | 28 |
| **Total provisions** | **132** | 119 | **108** | 98 |

**Note 32. Loan capital**

**Subordinated debt**

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

The dates upon which the Bank has committed to repay the subordinated debt to the lenders are as follows:

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Subordinated debt** | | | | |
| 1 April 2005 | **–** | 24 | **–** | 24 |
| 18 February 2013 | **227** | 225 | **227** | 225 |
| 2 May 2013 | **25** | 25 | **25** | 25 |
| 20 June 2013 | **340** | 334 | **340** | 334 |
| 15 September 2014 | **300** | 300 | **300** | 300 |
| 18 September 2015 | **489** | 451 | **488** | 451 |
| **Total subordinated debt** | **1,381** | 1,359 | **1,380** | 1,359 |

Reconciliation of subordinated debt by major currency:

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| Australian dollars | **552** | 550 | **552** | 550 |
| Euro | **340** | 334 | **340** | 334 |
| United States dollars | **489** | 451 | **488** | 451 |
| Japanese yen | **–** | 24 | **–** | 24 |
| **Total subordinated debt by currency** | **1,381** | 1,359 | **1,380** | 1,359 |

In accordance with Australian Prudential Regulation Authority guidelines, the Bank includes the applicable portion of the principal sum as Tier 2 capital.

| | Consolidated and Bank 2006 | Consolidated and Bank 2005 | Consolidated and Bank 2006 | Consolidated and Bank 2005 |
|---|---|---|---|---|
| | Number of shares | | $m | $m |
| **Note 33. Contributed equity** | | | | |
| **Ordinary share capital** | | | | |
| Opening balance of fully paid ordinary shares | **223,683,592** | 215,916,285 | **1,600** | 1,382 |
| On-market purchase of shares pursuant to the Macquarie Bank Staff Share Acquisition Plan ("MBSSAP") and Non Executive Directors Share Acquisition Plan ("NEDSAP") at $60.61 (2005: $33.03) per share | **(160,196)** | (743,577) | **(10)** | (24) |
| Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at $60.61 (2005: $33.03) per share | **160,196** | 743,577 | **10** | 24 |
| Issue of shares on exercise of options | **7,206,943** | 6,387,052 | **222** | 166 |
| Issue of shares pursuant to the Employee Share Plan at $68.30 (2005:$48.89) per share | **20,118** | 24,300 | **1** | 1 |
| Issue of shares on 2 July 2004 pursuant to the Dividend Reinvestment Plan ("DRP") at $33.46 per share | **–** | 842,601 | **–** | 28 |
| Issue of shares on 17 December 2004 pursuant to the DRP at $44.25 per share | **–** | 513,354 | **–** | 23 |
| Issue of shares on 1 July 2005 pursuant to the DRP at $51.27 per share | **1,133,173** | – | **58** | – |
| Issue of shares on 16 December 2005 pursuant to the DRP at $67.77 per share | **396,543** | – | **27** | – |
| Transfer from share based payments reserve for expensed options that have been exercised | **–** | – | **8** | – |
| **Closing balance of fully paid ordinary shares** | **232,440,369** | 223,683,592 | **1,916** | 1,600 |

As at 31 March 2006, 31,235,034 (2005: 28,292,709) options granted to employees over unissued ordinary shares had not been exercised. For further information regarding the terms and conditions of the issue of options and shares to employees refer to note 38 – Employee equity participation.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Total Treasury Shares** | **(2)** | (1) | **–** | – |
| **Macquarie Income Securities** | | | | |
| 4,000,000 Macquarie Income Securities of $100 each | **400** | 400 | **400** | 400 |
| Less: transaction costs for original placement | **(9)** | (9) | **(9)** | (9) |
| **Total Macquarie Income Securities** | **391** | 391 | **391** | 391 |

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Convertible Debentures** | | | | |
| 7,000 convertible debentures of £50,000 each | **–** | – | **884** | 884 |
| **Total convertible debentures** | **–** | – | **884** | 884 |

As part of the issue of the Macquarie Income Preferred Securities (as detailed in note 34 – Reserves, retained earnings and outside equity interests), the London branch of the parent entity issued 7,000 reset subordinated convertible debentures, each with a face value of £50,000, to Macquarie Capital Funding L.P, a controlled entity. The convertible debentures, which eliminate on consolidation, currently pay a 6.177% semi-annual cumulative fixed rate distribution. The debentures mature on 15 April 2050, but may be redeemed, at the Bank's discretion, on 15 April 2020 or on any reset date thereafter. If redemption is not elected, then on 15 April 2020 and on each fifth anniversary thereafter, the debenture coupon will be reset to 2.35% above the then prevailing five year benchmark sterling gilt rate.

The distribution policies for these instruments are included in note 6 of this report.

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 34. Reserves, retained earnings and minority interests** | | | | |
| **Reserves** | | | | |
| **Foreign currency translation reserve** | | | | |
| Opening balance | (1) | – | (38) | – |
| Currency translation differences arising during the financial year, net of hedge | 5 | (1) | (6) | (38) |
| **Total foreign currency translation reserve** | 4 | (1) | (44) | (38) |
| **Available for sale reserve** | | | | |
| Opening balance | – | | – | |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax (refer note 52) | 67 | | 48 | |
| Revaluation movement for the financial year, net of tax | 116 | | 76 | |
| Transfer to profit on realisation | (32) | | (31) | |
| **Total available for sale reserve** | 151 | | 93 | |
| **Share-based payments reserve** | | | | |
| Opening balance | 39 | 10 | 39 | 10 |
| Option expense for the financial year | 53 | 29 | 37 | 17 |
| Options issued to subsidiary employees | – | – | 16 | 12 |
| Transfer to share capital on exercise of expensed options | (8) | – | (8) | – |
| Employee benefit plan expense for the financial year | – | 13 | – | 13 |
| Vested treasury shares | – | (13) | – | (13) |
| **Total share-based payments reserve** | 84 | 39 | 84 | 39 |
| **Cash flow hedging reserve** | | | | |
| Opening balance | – | | – | |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax (refer note 52) | 4 | | 13 | |
| Revaluation movement for the financial year, net of tax | (2) | | 20 | |
| **Total cash flow hedging reserve** | 2 | | 33 | |
| **Share of reserves of interests in associates and joint ventures using the equity method** | | | | |
| Opening balance | 11 | (1) | – | – |
| Share of reserves during the financial year | (1) | 12 | – | – |
| Transfer to profit on realisation | (1) | – | – | – |
| **Total share of reserves of interests in associates and joint ventures using the equity method** | 9 | 11 | – | – |
| **Total reserves** | 250 | 49 | 166 | 1 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 34. Reserves, retained earnings and minority interests** continued | | | | |
| **Retained earnings** | | | | |
| Balance at the beginning of the financial year | **1,523** | 996 | **950** | 642 |
| Adjustment on adoption of AASB 132 and AASB 139 (refer note 52) | **16** | – | **(14)** | – |
| Profit attributable to equity holders of Macquarie Bank Limited | **945** | 841 | **585** | 621 |
| Distributions paid or provided on Macquarie Income Securities | **(29)** | (29) | **–** | – |
| Distributions paid or provided on convertible debentures | **–** | – | **(51)** | (28) |
| Dividends paid on ordinary share capital | **(521)** | (285) | **(521)** | (285) |
| **Total retained earnings** | **1,934** | 1,523 | **949** | 950 |
| **Minority interest** | | | | |
| Macquarie Income Preferred Securities* | | | | |
| Proceeds on issue of Macquarie Income Preferred Securities | **894** | 894 | **–** | – |
| Issue costs | **(10)** | (10) | **–** | – |
| | **884** | 884 | **–** | – |
| Current year profit | **51** | 28 | **–** | – |
| Distribution provided on Macquarie Income Preferred Securities | **(51)** | (28) | **–** | – |
| Foreign currency translation reserve | **(43)** | (38) | **–** | – |
| Total Macquarie Income Preferred Securities | **841** | 846 | **–** | – |
| Other minority interests | | | | |
| Ordinary share capital | **36** | 9 | **–** | – |
| Units in unit trusts | **–** | 9 | **–** | – |
| Accumulated losses | **(29)** | (1) | **–** | – |
| Total other minority interests | **7** | 17 | **–** | – |
| **Total minority interest** | **848** | 863 | **–** | – |

* On 22 September 2004, Macquarie Capital Funding L.P., a member of the economic entity established to facilitate capital raising, issued £350 million of Tier 1 capital-eligible securities ("Macquarie Income Preferred Securities", "the Securities"). The Securities – guaranteed non-cumulative step-up perpetual preferred securities – currently pay a 6.177% semi-annual non-cumulative fixed rate distribution. They are perpetual securities and have no fixed maturity but may be redeemed on 15 April 2020, at the Bank's discretion. If redemption is not elected on this date, the distribution rate will be reset to 2.35% per annum above the then five-year benchmark sterling gilt rate. The Securities may be redeemed on each fifth anniversary thereafter at the Bank's discretion. The first coupon was paid on 15 April 2005.

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 35. Notes to the cash flow statements** | | | | |
| **Reconciliation of cash** | | | | |
| Cash at the end of the financial year as shown in the cash flow statements is reconciled to related items in the Balance Sheet as follows: | | | | |
| Cash and balances with central banks | **5** | 4 | **5** | 4 |
| Due from other financial institutions | | | | |
| – due from banks* | **6,390** | 1,521 | **4,575** | 924 |
| – trading securities** | **2,738** | 3,625 | **2,724** | 3,319 |
| **Cash at the end of the financial year** | **9,133** | 5,150 | **7,304** | 4,247 |
| **Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities** | | | | |
| Profit from ordinary activities after income tax | **997** | 870 | **585** | 621 |
| Adjustments to profit from ordinary activities | | | | |
| Amounts provided during the year | **61** | 77 | **46** | 69 |
| Depreciation | **60** | 54 | **39** | 32 |
| Dividends received from controlled entities | **–** | – | **–** | 2 |
| Share of net profits of associates and joint ventures | **(172)** | (17) | **–** | – |
| Dividends received from associates | **197** | 60 | **9** | 1 |
| Loss on sale of fixed assets | **–** | 1 | **–** | 1 |
| Share based payment expense | **53** | 29 | **53** | 17 |
| Write-down of investment in controlled entities to recoverable amount | **–** | – | **–** | – |
| Changes in assets and liabilities | | | | |
| Decrease/(increase) in dividends receivable | **188** | (106) | **9** | (45) |
| (Increase)/decrease in fees and commissions receivable | **(80)** | (560) | **245** | (40) |
| Increase/(decrease) in fees and commissions payable | **(41)** | 54 | **(11)** | 48 |
| Increase/(decrease) in tax liabilities | **99** | 50 | **(193)** | 78 |
| (Increase)/decrease in tax assets | **(39)** | (15) | **(198)** | 15 |
| Increase/(decrease) in deferred tax liabilities | **(123)** | 117 | **90** | 26 |
| (Increase)/decrease in interest receivable | **(61)** | 890 | **(37)** | (44) |
| Increase/(decrease) in interest payable | **243** | (770) | **150** | 48 |
| Increase in employment provisions | **23** | 11 | **14** | 4 |
| (Increase)/decrease in loan assets granted | **(7,777)** | (6,463) | **(6,034)** | (2,845) |
| (Decrease)/increase in debtors, prepayments, accrued charges and creditors | **(419)** | (116) | **(713)** | (79) |
| (Increase)/decrease in financial instruments, foreign exchange and commodities | **(5,926)** | 1,803 | **(4,971)** | 1,805 |
| Increase/(decrease) in money market and other deposits | **18,382** | 7,000 | **14,350** | 2,507 |
| (Increase)/decrease in life investment contract receivables | **(47)** | 13 | **–** | – |
| **Net cash flows from operating activities** | **5,618** | 2,982 | **3,433** | 2,221 |

* Includes cash at bank, due from clearing houses and overnight cash at bank as per note 1(xix).
** Includes certificates of deposit, bank bills and other short-term cash securities as per note 1(xix).

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 35. Notes to the cash flow statements** continued | | | | |
| **Financing arrangements** | | | | |
| Total unused | **1,234** | 1,365 | **–** | – |
| **Total overdraft facilities** | **1,234** | 1,365 | **–** | – |

Capital Meters Limited, a controlled entity of the bank incorporated in the United Kingdom, has a credit facility of £118 million (2005: £130 million). As at 31 March 2006 the entity had drawn down £29 million (2004: £11.6m) of the amount available.

Macquarie Equities (Asia) Limited, a controlled entity of the Bank incorporated in Hong Kong, has a HKD $200 million overdraft facility (2005: HKD 200 million). The facility may be drawn down at any time and is subject to annual review on 31 December of each year. As at 31 March 2006, the facility is undrawn (2005: undrawn).

Macquarie International Finance Limited, a controlled entity of the Bank incorporated in Australia, has credit facilities of $1.3 billion (2005: $1.1 billion). As at 31 March 2006 the entity had drawn down $387 million (2005: $107 million) of the amount available.

Miom Limited, a controlled entity of the bank incorporated in the United Kingdom, has a credit facility of £22 million (2005: £Nil). As at 31 March 2006 the facility is undrawn (2005: £Nil).

Smarte Carte Corporation, a controlled entity of the Bank incorporated in the United States of America, has a credit facility of USD$25 million (2005: $Nil). As at 31 March 2006, the facility is undrawn (2005: undrawn).

**Note 36. Related party information**

**Ultimate parent**

The ultimate Australian parent entity of the Group is Macquarie Bank Limited.

**Controlled entities**

Transactions between the Bank and its controlled entities principally arise from the provision of banking and other financial services, the granting of loans, acceptance of funds on deposit and provision of management, administration services, provision of guarantees and provision of licences to use the Macquarie brand name.

All transactions with controlled entities are in accordance with regulatory requirements, the majority of which are on commercial terms. All transactions undertaken during the financial year with controlled entities are eliminated in the consolidated financial report. Amounts due from and due to controlled entities, at balance sheet date, are shown in the balance sheet of the Bank.

Balances arising from lending and borrowing activities between the Bank and controlled entities are typically repayable on demand, but may be extended on a term basis and where appropriate may be either subordinated or collateralised. Amounts due to and from controlled entities are separately included on the Bank's balance sheet.

The Bank has entered into a tax contribution agreement with its eligible Australian controlled subsidiaries. The terms and conditions of this agreement are set out in note 1 – Summary of significant accounting policies. The amount receivable by the Bank under the tax contribution agreement with the tax consolidated entities is $51 million (2005: $139 million). This balance is included in "Due from controlled entities" in the Bank's separate balance sheet.

The Bank has entered into derivative transactions with its controlled entities to hedge their operations. The balances of fair value of derivative financial instruments relating to transactions between the Bank and its controlled entities at 31 March 2006 are $39 million positive value and $104 million negative value.

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| Interest income received/receivable | **–** | – | **356** | 302 |
| Interest expense paid/payable | **–** | – | **(172)** | (254) |
| Fee and commission income | **–** | – | **50** | 60 |
| Gains on sale of associates and joint ventures | **–** | | **77** | 119 |
| Dividends and distributions received/receivable | **–** | – | **278** | 638 |
| Management fees, group service charges and cost recoveries | **–** | – | **364** | 197 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|

**Note 36. Related party information** continued

The following balances with controlled entities were outstanding at the year-end:

| | | | | |
|---|---|---|---|---|
| Amounts receivable | – | – | 10,241 | 6,667 |
| Amounts payable | – | – | (5,275) | (3,976) |

**Associates and joint ventures**

Transactions between the economic entity and its associates and joint ventures principally arise from the provision of corporate advisory services, the granting of loans, derivative transactions and the provision of management services. All transactions undertaken with associates and joint ventures are eliminated where they are unrealised, to the extent of ownership interests held by the bank and its controlled entities, in the consolidated profit and loss.

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

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| Interest income received/receivable | 55 | 35 | 41 | 17 |
| Interest expense paid/payable | (17) | (8) | (1) | – |
| Fee and commission income* | 1,229 | 1,021 | 242 | 129 |
| Other income | 6 | 8 | 3 | 2 |
| Gains on sale of securities** | 143 | 88 | 45 | 20 |
| Dividends and distributions*** | 197 | 60 | 35 | 11 |

* Fee and commission income includes all fees charged to associates. Any eliminations of the unrealised component made when equity accounting is included within the share of profits/losses of these associates.

** Gains on sale of securities are shown net of elimination of unrealised profits/losses calculated by reference to the economic entity's ownership interest in the associate. These gains include profits arising from the transfer of equity securities under the terms of a total return swap (see below for details).

*** Dividends and distributions are shown as gross amounts. Under the equity accounting method these amounts are not taken as profit but as an adjustment to the interest in associate balance.

From time to time, derivative transactions are undertaken by associates with the economic entity under normal commercial terms. This includes the use of total return swaps to transfer the economic benefits of equity securities and interests in associates from the Bank to its associates. Under this arrangement the Bank retains legal title to the equity securities and receives the economic benefits of a portfolio of debt securities in return.

The total value of equity securities transferred to associates under the terms of a total return swap as described above are as follows:

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| Equity securities and interests in associates | 439 | – | – | – |

Balances arising from lending and borrowing activities between the Bank and its controlled entities and 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.

The following balances with associates and joint ventures were outstanding at the year-end (excludes amounts forming part of interest in associates disclosed in note 20):

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| Amounts receivable | 1,496 | 706 | 1,132 | 465 |
| Amounts payable | (264) | (213) | (132) | (16) |

## Note 37. Key management personnel disclosure

### Key management personnel

The following persons were voting directors of Macquarie Bank Limited during the financial years ended 31 March 2006 and 31 March 2005, unless otherwise indicated:

**Executive Directors:**

| | |
|---|---|
| D.S. Clarke, AO* | Executive Chairman |
| A.E. Moss, AO* | Managing Director and Chief Executive Officer |
| M.R.G. Johnson* | Deputy Chairman |
| L.G. Cox, AO | |

**Independent Non-Executive Directors**:**

J.G. Allpass
P.M. Kirby
C.B. Livingstone
B.R. Martin
H.K. McCann, AM
J.R. Niland, AC
H.M. Nugent, AO

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 Bank and its controlled entities during the past two financial years ended 31 March 2006 and 31 March 2005, unless otherwise indicated:

**Executives:**

| | |
|---|---|
| J.K. Burke* | Group Head, Equity Markets Group (appointed 1 October 2005) |
| M. Carapiet* | Joint Head, Corporate Finance, Investment Banking Group (appointed 3 March 2005) |
| A.J. Downe* | Group Head, Treasury and Commodities Group |
| P.J. Maher* | Group Head, Financial Services Group |
| N.R. Minogue* | Group Head, Risk Management Division |
| N.W. Moore* | Group Head, Investment Banking Group |
| W.J. Moss, AM* | Group Head, Banking and Property Group |
| W.R. Sheppard* | Deputy Managing Director |
| G.C. Ward* | Group Head, Corporate Affairs Group and Chief Financial Officer (appointed 3 March 2005) |
| O. Weiss | Former Group Head, Equity Markets Group (retired as Group Head on 30 September 2005, retired from the Executive Committee on 4 October 2005 and ceased employment with the Bank on 31 March 2006) |

* Current members of the Bank's Executive Committee

** In accordance with the Bank's definition of independence (as set out in the Corporate Governance Statement contained in the 2006 Annual Review). Those Directors listed as Independent Directors have been independent throughout the financial year ended 31 March 2006.

It is important to note that the Bank's Independent Non-Executive Directors are specifically required to be categorised as Key Management Personnel for the purposes of the disclosures in section 6 of the remuneration report. However, the Independent Directors do not consider that they are part of 'management'.

The remuneration arrangements for all of the persons listed above as Executive Directors or Executives are described in section 4 of the remuneration report.

The remuneration arrangements for all of the persons listed above as Independent Non-Executive Directors are described in section 5 of the remuneration report.

**Note 37. Key management personnel disclosure** continued

**Key management personnel remuneration**

The following table details the aggregate remuneration for key management personnel. The Bank has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in section 6.2 of the remuneration report.

| | | | | **Short-term employee benefits** | **Long-term employee benefits** | **Share based payment** | |
|---|---|---|---|---|---|---|---|
| | Salary and fees (including superannuation) $ | Performance related remuneration $ | Other benefits $ | Total short-term employee benefits $ | Restricted profit share $ | Options $ | Total remuneration $ |
| **2006** | **7,236,731** | **101,242,289** | **133,450** | **108,612,470** | **24,702,319** | **5,590,630** | **138,905,419** |
| 2005 | 6,213,009 | 73,930,608 | 81,844 | 80,225,461 | 18,252,154 | 3,516,322 | 101,993,937 |

**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. The options are over fully paid unissued ordinary shares of the Bank. Further details in relation to the Option Plan are disclosed in note 38 – Employee equity participation.

**For the year ended 31 March 2006**

| **Name and position** | **Number of options held at 1 April 2005**[a] | **Options granted in the current financial year** | **Options exercised during the current financial year** | **Other changes**[b] | **Number of options held at 31 March 2006**[c] | **Number of options vested in the current financial year** | **Number of options vested at 31 March 2006**[c] |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| D.S. Clarke | 156,067 | 25,000 | (47,133) | – | 133,934 | 47,133 | – |
| L.G. Cox | 12,600 | 5,620 | (2,500) | – | 15,720 | – | 1,700 |
| M.R.G. Johnson | 109,100 | 16,000 | – | (58,800) | 66,300 | 29,400 | – |
| A.E. Moss | 498,400 | 180,000 | – | (176,000) | 502,400 | 94,266 | 104,532 |
| **Non-Executive Directors** | | | | | | | |
| J.G. Allpass | 4,200 | – | (2,500) | – | 1,700 | – | 1,700 |
| P.M. Kirby | – | – | – | – | – | – | – |
| C.B. Livingstone | – | – | – | – | – | – | – |
| B.R. Martin | 4,200 | – | – | (2,500) | 1,700 | – | 1,700 |
| H.K. McCann | 4,200 | – | (2,500) | – | 1,700 | – | 1,700 |
| J.R. Niland | – | – | – | – | – | – | – |
| H.M. Nugent | 3,783 | – | (3,783) | – | – | – | – |
| **Executives** | | | | | | | |
| J.K. Burke[d] | 242,000 | – | – | – | 242,000 | – | 85,666 |
| M. Carapiet | 234,834 | 121,810 | (59,500) | – | 297,144 | 59,500 | – |
| A.J. Downe | 296,667 | 50,000 | – | (54,499) | 292,168 | 79,833 | 76,000 |
| P.J. Maher | 130,002 | 25,000 | (33,334) | – | 121,668 | 23,334 | 30,000 |
| N.R. Minogue | 134,000 | 35,000 | (20,000) | (16,666) | 132,334 | 31,332 | 22,665 |
| N.W. Moore | 472,334 | 170,000 | (207,999) | – | 434,335 | 126,667 | – |
| W.J. Moss | 320,500 | 160,000 | – | (182,999) | 297,501 | 101,834 | – |
| W.R. Sheppard | 206,000 | 50,000 | – | (95,000) | 161,000 | 59,000 | – |
| G.C. Ward | 88,335 | 30,000 | (16,666) | (6,668) | 95,001 | 23,334 | – |
| **Former** | | | | | | | |
| O. Weiss[e] | 273,000 | – | (115,666) | (43,334) | 114,000 | 205,000 | 114,000 |

[a] Or date of appointment if later.

[b] Vested options sold under facility provided by an external party.

[c] Or date of retirement if earlier.

[d] Mr Burke was appointed Group Head, Equity Markets Group and became a member of the Executive Committee on 1 October 2005. Mr Burke has not been awarded any options from the date of appointment as Group Head until 31 March 2006.

[e] Mr Weiss retired from the Executive Committe on 4 October 2005. Upon retirement, the vesting of 114,000 of Mr Weiss's outstanding options was accelerated, as approved by the Board Remuneration Committee, while 43,334 options lapsed.

**Note 37. Key management personnel disclosure** continued
**Option holdings of key management personnel and their related parties** continued

For the year ended 31 March 2005

| Name and position | Number of options held at 1 April 2004[(a)] | Options granted in the current financial year | Options exercised during the current financial year | Other changes[(b)] | Number of options held at 31 March 2005 | Number of options vested in the current financial year | Number of options vested at 31 March 2005 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| D.S. Clarke | 166,400 | 82,800 | (93,133) | – | 156,067 | 55,467 | – |
| L.G. Cox | 4,200 | 8,400 | – | – | 12,600 | – | 4,200 |
| M.R.G. Johnson | 88,200 | 20,900 | – | – | 109,100 | 29,400 | 29,400 |
| A.E. Moss | 357,800 | 165,600 | – | (25,000) | 498,400 | 110,934 | 186,266 |
| **Non-Executive Directors** | | | | | | | |
| J.G. Allpass | 4,200 | – | – | – | 4,200 | – | 4,200 |
| P.M. Kirby | – | – | – | – | – | – | – |
| C.B. Livingstone | – | – | – | – | – | – | – |
| B.R. Martin | 4,200 | – | – | – | 4,200 | – | 4,200 |
| H.K. McCann | 4,200 | – | – | – | 4,200 | – | 4,200 |
| J.R. Niland | – | – | – | – | – | – | – |
| H.M. Nugent | 3,783 | – | – | – | 3,783 | – | 3,783 |
| **Executives** | | | | | | | |
| M. Carapiet[(c)] | 234,834 | – | – | – | 234,834 | – | – |
| A.J. Downe | 250,336 | 85,000 | – | (38,669) | 296,667 | 64,000 | 50,666 |
| P.J. Maher | 170,000 | 40,000 | – | (79,998) | 130,002 | 46,666 | 40,000 |
| N.R. Minogue | 99,002 | 40,000 | (5,002) | – | 134,000 | 24,668 | 27,999 |
| N.W. Moore | 548,334 | 145,000 | (221,000) | – | 472,334 | 121,666 | 81,332 |
| W.J. Moss | 320,500 | 55,000 | (15,000) | (40,000) | 320,500 | 79,499 | 81,165 |
| W.R. Sheppard | 190,500 | 50,000 | – | (34,500) | 206,000 | 52,334 | 36,000 |
| G.C. Ward[(c)] | 88,335 | – | – | – | 88,335 | – | – |
| O. Weiss | 153,918 | 130,000 | (10,918) | – | 273,000 | 46,918 | 68,000 |

[(a)] Or date of appointment if later.
[(b)] Vested options sold under facility provided by an external party.
[(c)] Mr Carapiet and Mr Ward became members of the Executive Committee on 3 March 2005. Mr Carapiet and Mr Ward were not awarded any options from the date of appointment to the Executive Committee until 31 March 2005. No options were vested during this period.

**Note 37. Key management personnel disclosure** continued

**Shareholding of key management personnel and their related parties**

The following tables set out details of fully paid ordinary shares of the Bank held during the year by the key management personnel including their related parties.

**For the year ended 31 March 2006**

| Name and position | Number of shares held at 1 April 2005[a] | Shares issued on exercise of options | Other changes[b] | Number of shares held at 31 March 2006[c] |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| D.S. Clarke | 923,200 | 47,133 | 6,915 | 977,248 |
| L.G. Cox | 378,090 | 2,500 | (112,478) | 268,112 |
| M.R.G. Johnson | 493,803 | – | (140,000) | 353,803 |
| A.E. Moss | 404,436 | – | (100) | 404,336 |
| **Non-Executive Directors** | | | | |
| J.G. Allpass | 13,595 | 2,500 | 468 | 16,563 |
| P.M. Kirby | 5,360 | – | 2,531 | 7,891 |
| C.B. Livingstone | 6,633 | – | 703 | 7,336 |
| B.R. Martin | 8,358 | – | 616 | 8,974 |
| H.K. McCann | 6,691 | 2,500 | 468 | 9,659 |
| J.R. Niland | 3,641 | – | 468 | 4,109 |
| H.M. Nugent | 14,630 | 3,783 | 699 | 19,112 |
| **Executives** | | | | |
| J.K. Burke[d] | 18,000 | – | – | 18,000 |
| M. Carapiet | 286,276 | 59,500 | 29 | 345,805 |
| A.J. Downe | 66,287 | – | 248 | 66,535 |
| P.J. Maher | 13,427 | 33,334 | 58 | 46,819 |
| N.R. Minogue | 111,956 | 20,000 | (21,145) | 110,811 |
| N.W. Moore | 627,252 | 207,999 | – | 835,251 |
| W.J. Moss | 269,351 | – | 160 | 269,511 |
| W.R. Sheppard | 259,271 | – | – | 259,271 |
| G.C. Ward | 26,498 | 16,666 | (29,877) | 13,287 |
| **Former** | | | | |
| O. Weiss[e] | 33,712 | 115,666 | 10,000 | 159,378 |

[a] Or date of appointment if later.
[b] Includes on-market acquisitions and disposals.
[c] Or date of retirement if earlier.
[d] Mr Burke was appointed Group Head, Equity Markets Group and became a member of the Executive Committee on 1 October 2005.
[e] Mr Weiss retired from the Executive Committee on 4 October 2005.

**Note 37. Key management personnel disclosure** continued
**Shareholding of key management personnel and their related parties** continued

For the year ended 31 March 2005

| Name and position | Number of shares held at 1 April 2004[a] | Shares received from prior year remuneration[b] | Shares issued on exercise of options | Other changes[c] | Number of shares held at 31 March 2005 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| D.S. Clarke | 795,932 | 34,121 | 93,133 | 14 | 923,200 |
| L.G. Cox | 378,090 | – | – | – | 378,090 |
| M.R.G. Johnson | 746,584 | – | – | (252,781) | 493,803 |
| A.E. Moss | 336,228 | 68,208 | – | – | 404,436 |
| **Non-Executive Directors** | | | | | |
| J.G. Allpass | 10,281 | 814 | – | 2,500 | 13,595 |
| P.M. Kirby | 1,811 | 3,549 | – | – | 5,360 |
| C.B. Livingstone | 5,902 | 692 | – | 39 | 6,633 |
| B.R. Martin | 7,018 | 1,340 | – | – | 8,358 |
| H.K. McCann | 5,877 | 814 | – | – | 6,691 |
| J.R. Niland | 1,435 | 1,206 | – | 1,000 | 3,641 |
| H.M. Nugent | 13,553 | 1,077 | – | – | 14,630 |
| **Executives** | | | | | |
| M. Carapiet[d] | 286,276 | – | – | – | 286,276 |
| A.J. Downe | 66,287 | – | – | – | 66,287 |
| P.J. Maher | 13,427 | – | – | – | 13,427 |
| N.R. Minogue | 122,232 | – | 5,002 | (15,278) | 111,956 |
| N.W. Moore | 377,491 | – | 221,000 | 28,761 | 627,252 |
| W.J. Moss | 254,351 | – | 15,000 | – | 269,351 |
| W.R. Sheppard | 335,661 | – | – | (76,390) | 259,271 |
| G.C. Ward[d] | 26,498 | – | – | – | 26,498 |
| O. Weiss | 122,794 | – | 10,918 | (100,000) | 33,712 |

[a] Or date of appointment if later.
[b] Represents shares purchased via the various Macquarie Bank share plans out of remuneration received in prior years.
[c] Includes on-market acquisitions and disposals.
[d] Mr Carapiet and Mr Ward became members of the Executive Committee on 3 March 2005.

**Note 37. Key management personnel disclosure** continued

**Other equity instruments of key management personnel and their related parties**

The following tables set out details of other equity instruments of the economic entity held during the year for the key management personnel, including their related parties. These equity instruments are Macquarie Bank Limited warrants issued by the Bank.

**For the year ended 31 March 2006**

| **Name and position** | **Number of securities held at 1 April 2005** | **Other changes** | **Number of securities held at 31 March 2006** |
|---|---|---|---|
| Nil | | | |

For the year ended 31 March 2005

| Name and position | Number of securities held at 1 April 2004 | Other changes | Number of securities held at 31 March 2005 |
|---|---|---|---|
| **Non-Executive Directors** | | | |
| J.G. Allpass [a] | 4,000 | (4,000) | – |

[a] Macquarie Bank Limited warrants

Certain key management personnel and their related parties hold interests in instalment and endowment warrants issued by the Bank, but over unrelated securities. These warrants are traded on the ASX and are issued under normal terms for customers and employees.

**Note 37. Key management personnel disclosure** continued

**Loans to key management personnel and their related parties**

Details of loans provided by the Bank to key management personnel and their related parties are disclosed in the following tables:

| | | Opening balance at 1 April $'000 | Interest charged (a) $'000 | Write-off $'000 | Closing balance at 31 March $'000 | Number in group 31 March |
|---|---|---|---|---|---|---|
| **Total for key management personnel and their related parties** | **2006** | **44,851** | **5,595** | **–** | **74,467** | **22** |
| | 2005 | 52,895 | 3,853 | – | 44,851 | 20 |
| **Total for key management personnel** | **2006** | **31,714** | **2,111** | **–** | **55,402** | **13** |
| | 2005 | 40,420 | 2,735 | – | 31,714 | 11 |

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

| Name and position | Balance at 1 April 2005 $'000 | Interest charged (a) $'000 | Write-off $'000 | Balance at 31 March 2006 (b) $'000 | Highest in period $'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| D.S. Clarke | 28,577 | 3,836 | – | 42,677 | 42,677 |
| L.G. Cox | 636 | 52 | – | 621 | 636 |
| M.R.G. Johnson | 2,870 | 91 | – | 220 | 2,870 |
| **Executives** | | | | | |
| M. Carapiet | 71 | 363 | – | 5,183 | 8,025 |
| A.J. Downe | 500 | 61 | – | 500 | 500 |
| P.J. Maher | 530 | 96 | – | 1,838 | 1,859 |
| N.R. Minogue | 4,592 | 382 | – | 5,054 | 5,641 |
| N.W. Moore | – | 49 | – | 6,848 | 6,848 |
| W.J. Moss | 5,674 | 472 | – | 6,275 | 6,620 |
| W.R. Sheppard | 100 | 11 | – | 100 | 100 |
| G.C. Ward | 801 | 86 | – | 739 | 1,002 |
| **Former** | | | | | |
| O. Weiss (c) | 500 | 96 | – | 4,412 | 4,412 |

(a) All loans provided by the Bank to directors and executives are made in the ordinary course of business on an arms-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 Weiss retired from the Executive Committee on 4 October 2005.

Certain loans are provided under zero cost collar and share appreciation facilities secured over Macquarie Bank shares under normal terms and conditions consistent with other customers and employees.

**Note 37. Key management personnel disclosure** continued

**Loans to key management personnel and their related parties** continued

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

| Name and position | Balance at 1 April 2004[a] $'000 | Interest charged[b] $'000 | Write-off $'000 | Balance at 31 March 2005 $'000 | Highest in period $'000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| D.S. Clarke | 26,001 | 2,288 | – | 28,577 | 29,437 |
| L.G. Cox | – | 30 | – | 636 | 636 |
| M.R.G. Johnson | 11,365 | 444 | – | 2,870 | 16,743 |
| **Executives** | | | | | |
| M. Carapiet[c] | 86 | 3 | – | 71 | 71 |
| A.J. Downe | 1,600 | 72 | – | 500 | 1,600 |
| P.J. Maher | 530 | 55 | – | 530 | 530 |
| N.R. Minogue | 4,561 | 335 | – | 4,592 | 5,333 |
| W.J. Moss | 5,241 | 514 | – | 5,674 | 7,167 |
| W.R. Sheppard | 2,709 | 68 | – | 100 | 2,709 |
| G.C. Ward[c] | 802 | 7 | – | 801 | 925 |
| O. Weiss | – | 37 | – | 500 | 500 |

[a] Or date of appointment if later.

[b] All loans provided by the Bank to directors and executives are made in the ordinary course of business on an arms-length basis and are entered into under normal terms and conditions consistent with other customers and employees. There have been no write-downs or allowances for doubtful debts.

[c] Mr Carapiet and Mr Ward became members of the Executive Committee on 3 March 2005.

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

**Other transactions and balances of key management personnel and their related parties**

The following key management personnel have acquired Infrastructure Bonds and similar products from controlled entities within the Bank which have been financed with limited recourse loans and are subject to forward sale agreements. The loan repayments and proceeds arising from the forward sale agreements are subject to legal right of set-off and as such are not recognised for financial reporting purposes. The only amounts recognised by the Bank 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 2006 $'000** | Consolidated 2005 $'000 |
|---|---|---|
| **Total annual contributions from key management personnel and their related parties in respect of Infrastructure Bonds and similar products** | **16,280** | 14,567 |

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

**Executive Directors**

D.S. Clarke, L.G. Cox, M.R.G. Johnson

**Non-Executive Directors**

P.M. Kirby

**Executives**

M. Carapiet, A.J. Downe, P.J. Maher, N.R. Minogue, N.W. Moore, W.J. Moss, W.R. Sheppard, G.C Ward, O. Weiss

**Note 37. Key management personnel disclosure** continued

**Other transactions and balances of key management personnel and their related parties** continued

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

| | | Transactions with the Bank | |
|---|---|---|---|
| Name and position | Description | Number of shares 2006 | Number of shares 2005 |
| **Executive Directors** | | | |
| D.S. Clarke* | Maturing June 2008 | 361,163 | 358,354 |
| | Maturing June 2009 | – | 68,133 |
| | Maturing August 2009 | 25,196 | 25,000 |
| L.G. Cox | Matured August 2005 | – | 112,478 |
| M.R.G. Johnson | Matured August 2005 | – | 100,000 |
| | Maturing August 2006 | 60,000 | – |
| | Maturing December 2006 | 69,383 | – |
| **Executives** | | | |
| M. Carapiet | Maturing August 2006 | 160,666 | – |
| A.J. Downe** | Matured August 2005 | – | 31,695 |
| | Maturing August 2006 | 46,748 | – |
| P.J. Maher | Maturing June 2006 | 4,039 | 4,039 |
| N.R. Minogue | Matured August 2005 | – | 20,530 |
| G.C. Ward | Matured August 2005 | – | 6,718 |
| | Matured December 2005 | – | 15,118 |
| | Maturing August 2006 | 8,333 | – |

* Mr Clarke also entered into a cash settled put option against 333,936 (2005: 216,439) fully paid ordinary Bank shares. In addition, Mr Clarke has an indirect interest in cash-settled put options that are exercisable against 213,517 (2005: 211,856) fully paid ordinary Bank shares.

** Mr Downe also entered into a cash-settled put option against 70,560 (2005: nil) fully paid ordinary Bank shares.

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

## Note 38. Employee equity participation

### Option Plan

In November 1995, the Bank introduced an Employee Option Plan (the "Plan"), as a replacement for the Bank's now closed partly paid share scheme. Staff eligible to participate are those of Associate Director level and above and consultants to the economic entity. At 31 March 2006 there were 1,825 (2005: 1,536) participants in the Plan.

Options, currently for five years, over fully paid unissued ordinary shares in the Bank are granted to Bond Street Custodians Limited as nominee for the individual or the individual's controlled company or an entity approved under the Plan to hold options on trust for an individual.

The options are issued for no consideration and are granted at prevailing market prices. Prior to 21 November 2003, the exercise price of new options granted was generally based on the weighted average market price during the month prior to acceptance of employment for new employees or during the calendar month of June in respect of options granted as a result of annual promotions and compensation reviews. From 21 November 2003 until 25 November 2004, the exercise price of new options granted was generally based on the weighted average market price during the one week period prior to the date of grant of the options. From 26 November 2004, the exercise price of new options granted is generally based on the weighted average market price during the one week up to and including the date of grant of the options.

The following is a summary of options which have been granted pursuant to the Plan:

| Latest date for exercise of options | Exercise price | Balance as at 31 March 2005 | Options issued during the financial year | Options exercised during the financial year | Options lapsed during the financial year | Balance as at 31 March 2006 |
|---|---|---|---|---|---|---|
| 21 July 2005 | $23.94 | 726,834 | – | (726,834) | – | **–** |
| 2 August 2005 | $23.94 | 50,000 | – | (50,000) | – | **–** |
| 8 August 2005 | $23.94 | 12,083 | – | (12,083) | – | **–** |
| 11 August 2005 | $23.94 | 18,100 | – | (18,100) | – | **–** |
| 18 August 2005 | $23.76 | 5,000 | – | (5,000) | – | **–** |
| 30 August 2005 | $23.94 | 58,125 | – | (58,125) | – | **–** |
| 14 October 2005 | $25.59 | 10,000 | – | (10,000) | – | **–** |
| 15 October 2005 | $26.12 | 12,500 | – | (12,500) | – | **–** |
| 3 January 2006 | $27.86 | 5,000 | – | (5,000) | – | **–** |
| 12 January 2006 | $27.93 | 1,668 | – | (1,668) | – | **–** |
| 16 January 2006 | $27.46 | 12,500 | – | (12,500) | – | **–** |
| 18 January 2006 | $27.71 | 12,500 | – | (12,500) | – | **–** |
| 30 January 2006 | $27.83 | 5,000 | – | (5,000) | – | **–** |
| 1 February 2006 | $27.98 | 33,334 | – | (33,334) | – | **–** |
| 26 February 2006 | $18.51 | 12,500 | – | (12,500) | – | **–** |
| 27 February 2006 | $28.39 | 1,668 | – | (1,668) | – | **–** |
| 20 March 2006 | $28.19 | 5,000 | – | (5,000) | – | **–** |
| 17 April 2006 | $27.04 | 4,168 | – | (4,168) | – | **–** |
| 19 April 2006 | $28.55 | 1,668 | – | (1,668) | – | **–** |
| 24 April 2006 | $26.85 | 5,000 | – | (5,000) | – | **–** |
| 28 May 2006 | $27.60 | 5,000 | – | (5,000) | – | **–** |
| 29 May 2006 | $27.77 | 5,000 | – | (5,000) | – | **–** |
| 6 June 2006 | $27.53 | 5,000 | – | (2,000) | – | **3,000** |
| 15 June 2006 | $27.58 | 1,668 | – | (1,668) | – | **–** |
| 24 July 2006 | $28.19 | 1,668 | – | (1,250) | – | **418** |
| 27 July 2006 | $29.72 | 1,668 | – | (1,668) | – | **–** |
| 31 July 2006 | $28.15 | 1,668 | – | (1,668) | – | **–** |
| 1 August 2006 | $28.46 | 1,668 | – | (1,668) | – | **–** |
| 2 August 2006 | $34.71 | 2,992,131 | – | (2,064,942) | (6,668) | **920,521** |
| 3 August 2006 | $30.25 | 1,668 | – | (1,668) | – | **–** |
| 7 August 2006 | $28.21 | 5,000 | – | (5,000) | – | **–** |
| 9 August 2006 | $29.50 | 6,668 | – | (1,668) | – | **5,000** |
| 13 August 2006 | $29.35 | 3,334 | – | (3,334) | – | **–** |
| 28 August 2006 | $34.71 | 5,000 | – | (3,332) | – | **1,668** |
| 29 August 2006 | $35.41 | 1,668 | – | (1,668) | – | **–** |
| 31 August 2006 | $34.71 | 518,850 | – | (274,346) | – | **244,504** |
| 3 September 2006 | $34.82 | 3,000 | – | – | – | **3,000** |
| 4 September 2006 | $27.60 | 5,000 | – | (1,200) | – | **3,800** |
| 5 September 2006 | $31.48 | 12,500 | – | (12,500) | – | **–** |
| 20 September 2006 | $28.19 | 20,000 | – | (4,693) | – | **15,307** |
| 21 September 2006 | $32.20 | 4,168 | – | – | – | **4,168** |
| 24 September 2006 | $36.66 | 4,168 | – | – | – | **4,168** |

| Latest date for exercise of options | Exercise price | Balance as at 31 March 2005 | Options issued during the financial year | Options exercised during the financial year | Options lapsed during the financial year | Balance as at 31 March 2006 |
|---|---|---|---|---|---|---|
| 25 September 2006 | $36.48 | 8,332 | – | (8,332) | – | **–** |
| 26 September 2006 | $35.95 | 12,500 | – | (8,332) | – | **4,168** |
| 27 September 2006 | $33.01 | 3,334 | – | (1,334) | – | **2,000** |
| 28 September 2006 | $34.71 | 191,868 | – | (180,200) | – | **11,668** |
| 1 October 2006 | $35.93 | 5,000 | – | (3,332) | – | **1,668** |
| 8 October 2006 | $29.72 | 1,668 | – | – | – | **1,668** |
| 9 October 2006 | $37.52 | 1,668 | – | – | – | **1,668** |
| 12 October 2006 | $36.68 | 3,334 | – | – | – | **3,334** |
| 15 October 2006 | $28.39 | 5,000 | – | (5,000) | – | **–** |
| 29 October 2006 | $37.75 | 12,500 | – | – | – | **12,500** |
| 30 October 2006 | $37.05 | 4,168 | – | – | – | **4,168** |
| 31 October 2006 | $37.26 | 1,668 | – | (1,668) | – | **–** |
| 7 November 2006 | $37.94 | 1,668 | – | (1,668) | – | **–** |
| 13 November 2006 | $36.85 | 5,000 | – | (3,332) | – | **1,668** |
| 14 November 2006 | $36.86 | 5,000 | – | – | – | **5,000** |
| 16 November 2006 | $35.71 | 5,000 | – | (5,000) | – | **–** |
| 22 November 2006 | $37.58 | 32,500 | – | (591) | – | **31,909** |
| 26 November 2006 | $36.84 | 4,168 | – | – | – | **4,168** |
| 3 December 2006 | $36.05 | 5,000 | – | (3,332) | – | **1,668** |
| 5 December 2006 | $35.71 | 1,668 | – | (1,668) | – | **–** |
| 10 December 2006 | $36.36 | 4,168 | – | (3,000) | – | **1,168** |
| 20 December 2006 | $37.55 | 5,000 | – | (1,700) | – | **3,300** |
| 25 January 2007 | $37.67 | 12,500 | – | (12,500) | – | **–** |
| 4 February 2007 | $37.47 | 5,000 | – | – | – | **5,000** |
| 12 March 2007 | $36.08 | 5,000 | – | (3,332) | – | **1,668** |
| 13 March 2007 | $36.54 | 15,834 | – | (2,724) | (610) | **12,500** |
| 14 March 2007 | $36.34 | 6,668 | – | (1,832) | – | **4,836** |
| 15 March 2007 | $35.24 | 5,000 | – | (5,000) | – | **–** |
| 19 March 2007 | $36.85 | 5,000 | – | – | – | **5,000** |
| 22 March 2007 | $36.85 | 3,334 | – | (1,666) | – | **1,668** |
| 25 March 2007 | $36.67 | 5,000 | – | (1,500) | – | **3,500** |
| 26 March 2007 | $36.68 | 5,000 | – | (3,332) | – | **1,668** |
| 27 March 2007 | $36.55 | 32,500 | – | (32,500) | – | **–** |
| 3 April 2007 | $34.82 | 12,500 | – | (8,332) | – | **4,168** |
| 4 April 2007 | $35.99 | 12,500 | – | (8,332) | – | **4,168** |
| 5 April 2007 | $35.22 | 5,000 | – | – | – | **5,000** |
| 8 April 2007 | $35.59 | 5,000 | – | (3,332) | – | **1,668** |
| 9 April 2007 | $37.35 | 5,000 | – | (3,332) | – | **1,668** |
| 10 April 2007 | $36.67 | 5,000 | – | – | – | **5,000** |
| 18 April 2007 | $36.95 | 5,000 | – | (1,666) | – | **3,334** |
| 23 May 2007 | $33.16 | 5,000 | – | – | – | **5,000** |
| 24 May 2007 | $35.31 | 5,000 | – | (3,332) | – | **1,668** |
| 28 May 2007 | $32.76 | 5,000 | – | (3,332) | – | **1,668** |
| 29 May 2007 | $33.12 | 3,334 | – | (1,666) | – | **1,668** |
| 4 July 2007 | $33.54 | 45,000 | – | (29,998) | – | **15,002** |
| 5 July 2007 | $33.45 | 3,334 | – | (1,666) | – | **1,668** |
| 8 July 2007 | $33.05 | 12,500 | – | (4,000) | – | **8,500** |
| 10 July 2007 | $36.00 | 5,000 | – | (3,332) | – | **1,668** |
| 12 July 2007 | $33.20 | 12,500 | – | (8,332) | (4,168) | **–** |
| 19 July 2007 | $33.19 | 5,000 | – | (3,332) | – | **1,668** |
| 23 July 2007 | $32.47 | 5,000 | – | (3,332) | – | **1,668** |
| 1 August 2007 | $30.51 | 4,162,226 | – | (1,359,650) | (26,635) | **2,775,941** |
| 1 August 2007 | $30.51 | 2,900 | – | – | – | **2,900** |
| 23 August 2007 | $33.45 | 3,334 | – | (1,666) | – | **1,668** |
| 26 August 2007 | $31.54 | 5,000 | – | – | – | **5,000** |
| 27 August 2007 | $32.77 | 5,000 | – | (3,332) | – | **1,668** |
| 28 August 2007 | $33.06 | 3,800 | – | (2,132) | – | **1,668** |
| 30 August 2007 | $30.51 | 683,024 | – | (297,207) | (1,536) | **384,281** |
| 2 September 2007 | $31.49 | 3,400 | – | (1,700) | – | **1,700** |
| 3 September 2007 | $32.90 | 8,334 | – | (4,166) | (4,168) | **–** |
| 5 September 2007 | $31.28 | 5,000 | – | – | – | **5,000** |
| 6 September 2007 | $30.51 | 20,000 | – | (9,999) | – | **10,001** |

| Latest date for exercise of options | Exercise price | Balance as at 31 March 2005 | Options issued during the financial year | Options exercised during the financial year | Options lapsed during the financial year | Balance as at 31 March 2006 |
|---|---|---|---|---|---|---|
| 11 October 2007 | $30.51 | 201,853 | – | (99,469) | (1,802) | **100,582** |
| 14 October 2007 | $33.20 | 3,334 | – | (1,666) | – | **1,668** |
| 15 October 2007 | $26.45 | 13,334 | – | – | – | **13,334** |
| 16 October 2007 | $37.43 | 5,000 | – | (5,000) | – | **–** |
| 21 October 2007 | $31.28 | 5,000 | – | (3,332) | – | **1,668** |
| 24 October 2007 | $25.04 | 3,334 | – | (1,666) | – | **1,668** |
| 28 October 2007 | $24.48 | 5,000 | – | – | – | **5,000** |
| 20 November 2007 | $30.51 | 11,134 | – | (4,099) | – | **7,035** |
| 24 December 2007 | $30.51 | 277,888 | – | (77,864) | (5,135) | **194,889** |
| 27 December 2007 | $27.18 | 8,334 | – | (4,166) | – | **4,168** |
| 30 December 2007 | $31.54 | 25,000 | – | (8,332) | – | **16,668** |
| 2 January 2008 | $26.45 | 5,000 | – | – | – | **5,000** |
| 3 January 2008 | $31.56 | 12,500 | – | – | – | **12,500** |
| 24 January 2008 | $23.48 | 3,334 | – | (1,666) | – | **1,668** |
| 3 February 2008 | $21.66 | 8,334 | – | (4,166) | – | **4,168** |
| 6 February 2008 | $20.57 | 5,000 | – | (1,666) | – | **3,334** |
| 10 February 2008 | $20.44 | 3,334 | – | (1,666) | – | **1,668** |
| 12 February 2008 | $23.03 | 3,334 | – | (1,666) | – | **1,668** |
| 13 February 2008 | $20.50 | 3,334 | – | – | – | **3,334** |
| 19 February 2008 | $22.76 | 3,334 | – | (1,666) | – | **1,668** |
| 5 March 2008 | $23.82 | 5,000 | – | (1,666) | – | **3,334** |
| 6 March 2008 | $22.22 | 2,000 | – | – | – | **2,000** |
| 7 March 2008 | $25.23 | 5,000 | – | (1,666) | – | **3,334** |
| 12 March 2008 | $23.82 | 5,000 | – | (3,203) | (1,797) | **–** |
| 13 March 2008 | $21.23 | 5,000 | – | – | – | **5,000** |
| 14 March 2008 | $25.82 | 32,500 | – | – | – | **32,500** |
| 17 March 2008 | $20.57 | 12,500 | – | (4,166) | (8,334) | **–** |
| 24 March 2008 | $25.23 | 12,500 | – | (4,166) | – | **8,334** |
| 1 April 2008 | $25.15 | 21,667 | – | (10,833) | – | **10,834** |
| 2 April 2008 | $25.68 | 12,500 | – | (4,166) | – | **8,334** |
| 23 April 2008 | $25.94 | 5,000 | – | (1,666) | – | **3,334** |
| 24 April 2008 | $24.20 | 12,500 | – | (4,166) | – | **8,334** |
| 28 April 2008 | $24.27 | 12,500 | – | (4,166) | (8,334) | **–** |
| 6 May 2008 | $24.67 | 12,500 | – | – | – | **12,500** |
| 7 May 2008 | $24.85 | 5,000 | – | (1,666) | – | **3,334** |
| 8 May 2008 | $24.40 | 5,000 | – | (1,666) | – | **3,334** |
| 8 May 2008 | $24.71 | 5,000 | – | (1,666) | – | **3,334** |
| 13 May 2008 | $25.92 | 12,500 | – | (4,166) | – | **8,334** |
| 22 May 2008 | $24.58 | 26,667 | – | (750) | – | **25,917** |
| 23 May 2008 | $24.22 | 5,000 | – | (1,666) | – | **3,334** |
| 26 May 2008 | $24.25 | 5,000 | – | (1,666) | – | **3,334** |
| 28 May 2008 | $21.12 | 5,000 | – | – | – | **5,000** |
| 14 July 2008 | $24.98 | 5,000 | – | (1,666) | – | **3,334** |
| 16 July 2008 | $24.98 | 5,000 | – | (1,666) | – | **3,334** |
| 17 July 2008 | $24.93 | 12,500 | – | (4,166) | – | **8,334** |
| 27 July 2008 | $24.49 | 5,000 | – | – | – | **5,000** |
| 28 July 2008 | $25.00 | 5,000 | – | (1,666) | – | **3,334** |
| 31 July 2008 | $26.05 | 5,000 | – | (1,666) | – | **3,334** |
| 1 August 2008 | $26.51 | 12,500 | – | (4,166) | – | **8,334** |
| 4 August 2008 | $26.21 | 5,000 | – | – | – | **5,000** |
| 19 August 2008 | $24.42 | 8,334 | – | (4,166) | – | **4,168** |
| 20 August 2008 | $28.99 | 5,000 | – | (1,666) | – | **3,334** |
| 21 August 2008 | $29.06 | 12,500 | – | (4,166) | (8,334) | **–** |
| 22 August 2008 | $28.02 | 5,000 | – | (5,000) | – | – |
| 26 August 2008 | $29.00 | 5,000 | – | – | – | **5,000** |
| 28 August 2008 | $28.74 | 6,140,895 | – | (1,216,509) | (94,054) | **4,830,332** |
| 1 September 2008 | $26.84 | 5,000 | – | (1,666) | – | **3,334** |
| 2 September 2008 | $28.41 | 12,500 | – | (4,166) | – | **8,334** |
| 15 September 2008 | $29.46 | 5,000 | – | (1,666) | – | **3,334** |
| 16 September 2008 | $29.46 | 5,000 | – | (1,666) | – | **3,334** |
| 17 September 2008 | $24.17 | 5,000 | – | (3,332) | – | **1,668** |
| 22 September 2008 | $24.54 | 9,250 | – | – | – | **9,250** |

| Latest date for exercise of options | Exercise price | Balance as at 31 March 2005 | Options issued during the financial year | Options exercised during the financial year | Options lapsed during the financial year | Balance as at 31 March 2006 |
|---|---|---|---|---|---|---|
| 24 September 2008 | $28.74 | 697,482 | – | (104,412) | (6,627) | **586,443** |
| 26 September 2008 | $28.74 | 12,500 | – | – | – | **12,500** |
| 30 September 2008 | $29.96 | 1,601 | – | (1,601) | – | **–** |
| 1 October 2008 | $28.74 | 67,875 | – | (33,006) | (1,458) | **33,411** |
| 2 October 2008 | $29.46 | 5,000 | – | – | – | **5,000** |
| 9 October 2008 | $29.11 | 5,000 | – | (1,666) | – | **3,334** |
| 12 October 2008 | $30.26 | 32,500 | – | (10,833) | – | **21,667** |
| 13 October 2008 | $28.64 | 12,500 | – | (4,166) | – | **8,334** |
| 20 October 2008 | $24.28 | 12,500 | – | – | – | **12,500** |
| 21 October 2008 | $32.82 | 5,000 | – | (1,666) | – | **3,334** |
| 22 October 2008 | $31.39 | 5,000 | – | (1,666) | – | **3,334** |
| 23 October 2008 | $29.91 | 5,000 | – | – | – | **5,000** |
| 24 October 2008 | $22.22 | 5,000 | – | – | – | **5,000** |
| 30 October 2008 | $28.74 | 26,000 | – | (1,000) | – | **25,000** |
| 31 October 2008 | $31.18 | 5,000 | – | – | – | **5,000** |
| 3 November 2008 | $29.78 | 5,000 | – | (1,666) | – | **3,334** |
| 4 November 2008 | $29.72 | 12,500 | – | – | – | **12,500** |
| 5 November 2008 | $29.00 | 12,500 | – | – | – | **12,500** |
| 6 November 2008 | $34.49 | 5,000 | – | – | – | **5,000** |
| 7 November 2008 | $31.74 | 5,000 | – | (1,666) | – | **3,334** |
| 9 November 2008 | $34.49 | 12,500 | – | (4,166) | – | **8,334** |
| 14 November 2008 | $34.44 | 12,500 | – | – | – | **12,500** |
| 17 November 2008 | $34.72 | 12,500 | – | (4,166) | – | **8,334** |
| 18 November 2008 | $34.40 | 5,000 | – | – | – | **5,000** |
| 20 November 2008 | $31.31 | 12,500 | – | – | – | **12,500** |
| 21 November 2008 | $33.99 | 5,000 | – | – | – | **5,000** |
| 3 December 2008 | $24.53 | 5,000 | – | (3,332) | – | **1,668** |
| 5 December 2008 | $35.49 | 5,000 | – | (5,000) | – | **–** |
| 10 December 2008 | $34.91 | 12,500 | – | (4,166) | (8,334) | **–** |
| 11 December 2008 | $21.66 | 5,000 | – | (3,332) | – | **1,668** |
| 12 December 2008 | $34.60 | 5,000 | – | (1,666) | – | **3,334** |
| 16 December 2008 | $28.74 | 3,000 | – | (1,000) | – | **2,000** |
| 22 December 2008 | $24.85 | 5,000 | – | – | (280) | **4,720** |
| 23 December 2008 | $28.74 | 4,300 | – | – | – | **4,300** |
| 8 January 2009 | $34.78 | 12,500 | – | – | – | **12,500** |
| 8 January 2009 | $34.78 | 12,500 | – | – | – | **12,500** |
| 22 January 2009 | $33.95 | 12,500 | – | (4,166) | – | **8,334** |
| 2 February 2009 | $28.96 | 12,500 | – | (4,166) | – | **8,334** |
| 9 February 2009 | $33.45 | 10,000 | – | – | – | **10,000** |
| 9 February 2009 | $33.45 | 10,000 | – | – | – | **10,000** |
| 9 February 2009 | $33.45 | 22,500 | – | (1,666) | – | **20,834** |
| 9 February 2009 | $32.48 | 5,000 | – | – | – | **5,000** |
| 8 March 2009 | $33.76 | 35,000 | – | (1,666) | – | **33,334** |
| 8 March 2009 | $24.62 | 5,000 | – | (1,600) | – | **3,400** |
| 9 March 2009 | $24.58 | 5,000 | – | (1,666) | – | **3,334** |
| 22 March 2009 | $34.67 | 17,500 | – | – | – | **17,500** |
| 8 April 2009 | $36.71 | 52,500 | – | – | – | **52,500** |
| 22 April 2009 | $35.54 | 27,500 | – | – | – | **27,500** |
| 10 May 2009 | $34.66 | 35,000 | – | – | – | **35,000** |
| 24 May 2009 | $33.00 | 72,500 | – | – | (5,000) | **67,500** |
| 8 June 2009 | $33.84 | 17,500 | – | – | – | **17,500** |
| 22 June 2009 | $34.27 | 37,500 | – | – | (5,000) | **32,500** |
| 8 July 2009 | $33.58 | 57,500 | – | – | (5,000) | **52,500** |
| 22 July 2009 | $33.11 | 1,733,600 | – | (664) | (8,636) | **1,724,300** |
| 9 August 2009 | $32.75 | 3,162,546 | – | (298) | (75,402) | **3,086,846** |
| 23 August 2009 | $32.26 | 2,450,000 | – | (6,666) | (66,000) | **2,377,334** |
| 23 August 2009 | $30.67 | 5,000 | – | – | – | **5,000** |
| 23 August 2009 | $32.26 | – | 5,000 | – | – | **5,000** |
| 8 September 2009 | $34.60 | 792,350 | – | (14,842) | (44,422) | **733,086** |
| 22 September 2009 | $35.28 | 220,200 | – | – | (7,200) | **213,000** |
| 22 September 2009 | $35.28 | – | 5,000 | – | – | **5,000** |

| Latest date for exercise of options | Exercise price | Balance as at 31 March 2005 | Options issued during the financial year | Options exercised during the financial year | Options lapsed during the financial year | Balance as at 31 March 2006 |
|---|---|---|---|---|---|---|
| 8 October 2009 | $36.99 | 217,650 | – | – | (17,900) | **199,750** |
| 22 October 2009 | $39.64 | 112,800 | – | – | (10,000) | **102,800** |
| 8 November 2009 | $40.81 | 88,350 | – | – | (10,000) | **78,350** |
| 8 November 2009 | $32.75 | 94,200 | – | – | – | **94,200** |
| 8 November 2009 | $33.11 | 25,000 | – | – | – | **25,000** |
| 22 November 2009 | $41.72 | 54,850 | – | – | (1,700) | **53,150** |
| 22 November 2009 | $32.75 | 127,600 | – | – | – | **127,600** |
| 8 December 2009 | $44.88 | 76,400 | – | – | (8,000) | **68,400** |
| 8 December 2009 | $34.60 | 7,000 | – | – | – | **7,000** |
| 8 December 2009 | $32.75 | 30,000 | – | (2,051) | (7,949) | **20,000** |
| 8 December 2009 | $44.94 | – | 5,000 | – | – | **5,000** |
| 22 December 2009 | $45.15 | 40,000 | – | – | – | **40,000** |
| 10 January 2010 | $46.97 | 5,000 | – | – | – | **5,000** |
| 10 January 2010 | $46.97 | 32,500 | – | – | (5,000) | **27,500** |
| 10 January 2010 | $47.28 | 35,000 | – | – | (12,500) | **22,500** |
| 10 January 2010 | $32.26 | – | 12,500 | – | – | **12,500** |
| 24 January 2010 | $48.68 | 27,500 | – | – | – | **27,500** |
| 24 January 2010 | $48.61 | 5,000 | – | – | (1,000) | **4,000** |
| 8 February 2010 | $49.31 | 68,000 | – | – | (8,000) | **60,000** |
| 8 February 2010 | $49.47 | 32,500 | – | – | (5,000) | **27,500** |
| 22 February 2010 | $49.16 | 82,500 | – | – | – | **82,500** |
| 8 March 2010 | $49.51 | 45,000 | – | – | – | **45,000** |
| 22 March 2010 | $49.57 | 35,000 | – | – | – | **35,000** |
| 8 April 2010 | $47.82 | – | 95,000 | – | – | **95,000** |
| 8 April 2010 | $49.31 | – | 32,500 | – | – | **32,500** |
| 22 April 2010 | $45.14 | – | 85,000 | – | – | **85,000** |
| 9 May 2010 | $45.89 | – | 43,000 | – | (3,000) | **40,000** |
| 23 May 2010 | $49.18 | – | 37,500 | – | – | **37,500** |
| 23 May 2010 | $47.82 | – | 12,500 | – | – | **12,500** |
| 8 June 2010 | $54.24 | – | 75,000 | – | (12,500) | **62,500** |
| 22 June 2010 | $58.02 | – | 40,000 | – | (5,000) | **35,000** |
| 22 June 2010 | $49.18 | – | 12,500 | – | – | **12,500** |
| 8 July 2010 | $60.41 | – | 100,500 | – | – | **100,500** |
| 22 July 2010 | $63.42 | – | 37,500 | – | – | **37,500** |
| 1 August 2010 | $63.34 | – | 9,090,618 | (153) | (92,107) | **8,998,358** |
| 8 August 2010 | $62.13 | – | 32,500 | – | – | **32,500** |
| 8 August 2010 | $63.34 | – | 40,680 | – | – | **40,680** |
| 22 August 2010 | $63.33 | – | 77,500 | – | – | **77,500** |
| 8 September 2010 | $65.72 | – | 125,000 | – | (5,000) | **120,000** |
| 8 September 2010 | $63.34 | – | 10,060 | – | – | **10,060** |
| 22 September 2010 | $67.85 | – | 35,500 | – | – | **35,500** |
| 22 September 2010 | $63.34 | – | 680 | – | – | **680** |
| 10 October 2010 | $63.34 | – | 20,820 | – | – | **20,820** |
| 10 October 2010 | $70.56 | – | 78,500 | – | – | **78,500** |
| 24 October 2010 | $64.16 | – | 52,000 | – | – | **52,000** |
| 8 November 2010 | $66.92 | – | 73,000 | – | – | **73,000** |
| 22 November 2010 | $70.60 | – | 73,500 | – | (8,000) | **65,500** |
| 8 December 2010 | $68.24 | – | 73,500 | – | – | **73,500** |
| 22 December 2010 | $68.36 | – | 29,000 | – | – | **29,000** |
| 9 January 2011 | $67.85 | – | 32,500 | – | – | **32,500** |
| 23 January 2011 | $70.47 | – | 76,000 | – | – | **76,000** |
| 8 February 2011 | $63.09 | – | 119,000 | – | – | **119,000** |
| 22 February 2011 | $61.33 | – | 36,000 | – | – | **36,000** |
| 8 March 2011 | $60.35 | – | 61,000 | – | – | **61,000** |
| 22 March 2011 | $61.91 | – | 31,000 | – | – | **31,000** |
| Total options on issue | | 28,292,709 | 10,766,858 | (7,206,943) | (617,590) | 31,235,034 |

**Note 38. Employee equity participation** continued

**Option Plan** continued

During the financial year, 7,206,943 ordinary shares were issued following the exercise of 7,206,943 options, as shown in the table above. The amount paid on exercise of those options is also disclosed in the table above. No amounts remain unpaid on any of these shares.

Since 31 March 2006, an additional 237,400 options have been issued, no options have been exercised and 78,294 options have lapsed.

The market value of shares issued during the year as a result of the exercise of these options was $448 million (2005: $250 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2006 is $2,020 million (2005: $1,359 million). No unissued shares, other than those referred to above, are under option as at the date of this report.

Options granted since the 1997 annual promotion and compensation reviews vest as to one third of each tranche after the second, third and fourth anniversaries of the date of commencement of employment for new starters and, for existing employees, on 1 July two, three and four years after the allocation of the options. Subject to staff trading rules, options can be exercised after the vesting period at any time up to expiry. In individual cases, such as where an employee leaves with the Bank's agreement towards the end of a vesting period, the Bank's Executive Committee has the power to waive the remainder of any vesting period and allow exercise of some or all of the relevant options.

In respect of each tranche of vested options granted to Executive Directors of the Bank after the 1997 Annual General Meeting until the 2002 promotion and compensation review grants:

- one third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 55th percentile of the corresponding figures for all companies in the then ASX All Industrials Index;
- another third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 65th percentile of the corresponding figures for all companies in the then ASX All Industrials Index; and;
- the final third of the vested options may only be exercised if the Bank's average annual Return on Equity for the three previous financial years is at or above the 75th percentile of the corresponding figures for all companies in the then ASX All Industrials Index, with the conditions to be examined quarterly from vesting until expiry of the options. Options which have vested but are not able to be exercised at a particular examination date, will be exercisable (until expiry) at or after future quarterly examination dates when and if the exercise conditions pertaining to any of those dates have been met.

Following cessation of publication of the ASX All Industrials Index in mid-2002, the Board exercised its authority to resolve that whether the exercise conditions are met from that point on is to be determined by having regard to the actual performance of the Bank by using the formula set out in the exercise conditions but with the words "All Ordinaries Index excluding companies in the GICS Level 2 'Energy' and GICS Level 3 'Metals and Mining' classifications" replacing "ASX All Industrials Index"; and using "Return on Ordinary Equity" instead of "Return on Equity".

In respect of options granted from mid-2002 to 25 November 2004, in respect of each tranche of vested options granted to members of the Bank's Executive Committee, Executive Voting Directors and other Executive Directors of the Bank, options are only exercisable if the Bank'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 from 26 November 2004 onwards, in respect of each tranche of vested options granted to members of the Bank's Executive Committee, Executive Voting Directors and other Executive Directors of the Bank, options are only exercisable if the Bank'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 300 Industrials Index, with the conditions examined quarterly from vesting until expiry.

For future options to be granted to members of the Bank's Executive Committee, Executive Voting Directors and other Executive Directors of the Bank where the invitation to apply for the options is sent to the Executive after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if the Bank'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 Plan 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% of the number of the Bank's then issued ordinary shares plus the number of shares which the Bank would have to issue if all rights to require the Bank to issue shares, which the Bank has then granted (including options) were then enforced or exercised to the greatest extent permitted. The Board has a second limitation on the number of options being effectively the same calculation as in the Plan Rules except that any exercised options granted less than five years ago, where the Executive is still with the Bank, will be treated as still being unexercised.

Fully paid ordinary shares issued on the exercise of options rank pari passu with all other fully paid ordinary shares then on issue.

On 25 May 2000, the Board approved amendments to the Plan Rules referred to as the Deferred Exercise Share Option Plan ("DESOP"). Shares resulting from the exercise of options since then have been placed under the DESOP, unless option holders request otherwise. Unless the Bank is aware of circumstances which, in the reasonable opinion of the Bank, indicate that the relevant Executive may have acted fraudulently, dishonestly or in a manner which is in breach of his/her obligations to the Bank or any associated entity, then such a request will be granted.

Shares acquired under DESOP cannot be sold, transferred or disposed of for a period of six months from the date that the shares are transferred into a participating employee's name and are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to affairs of the Bank or a related entity or if they carry out or fail to carry out an act which brings the Bank or an associated entity into disrepute.

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

- an employee's resignation from the Bank or a related 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.

**Employee Share Plan**

Following shareholder approval at the 1997 Annual General Meeting, the Bank introduced the Macquarie Bank Employee Share Plan ("ESP") whereby each financial year eligible employees are offered up to $1,000 worth of fully paid ordinary Bank shares for no cash payment. The Bank's staff profit sharing pools and, for certain staff, future commissions are adjusted downwards by the aggregate market value of the shares issued under the ESP.

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

The number of shares each participant receives is $1,000 divided by the weighted average price at which the Bank's shares are traded on Australian Stock 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 employees who have been continuously employed by the Bank or a subsidiary of the Bank since 1 April of the relevant year, are still employed by the Bank or a subsidiary of the Bank 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 Bank from external companies, staff on leave without pay, staff who have been given notice of dismissal from employment by the Bank or subsidiary of the Bank 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 2005. A total of 1,437 (2005: 1,215) staff participated in this offer. On 13 January 2006, the participants were each issued with 14 (2005: 20) fully paid ordinary shares based on the offer amount of $1,000 and the then calculated average market share price of $68.30 (2005: $48.89), a total of 20,118 (2005: 24,300) shares were issued. The shares were issued for no cash consideration.

**Staff Share Acquisition Plan**

Following shareholder approval at the 1999 Annual General Meeting, the Bank introduced the Macquarie Bank Staff Share Acquisition Plan ("MBSSAP") whereby each financial year Australian based eligible employees are given the opportunity to nominate an amount of their pre-tax available profit share or future commission to purchase fully paid ordinary Bank shares ("shares"). The total number of shares purchased under the MBSSAP is limited in any financial year to three percent of the Bank's shares as at the beginning of that financial year.

Shares are acquired at prevailing market prices. Any applicable brokerage, workers' compensation premiums and payroll tax are to the employee's account.

Shares acquired under the MBSSAP 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 MBSSAP are also subject to forfeiture by an employee in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the Bank or a related company or if they carry out an act or fail to do an act which brings the Bank or a related company into disrepute.

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

- an employee's resignation from the Bank or a related entity;
- upon request by the employee (after the expiration of the non-disposal period); and
- ten years from the date that the shares are registered in an employee's name.

In all other respects, 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 of the Bank 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 MBSSAP.

The Macquarie Bank Executive Director Share Acquisition Plan ("MBEDSAP") is 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.

Offers under the MBSSAP were made during May 2005. A total of 368 (2005: 317) staff participated in the MBSSAP. In July and December 2005, a total of 154,243 (2005: 734,085) shares were acquired on-market. Included in the above are nil (2005:22) staff that participated in the MBEDSAP, and a total of nil (2005: 239,843) shares that were acquired on-market under MBEDSAP.

**Non-Executive Director Share Acquisition Plan**

Following shareholder approval at the 1999 Annual General Meeting, the Bank also introduced the Macquarie Bank Non-Executive Director Share Acquisition Plan ("NEDSAP") whereby each financial year Australian based Non-Executive Directors ("NEDs") of the Macquarie Bank Group of companies are given the opportunity to contribute some or all of their future pre-tax remuneration from the Macquarie Bank Group to acquire Macquarie Bank Limited shares ("shares"). 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 charged 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 Bank or a related company or if they carry out an act or fail to do an act which brings the Bank 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 MBL;
- 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 2005. A total of 7 (2005: 7) NEDs participated in the NEDSAP. In July and December 2005, a total of 5,953 (2005: 9,492) shares were acquired on-market.

| | **Consolidated 2006 $m** | Consolidated 2005 $m | **Bank 2006 $m** | Bank 2005 $m |
|---|---|---|---|---|
| **Note 39. Contingent liabilities and assets** | | | | |
| The following details of contingent liabilities and assets exclude derivatives. | | | | |
| Contingent liabilities exist in respect of: | | | | |
| Indemnities | **64** | 77 | **237** | 236 |
| Undrawn credit facilities | **3,926** | 3,805 | **3,817** | 3,497 |
| Undrawn credit facilities – revocable at any time | **2,979** | 2,366 | **2,979** | 2,366 |
| Other contingent liabilities [(a)] | **1,509** | 524 | **827** | 243 |
| **Total contingent liabilities** | **8,478** | 6,772 | **7,860** | 6,342 |

[(a)] Other contingent liabilities include letters of credit, commitments certain of drawdown and performance related contingents. Also included are forward asset purchases whereby the economic entity has entered into conditional agreements to acquire assets and operating businesses with the intention of subsequent disposal. These assets and businesses will be recognised when control passes to the economic entity. The total commitment at 31 March 2006 was $1,466 million (2005: $423 million).

Contingent liabilities exist in respect of claims and potential claims against entities in the economic entity. Where necessary, appropriate provisions have been made in the financial statements. The Bank and economic entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position. Information regarding the Australian Tax Office audit of the Bank and other matters is included in note 5 – Income tax expense.

Of the total contingent liabilities above, $6.9 billion (2005: $6.2 billion) also represent contingent assets. Such commitments to provide credit may in the normal course convert to loans and other assets.

| | **Consolidated 2006 $m** | Consolidated 2005 $m | **Bank 2006 $m** | Bank 2005 $m |
|---|---|---|---|---|
| **Note 40. Capital and other expenditure commitments** | | | | |
| Not later than one year | **88** | 35 | **28** | 20 |
| Later than one year and not later than five years | **23** | 6 | **23** | 6 |
| Later than five years | **–** | – | **–** | – |
| **Total capital and other expenditure commitments** | **111** | 41 | **51** | 26 |

| | Consolidated 2006 $m | Consolidated 2005 $m | Bank 2006 $m | Bank 2005 $m |
|---|---|---|---|---|
| **Note 41. Lease commitments** | | | | |
| Non-cancellable operating leases expiring: | | | | |
| Not later than one year | **127** | 109 | **127** | 106 |
| Later than one year and not later than five years | **431** | 547 | **431** | 540 |
| Later than five years | **291** | 302 | **291** | 300 |
| **Total operating lease commitments** | **849** | 958 | **849** | 946 |

Operating leases relate to commercial buildings and motor vehicles leased by the Bank's staff. The future lease commitments disclosed are net of any rental incentives received and sub-lease income earned.

**Note 42. Derivative financial instruments**

**Objectives of holding and issuing derivative financial instruments**

The economic entity is an active price maker in derivatives on interest rates, foreign exchange, commodities and equities. Its objective is to earn profits from the price making spread and from managing the residual exposures on hedged positions. Proprietary position taking is a small part of the Bank's trading activities. Risks on derivatives are managed together with all other trading positions in the same market. All trading positions, including derivatives, are marked to fair value daily.

The economic entity also uses derivatives to hedge banking operations and for asset/liability management. Certain derivative transactions may qualify as cash flow, fair value or net investment in foreign operations hedges, if they meet the appropriate strict hedge criteria outlined in note 1(ix):

Cash flow hedges

The economic entity is exposed to volatility in future interest cash flows arising from the consolidated mortgage securitisation vehicles and other structured products which are subject to variable interest rates. The aggregate principal balances and interest cash flows across all these portfolios form the basis for identifying the non-trading interest rate risk of the economic entity, which is hedged with interest rate swaps.

In addition to this, the interest rate swaps used to hedge the MIPS securities have been designated as cash flow hedges of an intercompany loan by the Bank in its separate financial statements. Changes in the fair value of these interest swaps are deferred in equity and subsequently released to earnings as the interest on the intercompany loan is accrued. At 31 March 2006, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was $37 million positive value.

In 2006, the economic entity recognised a loss of $3 million in the income statement due to hedge ineffectiveness. At 31 March 2006, the fair value of outstanding derivatives held by the economic entity and designated as cash flow hedges was $84 million negative value.

Fair value hedges

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

As at 31 March 2006, the fair value of outstanding derivatives held by the economic entity and designated as fair value hedges was $8 million negative value.

Net investment in foreign operations hedges

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

At 31 March 2006, the fair value of outstanding derivatives held by the economic entity and designated as net investment in foreign operations hedges was $54 million positive value.

The types of contracts which the economic entity trades and uses for hedging purposes are detailed below:

*Futures:* Futures contracts provide the holder with the obligation to buy a specified financial instrument or commodity at a fixed price and fixed date in the future. Contracts may be closed early via cash settlement. Futures contracts are exchange traded.

*Forwards and forward rate agreements:* Forward contracts, which resemble futures contracts, are an agreement between two parties that a financial instrument or commodity will be traded at a fixed price and fixed date in the future. A forward rate agreement provides for two parties to exchange interest rate differentials based on an underlying principal amount at a fixed date in the future.

*Swaps:* Swap transactions provide for two parties to swap a series of cash flows in relation to an underlying principal amount, usually to exchange a fixed interest rate for a floating interest rate. Cross-currency swaps provide a tool for two parties to manage risk arising from movements in exchange rates.

*Options:* Option contracts provide the holder the right to buy or sell financial instruments or commodities at a fixed price over an agreed period or on a fixed date. The contract does not oblige the holder to buy or sell, however the writer must perform if the holder exercises the rights pertaining to the option.

**Note 42. Derivative financial instruments** continued

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

| | Consolidated 2006 | | | | Consolidated 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Notional amount $m** | **Asset revaluation $m** | **Liability revaluation $m** | **Net fair value $m** | Notional amount $m | Asset revaluation $m | Liability revaluation $m | Net fair value $m |
| **Interest rate contracts** | | | | | | | | |
| Exchange traded | **56,072** | **10** | **22** | **(12)** | 13,347 | – | 2 | (2) |
| Forwards | **19,480** | **3** | **3** | **–** | 21,476 | 2 | 4 | (2) |
| Swaps | **100,779** | **888** | **586** | **302** | 80,692 | 832 | 579 | 253 |
| Options | **1,848** | **2** | **1** | **1** | 994 | 1 | 1 | – |
| Total interest rate contracts | **178,179** | **903** | **612** | **291** | 116,509 | 835 | 586 | 249 |
| **Foreign exchange contracts** | | | | | | | | |
| Exchange traded | **359** | **3** | **1** | **2** | 216 | 12 | 20 | (8) |
| Forwards | **88,697** | **1,685** | **1,069** | **616** | 30,015 | 638 | 508 | 130 |
| Swaps | **10,438** | **254** | **793** | **(539)** | 4,148 | 382 | 1,505 | (1,123) |
| Options | **71,985** | **804** | **739** | **65** | 70,946 | 633 | 434 | 199 |
| Total foreign exchange contracts | **171,479** | **2,746** | **2,602** | **144** | 105,325 | 1,665 | 2,467 | (802) |
| **Equity contracts** | | | | | | | | |
| Exchange traded | **4,820** | **166** | **79** | **87** | 3,015 | 62 | 69 | (7) |
| Swaps | **2,306** | **299** | **706** | **(407)** | 1,451 | 179 | 340 | (161) |
| Options | **17,103** | **356** | **473** | **(117)** | 5,643 | 395 | 580 | (185) |
| Other | **10,001** | **109** | **151** | **(42)** | 5,993 | – | 108 | (108) |
| Total equity contracts | **34,230** | **930** | **1,409** | **(479)** | 16,102 | 636 | 1,097 | (461) |
| **Commodity contracts** | | | | | | | | |
| Exchange traded | **22,838** | **1,226** | **2,010** | **(784)** | 9,803 | 224 | 413 | (189) |
| Forwards | **20,599** | **3,469** | **1,937** | **1,532** | 15,848 | 1,314 | 705 | 609 |
| Swaps | **2,833** | **527** | **522** | **5** | 1,303 | 320 | 479 | (159) |
| Options | **19,938** | **1,177** | **965** | **212** | 8,731 | 696 | 477 | 219 |
| Total commodity contracts | **66,208** | **6,399** | **5,434** | **965** | 35,685 | 2,554 | 2,074 | 480 |
| **Total derivatives contracts outstanding** | **450,096** | **10,978** | **10,057** | **921** | 273,621 | 5,690 | 6,224 | (534) |

**Note 42. Derivative financial instruments** continued

The following table provides details of the Bank's outstanding derivatives used for trading and hedging purposes as at 31 March 2006.

| | Bank 2006 | | | |
|---|---|---|---|---|
| | Notional amount $m | Asset revaluations $m | Liability revaluations $m | Net fair value $m |
| **Interest rate contracts** | | | | |
| Exchange traded | 56,072 | 10 | 22 | (12) |
| Forwards | 19,449 | 3 | 3 | – |
| Swaps | 83,803 | 872 | 570 | 302 |
| Options | 1,848 | 2 | 1 | 1 |
| Total interest rate contracts | 161,172 | 887 | 596 | 291 |
| **Foreign exchange contracts** | | | | |
| Exchange traded | 359 | – | – | – |
| Forwards | 88,697 | 1,685 | 1,069 | 616 |
| Swaps | 7,586 | 241 | 328 | (87) |
| Options | 71,985 | 804 | 740 | 64 |
| Total foreign exchange contracts | 168,627 | 2,730 | 2,137 | 593 |
| **Equity contracts** | | | | |
| Exchange traded | 4,820 | 166 | 79 | 87 |
| Swaps | 2,306 | 283 | 698 | (415) |
| Options | 17,103 | 346 | 469 | (123) |
| Other | 10,001 | 109 | 150 | (41) |
| Total equity contracts | 34,230 | 904 | 1,396 | (492) |
| **Commodity contracts** | | | | |
| Exchange traded | 24,654 | 965 | 1,755 | (790) |
| Forwards | 20,483 | 3,443 | 1,916 | 1,527 |
| Swaps | 2,428 | 523 | 521 | 2 |
| Options | 19,681 | 1,166 | 965 | 201 |
| Total commodity contracts | 67,246 | 6,097 | 5,157 | 940 |
| **Total derivatives contracts outstanding** | 431,275 | 10,618 | 9,286 | 1,332 |

| | Consolidated 2006 | | | Consolidated 2005 | | |
|---|---|---|---|---|---|---|
| | Average balance $m | Income/ (expense) $m | Average rate % | Average balance $m | Income/ (expense) $m | Average rate % |
| **Note 43. Average interest-bearing assets and liabilities and related interest** | | | | | | |
| **Assets** | | | | | | |
| **Interest bearing assets** | | | | | | |
| Due from banks | **2,702** | **123** | **4.6** | 1,403 | 40 | 2.9 |
| Cash collateral on securities borrowed and reverse repurchase agreements | **10,341** | **505** | **4.9** | 7,793 | 357 | 4.6 |
| Trading portfolio assets | **2,829** | **151** | **5.3** | 4,336 | 235 | 5.4 |
| Other securities | | | | 2,121 | 140 | 6.6 |
| Loan assets held at amortised cost | **29,812** | **2,115** | **7.1** | 25,424 | 1,774 | 7.0 |
| Other financial assets at fair value through profit and loss | **739** | **57** | **7.7** | – | – | – |
| Other assets | **101** | **6** | **5.9** | 121 | 5 | 4.1 |
| Investment securities available for sale | **3,105** | **175** | **5.6** | | | |
| Net interest in associates and joint ventures using the equity method | **105** | **4** | **3.8** | 112 | 2 | 1.8 |
| Total interest bearing assets | **49,734** | **3,136** | | 41,310 | 2,553 | |
| Total non-interest bearing assets | **41,378** | | | 18,146 | | |
| **Total assets** | **91,112** | | | 59,456 | | |
| **Liabilities** | | | | | | |
| **Interest bearing liabilities** | | | | | | |
| Due to banks | **1,489** | **(65)** | **4.4** | 1,249 | (51) | 4.1 |
| Cash collateral on securities lent and repurchase agreements | **3,381** | **(158)** | **4.7** | 3,795 | (169) | 4.5 |
| Trading portfolio liabilities | **5,528** | **(284)** | **5.1** | 3,306 | (173) | 5.2 |
| Deposits | **8,643** | **(376)** | **4.4** | 6,030 | (241) | 4.0 |
| Notes payable | | | | 26,412 | (1,313) | 5.0 |
| Debt issued at amortised cost | **30,379** | **(1,566)** | **5.2** | | | |
| Other financial liabilities at fair value through profit and loss | **889** | **(27)** | **3.0** | | | |
| Other liabilities | **107** | **(4)** | **3.7** | 810 | (37) | 4.6 |
| **Loan capital** | | | | | | |
| Subordinated debt | **1,328** | **(64)** | **4.8** | 935 | (45) | 4.8 |
| Total interest bearing liabilities | **51,744** | **(2,544)** | | 42,537 | (2,029) | |
| Total non-interest bearing liabilities | **34,420** | | | 13,272 | | |
| **Total liabilities** | **86,164** | | | 55,809 | | |
| **Net assets** | **4,948** | | | 3,647 | | |
| **Equity** | | | | | | |
| Contributed equity | | | | | | |
| Ordinary share capital | **1,780** | | | 1,491 | | |
| Treasury shares | **(1)** | | | (7) | | |
| Macquarie Income Securities | **391** | | | 391 | | |
| Reserves | **140** | | | 22 | | |
| Retained earnings | **1,682** | | | 1,220 | | |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | **3,992** | | | 3,117 | | |
| Minority interest from disposal groups classified as held for sale | **102** | | | | | |
| Minority interest | **854** | | | 530 | | |
| **Total equity** | **4,948** | | | 3,647 | | |

| | Bank 2006 | | |
|---|---|---|---|
| | Average balance $m | Income/ (expense) $m | Average rate % |
| **Note 43. Average interest-bearing assets and liabilities and related interest** continued | | | |
| **Assets** | | | |
| **Interest bearing assets** | | | |
| Due from banks | 1,880 | 84 | 4.5 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 10,341 | 505 | 4.9 |
| Trading portfolio assets | 2,825 | 151 | 5.3 |
| Other securities | | | – |
| Loan assets held at amortised cost | 9,903 | 764 | 7.7 |
| Other financial assets at fair value through profit and loss | 556 | 46 | 8.3 |
| Other assets | 92 | 6 | 6.1 |
| Investment securities available for sale | 1,965 | 104 | 5.3 |
| Due from controlled entities | 6,420 | 356 | 5.5 |
| Net interest in associates and joint ventures using the equity method | 30 | 1 | 4.1 |
| Total interest bearing assets | 34,012 | 2,017 | |
| Total non-interest bearing assets | 28,115 | | |
| **Total assets** | 62,127 | | |
| **Liabilities** | | | |
| **Interest bearing liabilities** | | | |
| Due to banks | 1,222 | (45) | 3.7 |
| Cash collateral on securities lent and repurchase agreements | 3,381 | (158) | 4.7 |
| Trading portfolio liabilities | 5,528 | (284) | 5.1 |
| Deposits | 8,373 | (361) | 4.3 |
| Notes payable | | | – |
| Debt issued at amortised cost | 13,774 | (565) | 4.1 |
| Other financial liabilities at fair value through profit and loss | 889 | (27) | 3.1 |
| Other liabilities | 105 | (4) | 3.5 |
| Due to controlled entities | 3,159 | (172) | 5.5 |
| **Loan capital** | | | |
| Subordinated debt | 1,328 | (64) | 4.8 |
| Total interest bearing liabilities | 37,759 | (1,680) | |
| Total non-interest bearing liabilities | 20,783 | | |
| **Total liabilities** | 58,542 | | |
| **Net assets** | 3,585 | | |
| **Equity** | | | |
| Contributed equity | | | |
| Ordinary share capital | 1,780 | | |
| Treasury shares | – | | |
| Macquarie Income Securities | 391 | | |
| Convertible debentures | 884 | | |
| Reserves | 112 | | |
| Retained earnings | 418 | | |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 3,585 | | |
| **Total equity** | 3,585 | | |

**Note 44. Geographical concentration of deposits and borrowings**
The following table details the source of deposits and borrowings based upon the location of the relevant counterparty. Refer to "Liquidity Management" within note 45 – Maturity analysis of monetary assets and liabilities and liquidity management, for discussion on the source of the Bank's funding.

| | Australia $m | Europe $m | North America $m | Asia Pacific* $m | Other $m | Total $m |
|---|---|---|---|---|---|---|
| | | | | | | Consolidated 2006 |
| Due to banks | 727 | 731 | 267 | 360 | 33 | 2,118 |
| Cash collateral on securities lent and repurchase agreements | 4,782 | 1,581 | 610 | 11 | 11 | 6,995 |
| Trading portfolio liabilities | 6,049 | 280 | – | 3,728 | – | 10,057 |
| Deposits | 7,806 | 107 | 423 | 710 | 221 | 9,267 |
| Debt issued at amortised cost | 22,706 | 13,314 | 1,436 | 1,566 | – | 39,022 |
| Other financial liabilities at fair value through profit and loss | 776 | 1,221 | – | 3,484 | – | 5,481 |
| Subordinated debt at amortised cost | 288 | 827 | – | – | – | 1,115 |
| Subordinated debt at fair value through profit and loss | 266 | – | – | – | – | 266 |
| **Total deposits and borrowings by geographical location** | 43,400 | 18,061 | 2,736 | 9,859 | 265 | 74,321 |
| | | | | | | Bank 2006 |
| Due to banks | 488 | 427 | 196 | 73 | 33 | 1,217 |
| Cash collateral on securities lent and repurchase agreements | 4,782 | 1,581 | 610 | 11 | 11 | 6,995 |
| Trading portfolio liabilities | 6,049 | 280 | – | 3,724 | – | 10,053 |
| Deposits | 7,741 | 96 | 438 | 710 | 109 | 9,094 |
| Debt issued at amortised cost | 4,250 | 13,315 | 1,436 | 1,566 | – | 20,567 |
| Other financial liabilities at fair value through profit and loss | 529 | 1,211 | – | 3,318 | – | 5,058 |
| Subordinated debt at amortised cost | 288 | 826 | – | – | – | 1,114 |
| Subordinated debt at fair value through profit and loss | 266 | – | – | – | – | 266 |
| **Total deposits and borrowings by geographical location** | 24,393 | 17,736 | 2,680 | 9,402 | 153 | 54,364 |
| | | | | | | Consolidated 2005 |
| Due to banks | 1,011 | 127 | 193 | 217 | – | 1,548 |
| Cash collateral on securities lent and repurchase agreements | 1,351 | 570 | 22 | 34 | 6 | 1,983 |
| Trading portfolio liabilities | 5,144 | 547 | 282 | 1,609 | 99 | 7,681 |
| Deposits | 6,231 | 53 | 269 | 676 | 11 | 7,240 |
| Notes payable | 18,363 | 7,134 | 577 | 2,087 | – | 28,161 |
| Subordinated debt | 550 | 785 | – | 24 | – | 1,359 |
| **Total deposits and borrowings by geographical location** | 32,650 | 9,216 | 1,343 | 4,647 | 116 | 47,972 |

* Excludes Australia.

| | Consolidated 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | At call $m | 3 months or less $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | No maturity specified $m | Total $m |
| **Note 45. Maturity analysis of monetary assets and liabilities and liquidity management** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 5 | – | – | – | – | – | 5 |
| Due from banks | 4,025 | 2,369 | – | – | – | – | 6,394 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 6,218 | 7,352 | – | – | – | – | 13,570 |
| Trading portfolio assets | 14,246 | – | – | – | – | – | 14,246 |
| Loan assets held at amortised cost | 4,418 | 7,073 | 2,173 | 4,209 | 17,126 | – | 34,999 |
| Other financial assets at fair value through profit and loss | 609 | 686 | 1 | 208 | 600 | – | 2,104 |
| Investment securities available for sale | 358 | 1,892 | 299 | 242 | 406 | 549 | 3,746 |
| Life investment contracts and other unit holder assets* | 181 | 653 | 51 | 116 | – | 4,182 | 5,183 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | 3,463 | 3,463 |
| **Total monetary assets** | 30,060 | 20,025 | 2,524 | 4,775 | 18,132 | 8,194 | 83,710 |
| **Liabilities** | | | | | | | |
| Due to banks | 875 | 893 | 122 | 64 | 164 | – | 2,118 |
| Cash collateral on securities lent and repurchase agreements | 3,047 | 3,948 | – | – | – | – | 6,995 |
| Trading portfolio liabilities | 10,057 | – | – | – | – | – | 10,057 |
| Deposits | 5,955 | 2,699 | 346 | 247 | 20 | – | 9,267 |
| Debt issued at amortised cost | 966 | 10,219 | 12,291 | 5,305 | 10,241 | – | 39,022 |
| Other financial liabilities at fair value through profits and loss | – | 14 | 496 | 662 | – | 4,309 | 5,481 |
| Life investment contracts and other unit holder liabilities | – | – | – | – | – | 5,130 | 5,130 |
| Subordinated debt issued at amortised cost | – | – | – | 489 | 626 | – | 1,115 |
| Subordinated debt issued at fair value through profit and loss | – | – | – | – | 266 | – | 266 |
| **Total monetary liabilities** | 20,900 | 17,773 | 13,255 | 6,767 | 11,317 | 9,439 | 79,451 |

* 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.

The table details the maturity distribution of selected monetary assets and liabilities.

Maturities represent the remaining period as at 31 March 2006 to the repayment date. Certain deposits however are recorded at their expected maturity date rather than the contractual repayment date. These deposits, although withdrawable on demand, display the necessary characteristics of longer term deposits.

| | Bank 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | At call $m | 3 months or less $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | No maturity specified $m | Total $m |
| **Note 45. Maturity analysis of monetary assets and liabilities and liquidity management** continued | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with central banks | 5 | – | – | – | – | – | 5 |
| Due from banks | 2,517 | 2,062 | – | – | – | – | 4,579 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 6,213 | 7,352 | – | – | – | – | 13,565 |
| Trading portfolio assets | 13,030 | – | – | – | – | – | 13,030 |
| Loan assets held at amortised cost | 4,275 | 4,236 | 1,528 | 2,553 | 589 | – | 13,181 |
| Other financial assets at fair value through profit and loss | 608 | 477 | 1 | 208 | 600 | – | 1,894 |
| Investment securities available for sale | 62 | 1,500 | 292 | 200 | – | 256 | 2,310 |
| Due from controlled entities | 9,136 | | | | | 1,105 | 10,241 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | 833 | 833 |
| **Total monetary assets** | 35,846 | 15,627 | 1,821 | 2,961 | 1,189 | 2,194 | 59,638 |
| **Liabilities** | | | | | | | |
| Due to banks | 769 | 329 | 119 | – | – | – | 1,217 |
| Cash collateral on securities lent and repurchase agreements | 3,047 | 3,948 | – | – | – | – | 6,995 |
| Trading portfolio liabilities | 10,053 | – | – | – | – | – | 10,053 |
| Deposits | 5,674 | 2,709 | 346 | 362 | 3 | – | 9,094 |
| Debt issued at amortised cost | 966 | 10,044 | 4,688 | 4,808 | 61 | – | 20,567 |
| Other financial liabilities at fair value through profit and loss | – | 14 | 501 | 684 | – | 3,859 | 5,058 |
| Due to controlled entities | 3,187 | – | – | – | – | 2,088 | 5,275 |
| Subordinated debt issued at amortised cost | – | – | – | 489 | 625 | – | 1,114 |
| Subordinated debt issued at fair value through profit and loss | – | – | – | – | 266 | – | 266 |
| **Total monetary liabilities** | 23,696 | 17,044 | 5,654 | 6,343 | 955 | 5,947 | 59,639 |

The table details the maturity distribution of selected monetary assets and liabilities.

Maturities represent the remaining period as at 31 March 2006 to the repayment date. Certain deposits however are recorded at their expected maturity date rather than the contractual repayment date. These deposits, although withdrawable on demand, display the necessary characteristics of longer term deposits.

| | Consolidated 2005 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At call $m | Overdrafts $m | 3 months or less $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | No maturity specified $m | Total $m |
| **Note 45. Maturity analysis of monetary assets and liabilities and liquidity management** continued | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 4 | – | – | – | – | – | – | 4 |
| Due from banks | 3,797 | – | 168 | 3 | 1 | – | – | 3,969 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 3,654 | – | 5,273 | – | – | – | – | 8,927 |
| Trading portfolio assets | 7,800 | – | – | – | – | – | – | 7,800 |
| Other securities | – | – | 1,050 | 21 | 204 | 188 | 249 | 1,712 |
| Loan assets held at amortised cost | 3,030 | 119 | 2,012 | 2,288 | 5,424 | 15,552 | – | 28,425 |
| Life investment contracts and other unit holder assets* | 128 | – | 754 | 17 | 144 | 2 | 3,428 | 4,473 |
| Equity investments | – | – | – | – | – | – | 116 | 116 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | – | 2,117 | 2,117 |
| **Total monetary assets** | 18,413 | 119 | 9,257 | 2,329 | 5,773 | 15,742 | 5,910 | 57,543 |
| **Liabilities** | | | | | | | | |
| Due to banks | 565 | – | 605 | 39 | 339 | – | – | 1,548 |
| Cash collateral on securities lent and repurchase agreements | 796 | – | 1,187 | – | – | – | – | 1,983 |
| Trading portfolio liabilities | 7,681 | – | – | – | – | – | – | 7,681 |
| Deposits | 3,440 | – | 2,468 | 244 | 1,074 | 14 | – | 7,240 |
| Notes payable | – | – | 22,449 | 2,525 | 2,835 | 352 | – | 28,161 |
| Life investment contracts and other unit holder liabilities | – | – | – | – | – | – | 4,429 | 4,429 |
| Subordinated debt | – | – | 24 | – | – | 1,335 | – | 1,359 |
| **Total monetary liabilities** | 12,482 | – | 26,733 | 2,808 | 4,248 | 1,701 | 4,429 | 52,401 |

* 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 statutory funds.

**Liquidity management**

The liquidity management policy of the economic entity is approved by the Board and agreed with the Australian Prudential Regulation Authority. This policy is reviewed regularly by the Risk Management Division ("RMD") to ensure it continues to meet the needs of the economic entity under a range of different market circumstances. The economic entity's liquidity policy requires that:

1. Core assets (that is, on balance sheet assets that cannot be liquified quickly) plus liquidity buffers are funded with deposits/borrowings with a minimum maturity greater than 1 week (5 working days);
2. Specified percentages of borrowings have maturities beyond 6 and 12 months. A limit is also set on the maximum percentage of deposits maturing within the next 3 months and in any one month; and
3. The economic entity must keep at least a certain percentage of its total assets in highly liquid form (for example, Commonwealth and State Government debt, bank bills, overnight loans and repurchase agreements).

Within these parameters liquidity management is the responsibility of the Treasury Division within the Treasury and Commodities Group subject to risk management oversight by RMD.

An objective of the economic entity's liquidity policy is to achieve a diversified source of core liabilities, by investor type, location, currency, maturity and product. In respect of the retail market, the Bank focuses its attention on small and medium sized depositors who do not generally access the professional market.

The Bank's key tool for accessing wholesale funding markets is the USD$15 billion Debt Instrument Programme and the USD$2 billion Commercial Paper Program, both of which allow the Bank to achieve its objective of diversified sources of funding in the offshore markets. Negotiable Certificates of Deposit also provide a reliable source of funding in the domestic markets.

**Note 46. Interest rate risk**

The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of assets or liabilities. For floating rate instruments the rate is the current market rate; for fixed rate instruments the rate is a historical rate. The bandings reflect the earlier of the next contractual repricing date or the maturity date of the asset or liability.

| | Consolidated 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate % | Floating interest rate $m | Fixed interest rate repricing 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | 5.3 | 5 | – | – | – | – | – | – | 5 |
| Due from banks | 5.0 | 4,025 | 2,320 | 49 | – | – | – | – | 6,394 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 5.3 | 6,218 | 6,032 | 1,320 | – | – | – | – | 13,570 |
| Trading portfolio assets | 5.1 | 50 | 876 | 1,560 | 778 | 765 | 1,048 | 9,169 | 14,246 |
| Loan assets held at amortised cost | 7.1 | 22,072 | 4,358 | 3,888 | 1,222 | 3,170 | 289 | – | 34,999 |
| Other financial assets at fair value through profit and loss | 6.1 | 609 | 451 | 235 | 1 | 208 | 600 | – | 2,104 |
| Derivative financial instruments – positive values | – | – | – | – | – | – | – | 10,978 | 10,978 |
| Other assets | – | – | – | – | – | – | – | 8,452 | 8,452 |
| Investment securities available for sale | 5.6 | 358 | 714 | 1,178 | 299 | 242 | 406 | 549 | 3,746 |
| Intangible assets | – | – | – | – | – | – | – | 150 | 150 |
| Life investment contracts and other unit holder assets* | 2.6 | 181 | 304 | 349 | 51 | 116 | – | 4,182 | 5,183 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | – | – | 3,463 | 3,463 |
| Property, plant and equipment | – | – | – | – | – | – | – | 292 | 292 |
| Deferred income tax assets | – | – | – | – | – | – | – | 240 | 240 |
| Assets and disposal groups classified as held for sale | – | – | – | – | – | – | – | 2,389 | 2,389 |
| **Total assets** | | 33,518 | 15,055 | 8,579 | 2,351 | 4,501 | 2,343 | 39,864 | 106,211 |

| | Weighted average effective interest rate % | Floating interest rate $m | Consolidated 2006 Fixed interest rate repricing 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Due to banks | 4.6 | 875 | 258 | 635 | 122 | 64 | 164 | – | 2,118 |
| Cash collateral on securities lent and repurchase agreements | 5.3 | 3,047 | 3,948 | – | – | – | – | – | 6,995 |
| Trading portfolio liabilities | 4.5 | – | – | 105 | 877 | 2,361 | 2,445 | 4,269 | 10,057 |
| Derivative financial instruments – negative values | – | – | – | – | – | – | – | 10,057 | 10,057 |
| Deposits | 4.5 | 5,955 | 1,756 | 943 | 346 | 247 | 20 | – | 9,267 |
| Debt issued at amortised cost | 5.1 | 1,145 | 3,305 | 6,846 | 12,380 | 5,167 | 10,179 | – | 39,022 |
| Other financial liabilities at fair value through profit and loss | 3.8 | – | – | 14 | 496 | 662 | – | 4,309 | 5,481 |
| Other liabilities | – | – | – | – | – | – | – | 9,553 | 9,553 |
| Current tax liabilities | – | – | – | – | – | – | – | 97 | 97 |
| Life investment contracts and other unit holder liabilities | – | – | – | – | – | – | – | 5,130 | 5,130 |
| Provisions | – | – | – | – | – | – | – | 132 | 132 |
| Deferred income tax liabilities | – | – | – | – | – | – | – | 157 | 157 |
| Liabilities of disposal groups classified as held for sale | – | – | – | – | – | – | – | 1,427 | 1,427 |
| Subordinated debt at amortised cost | 5.0 | 287 | – | – | – | 490 | 338 | – | 1,115 |
| Subordinated debt at fair value through profit and loss | 6.1 | – | – | | | 266 | | | 266 |
| **Total liabilities** | | 11,309 | 9,267 | 8,543 | 14,221 | 9,257 | 13,146 | 35,131 | 100,874 |
| **Total equity** | | – | – | – | – | – | – | 5,337 | 5,337 |

* The life business offers an investment linked product. Policy holders are primarily exposed to the interest rate risk on life investment contract assets. The members are subject to interest rate risk on the surplus in the life business statutory funds.

**Note 46. Interest rate risk** continued
Interest rate risk in the balance sheet arises from the potential for a change in interest rates to have an adverse affect on the net interest earnings in the current reporting period and in future years. Interest rate risk arises from the structure and characteristics of the Bank and economic entity's assets, liabilities and equity, and in the mismatch in repricing dates of its assets and liabilities. The tables for both the 2005 and 2006 financial years detail the exposure of the economic entity's assets and liabilities to interest rate risk. The amount shown represents the face value of assets and liabilities, or the equivalent asset or liability arising from a derivative financial instrument.

| | Bank 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate % | Floating interest rate $m | Fixed interest rate repricing: 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | 5.3 | 5 | – | – | – | – | – | – | 5 |
| Due from banks | 5.2 | 2,517 | 2,061 | 1 | – | – | – | – | 4,579 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 5.3 | 6,213 | 6,032 | 1,320 | – | – | – | – | 13,565 |
| Trading portfolio assets | 5.2 | 50 | 876 | 1,559 | 778 | 744 | 900 | 8,123 | 13,030 |
| Loan assets held at amortised cost | 7.3 | 4,572 | 3,063 | 3,822 | 426 | 645 | 653 | – | 13,181 |
| Other financial assets at fair value through profit and loss | 6.2 | 608 | 423 | 54 | 1 | 208 | 600 | – | 1,894 |
| Derivative financial instruments – positive values | – | – | – | – | – | – | – | 10,618 | 10,618 |
| Other financial assets | – | – | – | – | – | – | – | 3,213 | 3,213 |
| Investment securities available for sale | 5.6 | 62 | 378 | 1,122 | 292 | 200 | – | 256 | 2,310 |
| Intangible assets | – | – | – | – | – | – | – | 11 | 11 |
| Due from controlled entities | 5.5 | 9,136 | – | – | – | – | – | 1,105 | 10,241 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | – | – | 833 | 833 |
| Property, plant and equipment | – | – | – | – | – | – | – | 90 | 90 |
| Investment in controlled entities | – | – | – | – | – | – | – | 4,087 | 4,087 |
| Deferred income tax assets | – | – | – | – | – | – | – | 232 | 232 |
| Assets and disposal groups classified as held for sale | – | – | – | – | – | – | – | 18 | 18 |
| **Total assets** | | 23,163 | 12,833 | 7,878 | 1,497 | 1,797 | 2,153 | 28,586 | 77,907 |

| | Weighted average effective interest rate % | Floating interest rate $m | Bank 2006 Fixed interest rate repricing 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Due to banks | 4.1 | 769 | 67 | 262 | 119 | – | – | – | 1,217 |
| Cash collateral on securities lent and repurchase agreements | 5.3 | 3,047 | 3,948 | – | – | – | – | – | 6,995 |
| Trading portfolio liabilities | 3.9 | – | – | 105 | 877 | 2,361 | 2,445 | 4,265 | 10,053 |
| Derivative financial instruments – negative values | – | – | – | – | – | – | – | 9,286 | 9,286 |
| Deposits | 4.5 | 5,674 | 1,755 | 954 | 346 | 362 | 3 | – | 9,094 |
| Debt issued at amortised cost | 4.4 | 971 | 3,270 | 6,695 | 4,777 | 4,793 | 61 | – | 20,567 |
| Other financial liabilities at fair value through profit and loss | 3.8 | – | – | 14 | 501 | 684 | – | 3,859 | 5,058 |
| Other liabilities | – | – | – | – | – | – | – | 4,417 | 4,417 |
| Current tax liabilities | – | – | – | – | – | – | – | 22 | 22 |
| Due to controlled entities | 4.5 | 3,887 | – | – | – | – | – | 1,388 | 5,275 |
| Provisions | – | – | – | – | – | – | – | 108 | 108 |
| Deferred income tax liabilities | – | – | – | – | – | – | – | 129 | 129 |
| Subordinated debt at amortised cost | 5.0 | 288 | – | – | – | 488 | 338 | – | 1,114 |
| Subordinated debt at fair value through profit and loss | 6.1 | – | – | – | – | 266 | – | – | 266 |
| **Total liabilities** | | 14,636 | 9,040 | 8,030 | 6,620 | 8,954 | 2,847 | 23,474 | 73,601 |
| **Total equity** | | – | – | – | – | – | – | 4,306 | 4,306 |

**Note 46. Interest rate risk** continued

| | | Consolidated 2005 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate % | Floating interest rate $m | Fixed interest rate repricing: 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
| **Assets** | | | | | | | | | |
| Cash and balances with central banks | 5.0 | 4 | – | – | – | – | – | – | 4 |
| Due from banks | 4.5 | 1,807 | 2,162 | – | – | – | – | – | 3,969 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 5.3 | 3,654 | 5,273 | – | – | – | – | – | 8,927 |
| Trading portfolio assets | 2.8 | 150 | 1,267 | 1,077 | 453 | 486 | 445 | 3,922 | 7,800 |
| Other securities | 4.2 | – | 88 | 963 | 21 | 204 | 188 | 248 | 1,712 |
| Loan assets held at amortised cost | 7.3 | 16,883 | 5,334 | 1,621 | 1,660 | 2,827 | 92 | 8 | 28,425 |
| Derivative financial instruments – positive values | – | – | – | – | – | – | – | 5,690 | 5,690 |
| Other assets | – | – | – | – | – | – | – | 3,691 | 3,691 |
| Intangible assets | – | – | – | – | – | – | – | 371 | 371 |
| Life investment contracts and other unit holder assets* | 1.4 | 128 | 192 | 562 | 17 | 144 | 2 | 3,428 | 4,473 |
| Equity investments | – | – | – | – | – | – | – | 116 | 116 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | – | – | 2,117 | 2,117 |
| Property, plant and equipment | – | – | – | – | – | – | – | 148 | 148 |
| Deferred income tax assets | – | – | – | – | – | – | – | 203 | 203 |
| Assets and disposal groups classified as held for sale | – | – | – | – | – | – | – | 334 | 334 |
| **Total assets** | | 22,626 | 14,316 | 4,223 | 2,151 | 3,661 | 727 | 20,276 | 67,980 |

| | Weighted average effective interest rate % | Floating interest rate $m | Consolidated 2005 Fixed interest rate repricing 1 month or less $m | 1 month to 3 months $m | 3 months to 12 months $m | 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Due to banks | 3.7 | 717 | 409 | 62 | 18 | 342 | – | – | 1,548 |
| Cash collateral on securities lent and repurchase agreements | 5.0 | 796 | 1,187 | – | – | – | – | – | 1,983 |
| Trading portfolio liabilities | 4.0 | – | – | – | 219 | 1,946 | 2,298 | 3,218 | 7,681 |
| Derivative financial instruments – negative values | – | – | – | – | – | – | – | 6,224 | 6,224 |
| Deposits | 4.6 | 3,027 | 1,882 | 699 | 816 | 803 | 13 | – | 7,240 |
| Notes payable | 4.7 | – | 9,219 | 16,422 | 1,676 | 825 | 19 | – | 28,161 |
| Other liabilities | – | – | – | – | – | – | – | 4,581 | 4,581 |
| Current tax liabilities | – | | | | | | | 41 | 41 |
| Life investment contracts and other unit holder liabilities | – | – | – | – | – | – | – | 4,429 | 4,429 |
| Provisions | – | – | – | – | – | – | – | 119 | 119 |
| Deferred income tax liabilities | – | – | – | – | – | – | – | 189 | 189 |
| Subordinated debt | 4.4 | 1,094 | – | – | – | 265 | – | – | 1,359 |
| **Total liabilities** | | 5,634 | 12,697 | 17,183 | 2,729 | 4,181 | 2,330 | 18,801 | 63,555 |
| **Total equity** | | – | – | – | – | – | – | 4,425 | 4,425 |

* The life business offers an investment linked product. Policy holders are primarily exposed to the interest rate risk on life investment contract assets. The members are subject to interest rate risk on the surplus in the life business statutory funds.

The interest rate risk table is prepared in accordance with the requirements of the previous AGAAP standard AASB 1033: *Presentation and Disclosure of Financial Instruments* and as such it does not include off-balance sheet derivative financial instruments relating to currencies, commodities or equities, nor certain off-balance sheet securities purchase and sale agreements, all of which are interest rate sensitive.

For internal risk management, the economic entity does not use the repricing information in the way presented in this table. Interest rate risk, like all market risk, is measured and controlled on the basis of a wide range of rate movement scenarios, including worst case scenarios. It is calculated daily and covers all interest rate sensitive instruments. The economic entity also calculates daily Value At Risk measures for all market risks, including interest rate risk.

## Note 47. Fair value

Fair value reflects the present value of future cash flows associated with a financial asset or liability. Market prices or rates are used to determine fair value where an active market exists. Where no active market price or rate is available, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing at balance sheet dates.

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

The following methods and significant assumptions have been applied in determining the fair values of financial assets and liabilities carried at fair value, and, for disclosure purposes, in determining whether a material difference between the fair value and carrying amount exists.

**Financial instruments carried at fair value:**

– Trading portfolio assets and liabilities, financial assets and liabilities at fair value through profit and loss, derivative financial instruments, and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or other recognised valuation techniques.

– Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices when available (e.g. listed securities). If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unrealised gains and losses, excluding impairment write-downs, are recorded in the Available For Sale Reserve in equity until an asset is sold, collected or otherwise disposed of;

– Fair values of fixed rate loans and issued debt classified as fair value through profit and loss is estimated by comparing market interest rates when the loans were granted/debt issued with current market rates offered on similar loans.

**Financial instruments carried at cost:**

– The carrying amount of liquid assets and other assets maturing within 12 months approximates their fair value. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;

– The fair value of demand deposits with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

– The fair value of variable rate financial instruments, including cash collateral on securities borrowed and reverse repurchase agreements, is approximated by their carrying amounts and, in the case of loans, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the allowance for credit losses;

**Note 47. Fair value** continued

- The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are recognised separately by deducting the amount of the allowance for credit losses. The carrying amounts are not materially different to their face value.
- Substantially all of the economic entity's commitments to extend credit are at variable rates. As such, there is no significant exposure to fair value fluctuations resulting from interest rate movements relating to these commitments.
- The fair value of variable rate notes payable and debt issued at amortised cost is approximated by their carrying amount.

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 to ensure the outputs reflect actual data and comparative market prices. To the extent possible, models use only observable data (e.g. for OTC derivatives), however areas such as credit risk, volatilities and correlations require management to make estimates. The effect of changing these estimates, for those financial instruments for which the fair values were measured using valuation techniques that are determined in full or in part based on unobservable data (e.g. for certain exotic or structured financial instruments), to a range of reasonably possible alternative assumptions, would be to increase or decrease the fair values by less than $20 million as compared to the amounts recognised in the financial statements. Changes in assumptions about these factors could affect reported fair value of financial instruments.

## Note 48. Credit risk

Credit risk is the potential loss arising through the default of counterparties to financial assets. The table below details the concentration of credit exposure of the economic entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the economic entity's assets. In all cases this is equal to the carrying value of the assets with the exception of credit commitments and contingent liabilities and derivatives which are recorded at the maximum credit exposure.

**Consolidated 2006**
**Credit risk concentration**

| | Due from Banks $m | Cash collateral on securities borrowed and reverse repurchase agreements $m | Trading portfolio assets $m | Loan assets held at amortised cost $m | Other financial assets at fair value through profit and loss $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Central bank | – | 22 | – | – | – |
| Governments | – | 385 | 1,457 | 205 | 383 |
| Other financial institutions | 2,121 | 2,304 | 1,326 | – | – |
| Other | 251 | 5,255 | 8,768 | 30,567 | 1,714 |
| Total Australia | 2,372 | 7,966 | 11,551 | 30,772 | 2,097 |
| **New Zealand** | | | | | |
| Governments | – | – | – | 1 | – |
| Other financial institutions | 54 | – | – | – | – |
| Other | – | 1 | 52 | 127 | – |
| Total New Zealand | 54 | 1 | 52 | 128 | – |
| **Europe** | | | | | |
| Other financial institutions | 800 | 2,239 | 137 | – | 5 |
| Other | – | 2,357 | 1,351 | 1,819 | – |
| Total Europe | 800 | 4,596 | 1,488 | 1,819 | 5 |
| **North America** | | | | | |
| Governments | – | – | – | – | – |
| Other financial institutions | 425 | 897 | 35 | – | – |
| Other | 1 | 17 | 436 | 1,746 | 2 |
| Total North America | 426 | 914 | 471 | 1,746 | 2 |
| **Asia** | | | | | |
| Governments | – | – | – | – | – |
| Other financial institutions | 2,711 | 88 | – | – | – |
| Other | 13 | 5 | 684 | 383 | – |
| Total Asia | 2,724 | 93 | 684 | 383 | – |
| **Other** | | | | | |
| Other financial institutions | 18 | – | – | – | – |
| Other | – | – | – | 151 | – |
| Total other | 18 | – | – | 151 | – |
| **Total** | 6,394 | 13,570 | 14,246 | 34,999 | 2,104 |
| **Total gross credit risk** | | | | | |

| Derivative financial instruments – positive values $m | Other assets $m | Debt investment securities available for sale $m | Life investment securities available for sale $m | Credit commitments and contingent liabilities $m | Net interest in associates and JVs using the equity method $m | Total $m |
|---|---|---|---|---|---|---|
| 78 | – | – | – | – | – | 100 |
| 29 | – | – | – | 2 | – | 2,461 |
| 267 | – | 1,879 | – | – | – | 7,897 |
| 4,571 | 4,941 | 390 | 5,183 | 535 | 2,515 | 64,690 |
| 4,945 | 4,941 | 2,269 | 5,183 | 537 | 2,515 | 75,148 |
| – | – | – | – | – | – | 1 |
| 8 | – | – | – | – | – | 62 |
| 67 | 26 | – | – | 1 | 3 | 277 |
| 75 | 26 | – | – | 1 | 3 | 340 |
| 2,332 | – | 373 | – | – | – | 5,886 |
| 655 | 822 | 135 | – | 77 | 233 | 7,449 |
| 2,987 | 822 | 508 | – | 77 | 233 | 13,335 |
| 1 | – | – | – | – | – | 1 |
| 510 | – | 18 | – | – | – | 1,885 |
| 1,210 | 280 | 399 | – | 246 | 331 | 4,668 |
| 1,721 | 280 | 417 | – | 246 | 331 | 6,554 |
| 9 | – | – | – | – | – | 9 |
| 387 | – | – | – | – | 11 | 3,197 |
| 429 | 2,358 | – | – | 42 | 368 | 4,282 |
| 825 | 2,358 | – | – | 42 | 379 | 7,488 |
| 66 | – | – | – | – | – | 84 |
| 359 | 25 | 7 | – | 13 | 2 | 557 |
| 425 | 25 | 7 | – | 13 | 2 | 641 |
| 10,978 | 8,452 | 3,201 | 5,183 | 916 | 3,463 | 103,506 |
| | | | | | | 103,506 |

**Note 48. Credit risk** continued

The following provides detail around the active management of Credit Risk by the economic entity:

The economic entity enters in master netting agreements with its counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Credit derivatives have been used by the economic entity to mitigate risk by buying and selling protection over on-balance sheet assets. As at 31 March 2006 the fair value of the credit derivatives was $1.24 million. Stock borrowing and reverse repurchase arrangements entered into by the economic entity with external counterparties requires collateral of 105% (which is consistent with industry practice). Mortgage insurance contracts are entered into in order to manage the credit risk around the mortgage portfolios in Australia. As at 31 March 2006, loans of $18,128 million were covered by these contracts. Mortgage insurance contracts are not entered into in the USA. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit. As at 31 March 2006, this amounted to $425.5 million.

**Bank 2006**

| Credit risk concentration | Due from Banks $m | Cash collateral on securities borrowed and reverse repurchase agreements $m | Trading portfolio assets $m | Loan assets held at amortised cost $m | Other financial assets at fair value through profit and loss $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Central bank | – | 22 | – | – | – |
| Governments | – | 385 | 1,457 | 161 | 178 |
| Other financial institutions | 1,920 | 2,304 | 1,305 | – | – |
| Other | 172 | 5,255 | 8,716 | 9,484 | 1,714 |
| Total Australia | 2,092 | 7,966 | 11,478 | 9,645 | 1,892 |
| **New Zealand** | | | | | |
| Other financial institutions | 11 | – | – | – | – |
| Other | – | 1 | – | (7) | – |
| Total New Zealand | 11 | 1 | – | (7) | – |
| **Europe** | | | | | |
| Other financial institutions | 738 | 2,239 | 137 | – | – |
| Other | – | 2,357 | 1,283 | 1,818 | – |
| Total Europe | 738 | 4,596 | 1,420 | 1,818 | – |
| **North America** | | | | | |
| Other financial institutions | 109 | 898 | 35 | – | – |
| Other | – | 16 | 97 | 1,228 | 2 |
| Total North America | 109 | 914 | 132 | 1,228 | 2 |
| **Asia** | | | | | |
| Central Banks | – | – | – | – | – |
| Other financial institutions | 1,625 | 88 | – | – | – |
| Other | 3 | – | – | 346 | – |
| Total Asia | 1,628 | 88 | – | 346 | – |
| **Other** | | | | | |
| Other financial institutions | 1 | – | – | – | – |
| Other | – | – | – | 151 | – |
| Total other | 1 | – | – | 151 | – |
| **Total** | 4,579 | 13,565 | 13,030 | 13,181 | 1,894 |
| **Total gross credit risk** | | | | | |

| Derivative financial instruments – positive values $m | Other assets $m | Debt investment securities available for sale $m | Credit commitments and contingent liabilities $m | Net interest in associates and JVs using the equity method $m | Due from Controlled entities $m | Total $m |
|---|---|---|---|---|---|---|
| 78 | – | – | – | – | – | 100 |
| 29 | – | – | 2 | – | – | 2,212 |
| 266 | – | 1,386 | – | – | – | 7,181 |
| 4,308 | 3,043 | 132 | 550 | 765 | 5,972 | 40,111 |
| 4,681 | 3,043 | 1,518 | 552 | 765 | 5,972 | 49,604 |
| 8 | – | – | – | – | – | 19 |
| 67 | – | – | 1 | – | 163 | 225 |
| 75 | – | – | 1 | – | 163 | 244 |
| 2,270 | – | 359 | – | – | – | 5,743 |
| 650 | 170 | 131 | 24 | 3 | 1,672 | 8,108 |
| 2,920 | 170 | 490 | 24 | 3 | 1,672 | 13,851 |
| 510 | – | – | – | – | – | 1,552 |
| 1,209 | – | 45 | 193 | 21 | 1,041 | 3,852 |
| 1,719 | – | 45 | 193 | 21 | 1,041 | 5,404 |
| 9 | – | – | – | – | – | 9 |
| 385 | – | – | – | – | – | 2,098 |
| 406 | – | – | 8 | 42 | 1,006 | 1,811 |
| 800 | – | – | 8 | 42 | 1,006 | 3,918 |
| 66 | – | – | – | – | – | 67 |
| 357 | – | – | 13 | 2 | 387 | 910 |
| 423 | – | – | 13 | 2 | 387 | 977 |
| 10,618 | 3,213 | 2,053 | 791 | 833 | 10,241 | 73,998 |
| | | | | | | 73,998 |

**Note 48. Credit risk** continued

The following provides detail around the active management of Credit Risk by the Bank:

The Bank enters in master netting agreements with its counterparties to manage the credit risk where it has trading derivatives in the Equity Markets and Treasury and Commodities divisions. Credit derivatives have been used by the Bank to mitigate risk by buying and selling protection over on balance sheet assets. As at 31 March 2006 the fair value of the credit derivatives was $1.24 million. Stock borrowing and reverse repurchase arrangements entered into by the Bank with external counterparties requires collateral of 105% (which is consistent with industry practice). Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit. As at 31 March 2006, this amounted to $704 million.

| Consolidated 2005<br>Credit risk concentration | Due from Banks $m | Cash collateral on securities borrowed and reverse repurchase agreements $m | Trading portfolio assets $m | Other securities $m | Loan assets held at amortised cost $m |
|---|---|---|---|---|---|
| **Australia** | | | | | |
| Central bank | – | 52 | 5 | – | – |
| Governments | – | 325 | 798 | – | 423 |
| Other financial institutions | 1,549 | 3,368 | 1,230 | 848 | – |
| Other | – | 2,025 | 2,092 | 299 | 24,957 |
| Total Australia | 1,549 | 5,770 | 4,125 | 1,147 | 25,380 |
| **New Zealand** | | | | | |
| Governments | – | – | – | – | 2 |
| Other financial institutions | 34 | – | – | – | – |
| Other | – | 3 | 62 | – | 129 |
| Total New Zealand | 34 | 3 | 62 | – | 131 |
| **Europe** | | | | | |
| Other financial institutions | 411 | 1,338 | 265 | – | – |
| Other | – | 1,447 | 595 | 294 | 767 |
| Total Europe | 411 | 2,785 | 860 | 294 | 767 |
| **North America** | | | | | |
| Governments | – | – | 32 | – | 7 |
| Other financial institutions | 239 | 257 | – | – | – |
| Other | 8 | 2 | 969 | 98 | 1,973 |
| Total North America | 247 | 259 | 1,001 | 98 | 1,980 |
| **Asia** | | | | | |
| Other financial institutions | 1,717 | 98 | 2 | 158 | – |
| Other | – | 12 | 1,657 | – | 68 |
| Total Asia | 1,717 | 110 | 1,659 | 158 | 68 |
| **Other** | | | | | |
| Governments | – | – | 47 | – | – |
| Other financial institutions | 11 | – | – | – | – |
| Other | – | – | 46 | 15 | 99 |
| Total other | 11 | – | 93 | 15 | 99 |
| **Total** | 3,969 | 8,927 | 7,800 | 1,712 | 28,425 |
| **Total gross credit risk** | | | | | |

| Derivative financial instruments – positive values $m | Other assets $m | Life investment contracts and other unit holder assets $m | Credit commitments and contingent liabilities $m | Net interest in associates and JVs using the equity method $m | Total $m |
|---|---|---|---|---|---|
| 29 | – | – | – | – | 86 |
| 68 | – | – | 148 | – | 1,762 |
| 463 | – | – | 62 | – | 7,520 |
| 976 | 1,617 | 4,473 | 1,564 | 17 | 38,020 |
| 1,536 | 1,617 | 4,473 | 1,774 | 17 | 47,388 |
| – | – | – | – | – | 2 |
| – | – | – | – | – | 34 |
| 9 | 60 | – | 14 | – | 277 |
| 9 | 60 | – | 14 | – | 313 |
| 1,036 | – | – | 41 | – | 3,091 |
| 550 | 169 | – | 28 | – | 3,850 |
| 1,586 | 169 | – | 69 | – | 6,941 |
| – | – | – | 6 | – | 45 |
| 539 | – | – | – | – | 1,035 |
| 730 | 303 | – | 207 | 81 | 4,371 |
| 1,269 | 303 | – | 213 | 81 | 5,451 |
| 123 | – | – | 1 | – | 2,099 |
| 386 | 1,480 | – | 35 | – | 3,638 |
| 509 | 1,480 | – | 36 | – | 5,737 |
| – | – | – | – | – | 47 |
| 82 | – | – | – | – | 93 |
| 243 | 62 | – | – | – | 465 |
| 325 | 62 | – | – | – | 605 |
| 5,234 | 3,691 | 4,473 | 2,106 | 98 | 66,435 |
| | | | | | 66,435 |

| | **Consolidated 2006 ’000** | Consolidated 2005 ’000 | **Bank 2006 ’000** | Bank 2005 ’000 |
|---|---|---|---|---|
| **Note 49. Audit and other services provided by PricewaterhouseCoopers (“PwC”)** | | | | |
| During the financial year, the auditor of the Bank and economic entity, PwC, and its related practices earned the following remuneration: | | | | |
| **PwC – Australian firm** | | | | |
| Audit and review of financial reports of the Bank or any entity in the economic entity | **3,324** | 2,299 | **2,709** | 1,842 |
| Other audit-related work | **1,090** | 1,248 | **966** | 1,130 |
| Other assurance services | **451** | 321 | **407** | 150 |
| Total audit and other assurance services | **4,865** | 3,868 | **4,082** | 3,122 |
| Advisory services | **552** | 397 | **552** | 397 |
| Taxation | **249** | 342 | **249** | 341 |
| Total remuneration paid to PwC – Australian firm | **5,666** | 4,607 | **4,883** | 3,860 |
| **Related practices of PwC – Australian firm (including PwC – overseas firms)** | | | | |
| Audit and review of financial reports of the Bank or any entity in the economic entity | **2,775** | 1,992 | **70** | 51 |
| Other audit-related work | **199** | 128 | **12** | – |
| Other assurance services | **148** | 131 | **–** | – |
| Total audit and other assurance services | **3,122** | 2,251 | **82** | 51 |
| Advisory services | **2,754** | 102 | **–** | – |
| Taxation | **1,426** | 1,468 | **–** | – |
| Total remuneration paid to related practices of PwC – Australian firm | **7,302** | 3,821 | **82** | 51 |
| **Total remuneration paid to PwC** | **12,968** | 8,428 | **4,965** | 3,911 |

Use of PwC’s services on other than audit and assurance engagements is restricted in accordance with the Bank’s Auditor Independence policy. These assignments are principally tax compliance and agreed upon assurance procedures in relation to acquisitions.

Certain fees for advisory services are in relation to Initial Public Offerings and due diligence services for new funds. These fees may be recovered by the economic entity upon the successful establishment of the funds.

It is the Bank’s policy to seek competitive tenders for all major consulting projects.

## Note 50. Acquisition and disposal of controlled entities

**Entities acquired or consolidated due to change in control:**

**a) Daegu East Circulation Road Company**

On 16 June 2005, a consortium controlled by the Bank, Macquarie East Daegu Investment Company (MEDIC), acquired the D4 Circulation Road in Korea. The Bank's investment in MEDIC was $27 million. The Bank owned 65% of MEDIC.

**b) Open Telecommunications Limited**

On 5 July 2005, a controlled entity of the Bank acquired 68% of Open Telecommunications Limited at a cost of $5 million. During the period to 31 March 2006 the Group acquired a further 6.87% of Open Telecommunications Limited.

**c) Korean Power Investment Co. Limited ("KPIC")**

On 12 July 2005, a controlled entity of the Bank acquired a 28% interest in KPIC, the principal asset of which was an investment in Korean Independent Energy Corporation. The Bank's investment in KPIC was $55 million. The entity controlled KPIC through the existence of a call option held over the remaining 72% of the equity.

**d) ATM Solutions Australasia**

On 1 August 2005, a controlled entity of the Bank acquired 100% of ATM Solutions Australia Pty Limited at a cost of $44 million.

**e) The Steam Packet Group Limited**

On 20 October 2005, a controlled entity of the Bank acquired 100% of The Steam Packet Group for $95 million. The entity provides freight, passenger and vehicle ferry services between the Isle of Man and the United Kingdom and Ireland.

**f) Smarte Carte Corporation**

On 18 November 2005, a controlled entity of the Bank entered into an agreement with a group of investors to acquire 100 per cent of Smarte Carte Corporation (Smarte Carte), a concessionaire of baggage cart, locker and stroller services operating in airports, train stations, bus terminals, shopping centres and entertainment facilities around the world. The controlled entity gained control of Smarte Carte Corporation on 28 February 2006 when financial close occurred. The cost of investment is $190 million.

**g) AHA Health Abbotsford Limited and AHV Access Health Vancouver Limited**

On 28 December 2005, a controlled entities of the Bank acquired an 81% interest in AHA Health Abbotsford Limited and AHV Access Health Vancouver Limited for a nominal cash consideration, and a deferred equity commitment of $65 million. Both entities are responsible for the design, construction, financing and operation of Hospital facilities in British Columbia, Canada.

**h) Baldwin County Bridge Company LLC**

On 30 December 2005, a controlled entity of the Bank purchased 100% of Baldwin County Bridge Company LLC for $95 million. The entity owns the bridge portion of the Foley Beach Expressway in Alabama, United States.

**i) Macquarie Cook Energy LLC (formerly Cook Inlet Energy Supply LLC)**

On 1 November 2005, a controlled entity of the Bank acquired 100% of Macquarie Cook Energy LLC (formerly Cook Inlet Energy Supply LLC) for $60 million. The entity provides physical natural gas trading, transportation and storage services and is located in Los Angeles, United States.

**Note 50. Acquisition and disposal of controlled entities** continued

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

| | **As at 31 March 2006 $m** | As at 31 March 2005 $m |
|---|---|---|
| **Fair value of net assets acquired** | | |
| Cash and other financial assets | **182** | 26 |
| Derivatives and financial instruments – positive values | **269** | – |
| Fixed assets | **28** | 75 |
| Intangible assets | **112** | 353 |
| Assets of disposal groups classified as held for sale | **2,271** | 747 |
| Derivative financial instruments – negative values | **(254)** | – |
| Payables, provisions and borrowings | **(197)** | (81) |
| Liabilities of disposal groups classified as held for sale | **(1,660)** | (198) |
| Minority interest in disposal groups classified as held for sale | **(151)** | – |
| Total fair value of net assets acquired | **600** | 922 |
| **Purchase consideration** | | |
| Cash consideration | **589** | 922 |
| Deferred consideration | **76** | – |
| Total purchase consideration | **665** | 922 |
| **Reconciliation of cash movement** | | |
| Cash consideration | **(589)** | (922) |
| Less: cash acquired | **279** | 19 |
| Total cash outflow | **(310)** | (903) |

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

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

The 31 March 2005 comparatives relate to the acquisitions of District Energy, Atlantic Aviation, RG Capital Radio and DMG Regional Radio. As detailed in the table above, the significant intangibles relating to these entities included radio licences, aircraft leases and goodwill.

**Entities disposed of or deconsolidated due to change in control:**

**a) RG Capital and DMG Regional Radio ("Radioworks")**

On 22 November 2005, two wholly owned subsidiaries of the Bank, Macquarie Media Holdings Limited and Macquarie Media Trust (collectively the Macquarie Media Group or MMG), were floated on the Australian Stock Exchange. MMG was the owner of the Group's interest in the former RG Capital and DMG Regional Radio ("Radioworks") acquired in August and September 2004. As a result of the float, the Group's effective interest in MMG was reduced to 19.95%. The Group's 19.95% interest in MMG has been equity accounted from 22 November 2005.

**b) Daegu East Circulation Road Company**

On 28 February 2006, a subsidiary of the Bank, Macquarie International Holdings Limited, entered into a Sale and Purchase Agreement to sell its interest in Macquarie East Daegu Investment Company ("MEDIC") to Macquarie Korean Infrastructure Fund. The transaction settled on 14 March 2006. As a result of the sale, the Bank is no longer required to consolidate its interest in MEDIC and its interest in the D4 Circulation Road in Korea.

**c) Korean Power Investment Co. Limited ("KPIC")**

On 21 March 2006, a subsidiary of the Bank, Korean Power Investment Co. Limited ("KPIC") entered into a Sale and Purchase Agreement to dispose of its interest in the Korean Independent Energy Corporation. The Bank's interest in KPIC was 28%. The Bank controlled KPIC via a call option over the remaining 72% of the equity in KPIC. The call option was terminated on 27 March 2006.
As a result of the sale of its ownership interest and the termination of the call option the bank ceased to control KPIC on 27 March 2006.

**Note 50. Acquisition and disposal of controlled entities** continued

Aggregate details of the disposals and deconsolidations are as follows:

| | **As at 31 March 2006 $m** | As at 31 March 2005 $m |
|---|---|---|
| **Carrying value of assets and liabilities disposed of or deconsolidated** | | |
| Cash, intangible assets and other assets | **–** | 36 |
| Assets of disposal groups classified as held for sale | **1,099** | 2,743 |
| Payables, provisions and borrowings | **–** | (14) |
| Liabilities of disposal groups classified as held for sale | **(687)** | (2,195) |
| Minority interest | **–** | (13) |
| Minority interest in disposal groups classified as held for sale | **(139)** | – |
| Total carrying value of assets and liabilities disposed of or deconsolidated | **273** | 557 |
| **Reconciliation of cash movement** | | |
| Cash received* | **460** | 528 |
| Less: | | |
| Investment retained | **(110)** | – |
| Cash deconsolidated | **(102)** | (89) |
| Total cash inflow/(outflow) | **248** | 439 |

* Cash received includes the repayment of intercompany debt.

The 31 March 2005 comparatives relate to the deconsolidation of District Energy, Atlantic Aviation, South East Water, Arlanda Express and CH4 Gas Limited.

**Note 51. Events occurring after reporting date**

There were no material post balance sheet events occurring after the reporting date requiring disclosure in these financial statements.

### Note 52. Explanation of transition to Australian equivalents to IFRSs ("AIFRS")

The Bank and economic entity have prepared these financial statements using Australian Standards that are equivalent to International Financial Reporting Standards and their related pronouncements ("AIFRS"). As these financial statements are for the first annual financial year reported in accordance with AIFRS, it is necessary to explain how the transition from previous Australian generally accepted accounting principles ("previous AGAAP") to AIFRS affected the previously reported financial position, financial performance and cash flows since 31 March 2004 (i.e. the 31 March 2005 balance sheets; and the income statements and statements of cash flows for the financial year ended 31 March 2005).

In accordance with AIFRS, the comparative information has been restated using the new accounting standards from 1 April 2004, with the exception of AASB 132: *Financial Instruments: Disclosure and Presentation* ("AASB 132") and AASB 139: *Financial Instruments: Recognition and Measurement* ("AASB 139"). As permitted by the transitional provisions of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1"), management has elected not to apply AASB 132 and AASB 139 to the comparative information, and therefore apply these standards from 1 April 2005. Comparative information for financial instruments has been prepared on the basis of the Bank and economic entity's accounting policies under previous AGAAP. Adjustments required on transition to AIFRS have been made retrospectively, mostly against opening retained earnings, at the respective dates.

AIFRS has not changed the economics of the business, or the risks being carried, or affected the economic entity's ability to borrow funds or make dividend distributions.

### Regulatory capital

Many of the changes below impact on the economic entity's assets and equity items that are included in the calculation of regulatory capital.

APRA requires that ADI's report to APRA for regulatory purposes under AIFRS from 1 July 2006 and has issued draft prudential standards and guidance notes addressing these aspects. These are the subject of ongoing consultation with industry and others and the impact of these standards and guidance notes will only be known at the time final standards and guidance notes are issued.

In the interim, APRA-regulated institutions continue to comply with, and report in terms of, current prudential standards.

| | Consolidated Year to 31 March 2005 $m | Bank Year to 31 March 2005 $m |
|---|---|---|
| **Section 1: Consolidated and Bank Income Statements (restated on AIFRS basis)** | | |
| Interest and similar income | 2,565 | 1,545 |
| Interest expense and similar charges | (2,029) | (1,479) |
| Net interest income | 536 | 66 |
| Fee and commission income | 2,250 | 609 |
| Fee and commission expense | (429) | (235) |
| Net fee and commission income | 1,821 | 374 |
| Net trading income | 734 | 613 |
| Share of net profits of associates and joint ventures using the equity method | 17 | – |
| Other operating income | 725 | 1,426 |
| Other operating expenses | (81) | (70) |
| Total income from ordinary activities | 3,752 | 2,409 |
| Employment expenses | (2,045) | (1,496) |
| Occupancy expenses | (101) | (65) |
| Non salary technology expenses | (104) | (71) |
| Professional fees, travel and communication expenses | (190) | (114) |
| Other expenses | (154) | (88) |
| Total expenses from ordinary activities | (2,594) | (1,834) |
| **Operating profit before income tax** | 1,158 | 575 |
| Income tax expense | (288) | 46 |
| **Profit from ordinary activities after income tax** | 870 | 621 |
| Profit attributable to minority interests | (29) | – |
| Profit attributable to equity holders of Macquarie Bank Limited | 841 | 621 |
| Distributions paid or provided on Macquarie Income Securities | (29) | – |
| Distributions paid or provided on convertible debentures | – | (28) |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | 812 | 593 |

| | As at 1 April 2005 $m | As at 31 March 2005 $m | As at 1 April 2004 $m |
|---|---|---|---|
| **Section 1: Consolidated Balance Sheets (restated on AIFRS basis)** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 4 | 4 | 1 |
| Due from banks | 3,969 | 3,969 | 1,504 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 8,927 | 8,927 | 8,598 |
| Trading portfolio assets | 6,303 | 7,800 | 7,423 |
| Other securities | | 1,712 | 2,168 |
| Loan assets held at amortised cost | 28,100 | 28,425 | 21,806 |
| Other financial assets at fair value through profit and loss | 1,367 | | |
| Derivative financial instruments – positive values | 6,157 | 5,690 | 6,725 |
| Other assets | 3,137 | 3,691 | 3,172 |
| Investment securities available for sale | 2,646 | | |
| Intangible assets | 371 | 371 | 20 |
| Life investment contracts and other unit holder assets | 4,473 | 4,473 | 4,534 |
| Equity investments | | 116 | 110 |
| Interest in associates and joint ventures using the equity method | 2,117 | 2,117 | 631 |
| Property, plant and equipment | 148 | 148 | 70 |
| Deferred income tax assets | 201 | 203 | 189 |
| Assets and disposal groups classified as held for sale | 334 | 334 | 1,967 |
| **Total assets** | 68,254 | 67,980 | 58,918 |
| **Liabilities** | | | |
| Due to banks | 1,564 | 1,548 | 970 |
| Cash collateral on securities lent and repurchase agreements | 1,983 | 1,983 | 2,597 |
| Trading portfolio liabilities | 7,681 | 7,681 | 5,750 |
| Derivative financial instruments – negative values | 6,408 | 6,224 | 7,032 |
| Deposits | 7,286 | 7,240 | 5,771 |
| Notes payable | | 28,161 | 23,505 |
| Debt issued at amortised cost | 25,975 | | |
| Other financial liabilities at fair value through profit and loss | 2,236 | | |
| Other liabilities | 4,440 | 4,581 | 3,179 |
| Current tax liabilities | 41 | 41 | 51 |
| Life investment contracts and other unit holder liabilities | 4,442 | 4,429 | 4,476 |
| Provision for distributions | | | |
| Provisions | 119 | 119 | 80 |
| Deferred income tax liabilities | 217 | 189 | 68 |
| Liabilities of disposal groups classified as held for sale | – | | 1,682 |
| Subordinated debt at amortised cost | 1,095 | 1,359 | 960 |
| Subordinated debt at fair value through profit and loss | 264 | | |
| **Total liabilities** | 63,751 | 63,555 | 56,121 |
| **Net assets** | 4,503 | 4,425 | 2,797 |
| **Equity** | | | |
| Ordinary share capital | 1,600 | 1,600 | 1,382 |
| Treasury shares | (1) | (1) | (1) |
| Macquarie Income Securities | 391 | 391 | 391 |
| Available for sale reserve | 67 | | |
| Share based payment reserve | 39 | 39 | 10 |
| Cash flow hedge reserve | 4 | | |
| Other reserves | 10 | 10 | (1) |
| Retained earnings | 1,539 | 1,523 | 996 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 3,649 | 3,562 | 2,777 |
| Minority interests | 854 | 863 | 20 |
| **Total equity** | 4,503 | 4,425 | 2,797 |

| | As at 1 April 2005 $m | As at 31 March 2005 $m | As at 1 April 2004 $m |
|---|---|---|---|
| **Section 1: Bank Balance Sheets (restated on AIFRS basis)** | | | |
| **Assets** | | | |
| Cash and balances with central banks | 4 | 4 | 1 |
| Due from banks | 3,064 | 3,064 | 947 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 8,916 | 8,916 | 8,263 |
| Trading portfolio assets | 5,696 | 6,994 | 6,283 |
| Other securities | | 83 | 82 |
| Loan assets held at amortised cost | 9,040 | 9,831 | 6,652 |
| Other financial assets at fair value through profit and loss | 1,168 | | |
| Derivative financial instruments – positive values | 6,194 | 5,986 | 6,799 |
| Other assets | 1,068 | 1,322 | 1,127 |
| Investment securities available for sale | 1,248 | | |
| Intangible assets | 15 | 15 | 16 |
| Due from controlled entities | 6,667 | 6,667 | 5,954 |
| Equity investments | | 47 | 27 |
| Interest in associates and joint ventures using the equity method | 600 | 600 | 345 |
| Property, plant and equipment | 53 | 53 | 59 |
| Investment in controlled entities | 4,152 | 4,152 | 6,195 |
| Deferred income tax assets | 74 | 78 | 89 |
| Assets and disposal groups classified as held for sale | 294 | 294 | – |
| **Total assets** | 48,253 | 48,106 | 42,839 |
| **Liabilities** | | | |
| Due to banks | 902 | 896 | 937 |
| Cash collateral on securities lent and repurchase agreements | 1,894 | 1,894 | 2,597 |
| Trading portfolio liabilities | 7,629 | 7,629 | 5,177 |
| Derivative financial instruments – negative values | 5,687 | 5,574 | 5,933 |
| Deposits | 7,214 | 7,187 | 4,657 |
| Notes payable | | 13,270 | 12,320 |
| Debt issued at amortised cost | 11,325 | | |
| Other financial liabilities at fair value through profit and loss | 2,259 | | |
| Other liabilities | 2,248 | 2,357 | 1,472 |
| Current tax liabilities | 14 | 14 | 11 |
| Due to controlled entities | 3,976 | 3,976 | 6,286 |
| Provision for distributions | | | |
| Provisions | 98 | 98 | 66 |
| Deferred income tax liabilities | 39 | 26 | – |
| Liabilities of disposal groups classified as held for sale | – | | – |
| Subordinated debt at amortised cost | 1,095 | 1,359 | 960 |
| Subordinated debt at fair value through profit and loss | – | | |
| **Total liabilities** | 44,380 | 44,280 | 40,416 |
| **Net assets** | 3,857 | 3,826 | 2,423 |
| **Equity** | | | |
| Ordinary share capital | 1,600 | 1,600 | 1,382 |
| Macquarie Income Securities | 391 | 391 | 391 |
| Available for sale reserve | 48 | | |
| Share based payment reserve | 39 | 39 | 10 |
| Cash flow hedge reserve | 13 | | |
| Other reserves | (38) | (38) | – |
| Retained earnings | 936 | 950 | 640 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 2,989 | 2,942 | 2,423 |
| Convertible debentures | 884 | 884 | – |
| **Total equity** | 3,873 | 3,826 | 2,423 |

**Section 2: Reconciliations From Previous AGAAP to AIFRS**

The pages that follow contain detailed reconciliations from previous AGAAP to AIFRS in accordance with AASB 1. The balance sheet reconciliations contain two columns for each period as well as the previous AGAAP and restated AIFRS amounts. The "reclassify" column includes reclassification and analysis of amounts from their previous AGAAP balance sheet lines to the appropriate AIFRS balance sheet lines. The "remeasure" column sets out the effects of the recognition and measurement changes required by the transition to AIFRS. The "remeasure" columns are further categorised into the type of adjustment. The income statement reconciliations contain an adjustment column for each period as well as the previous AGAAP and restated AIFRS amounts. The adjustment column is further categorised into items giving rise to remeasurement adjustments, together with a column comprising reclassification adjustments.

The tables on pages 107 to 114 provide more information on each type of adjustment that are referenced in the remeasure analysis.

| | Consolidated Year to 31 March 2005 $m | | | Bank Year to 31 March 2005 $m | | |
|---|---|---|---|---|---|---|
| | AGAAP | Adjustments | AIFRS | AGAAP | Adjustments | AIFRS |
| **Section 2: Consolidated and Bank Income Statement Reconciliations for periods during the 2005 financial year** | | | | | | |
| Interest and similar income | 1,636 | 929 | 2,565 | 1,545 | – | 1,545 |
| Interest expense and similar charges | (1,266) | (763) | (2,029) | (1,479) | – | (1,479) |
| Net interest income | 370 | 166 | 536 | 66 | – | 66 |
| Fee and commission income | 2,371 | (121) | 2,250 | 609 | – | 609 |
| Fee and commission expense | (468) | 39 | (429) | (235) | – | (235) |
| Net fee and commission income | 1,903 | (82) | 1,821 | 374 | – | 374 |
| Net trading income | 734 | – | 734 | 613 | – | 613 |
| Share of net profits of associates and joint ventures using the equity method | 35 | (18) | 17 | – | – | – |
| Other operating income | 825 | (100) | 725 | 1,426 | – | 1,426 |
| Other operating expenses | (118) | 37 | (81) | (70) | – | (70) |
| Total income from ordinary activities | 3,749 | 3 | 3,752 | 2,409 | – | 2,409 |
| Employment expenses | (1,958) | (87) | (2,045) | (1,466) | (30) | (1,496) |
| Occupancy expenses | (107) | 6 | (101) | (65) | – | (65) |
| Non salary technology expenses | (104) | – | (104) | (71) | – | (71) |
| Professional fees, travel and communication expenses | (192) | 2 | (190) | (114) | – | (114) |
| Other expenses | (227) | 73 | (154) | (88) | – | (88) |
| Total expenses from ordinary activities | (2,588) | (6) | (2,594) | (1,804) | (30) | (1,834) |
| **Operating profit before income tax** | 1,161 | (3) | 1,158 | 605 | (30) | 575 |
| Income tax expense | (280) | (8) | (288) | 42 | 4 | 46 |
| **Profit from ordinary activities after income tax** | 881 | (11) | 870 | 647 | (26) | 621 |
| Profit attributable to minority interests | (29) | – | (29) | – | – | – |
| Profit attributable to equity holders of Macquarie Bank Limited | 852 | (11) | 841 | 647 | (26) | 621 |
| Distributions paid or provided on Macquarie Income Securities | (29) | – | (29) | – | – | – |
| Distributions paid or provided on convertible debentures | – | – | – | (28) | – | (28) |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | 823 | (11) | 812 | 619 | (26) | 593 |

| | Share based payments[a] | Consolidation of SPEs[b] | Employee benefit plans[d] | Treasury Shares[g] | Equity Accounting[e] | Reclassif-ication | Total Adjustment |
|---|---|---|---|---|---|---|---|
| | Year to 31 March 2005 $m | | | | | | |
| **Section 2: Analysis of Adjustments Column in the Consolidated Income Statement Reconciliation For the year to 31 March 2005** | | | | | | | |
| Interest and similar income | – | 942 | – | – | (10) | (3) | 929 |
| Interest expense and similar charges | – | (801) | – | – | – | 38 | (763) |
| Net interest income | – | 141 | – | – | (10) | 35 | 166 |
| Fee and commission income | – | (115) | – | (1) | (5) | – | (121) |
| Fee and commission expense | – | (23) | – | – | – | 62 | 39 |
| Net fee and commission income | – | (138) | – | (1) | (5) | 62 | (82) |
| Net trading income | – | 4 | – | – | – | (4) | – |
| Share of net profits of associates and joint ventures using the equity method | – | – | – | – | (18) | – | (18) |
| Other operating income | – | (7) | – | – | 73 | (166) | (100) |
| Other operating expenses | – | – | – | – | – | 37 | 37 |
| Total income from ordinary activities | – | – | – | (1) | 40 | (36) | 3 |
| Employment expenses | (29) | – | (13) | – | – | (45) | (87) |
| Occupancy expenses | – | – | – | – | – | 6 | 6 |
| Non salary technology expenses | – | – | – | – | – | – | – |
| Professional fees, travel and communication expenses | – | – | – | – | – | 2 | 2 |
| Other expenses | – | – | – | – | – | 73 | 73 |
| Total expenses from ordinary activities | (29) | – | (13) | – | – | 36 | (6) |
| **Operating profit before income tax** | (29) | – | (13) | (1) | 40 | – | (3) |
| Income tax expense | – | – | 4 | – | (12) | – | (8) |
| **Profit from ordinary activities after income tax** | (29) | – | (9) | (1) | 28 | – | (11) |
| Profit attributable to minority interests | – | – | – | – | – | – | – |
| Profit attributable to equity holders of Macquarie Bank Limited | (29) | – | (9) | (1) | 28 | – | (11) |
| Distributions paid or provided on Macquarie Income Securities | – | – | – | – | – | – | – |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | (29) | – | (9) | (1) | 28 | – | (11) |

[a] Refers to Adjustment A on page 107, and following for other letters.

| | Share based payments[a] | Consolidation of SPEs[b] | Employee benefit plans[d] | Treasury Shares[g] | Equity Accounting[e] | Reclassif-ication | Total Adjustment |
|---|---|---|---|---|---|---|---|
| | Year to 31 March 2005 $m | | | | | | |
| **Section 2: Analysis of Adjustments Column in the Bank Income Statement Reconciliation For the year to 31 March 2005** | | | | | | | |
| Interest and similar income | – | – | – | – | – | – | – |
| Interest expense and similar charges | – | – | – | – | – | – | – |
| Net interest income | – | – | – | – | – | – | – |
| Fee and commission income | – | – | – | – | – | – | – |
| Fee and commission expense | – | – | – | – | – | – | – |
| Net fee and commission income | – | – | – | – | – | – | – |
| Net trading income | – | – | – | – | – | – | – |
| Share of net profits of associates and joint ventures using the equity method | – | – | – | – | – | – | – |
| Other operating income | – | – | – | – | – | – | – |
| Other operating expenses | – | – | – | – | – | – | – |
| Total income from ordinary activities | – | – | – | – | – | – | – |
| Employment expenses | (17) | – | (13) | – | – | – | (30) |
| Occupancy expenses | – | – | – | – | – | – | – |
| Non salary technology expenses | – | – | – | – | – | – | – |
| Professional fees, travel and communication expenses | – | – | – | – | – | – | – |
| Other expenses | – | – | – | – | – | – | – |
| Total expenses from ordinary activities | (17) | – | (13) | – | – | – | (30) |
| **Operating profit before income tax** | (17) | – | (13) | – | – | – | (30) |
| Income tax expense | – | – | 4 | – | – | – | 4 |
| **Profit from ordinary activities after income tax** | (17) | – | (9) | – | – | – | (26) |
| Profit attributed to minority interests | – | – | – | – | – | – | – |
| Profit attributable to equity holders of Macquarie Bank Limited | (17) | – | (9) | – | – | – | (26) |
| Distributions paid or provided on convertible debentures | – | – | – | – | – | – | – |
| **Profit attributable to ordinary equity holders of Macquarie Bank Limited** | (17) | – | (9) | – | – | – | (26) |

[a] Refers to Adjustment A on page 107, and following for other letters.

| | As at 1 April 2005 $m | | | |
|---|---|---|---|---|
| | AIFRS except 132/139 | Re-classify | Re-measure | AIFRS |
| **Section 2: Consolidated Balance Sheet Reconciliations as at periods from 1 April 2004 to 1 April 2005** | | | | |
| **Assets** | | | | |
| Cash and liquid assets | – | – | – | – |
| Cash and balances with central banks | 4 | – | – | 4 |
| Due from banks | 3,969 | – | – | 3,969 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 8,927 | – | – | 8,927 |
| Trading portfolio assets | 7,800 | (1,497) | – | 6,303 |
| Other securities | 1,712 | (1,712) | – | – |
| Loan assets held at amortised cost | 28,425 | (350) | 25 | 28,100 |
| Other financial assets at fair value through profit and loss | – | 1,367 | – | 1,367 |
| Derivative financial instruments – positive values | 5,690 | 308 | 159 | 6,157 |
| Other assets | 3,691 | (554) | – | 3,137 |
| Investment securities available for sale | – | 2,554 | 92 | 2,646 |
| Intangible assets | 371 | – | – | 371 |
| Life investment contracts and other unit holder assets | 4,473 | – | – | 4,473 |
| Equity investments | 116 | (116) | – | – |
| Interest in associates and joint ventures using the equity method | 2,117 | – | – | 2,117 |
| Property, plant and equipment | 148 | – | – | 148 |
| Deferred income tax assets | 203 | – | (2) | 201 |
| Assets and disposal groups classified as held for sale | 334 | – | – | 334 |
| **Total assets** | 67,980 | – | 274 | 68,254 |
| **Liabilities** | | | | |
| Due to banks | 1,548 | 16 | – | 1,564 |
| Cash collateral on securities lent and repurchase agreements | 1,983 | – | – | 1,983 |
| Trading portfolio liabilities | 7,681 | – | – | 7,681 |
| Derivative financial instruments – negative values | 6,224 | 41 | 143 | 6,408 |
| Deposits | 7,240 | 46 | – | 7,286 |
| Notes payable | 28,161 | (28,161) | – | – |
| Debt issued at amortised cost | – | 25,975 | – | 25,975 |
| Other financial liabilities at fair value through profit and loss | – | 2,239 | (3) | 2,236 |
| Other liabilities | 4,581 | (156) | 15 | 4,440 |
| Current tax liabilities | 41 | – | – | 41 |
| Life investment contracts and other unit holder liabilities | 4,429 | 9 | 4 | 4,442 |
| Provision for distributions | – | – | – | – |
| Provisions | 119 | – | – | 119 |
| Deferred income tax liabilities | 189 | – | 28 | 217 |
| Liabilities of disposal groups classified as held for sale | – | – | – | – |
| Subordinated debt at amortised cost | 1,359 | (264) | – | 1,095 |
| Subordinated debt at fair value through profit and loss | – | 264 | – | 264 |
| **Total liabilities** | 63,555 | 9 | 187 | 63,751 |
| **Net assets** | 4,425 | (9) | 87 | 4,503 |
| **Equity** | | | | |
| Ordinary share capital | 1,600 | – | – | 1,600 |
| Treasury shares | (1) | – | – | (1) |
| Macquarie Income Securities | 391 | – | – | 391 |
| Available for sale reserve | – | – | 67 | 67 |
| Share based payment reserve | 39 | – | – | 39 |
| Cash flow hedge reserve | – | – | 4 | 4 |
| Other reserves | 10 | – | – | 10 |
| Retained earnings | 1,523 | – | 16 | 1,539 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 3,562 | – | 87 | 3,649 |
| Minority interests | 863 | (9) | – | 854 |
| **Total equity** | 4,425 | (9) | 87 | 4,503 |

| As at 31 March 2005 $m | | | | As at 1 April 2004 $m | | | |
|---|---|---|---|---|---|---|---|
| AGAAP | Re-classify | Re-measure | AIFRS | AGAAP | Re-classify | Re-measure | AIFRS |
| 859 | (859) | – | – | 647 | (647) | – | – |
| – | 4 | – | 4 | – | 1 | – | 1 |
| – | 3,824 | 145 | 3,969 | – | 1,490 | 14 | 1,504 |
| | | | | | | | |
| 8,927 | – | – | 8,927 | 8,598 | – | – | 8,598 |
| 7,175 | – | 625 | 7,800 | 6,891 | (31) | 563 | 7,423 |
| 2,520 | (1,655) | 847 | 1,712 | 1,847 | (416) | 737 | 2,168 |
| 16,463 | (2,767) | 14,729 | 28,425 | 10,777 | (667) | 11,696 | 21,806 |
| – | – | – | – | – | – | – | – |
| 5,651 | 6 | 33 | 5,690 | 6,694 | 35 | (4) | 6,725 |
| 4,065 | (355) | (19) | 3,691 | 3,531 | (388) | 29 | 3,172 |
| – | – | – | – | – | – | – | – |
| 339 | 32 | – | 371 | – | 20 | – | 20 |
| 2,129 | – | 2,344 | 4,473 | 2,350 | – | 2,184 | 4,534 |
| 152 | (36) | – | 116 | 138 | (28) | – | 110 |
| 664 | 1,453 | – | 2,117 | 169 | 519 | (57) | 631 |
| 168 | (15) | (5) | 148 | 1,945 | (1,871) | (4) | 70 |
| 201 | – | 2 | 203 | 184 | (10) | 15 | 189 |
| – | 334 | – | 334 | – | 1,967 | – | 1,967 |
| 49,313 | (34) | 18,701 | 67,980 | 43,771 | (26) | 15,173 | 58,918 |
| | | | | | | | |
| 1,553 | – | (5) | 1,548 | 1,935 | (961) | (4) | 970 |
| 1,983 | – | – | 1,983 | 2,597 | – | – | 2,597 |
| 7,681 | – | – | 7,681 | 5,750 | – | – | 5,750 |
| 5,226 | (4) | 1,002 | 6,224 | 5,821 | 2 | 1,209 | 7,032 |
| 5,403 | – | 1,837 | 7,240 | 4,215 | (4) | 1,560 | 5,771 |
| 13,866 | – | 14,295 | 28,161 | 12,608 | – | 10,897 | 23,505 |
| – | – | – | – | – | – | – | – |
| – | – | – | – | – | – | – | – |
| 5,380 | (30) | (769) | 4,581 | 4,215 | (398) | (638) | 3,179 |
| 41 | – | – | 41 | 53 | (2) | – | 51 |
| 2,081 | – | 2,348 | 4,429 | 2,291 | – | 2,185 | 4,476 |
| 34 | (34) | – | – | 6 | (6) | – | – |
| 85 | 34 | – | 119 | 74 | 6 | – | 80 |
| 189 | – | – | 189 | 413 | (345) | – | 68 |
| – | – | – | – | – | 1,682 | – | 1,682 |
| 1,359 | – | – | 1,359 | 960 | – | – | 960 |
| – | – | – | – | – | – | – | – |
| 44,881 | (34) | 18,708 | 63,555 | 40,938 | (26) | 15,209 | 56,121 |
| 4,432 | – | (7) | 4,425 | 2,833 | – | (36) | 2,797 |
| | | | | | | | |
| 1,600 | – | – | 1,600 | 1,382 | – | – | 1,382 |
| – | – | (1) | (1) | – | – | (1) | (1) |
| 391 | – | – | 391 | 391 | – | – | 391 |
| – | – | – | – | – | – | – | – |
| – | – | 39 | 39 | – | – | 10 | 10 |
| – | – | – | – | – | – | – | – |
| – | – | 10 | 10 | – | – | (1) | (1) |
| 1,578 | – | (55) | 1,523 | 1,040 | – | (44) | 996 |
| | | | | | | | |
| 3,569 | – | (7) | 3,562 | 2,813 | – | (36) | 2,777 |
| 863 | – | – | 863 | 20 | – | – | 20 |
| 4,432 | – | (7) | 4,425 | 2,833 | – | (36) | 2,797 |

| | AIFRS except 132/139 | Re-classify | Re-measure | AIFRS |
|---|---|---|---|---|
| | As at 1 April 2005 $m | | | |
| **Section 2: Bank Balance Sheet Reconciliations as at periods from 1 April 2004 to 1 April 2005** | | | | |
| **Assets** | | | | |
| Cash and liquid assets | – | – | – | – |
| Cash and balances with central banks | 4 | – | – | 4 |
| Due from banks | 3,064 | – | – | 3,064 |
| Cash collateral on securities borrowed and reverse repurchase agreements | 8,916 | – | – | 8,916 |
| Trading portfolio assets | 6,994 | (1,298) | – | 5,696 |
| Other securities | 83 | (83) | – | – |
| Loan assets held at amortised cost | 9,831 | (822) | 31 | 9,040 |
| Other financial assets at fair value through profit and loss | – | 1,168 | – | 1,168 |
| Derivative financial instruments – positive values | 5,986 | 153 | 55 | 6,194 |
| Other assets | 1,322 | (254) | – | 1,068 |
| Investment securities available for sale | – | 1,183 | 65 | 1,248 |
| Intangible assets | 15 | – | – | 15 |
| Life investment contracts and other unit holder assets | – | – | – | – |
| Due from controlled entities | 6,667 | – | – | 6,667 |
| Equity investments | 47 | (47) | – | – |
| Interest in associates and joint ventures using the equity method | 600 | – | – | 600 |
| Property, plant and equipment | 53 | – | – | 53 |
| Investment in controlled entities | 4,152 | – | – | 4,152 |
| Deferred income tax assets | 78 | – | (4) | 74 |
| Assets and disposal groups classified as held for sale | 294 | – | – | 294 |
| **Total assets** | 48,106 | – | 147 | 48,253 |
| **Liabilities** | | | | |
| Due to banks | 896 | 6 | – | 902 |
| Cash collateral on securities lent and repurchase agreements | 1,894 | – | – | 1,894 |
| Trading portfolio liabilities | 7,629 | – | – | 7,629 |
| Derivative financial instruments – negative values | 5,574 | 39 | 74 | 5,687 |
| Deposits | 7,187 | 27 | – | 7,214 |
| Notes payable | 13,270 | (13,270) | – | – |
| Debt issued at amortised cost | – | 11,327 | (2) | 11,325 |
| Other financial liabilities at fair value through profit and loss | – | 1,195 | – | 1,195 |
| Other liabilities | 2,357 | (124) | 15 | 2,248 |
| Current tax liabilities | 14 | – | – | 14 |
| Due to controlled entities | 3,976 | – | – | 3,976 |
| Provision for distributions | – | – | – | – |
| Provisions | 98 | – | – | 98 |
| Deferred income tax liabilities | 26 | – | 13 | 39 |
| Subordinated debt at amortised cost | 1,359 | (264) | – | 1,095 |
| Subordinated debt at fair value through profit and loss | – | 264 | – | 264 |
| **Total liabilities** | 44,280 | – | 100 | 44,380 |
| **Net assets** | 3,826 | – | 47 | 3,873 |
| **Equity** | | | | |
| Ordinary share capital | 1,600 | – | – | 1,600 |
| Treasury shares | – | – | – | – |
| Macquarie Income Securities | 391 | – | – | 391 |
| Convertible debentures | 884 | – | – | 884 |
| Available for sale reserve | – | – | 48 | 48 |
| Share based payment reserve | 39 | – | – | 39 |
| Investment revaluation reserve | – | – | – | – |
| Cash flow hedge reserve | – | – | 13 | 13 |
| Other reserves | (38) | – | – | (38) |
| Retained earnings | 950 | – | (14) | 936 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 3,826 | – | 47 | 3,873 |
| Minority interests | – | – | – | – |
| **Total equity** | 3,826 | – | 47 | 3,873 |

| As at 31 March 2005 $m | | | | As at 1 April 2004 $m | | | |
|---|---|---|---|---|---|---|---|
| AGAAP | Re-classify | Re-measure | AIFRS | AGAAP | Re-classify | Re-measure | AIFRS |
| 363 | (363) | – | – | 208 | (208) | – | – |
| – | 4 | – | 4 | – | 1 | – | 1 |
| – | 3,064 | – | 3,064 | – | 947 | – | 947 |
| 8,916 | – | – | 8,916 | 8,263 | – | – | 8,263 |
| 6,381 | 613 | – | 6,994 | 6,316 | (33) | – | 6,283 |
| 551 | (468) | – | 83 | 326 | (244) | – | 82 |
| 11,673 | (1,842) | – | 9,831 | 7,077 | (425) | – | 6,652 |
| – | – | – | – | – | – | – | – |
| 5,986 | – | – | 5,986 | 6,732 | 67 | – | 6,799 |
| 1,734 | (412) | – | 1,322 | 1,465 | (338) | – | 1,127 |
| – | – | – | – | – | – | – | – |
| – | 15 | – | 15 | – | 16 | – | 16 |
| – | – | – | – | – | – | – | – |
| 6,731 | (64) | – | 6,667 | 5,954 | – | – | 5,954 |
| 47 | – | – | 47 | 27 | – | – | 27 |
| 426 | 174 | – | 600 | 101 | 244 | – | 345 |
| 69 | (15) | (1) | 53 | 75 | (15) | (1) | 59 |
| 4,207 | – | (55) | 4,152 | 6,264 | – | (69) | 6,195 |
| 96 | (18) | – | 78 | 93 | – | (4) | 89 |
| – | 294 | – | 294 | – | – | – | – |
| 47,180 | 982 | (56) | 48,106 | 42,901 | 12 | (74) | 42,839 |
| 903 | (7) | – | 896 | 937 | – | – | 937 |
| 1,894 | – | – | 1,894 | 2,597 | – | – | 2,597 |
| 7,629 | – | – | 7,629 | 5,177 | – | – | 5,177 |
| 5,574 | – | – | 5,574 | 5,897 | 36 | – | 5,933 |
| 5,350 | 1,837 | – | 7,187 | 4,050 | 607 | – | 4,657 |
| 13,270 | – | – | 13,270 | 12,320 | – | – | 12,320 |
| – | – | – | – | – | – | – | – |
| – | – | – | – | – | – | – | – |
| 3,123 | (766) | – | 2,357 | 2,116 | (631) | (13) | 1,472 |
| 14 | – | – | 14 | 11 | – | – | 11 |
| 3,994 | (18) | – | 3,976 | 6,286 | – | – | 6,286 |
| 28 | (28) | – | – | – | – | – | – |
| 70 | 28 | – | 98 | 66 | – | – | 66 |
| 90 | (64) | – | 26 | – | – | – | – |
| 1,359 | – | – | 1,359 | 960 | – | – | 960 |
| – | – | – | – | – | – | – | – |
| 43,298 | 982 | – | 44,280 | 40,417 | 12 | (13) | 40,416 |
| 3,882 | – | (56) | 3,826 | 2,484 | – | (61) | 2,423 |
| 1,600 | – | – | 1,600 | 1,382 | – | – | 1,382 |
| – | – | – | – | – | – | – | – |
| 391 | – | – | 391 | 391 | – | – | 391 |
| 884 | – | – | 884 | – | – | – | – |
| – | – | – | – | – | – | – | – |
| – | – | 39 | 39 | – | – | 10 | 10 |
| 59 | – | (59) | – | 61 | – | (61) | – |
| – | – | – | – | – | – | – | – |
| (38) | – | – | (38) | – | – | – | – |
| 986 | – | (36) | 950 | 650 | – | (10) | 640 |
| 3,882 | – | (56) | 3,826 | 2,484 | – | (61) | 2,423 |
| – | – | – | – | – | – | – | – |
| 3,882 | – | (56) | 3,826 | 2,484 | – | (61) | 2,423 |

| | As at 1 April 2005 $m | | | | | | |
|---|---|---|---|---|---|---|---|
| | Effective Yield[k] | Loan Loss[l] | Derivatives and other financial instruments at fair value[j] | Available for Sale[m] | Deferred acquisition costs[n] | Profit share[f] | Total remeasure |
| **Section 2: Analysis of Remeasure Column in Consolidated Balance Sheet as at 1 April 2005** | | | | | | | |
| Loan assets held at amortised cost | (25) | 50 | – | – | – | – | 25 |
| Derivative financial instruments – positive values | – | – | 159 | – | – | – | 159 |
| Investment securities available for sale | – | – | – | 92 | – | – | 92 |
| Deferred income tax assets | 8 | (15) | – | – | – | 5 | (2) |
| **Total assets** | (17) | 35 | 159 | 92 | – | 5 | 274 |
| Derivative financial instruments – negative values | – | – | 143 | – | – | – | 143 |
| Other financial liabilities at fair value through profit and loss | – | – | (3) | – | – | – | (3) |
| Other liabilities | – | – | – | – | – | 15 | 15 |
| Life investment contracts and other unit holder liabilities | – | – | – | – | 4 | – | 4 |
| Deferred income tax liabilities | – | – | 4 | 25 | (1) | – | 28 |
| **Total liabilities** | – | – | 144 | 25 | 3 | 15 | 187 |
| **Net assets** | (17) | 35 | 15 | 67 | (3) | (10) | 87 |
| Available for sale reserve | – | – | – | 67 | – | – | 67 |
| Cash flow hedge reserve | – | – | 4 | – | – | – | 4 |
| Retained earnings | (17) | 35 | 11 | – | (3) | (10) | 16 |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | (17) | 35 | 15 | 67 | (3) | (10) | 87 |
| **Total equity** | (17) | 35 | 15 | 67 | (3) | (10) | 87 |

[a] Refers to Adjustment A on page 107, and following for other letters.

| | As at 31 March 2005 $m | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Roll forward from 1 April 2004 | Share based payments[(a)] | Consolidation of SPEs[(b)] | Foreign currency translation[(c)] | Employee benefits[(d)] | Treasury shares[(g)] | Equity accounting[(e)] | Total remeasure |
| **Section 2: Analysis of Remeasure Column in Consolidated Balance Sheet as at 31 March 2005** | | | | | | | | |
| Due from banks | 14 | – | 131 | – | – | – | – | 145 |
| Trading portfolio assets | 563 | – | 62 | – | – | – | – | 625 |
| Other securities | 737 | – | 110 | – | – | – | – | 847 |
| Loan assets held at amortised cost | 11,696 | – | 3,033 | – | – | – | – | 14,729 |
| Derivative financial instruments – positive values | (4) | – | 37 | – | – | – | – | 33 |
| Other assets | 29 | – | (48) | – | – | – | – | (19) |
| Life investment contracts and other unit holder assets | 2,184 | – | 161 | – | – | (1) | – | 2,344 |
| Interest in associates and joint ventures using the equity method | (57) | – | – | – | – | – | 57 | – |
| Property, plant and equipment | (4) | – | – | (1) | – | – | – | (5) |
| Deferred income tax assets | 15 | – | – | – | 4 | – | (17) | 2 |
| **Total assets** | 15,173 | – | 3,486 | (1) | 4 | (1) | 40 | 18,701 |
| Due to banks | (4) | – | (1) | – | – | – | – | (5) |
| Derivative financial instruments – negative values | 1,209 | – | (207) | – | – | – | – | 1,002 |
| Deposits | 1,560 | – | 277 | – | – | – | – | 1,837 |
| Notes payable | 10,897 | – | 3,398 | – | – | – | – | 14,295 |
| Other liabilities | (638) | – | (144) | – | 13 | – | – | (769) |
| Life investment contracts and other unit holder liabilities | 2,185 | – | 163 | – | – | – | – | 2,348 |
| Deferred income tax liabilities | – | – | – | – | – | – | – | – |
| **Total liabilities** | 15,209 | – | 3,486 | – | 13 | – | – | 18,708 |
| **Net assets** | (36) | – | – | (1) | (9) | (1) | 40 | (7) |
| Treasury shares | (1) | – | – | – | – | – | – | (1) |
| Share based payment reserve | 10 | 29 | – | – | – | – | – | 39 |
| Other reserves | (1) | – | – | (1) | – | – | 12 | 10 |
| Retained earnings | (44) | (29) | – | – | (9) | (1) | 28 | (55) |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | (36) | – | – | (1) | (9) | (1) | 40 | (7) |
| **Total equity** | (36) | – | – | (1) | (9) | (1) | 40 | (7) |

[(a)] Refers to Adjustment A on page 107, and following for other letters.

| | As at 1 April 2004 $m | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share based payments[(a)] | Consolidation of SPEs[(b)] | Foreign currency translation[(c)] | Employee benefits[(d)] | Treasury shares[(g)] | Equity accounting[(e)] | Total remeasure |
| **Section 2: Analysis of Remeasure Column in Consolidated Balance Sheet as at 1 April 2004** | | | | | | | |
| Due from banks | – | 14 | – | – | – | – | 14 |
| Trading portfolio assets | – | 563 | – | – | – | – | 563 |
| Other securities | – | 737 | – | – | – | – | 737 |
| Loan assets held at amortised cost | – | 11,696 | – | – | – | – | 11,696 |
| Derivative financial instruments – positive values | – | (4) | – | – | – | – | (4) |
| Other assets | – | 29 | – | – | – | – | 29 |
| Life investment contracts and other unit holder assets | – | 2,187 | – | – | (3) | – | 2,184 |
| Interest in associates and joint ventures using the equity method | – | – | – | – | – | (57) | (57) |
| Property, plant and equipment | – | – | (4) | – | – | – | (4) |
| Deferred income tax assets | – | – | – | (4) | 1 | 18 | 15 |
| **Total assets** | – | 15,222 | (4) | (4) | (2) | (39) | 15,173 |
| Due to banks | – | (4) | – | – | – | – | (4) |
| Derivative financial instruments – negative values | – | 1,209 | – | – | – | – | 1,209 |
| Deposits | – | 1,560 | – | – | – | – | 1,560 |
| Notes payable | – | 10,897 | – | – | – | – | 10,897 |
| Other liabilities | – | (625) | – | (13) | – | – | (638) |
| Life investment contracts and other unit holder liabilities | – | 2,185 | – | – | – | – | 2,185 |
| Deferred income tax liabilities | – | – | – | – | – | – | – |
| **Total liabilities** | – | 15,222 | – | (13) | – | – | 15,209 |
| **Net assets** | – | – | (4) | 9 | (2) | (39) | (36) |
| Treasury shares | – | – | – | – | (1) | – | (1) |
| Share based payment reserve | 10 | – | – | – | – | – | 10 |
| Other reserves | – | – | – | – | – | (1) | (1) |
| Retained earnings | (10) | – | (4) | 9 | (1) | (38) | (44) |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | – | – | (4) | 9 | (2) | (39) | (36) |
| **Total equity** | – | – | (4) | 9 | (2) | (39) | (36) |

[(a)] Refers to Adjustment A on page 107, and following for other letters.

| | As at 1 April 2005 $m | | | | | |
|---|---|---|---|---|---|---|
| | Effective yield[k] | Loan loss[l] | Derivatives and other financial instruments at fair value[i] | Available for sale[m] | Profit share[f] | Total remeasure |
| **Section 2: Analysis of Remeasure Column in Bank Balance Sheet as at 1 April 2005** | | | | | | |
| Loan assets held at amortised cost | (17) | 47 | 1 | – | – | 31 |
| Derivative financial instruments – positive values | – | – | 55 | – | – | 55 |
| Investment securities available for sale | – | – | – | 65 | – | 65 |
| Deferred income tax assets | 5 | (14) | – | – | 5 | (4) |
| **Total assets** | (12) | 33 | 56 | 65 | 5 | 147 |
| Derivative financial instruments – negative values | – | – | 74 | – | – | 74 |
| Other liabilities | – | – | – | – | 15 | 15 |
| Debt issued at amortised cost | – | – | (2) | – | – | (2) |
| Deferred income tax liabilities | – | – | (4) | 17 | – | 13 |
| **Total liabilities** | – | – | 68 | 17 | 15 | 100 |
| **Net assets** | (12) | 33 | (12) | 48 | (10) | 47 |
| Available for sale reserve | – | – | – | 48 | – | 48 |
| Cash flow hedge reserve | – | – | 13 | – | – | 13 |
| Retained earnings | (12) | 33 | (25) | – | (10) | (14) |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | (12) | 33 | (12) | 48 | (10) | 47 |
| **Total equity** | (12) | 33 | (12) | 48 | (10) | 47 |

[a] Refers to Adjustment A on page 107, and following for other letters.

| | As at 31 March 2005 $m | | | | |
|---|---|---|---|---|---|
| | Roll forward from 1 April 2004 | Share based payments[a] | Investment revaluation reserve[i] | Employee benefit plans[d] | Total remeasure |
| **Section 2: Analysis of Remeasure Column in Bank Balance Sheet as at 31 March 2005** | | | | | |
| Property, plant and equipment | (1) | – | – | – | (1) |
| Investment in controlled entities | (69) | 12 | 2 | – | (55) |
| Deferred income tax assets | (4) | – | – | 4 | – |
| **Total assets** | (74) | 12 | 2 | 4 | (56) |
| Other liabilities | (13) | – | – | 13 | – |
| **Total liabilities** | (13) | – | – | 13 | – |
| **Net assets** | (61) | 12 | 2 | (9) | (56) |
| Investment revaluation reserve | (61) | – | 2 | – | (59) |
| Share based payment reserve | 10 | 29 | – | – | 39 |
| Retained earnings | (10) | (17) | – | (9) | (36) |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | (61) | 12 | 2 | (9) | (56) |
| **Total equity** | (61) | 12 | 2 | (9) | (56) |

[a] Refers to Adjustment A on page 107, and following for other letters.

| | Share based payments[a] | Investment revaluation reserve[i] | As at 1 April 2004 $m Foreign currency translation[c] | Employee benefit plans[d] | Total remeasure |
|---|---|---|---|---|---|
| **Section 2: Analysis of Remeasure Column in Bank Balance Sheet as at 1 April 2004** | | | | | |
| Property, plant and equipment | – | – | (1) | – | (1) |
| Investment in controlled entities | 4 | (73) | – | – | (69) |
| Deferred income tax assets | – | – | – | (4) | (4) |
| **Total assets** | 4 | (73) | (1) | (4) | (74) |
| Other liabilities | – | – | – | (13) | (13) |
| **Total liabilities** | – | – | – | (13) | (13) |
| **Net assets** | 4 | (73) | (1) | 9 | (61) |
| Investment revaluation reserve | – | (61) | – | – | (61) |
| Share based payment reserve | 10 | – | – | – | 10 |
| Retained earnings | (6) | (12) | (1) | 9 | (10) |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited | 4 | (73) | (1) | 9 | (61) |
| **Total equity** | 4 | (73) | (1) | 9 | (61) |

[a] Refers to Adjustment A on page 107, and following for other letters.

**Section 2: Analysis of AIFRS Impact on the Consolidated Cash Flow Statements**

The adoption of AIFRS has impacted the cash flow statements. The main differences to previous AGAAP arise due to:

- Consolidation of special purpose entities (refer Adjustment B on page 107)
- Reclassifications of financial assets and liabilities in accordance with the requirements of AASB 139

The definition of cash and cash equivalents under AIFRS differs from the previous AGAAP definition and has been expanded to include bank accepted bills and negotiable certificates of deposits issued by a bank, with a maturity of less than 3 months, included in Trading Portfolio Assets and Investment Securities Available for Sale. The revised definition of cash and cash equivalents is included within note 1 to the financial statements.

The impact of AIFRS is reflected below.

| | AGAAP | Year to 31 March 2005 $m Adjustments | AIFRS |
|---|---|---|---|
| **Consolidated for the year to 31 March 2005** | | | |
| Cash flows from operating activities | 2,286 | 696 | 2,982 |
| Cash flows from investing activities | (4,738) | 3,150 | (1,588) |
| Cash flows from financing activities | 4,916 | (3,714) | 1,202 |
| Cash movement | 2,464 | 132 | 2,596 |
| Cash at beginning of year | 2,540 | 14 | 2,554 |
| **Cash at end of year** | 5,004 | 146 | 5,150 |
| **Bank for the year to 31 March 2005** | | | |
| Cash flows from operating activities | 2,574 | (343) | 2,231 |
| Cash flows from investing activities | (3,896) | 2,776 | (1,120) |
| Cash flows from financing activities | 3,615 | (2,422) | 1,193 |
| Cash movement | 2,293 | 11 | 2,304 |
| Cash at beginning of year | 2,138 | 4 | 2,142 |
| **Cash at end of year** | 4,431 | 15 | 4,446 |

The tables below provide additional explanatory comment to the adjustments quantified on the previous pages.

**Changes applicable in comparative period commencing 1 April 2004**

The table below summarises the nature of the more significant adjustments made to the Bank and economic entity's balance sheets as at 1 April 2004 and 31 March 2005, and income statements and cash flow statements for the financial year ended 31 March 2005. This includes all material AIFRS changes except for those arising from AASB 132 and AASB 139. The table provided in the section 'Changes applicable from 1 April 2005' describes (but does not quantify) the main adjustments that would have been needed to make the comparative information for the financial year ended 31 March 2005 comply with AASB 132 and AASB 139. The amount of the adjustments arising on transition to AIFRS as at 1 April 2004 noted below are referenced to each line item affected in the accompanying restated balance sheets and income statements. In addition, the table below summarises some of the more significant reclassifications made in the current, and to be made in future financial statements. While policy decisions have been made, interpretations on some issues are still evolving, and consequently changes in interpretations could still occur in the future that may impact existing policies.

| | Description | Impact |
|---|---|---|
| Adjustment A | **Share based payments:**<br>Under previous AGAAP, options granted to employees for nil monetary consideration were not recognised. Shares granted to employees (in lieu of profit share entitlements) under share acquisition plans were recognised as an expense.<br><br>Under AIFRS, the economic entity recognises an expense for shares and options granted to employees. As permitted by the transitional provisions of AIFRS, management has elected not to apply the new rules to options granted on or before 7 November 2002, and options granted after 7 November 2002 that vest before 1 January 2005. | On transition, an options reserve (equity) has been created, with an offsetting adjustment to retained earnings. This adjustment reflects the amount to have been amortised for the period from 7 November 2002 to 31 March 2004.<br><br>After transition, an options reserve and an employee expense is recognised each period for the amount allocated to that period.<br><br>In the future, the annual expense may increase as the number of unvested options granted each period since November 2002 increases. Assuming that the current Employee Option Plan continues, the full impact of unvested options will be reflected from the financial year ending 31 March 2008. |
| Adjustment B | **Consolidation of certain Special Purpose Entities ("SPEs"):**<br>Under previous AGAAP, a number of SPEs were not consolidated. Under AIFRS, a different interpretation of the consolidation rules applicable to SPEs required a reassessment of the accounting for existing securitisations – both of the Bank's own assets and of its customers' assets. Most of the Bank's mortgage securitisations and some other SPEs are now consolidated by the economic entity, because the economic entity is exposed to the majority of the residual income and/or residual risk associated with the SPE. | Mortgage SPEs<br>The underlying mortgage loans and liabilities to noteholders (along with derivatives) held by the SPEs are reported on the Bank's consolidated balance sheet. Derivatives are carried at fair value from 1 April 2005.<br><br>The income statement no longer reports management fees and other fees earned from the SPEs. Instead, the income statement reports gross interest income earned on mortgage loans, interest expense accrued to noteholders, movements in the fair values of derivatives (unless rules for cash flow hedging are met), and any remaining net margin is reflected in profit and loss.<br><br>Other SPEs<br>Other consolidated SPEs relate to certain managed funds and repackaging vehicles. For these other SPEs, the underlying SPE assets and liabilities are recorded in the Bank's balance sheet. There is no profit impact arising from consolidation of these SPEs. |

| | Description | Impact |
|---|---|---|
| Adjustment C | **Foreign currency translation:**<br>Under previous AGAAP, the economic entity considered its foreign operations to generally be integrated operations. Consequently, monetary items were translated using the period end spot exchange rates, non-monetary items were translated using the historical exchange rates, and resulting foreign exchange differences were immediately recognised in earnings.<br>Under AIFRS, the functional currency of each foreign operation is determined based on a hierarchy of factors. Generally, a foreign operation's functional currency is determined to be the currency of the country where it is located as the revenues are determined by the local market conditions and in the local currency, and a majority of operating costs are denominated in the local currency. | For foreign operations determined to have a functional currency of the country where they are located, the method of translating from their functional currency to Australian dollars has changed.<br>As permitted by the transitional provisions of AIFRS, management has elected to reset the foreign currency translation reserve to nil on transition. As discussed below at Adjustment J, the economic entity has applied hedge accounting to its net investments. |
| Adjustment D | **Consolidation of employee benefit trusts and plans:**<br>Employees may sacrifice part of their cash remuneration entitlement in return for fully paid ordinary shares of MBL. Plans are established to purchase MBL shares on market and allocate them to the employees.<br>Under previous AGAAP, an accrued liability and expense was recognised for the cash remuneration entitlement. When the monies were paid to the Plan Company, the accrual was utilised. These plans were not consolidated by the economic entity as the beneficial ownership remains with the employees who participate in the plans, as administered by the Plan Company on their behalf.<br>Under AIFRS, UIG-112 *Consolidation – Special Purpose Entities* was amended so that equity compensation plans are included within its scope. Hence, an entity that controls an employee benefit trust (or similar entity) set up for the purposes of a share-based payment arrangement is required to consolidate that trust. | The underlying net assets of some of the employee benefit plans are reported on the Bank's consolidated balance sheet.<br>For those arrangements not subject to any vesting conditions, there has been no transition adjustment to retained earnings, because the assets held by the plan (i.e. MBL shares) are recognised as a reduction in equity and obligations of the plan (to deliver fully vested MBL shares) are recognised as an increase in equity as a share-based payment. Subsequent to transition, there is also no impact on net assets; however, these transactions are reflected within equity each period as:<br>– equity decreases for shares bought on market by the Plan Company; and<br>– equity increases for fully vested shares delivered in satisfaction of the accrued employee benefit liabilities (a share-based payment).<br>For certain arrangements subject to vesting conditions, on transition, the accrued liability (representing the unvested component) has been reversed. Subsequent to transition, this unvested component is recognised as a share-based payment transaction over the vesting period. The assets held by the plan (i.e. MBL shares) are recognised as a reduction in equity.<br>Due to an acceleration in vesting conditions, the unrecognised expense has been brought to account in the year ended 31 March 2005. |

| | Description | Impact |
|---|---|---|
| **Adjustment E** | **Investments in entities that are also managed by the economic entity:**<br>The economic entity holds an ownership interest in some of the funds that it manages. Consequently, the economic entity is required to determine the degree of influence it has over the funds' operating and financial policies.<br><br>Under previous AGAAP, the economic entity considered that it did not significantly influence such funds where it had an ownership interest carrying voting rights of less than 20%, because the manager acts in a fiduciary capacity. This interpretation was applied where its position as manager could be terminated without cause by a vote of unit holders.<br><br>Under AIFRS, the current interpretation is that typically a manager significantly influences the fund when it has any level of ownership interest carrying voting rights and controls the fund when voting rights exceed 50%.<br><br>Under both previous AGAAP and AIFRS, where the investment in associate is held for sale, equity accounting is not applied, and the investment is measured at the lower of carrying amount and fair value. | On transition, the investments have been measured using the equity method of accounting, instead of being carried at historical cost (subject to an annual test of recoverable amount).<br><br>After transition, the investments will continue to be carried using the equity method of accounting. Consequently, the carrying amount will change each period for the economic entity's share of earnings, and other equity movements of the fund after the acquisition of the investment.<br><br>Some investments that are unit trusts have availed themselves of the exemption in AASB 128: *Investments in Associates* from applying the equity method of accounting to investments they hold in associates (and thereby have chosen to carry such investments at fair value through profit and loss under AASB 139: *Financial Instruments: Recognition and Measurement*). This accounting policy has been changed in the economic entity's financial statements to follow the economic entity's policy for accounting for investments in associates (i.e. the equity method of accounting is applied), except where the economic entity carries similar investments at fair value through profit and loss. If an accounting policy must be applied consistently to all transactions/balances of a specified nature, and a fund applies a policy that is different to the economic entity's policy (e.g. investment properties can be carried at either fair value or on a cost basis), then the fund's policy is changed in the economic entity's financial statements to follow the economic entity's policy. |
| **Adjustment F** | **Profit share:**<br>The economic entity has in place a profit share scheme whereby profit share payable to staff is calculated with reference to the economic entity's net profit after tax (before profit share) and excess return over the cost of equity.<br><br>Under both previous AGAAP and AIFRS, a liability for profit share is recognised at each reporting date based on the estimates of the obligation calculated by the agreed formula. | There has been an increase in the accrual for profit share as a result of the remeasurement of certain assets and liabilities at date of transition to AIFRS on 1 April 2005 which has been included within opening retained earnings. |

| | Description | Impact |
|---|---|---|
| Adjustment G | **MBL shares held by consolidated entities (Treasury shares):**<br>Under previous AGAAP, MBL shares held directly by the economic entity's life business statutory funds were recognised in the consolidated statement of financial position at net market value. Also, some entities that previously were not consolidated by the economic entity, but now under AIFRS are consolidated, directly hold MBL shares.<br>Under AIFRS, an entity that holds its own issued shares presents them as a reduction in equity and cannot revalue them. | MBL shares held as investments by consolidated entities in the economic entity are reclassified as a reduction in equity.<br>On transition, the carrying amounts of the shares are restated to their historical cost. After transition, the carrying amounts are not changed. |
| Adjustment H | **Taxation:**<br>A "balance sheet" approach has been adopted under AIFRS, replacing the "statement of financial performance" approach applied under previous AGAAP. The new method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. | There have been some increases in the levels of deferred tax assets and liabilities. For example, additional deferred tax balances have been created from: carrying investments in associates and joint venture entities using the equity method of accounting and, as a consequence of applying AASB 139 at 1 April 2005, from:<br>– adoption of the effective yield method of interest recognition;<br>– remeasurement of loan loss provision;<br>– unrealised movements in the fair value of available for sale assets;<br>– choosing to carry some financial instruments at fair value through profit and loss; and<br>– using cash flow hedge accounting. |
| Adjustment I | **Investments in controlled entities (Bank only)**<br>Under previous AGAAP investments in controlled entities were carried at the lower of deemed cost and recoverable amount. Under AIFRS investments in controlled entities are carried at cost less any impairment provision.<br>Investments in controlled entities are reviewed for impairment on an individual basis. Under previous AGAAP impairment was considered on the class of assets until the year ended 31 March 2001. Subsequent to this date the Bank adopted the deemed cost approach and impairment was measured on an individual asset basis. | Investments in controlled entities and the investment revaluation reserve have decreased, and an impairment adjustment is recognised in retained earnings. |

**Changes applicable from 1 April 2005**

The table below summarises the nature of the more significant adjustments made to the Bank and economic entity's balance sheet as at 1 April 2005 (the effects of tax and profit share have been compiled and adjusted separately), in addition to the table above. This includes all material AIFRS changes arising only from AASB 132 and AASB 139. The amounts of the adjustments arising on transition to AIFRS as at 1 April 2005 are referenced to each line item affected in the accompanying restated balance sheets. In addition, the table below summarises some of the more significant reclassifications made in the current, and to be made in future financial statements. While policy decisions have been made, interpretations on some issues are still evolving, and consequently changes in interpretations could still occur in the future that may impact existing policies.

| | Description | Impact<br>*(excluding the effect of tax and profit share)* |
|---|---|---|
| Adjustment J | **Derivatives and other financial instruments at fair value:**<br>**Derivatives**<br>Under previous AGAAP, non-trading derivatives were measured on an accruals basis. Non-trading derivatives include those for which hedge accounting was applied.<br><br>Under AIFRS, all derivatives, including those used for balance sheet hedging purposes, are recognised on balance sheet and carried at fair value. Movements in the carrying amounts of derivatives are recognised in earnings, unless cash flow or net investment hedge accounting is applied. | A hybrid approach has been adopted to address the earnings volatility arising from carrying all derivatives at fair value. This includes choosing to carry another financial instrument with offsetting exposure at fair value (i.e. designate the instrument as one that is carried at fair value through profit and loss), applying fair value hedge accounting to some exposures, applying cash flow hedge accounting to other exposures, and accepting a level of volatility.<br><br>The key areas where the economic entity has applied hedge accounting are:<br>– cash flow hedging for interest rate risk arising from the consolidated mortgage securitisation vehicles and other structured products;<br>– fair value hedging for foreign exchange risk arising from investments in foreign-denominated equity instruments; and<br>– net investment hedging for foreign exchange risk arising from foreign operations.<br><br>These new rules have introduced some volatility in profit and loss, and equity reserves based on changes in interest rates and foreign exchange rates. |
| | **Financial instruments designated at fair value**<br>One of the solutions for dealing with the volatility arising from carrying all derivatives at fair value is to irrevocably choose to carry some financial assets or financial liabilities with a natural offsetting exposure at fair value through the profit and loss. Consequently, as permitted by the transitional provisions of AIFRS, management has designated (at the date of transition) certain financial assets and financial liabilities to be carried at fair value through profit and loss. | Certain financial instruments have been reclassified to fair value through the profit and loss. On transition, these have been remeasured to their fair value, with an offsetting adjustment to retained earnings. After transition, measuring these financial instruments at fair value means those changes to interest rates and credit spreads impact earnings immediately.<br><br>Since this approach is being taken to minimise the impact of volatility from carrying derivatives at fair value, any retained earnings adjustment on transition (and any subsequent impact on earnings) is largely offset by revaluing derivatives used to mitigate these risks. |

| | Description | Impact (excluding the effect of tax and profit share) |
|---|---|---|
| Adjustment K | **Interest income and expense (effective interest rate or effective yield):** Under previous AGAAP, certain upfront fees and associated transaction costs were recognised immediately on origination of the loans.<br>Under AIFRS, these fees and associated transaction costs are capitalised and included in the loan's effective interest rate and recognised over the expected life of the loan. | Certain fees and transaction costs are no longer recognised upfront as revenue or expense, but are amortised over the life of the loan on an effective interest method.<br>On adoption, this has decreased loans and receivables with a corresponding reduction in retained earnings that will be brought to account in the income statement over the remaining life of the loans. |
| Adjustment L | **Provisions for loan impairment:** AIFRS requires an incurred loss model for general loan provisioning. Provisions are recognised only in respect of those losses for which there is objective evidence of impairment and must be calculated based on the discounted values of expected future cash flows.<br>Specific provisions continue to be recognised under AIFRS.<br>Under previous AGAAP, the economic entity's general provision for credit losses was maintained at 55 basis points of risk-weighted assets. | The methodology to calculate this incurred loss provision has been developed. The application of this methodology has resulted in a substantial reduction in the provision at 1 April 2005. |
| Adjustment M | **Available for sale financial instruments:** Certain equity investments and debt investment securities carried at historical cost/amortised cost under previous AGAAP have been reclassified to available for sale financial instruments under AIFRS.<br>Available for sale financial instruments are carried at fair value with changes in fair value recognised in an equity reserve, and transferred to earnings when the financial instruments are sold.<br>This treatment does not apply to investments in associates, joint ventures, or subsidiaries that are accounted for according to AASB 128: *Investments in Associates*, AASB 131: *Interests in Joint Ventures,* AASB 127: *Consolidated and Separate Financial Statements.* | On adoption, the carrying amount of those financial instruments to be treated as available for sale have increased with an equity reserve (after tax) being created for an equivalent amount. The amounts have also been reclassified from the various categories used previously.<br>Following adoption, carrying available for sale financial instruments at fair value will result in volatility in the equity reserve, depending on future movements in fair values. |
| Adjustment N | **Deferred acquisition costs:** Under previous AGAAP costs incurred in writing contracts by the life business were deferred and amortised over the life of the contract whereas upfront fees were recognised immediately.<br>Under AIFRS, such fees and costs relating to investment style contracts are included in the effective interest rate and recognised over the life of the contract. | Certain fees are no longer recognised upfront as revenue, but are amortised over the life of the contract through the yield.<br>On adoption, this has decreased life investment income and increased life investment and other policyholder liabilities. |

| | Description | Impact<br>*(excluding the effect of tax and profit share)* |
|---|---|---|
| **Adjustments with no impact to opening retained earnings** | **Debt vs. equity classification:**<br>MIS securities | Under previous AGAAP, the MIS were classified as equity. Under AIFRS, there has been no change in classification; the MIS continues to be classified as equity. |
| | MIPS securities<br>Hybrid capital (Macquarie Income Preferred Securities) was raised in a foreign currency, which was classified as outside equity interest in the economic entity. | Under previous AGAAP, the hybrid capital was classified as equity. Under AIFRS, there has been no change in classification; the hybrid capital continues to be classified as equity and continues to be included within minority interest. |
| | Hedging of MIPS securities<br>Economically, the interest rate risk and foreign exchange risk is hedged through the use of derivatives and existing foreign currency denominated assets. Under previous AGAAP, hedge accounting was applied. However, under AIFRS, hedging own equity issued is not permitted. | Under AIFRS (as noted above), all derivatives (interest rate swaps and forward exchange contracts) are carried at fair value. Even though hedge accounting is not permitted for derivatives used to hedge risks arising from the MIPS, changes in the fair value of foreign exchange contracts due to changes in the spot rate are expected to naturally offset the changes from retranslating foreign currency denominated assets. Changes in fair value of foreign exchange contracts due to time value results in some volatility in earnings, but this has not been material. Changes in the fair value of the interest rate swaps is recognised in earnings, creating volatility.<br>On adoption, the interest rate swaps have been adjusted from their accrual value to fair value with an offsetting credit to opening retained earnings. |
| | **Non-current assets held for sale:**<br>The economic entity invests in certain entities and assets that are expected to be sold. Under previous AGAAP, these entities were consolidated when the economic entity held a controlling interest.<br>Under AIFRS, when the carrying amount of such investments are to be recovered principally through sale rather than continuing use, they are classified as 'held for sale'. In such circumstances, the investments continue to be consolidated where a controlling interest is held. However, the total underlying assets and total underlying liabilities are each presented in the consolidated balance sheet as two separate line items.<br>The revenue and expenses from these disposal groups are also presented net within the income statement and notes thereto.<br>Further, in contrast to previous AGAAP, depreciation/amortisation on depreciable (intangible and tangible) assets is not recognised, and the carrying amount of the net assets is subject to a ceiling test of fair value less costs to sell. | On adoption, the underlying assets and liabilities of entities controlled by the economic entity, and that meet the criteria to be classified as held for sale, are no longer presented according to their individual classifications. Instead, the individual assets are grouped together and the individual liabilities are grouped together, and presented as two line items in the consolidated balance sheet – total assets and disposal groups held for sale and total liabilities associated with assets and disposal groups held for sale.<br>Prior comparatives in the income statement are also restated with the net income (revenue less expenses) included within other income. |

**Reclassifications**

The adoption of AIFRS has resulted in a number of reclassifications within the balance sheet, income statement and statement of cash flows from the presentation adopted by previous AGAAP. The main reclassifications for the periods ending 31 March 2005 include:

- interests in associates from other securities and loans;
- due from banks from loan assets;
- held for sale assets and disposal groups from other securities and various asset categories; and
- liabilities within disposal groups from various liability categories.

The reclassifications at 1 April 2005 arise from the adoption of AASB 139 in the asset and liability classifications outlined in note 1 to the financial statements.

An income statement reclassification between fees and commissions and employment cost expense has been recognised for commissions paid to Macquarie employees.

# Directors' Declaration

In the Directors' opinion

(a) the financial statements and notes set out on pages 7 to 114, and audited remuneration disclosures on pages 49 to 82 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 March 2006 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

David Clarke

**David Clarke**
Executive Chairman

Allan Moss

**Allan Moss**
Managing Director and
Chief Executive Officer

Sydney
15 May 2006

# Independent Audit Report to the Members of Macquarie Bank Limited

PRICEWATERHOUSECOOPERS

**Matters relating to the electronic presentation of the audited financial report**
This audit report relates to the financial report and remuneration disclosures of Macquarie Bank Limited (the Company)) and the Macquarie Bank Group (defined below) for the financial year ended 31 March 2006 included on Macquarie Bank Limited's web site. The Company's directors are responsible for the integrity of the Macquarie Bank Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. 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 disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

**Audit opinion**
In our opinion:

1. the financial report of Macquarie Bank Limited:

– gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Macquarie Bank Limited and the Macquarie Bank Group (defined below) as at 31 March 2006, and of their performance for the year ended on that date, and
– is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the remuneration report contained in pages 49 to 82 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

This opinion must be read in conjunction with the rest of our audit report.

**Scope**
**The financial report, remunerations disclosures and directors' responsibility**

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Macquarie Bank Limited (the company) and the Macquarie Bank Group (the consolidated entity), for the year ended 31 March 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 49 to 82 of the directors' report, as permitted by Class Order 06/50.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

**Audit approach**
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and Class Order 06/50. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and Class Order 06/50.

We formed our audit opinion on the basis of these procedures, which included:

– examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
– assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

**Independence**
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

**PricewaterhouseCoopers**

Ian Hammond

**Ian Hammond**
Partner

Sydney
15 May 2006

Liability limited by a scheme approved under Professional Standards Legislation

# Macquarie Bank Limited and its controlled entities Ten year history

With the exception of 31 March 2005, the consolidated financial information presented below has been based on the Australian standards adopted at each reporting date. The financial information for the full year ended 31 March 2005 and 31 March 2006 is based on the reported results using the Australian Standards that are equivalent to International Financial Reporting Standards ("AIFRS") and their related pronouncements. The tables provided on pages 107 to 114 describe (but do not quantify) the main adjustments that would have been needed to make the financial information for years ended prior to 31 March 2005 comply with AIFRS.

| Years ended 31 March | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005[e] | **2006** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement ($ million)** | | | | | | | | | | |
| Total income from ordinary activities | 530 | 665 | 815 | 1,186 | 1,472 | 1,600 | 1,890 | 2,465 | 3,752 | **4,393** |
| Total expenses from ordinary activities | 392 | 498 | 597 | 885 | 1,147 | 1,245 | 1,430 | 1,780 | 2,594 | **3,106** |
| Operating profit before income tax | 138 | 167 | 218 | 301 | 325 | 355 | 460 | 685 | 1,158 | **1,287** |
| Income tax expense | 21 | 26 | 53 | 79 | 53 | 76 | 96 | 161 | 288 | **290** |
| Profit for the year | 117 | 141 | 165 | 222 | 272 | 279 | 364 | 524 | 870 | **997** |
| Macquarie Income Preferred Securities distributions | – | – | – | – | – | – | – | – | 28 | **51** |
| Other minority interests | – | – | – | – | (1) | – | 3 | 3 | 1 | **1** |
| Macquarie Income Securities distributions | – | – | – | 12 | 31 | 29 | 28 | 27 | 29 | **29** |
| Profit attributable to ordinary equity holders | 117 | 141 | 165 | 210 | 242 | 250 | 333 | 494 | 812 | **916** |
| **Balance sheet ($ million)** | | | | | | | | | | |
| Total assets | 6,142 | 7,929 | 9,456 | 23,389 | 27,848 | 30,234 | 32,462 | 43,771 | 67,980 | **106,211** |
| Total liabilities | 5,642 | 7,348 | 8,805 | 22,154 | 26,510 | 27,817 | 29,877 | 40,938 | 63,555 | **100,874** |
| Net assets | 500 | 581 | 651 | 1,235 | 1,338 | 2,417 | 2,585 | 2,833 | 4,425 | **5,337** |
| Risk-weighted assets | 4,686 | 4,967 | 4,987 | 8,511 | 9,860 | 10,651 | 10,030 | 13,361 | 19,771 | **28,751** |
| Total loan assets | 2,682 | 3,158 | 4,002 | 6,518 | 7,785 | 9,209 | 9,839 | 10,777 | 28,425 | **34,999** |
| Impaired assets (net of provisions) | 46 | 12 | 44 | 23 | 31 | 49 | 16 | 61 | 42 | **93** |
| **Share information** | | | | | | | | | | |
| Cash dividends per share (cents per share) | | | | | | | | | | |
| Interim | 18 | 21 | 30 | 34 | 41 | 41 | 41 | 52 | 61 | **90** |
| Final | 25 | 30 | 38 | 52 | 52 | 52 | 52 | 70 | 100 | **125** |
| Special | – | – | – | – | – | – | 50 | – | 40 | **–** |
| Total | 43 | 51 | 68 | 86 | 93 | 93 | 143 | 122 | 201 | **215** |
| Basic earnings per share (cents per share) | 74.89 | 88.09 | 101.33 | 124.33 | 138.88 | 132.83 | 164.84 | 233.02 | 369.60 | **400.30** |
| Share price at 31 March ($) [a] | 8.50 | 14.35 | 19.10 | 26.40 | 27.63 | 33.26 | 24.70 | 35.80 | 48.03 | **64.68** |
| Ordinary share capital (million shares) [b] | 151.4 | 157.6 | 161.1 | 171.2 | 175.9 | 198.5 | 204.5 | 215.9 | 223.7 | **232.4** |
| Market capitalisation at 31 March (fully paid ordinary shares) ($ million) | 1,287 | 2,262 | 3,077 | 4,520 | 4,860 | 6,602 | 5,051 | 7,729 | 10,744 | **15,032** |
| **Ratios** | | | | | | | | | | |
| Return on average ordinary shareholders' funds | 25.5% | 26.1% | 26.8% | 28.1% | 27.1% | 18.7% | 18.0% | 22.3% | 29.8% | **26.0%** |
| Payout ratio | 60.5% | 57.9% | 67.2% | 70.0% | 67.5% | 73.6% | 87.4%[d] | 53.2% | 53.2% | **54.4%** |
| Tier 1 ratio | 12.9% | 11.7% | 13.0% | 14.5% | 12.9% | 17.8% | 19.0% | 16.2% | 14.4% | **12.4%** |
| Capital adequacy ratio | 13.2% | 16.4% | 17.3% | 18.4% | 16.0% | 19.4% | 21.4% | 19.9% | 21.2% | **14.1%** |
| Impaired assets as % of loan assets (excluding mortgage securitisation SPVs) | 1.7% | 0.4% | 1.1% | 0.3% | 0.4% | 0.5% | 0.2% | 0.6% | 0.3% | **0.5%** |
| Net loan losses as % of loan assets (excluding mortgage securitisation SPVs) | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 0.2% | 0.0% | 0.3% | 0.2% | **0.1%** |
| **Assets under management ($ billion)** [f] | 16.9 | 21.4 | 22.8 | 26.3 | 30.9 | 41.3 | 52.3 | 62.6 | 96.7 | **140.3** |
| Staff numbers [c] | 1,965 | 2,474 | 3,119 | 4,070 | 4,467 | 4,726 | 4,802 | 5,716 | 6,556 | **8,183** |

[a] The Bank's ordinary shares were quoted on the Australian Stock Exchange on 29 July 1996.
[b] Number of fully paid ordinary shares at 31 March, excluding options and partly paid shares.
[c] Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).
[d] 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%.
[e] Restated for AIFRS.
[f] The methodology used to calculate assets under management was revised in September 2005. Comparatives at 31 March 2005 have been restated in accordance with the revised methodology.

# Contact directory

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