

**MACQUARIE BANK**  
2007 FINANCIAL REPORT





The Macquarie Bank Group's 2007 annual report consists of two documents – the 2007 Annual Review (incorporating the Concise Report) and the 2007 Financial Report. The Annual Review provides an overview of the Group's 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 2007 Annual Review please call us on +61 2 8232 5006 or visit [www.macquarie.com.au/shareholdercentre](http://www.macquarie.com.au/shareholdercentre).

#### **Cover: Thames Water**

Thames Water is the largest water and wastewater services company in the United Kingdom, serving eight million water and 13 million wastewater customers across London and the Thames Valley. The history of Thames Water dates back to the early 1600s when the privately funded New River, a 40-mile channel, was built to create London's water supply.

On 1 December 2006, a Macquarie-led consortium, Kemble Water, acquired Thames Water for £8 billion (\$A19.88 billion). Kemble Water, named after the town near the headwaters of the Thames River, is the largest consortium Macquarie has ever brought together and includes investors from Europe, North America and Australasia.

On Kemble Water's behalf, Macquarie has been working closely with Thames Water management to help lay the foundations for a new era for the company.

#### **2007 Annual General Meeting**

Macquarie Bank's 2007 Annual General Meeting will be held at 10.30am on Thursday, 19 July 2007 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 shareholders.

#### **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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The Financial Report was authorised for issue by the Directors on 14 May 2007.

The Bank has the power to amend and reissue the Financial Report.

# Risk Management 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 the Group'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, legal compliance risk and documentation risk. Responsibility for management of these risks lies with the individual businesses giving rise to them. It is the responsibility of the Risk Management Group ("RMG") to ensure appropriate assessment and management of these risks within Macquarie. These risks are quantified and aggregated in the economic capital model.

The risk management principles followed by Macquarie are:

- Independence – RMG is independent of all other areas of the Bank, reporting directly to the Managing Director and the Board. The Head of RMG is a member of the Group's Executive Committee. RMG authority is required for all material risk acceptance decisions. RMG 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 – RMG's responsibility covers the whole of the Macquarie Bank Group, 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 or undertake significant change to existing products or processes without RMG's approval.
- Continuous assessment – RMG continually reviews changes in risks brought about by both external developments and internal circumstances.
- Frequent monitoring – Centralised systems allow RMG to monitor credit and market risks daily. RMG 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 risk of loss associated with changes in the level of volatility or prices in markets to which the Group is exposed. The Group 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;
- equity 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.

In addition, certain products involve an exposure to the correlations between the prices of different instruments.

RMG 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.

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

RMG 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 non-linearity 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. RMG 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 31 March**

|                              | <b>2007<br/>Average<br/>\$m</b> | <b>2007<br/>Maximum<br/>\$m</b> | <b>2007<br/>Minimum<br/>\$m</b> | 2006<br>Average<br>\$m | 2006<br>Maximum<br>\$m | 2006<br>Minimum<br>\$m |
|------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------|------------------------|------------------------|
| Equities                     | <b>7.91</b>                     | <b>13.67</b>                    | <b>3.39</b>                     | 5.97                   | 10.69                  | 2.15                   |
| Interest rates               | <b>2.13</b>                     | <b>3.33</b>                     | <b>1.26</b>                     | 3.35                   | 5.30                   | 1.09                   |
| Foreign exchange and bullion | <b>2.19</b>                     | <b>4.72</b>                     | <b>1.39</b>                     | 1.49                   | 3.48                   | 0.51                   |
| Commodities                  | <b>3.50</b>                     | <b>8.00</b>                     | <b>1.43</b>                     | 1.97                   | 4.31                   | 1.02                   |
| Aggregate                    | <b>8.44</b>                     | <b>15.22</b>                    | <b>2.18</b>                     | 6.90                   | 11.32                  | 3.34                   |

The Group also has exposure to non-traded interest rate risk generated by banking products such as loans and deposits. Banking businesses have small limits to accumulate marketable parcels of interest rate risk. Wherever possible, these interest rate risks are transferred to Macquarie's Treasury & Commodities business and managed within traded market risk limits. Some residual interest rate risks remain in the banking book as an unavoidable consequence of doing business. Residual risks have independent limits that are monitored by RMG Market Risk. Banking book interest rate exposure is regularly reported to Executive Management.

**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 RMG and reported monthly to the Board.

For significant acquisitions or seed assets, RMG 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 RMG and by the Managing Director, Executive Committee and the Board, depending on the size and nature of the risk.

## Credit risk

Credit risk arises from both lending and trading activities. In the case of trading activity, credit risk reflects the possibility that the trading counterparty will not be in a position to complete the contract at any stage. The resultant credit exposure is a function of the movement of prices over the term of the underlying contract and systems for the assessment of potential credit exposures exist for each of Macquarie's trading activities.

No material credit exposures are assumed without appropriate analysis. After this analysis is undertaken limits are set for an acceptable level of potential exposure. All limits 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.

Macquarie's philosophy on credit risk management reflects the principle of separating prudential control from operational management. The responsibility for approval of credit exposures is delegated to specific individuals. All approvals reflect two principles: a requirement for dual sign-off and a requirement that, above relatively low limits, all credit exposures must be approved outside the business line proposing to undertake them. Most credit decisions are therefore taken within RMG. All counterparties are rated on a Macquarie rating scale which is similar to that used by public ratings agencies. Each rating is associated with a Probability of Default and an assessment is also made of the Loss Given Default. This classification enables effective application of resources to the management, pricing and monitoring of credit exposures.

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

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

As offshore exposures continue to grow the analysis of country risk is of increasing importance to credit risk. While the majority of exposures continue to be to OECD countries, Macquarie also has exposures to non-OECD Asia and South America, and limited exposure to African countries. Macquarie has developed a country risk framework which covers the assessment of country risk and the approval of country risk limits. Where appropriate the country risk is covered by political risk insurance.

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

Per cent

Collective provision to loans, advances and leases

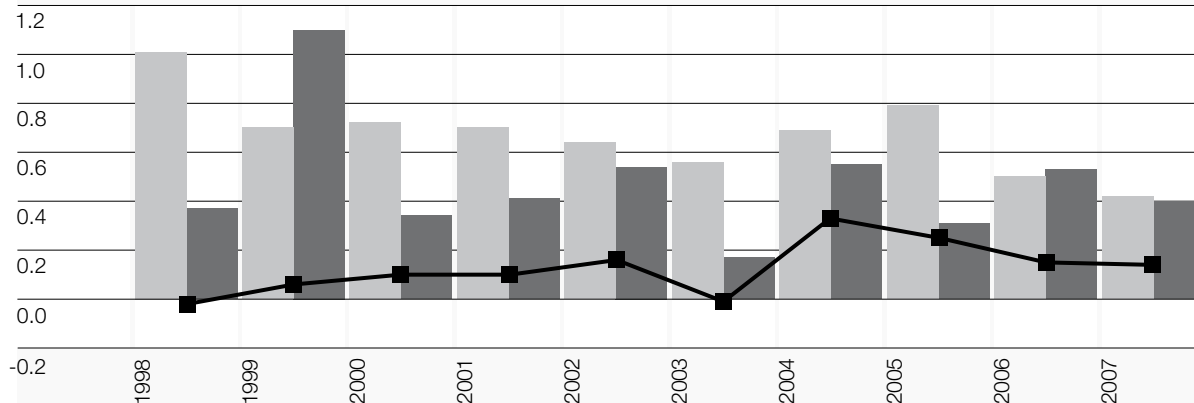
(Balance sheet) ■

Net impaired assets to loans, advances and leases

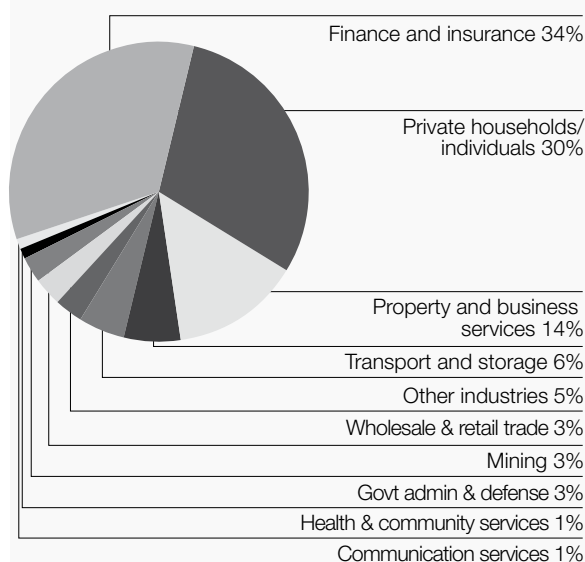
(Balance sheet) ■

Net credit losses to loans, advances and leases

(Income statement) —■



### Loans, advances and leases by sector



### Liquidity risk

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

Liquidity requirements are managed on a day-to-day basis by the Treasury Division. They are 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.

RMG monitors adherence to liquidity policy on a daily basis.

A full description of Macquarie's liquidity policy is contained in note 43 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.

RMG assesses operational risk across Macquarie as a whole and ensures that an appropriate framework exists to identify, assess and manage operational risk. RMG 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. RMG 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 assesses 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: statistical 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 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 financial resources available to Macquarie to absorb risk.

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

### Basel II

APRA have commenced the release of draft Australian Prudential Standards based on Basel II. It is anticipated that all standards will be issued by mid year after final consultation with industry participants. These standards will come into force from 1 January 2008 with transitional capital arrangements in place for the first two years of operation.

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. APRA is expected to respond to the application before 31 December 2007. Macquarie is preparing for the full implementation of Basel II in 2008.

APRA have commenced the release of draft Australian Prudential Standards based on Basel II. It is anticipated that all Standards will be issued by mid year after consultation with industry participants. These standards will come into force from 1 January 2008 with transitional capital arrangements in place for the first two years of operation.

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

### RMG resources

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

### RMG headcount at 31 March

|                        | 2004       | 2005       | 2006       | 2007*      |
|------------------------|------------|------------|------------|------------|
| Credit                 | 36         | 52         | 72         | 82         |
| Compliance             | 22         | 38         | 58         | 67         |
| Internal Audit         | 22         | 34         | 37         | 43         |
| Finance (a)            | 18         | 23         | 34         | 62         |
| Operational Risk (b)   | n/a        | n/a        | 7          | 13         |
| Other                  | 3          | 8          | 10         | 16         |
| <b>Total</b>           | <b>101</b> | <b>155</b> | <b>218</b> | <b>283</b> |
| Based in Australia     | 85         | 123        | 155        | 190        |
| Based overseas         | 16         | 32         | 63         | 93         |
| <b>Total RMG Staff</b> | <b>101</b> | <b>155</b> | <b>218</b> | <b>283</b> |

\* Includes contractors.

- (a) Finance is the area of RMG which oversees market risk, equity risk, liquidity risk, the economic capital model and the Bank's compliance obligations to APRA. Finance now includes the Quantitative Applications Division.
- (b) 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 2007

|   | Notes | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-------|-----------------------------|-----------------------------|---------------------|---------------------|
| Interest and similar income   | 2     | 4,632                       | 3,136                       | 3,368               | 2,017               |
| Interest expense and similar charges  | 2     | (3,904)                     | (2,544)                     | (2,850)             | (1,680)             |
| Net interest income   |       | 728                         | 592                         | 518                 | 337                 |
| Fee and commission income   | 2     | 3,540                       | 2,842                       | 1,264               | 794                 |
| Net trading income  | 2     | 1,047                       | 876                         | 921                 | 709                 |
| Share of net profits of associates<br>and joint ventures using the equity method    | 2     | 242                         | 172                         | –                   | –                   |
| Other operating income  | 2     | 1,676                       | 411                         | 1,985               | 1,078               |
| Impairment charges  | 2     | (52)                        | (61)                        | (42)                | (46)                |
| Total operating income  |       | 7,181                       | 4,832                       | 4,646               | 2,872               |
| Employment expenses   | 2     | (3,733)                     | (2,407)                     | (2,561)             | (1,591)             |
| Brokerage and commission expenses   | 2     | (421)                       | (366)                       | (306)               | (267)               |
| Occupancy expenses  | 2     | (226)                       | (139)                       | (139)               | (82)                |
| Non-salary technology expenses  | 2     | (163)                       | (128)                       | (101)               | (85)                |
| Other operating expenses  | 2     | (710)                       | (505)                       | (441)               | (266)               |
| Total operating expenses  |       | (5,253)                     | (3,545)                     | (3,548)             | (2,291)             |
| <b>Operating profit before income tax</b>   |       | <b>1,928</b>                | 1,287                       | <b>1,098</b>        | 581                 |
| Income tax (expense)/benefit  | 5     | (377)                       | (290)                       | (13)                | 4                   |
| <b>Profit from ordinary activities after income tax</b>                             |       | <b>1,551</b>                | 997                         | <b>1,085</b>        | 585                 |
| Profit attributable to minority interests   |       | (57)                        | (52)                        | –                   | –                   |
| Profit attributable to equity holders<br>of Macquarie Bank Limited                  |       | <b>1,494</b>                | 945                         | <b>1,085</b>        | 585                 |
| Distributions paid or provided on:  |       |                             |                             |                     |                     |
| Macquarie Income Securities   | 6     | (31)                        | (29)                        | –                   | –                   |
| Convertible debentures  | 6     | –                           | –                           | (54)                | (51)                |
| <b>Profit attributable to ordinary equity holders<br/>of Macquarie Bank Limited</b> |       | <b>1,463</b>                | 916                         | <b>1,031</b>        | 534                 |
| <b>Cents per share</b>  |       |                             |                             |                     |                     |
| Basic earnings per share  | 7     | 591.6                       | 400.3                       |                     |                     |
| Diluted earnings per share  | 7     | 569.8                       | 382.3                       |                     |                     |

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

# Balance sheets

## as at 31 March 2007

|   | Notes | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-------|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Assets</b>   |       |                             |                             |                     |                     |
| Cash and balances with central banks  |       | 3                           | 5                           | 3                   | 5                   |
| Due from banks  | 8     | 6,120                       | 6,394                       | 4,580               | 4,579               |
| Cash collateral on securities borrowed<br>and reverse repurchase agreements | 9     | 25,909                      | 13,570                      | 25,843              | 13,565              |
| Trading portfolio assets  | 10    | 15,518                      | 14,246                      | 14,931              | 13,030              |
| Loan assets held at amortised cost  | 11    | 45,796                      | 34,999                      | 18,759              | 13,181              |
| Other financial assets at fair value through profit and loss                | 13    | 2,779                       | 2,104                       | 2,180               | 1,894               |
| Derivative financial instruments – positive values                          | 40    | 11,913                      | 10,978                      | 11,047              | 10,618              |
| Other assets  | 14    | 10,444                      | 8,452                       | 4,699               | 3,213               |
| Investment securities available for sale                                    | 15    | 6,060                       | 3,746                       | 3,211               | 2,310               |
| Intangible assets   | 16    | 100                         | 150                         | 10                  | 11                  |
| Life investment contracts and other unit holder assets                      | 17    | 5,847                       | 5,183                       | –                   | –                   |
| Due from controlled entities  |       | –                           | –                           | 13,527              | 10,241              |
| Interest in associates and joint ventures<br>using the equity method        | 18    | 4,071                       | 3,463                       | 613                 | 833                 |
| Property, plant and equipment   | 19    | 378                         | 292                         | 150                 | 90                  |
| Investments in controlled entities  | 20    | –                           | –                           | 4,085               | 4,087               |
| Deferred income tax assets  | 21    | 457                         | 240                         | 431                 | 232                 |
| Assets and disposal groups classified as held for sale                      | 22    | 994                         | 2,389                       | 139                 | 18                  |
| <b>Total assets</b>   |       | <b>136,389</b>              | <b>106,211</b>              | <b>104,208</b>      | <b>77,907</b>       |
| <b>Liabilities</b>  |       |                             |                             |                     |                     |
| Due to banks  | 23    | 4,127                       | 2,118                       | 2,111               | 1,217               |
| Cash collateral on securities lent and<br>repurchase agreements             | 24    | 7,489                       | 6,995                       | 7,489               | 6,995               |
| Trading portfolio liabilities   | 25    | 15,922                      | 10,057                      | 15,957              | 10,053              |
| Derivative financial instruments – negative values                          | 40    | 11,069                      | 10,057                      | 9,800               | 9,286               |
| Deposits  |       | 12,403                      | 9,267                       | 12,055              | 9,094               |
| Debt issued at amortised cost   | 26    | 51,365                      | 39,022                      | 28,519              | 20,567              |
| Other financial liabilities at fair value through<br>profit and loss        | 27    | 5,552                       | 5,481                       | 5,149               | 5,058               |
| Other liabilities   | 28    | 11,958                      | 9,553                       | 7,094               | 4,417               |
| Current tax liabilities   |       | 132                         | 97                          | 94                  | 22                  |
| Life investment contracts and other unit holder liabilities                 |       | 5,781                       | 5,130                       | –                   | –                   |
| Due to controlled entities  |       | –                           | –                           | 7,136               | 5,275               |
| Provisions  | 29    | 153                         | 132                         | 124                 | 108                 |
| Deferred income tax liabilities   | 21    | 78                          | 157                         | 41                  | 129                 |
| Liabilities of disposal groups classified as held for sale                  | 22    | 170                         | 1,427                       | –                   | –                   |
| <b>Total liabilities excluding loan capital</b>                             |       | <b>126,199</b>              | <b>99,493</b>               | <b>95,569</b>       | <b>72,221</b>       |
| <b>Loan capital</b>   |       |                             |                             |                     |                     |
| Subordinated debt at amortised cost   | 30    | 1,783                       | 1,115                       | 1,783               | 1,114               |
| Subordinated debt at fair value through profit and loss                     | 30    | 888                         | 266                         | 888                 | 266                 |
| <b>Total liabilities</b>  |       | <b>128,870</b>              | <b>100,874</b>              | <b>98,240</b>       | <b>73,601</b>       |
| <b>Net assets</b>   |       | <b>7,519</b>                | <b>5,337</b>                | <b>5,968</b>        | <b>4,306</b>        |

|  | Notes | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-------|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Equity</b>  |       |                             |                             |                     |                     |
| Contributed equity   |       |                             |                             |                     |                     |
| Ordinary share capital   | 31    | 3,103                       | 1,916                       | 3,103               | 1,916               |
| Treasury shares  | 31    | (7)                         | (2)                         | -                   | -                   |
| Macquarie Income Securities  | 31    | 391                         | 391                         | 391                 | 391                 |
| Convertible debentures   | 31    | -                           | -                           | 884                 | 884                 |
| Reserves   | 32    | 380                         | 250                         | 212                 | 166                 |
| Retained earnings  | 32    | 2,795                       | 1,934                       | 1,378               | 949                 |
| Total capital and reserves attributable<br>to equity holders of Macquarie Bank Limited |       | 6,662                       | 4,489                       | 5,968               | 4,306               |
| Minority interest  | 32    | 857                         | 848                         | -                   | -                   |
| <b>Total equity</b>  |       | <b>7,519</b>                | <b>5,337</b>                | <b>5,968</b>        | <b>4,306</b>        |

*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 2007

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Total equity at the beginning of the year</b>                      | <b>5,337</b>                | 4,425                       | <b>4,306</b>        | 3,826               |
| Adjustments on adoption of AASB 132 and AASB 139,<br>net of tax:      |                             |                             |                     |                     |
| Retained profits  | ██████████                  | 16                          | ██████████          | (14)                |
| Reserves  | ██████████                  | 71                          | ██████████          | 61                  |
| Available for sale investments, net of tax                            | 77                          | 84                          | 15                  | 45                  |
| Associates and joint ventures   | (12)                        | (2)                         | -                   | -                   |
| Cash flow hedges, net of tax  | 8                           | (2)                         | (33)                | 20                  |
| Exchange differences on translation of foreign operations             | (3)                         | -                           | 4                   | (6)                 |
| <b>Net income recognised directly in equity</b>                       | <b>70</b>                   | 167                         | <b>(14)</b>         | 106                 |
| <b>Profit from ordinary activities after income tax</b>               | <b>1,551</b>                | 997                         | <b>1,085</b>        | 585                 |
| <b>Total recognised income and expense for the year</b>               | <b>1,621</b>                | 1,164                       | <b>1,071</b>        | 691                 |
| Transactions with equity holders in their capacity as equity holders: |                             |                             |                     |                     |
| Contributions of equity, net of transaction costs                     | 1,160                       | 308                         | 1,160               | 308                 |
| Dividends and distributions paid or provided                          | (633)                       | (550)                       | (602)               | (521)               |
| Minority interest:  |                             |                             |                     |                     |
| Reduction of equity net of transaction costs                          | (21)                        | (12)                        | -                   | -                   |
| Changes in retained earnings due to acquisitions and disposals        | 27                          | -                           | -                   | -                   |
| Distributions paid or provided  | (54)                        | (51)                        | -                   | -                   |
| Convertible debentures:   |                             |                             |                     |                     |
| Distributions paid or provided  | -                           | -                           | (54)                | (51)                |
| Other equity movements:   |                             |                             |                     |                     |
| Share based payments  | 87                          | 53                          | 87                  | 53                  |
| Net purchase of treasury shares                                       | (5)                         | -                           | -                   | -                   |
| <b>Total equity at the end of the year</b>                            | <b>7,519</b>                | 5,337                       | <b>5,968</b>        | 4,306               |
| Total recognised income and expense for the year is attributable to:  |                             |                             |                     |                     |
| Ordinary equity holders of Macquarie Bank Limited                     | 1,533                       | 1,088                       | 1,017               | 640                 |
| Macquarie Income Securities holders                                   | 31                          | 29                          | -                   | -                   |
| Convertible debentures holders  | -                           | -                           | 54                  | 51                  |
| Minority interest   | 57                          | 47                          | -                   | -                   |
| <b>Total recognised income and expense for the year</b>               | <b>1,621</b>                | 1,164                       | <b>1,071</b>        | 691                 |

*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 2007

|   | Notes | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-------|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>   |       |                             |                             |                     |                     |
| Interest received   |       | 4,461                       | 3,069                       | 3,199               | 1,980               |
| Interest and other costs of finance paid  |       | (3,828)                     | (2,301)                     | (2,767)             | (1,530)             |
| Dividends and distributions received  |       | 460                         | 230                         | 1,030               | 465                 |
| Fees and other non-interest income received   |       | 3,572                       | 2,644                       | 1,653               | 1,403               |
| Fees and commissions paid   |       | (380)                       | (443)                       | (280)               | (281)               |
| Net payments from trading securities<br>and other financial assets/liabilities                                  |       | (8,281)                     | (5,257)                     | (8,228)             | (4,251)             |
| Payments to suppliers   |       | (797)                       | (827)                       | (255)               | (1,153)             |
| Employment expenses paid  |       | (2,377)                     | (1,854)                     | (1,494)             | (1,210)             |
| Income tax paid   |       | (626)                       | (353)                       | (510)               | (297)               |
| Life investment contract income   |       | 415                         | 193                         | -                   | -                   |
| Life investment contract premiums received<br>and other unit holder contributions                               |       | 2,594                       | 973                         | -                   | -                   |
| Life investment contract payments   |       | (2,469)                     | (1,187)                     | -                   | -                   |
| Assets and disposal groups classified as held for sale<br>– net receipts/(payments) from operations             |       | 173                         | (2)                         | -                   | (9)                 |
| Loan assets granted (net)   |       | (11,621)                    | (7,777)                     | (5,793)             | (6,034)             |
| Recovery of loans previously written off  |       | 3                           | -                           | -                   | -                   |
| Net increase in money market and<br>other deposit accounts  |       | 17,726                      | 18,510                      | 11,815              | 14,350              |
| Net cash flows from operating activities  | 33    | (975)                       | 5,618                       | (1,629)             | 3,433               |
| <b>Cash flows from investing activities</b>   |       |                             |                             |                     |                     |
| Payments for assets available for sale  |       | (14,651)                    | (7,374)                     | (11,489)            | (5,631)             |
| Proceeds from the realisation of assets available for sale  |       | 13,762                      | 7,173                       | 11,969              | 6,192               |
| Payments for interests in associates  |       | (1,525)                     | (2,453)                     | (193)               | (383)               |
| Proceeds from the sale of associates  |       | 1,080                       | 1,070                       | 771                 | 143                 |
| Proceeds from the sale of assets and disposal groups<br>classified as held for sale                             |       | 2,159                       | 1,238                       | 52                  | 294                 |
| Payments for the acquisition of controlled entities,<br>excluding disposal groups, net of cash acquired         |       | (25)                        | (106)                       | (1,162)             | (595)               |
| Payments for the acquisition of assets and disposal<br>groups classified as held for sale, net of cash acquired |       | (1,750)                     | (921)                       | (62)                | (26)                |
| Payments for life investment contracts and other<br>unit holder investments                                     |       | (6,083)                     | (5,327)                     | -                   | -                   |
| Proceeds from the sale of life investment<br>contract investments   |       | 5,520                       | 5,647                       | -                   | -                   |
| Payments for fixed assets   |       | (199)                       | (262)                       | (109)               | (79)                |
| Proceeds from the sale of fixed assets  |       | 7                           | 5                           | 3                   | 3                   |
| Net cash flows from investing activities  |       | (1,705)                     | (1,310)                     | (220)               | (82)                |
| <b>Cash flows from financing activities</b>   |       |                             |                             |                     |                     |
| Proceeds from the issue of ordinary share capital   |       | 946                         | 223                         | 946                 | 223                 |
| Proceeds from/(payments to) other minority interest   |       | 5                           | (2)                         | -                   | -                   |
| Repayment of subordinated debt  |       | -                           | (26)                        | -                   | (26)                |
| Issue of subordinated debt  |       | 1,394                       | -                           | 1,394               | -                   |
| Dividends and distributions paid  |       | (472)                       | (520)                       | (442)               | (491)               |
| Net cash flows from financing activities  |       | 1,873                       | (325)                       | 1,898               | (294)               |
| <b>Net (decrease)/increase in cash</b>  |       | (807)                       | 3,983                       | 49                  | 3,057               |
| Cash and cash equivalents at the beginning<br>of the financial year   |       | 9,133                       | 5,150                       | 7,304               | 4,247               |
| Cash and cash equivalents at the end<br>of the financial year   | 33    | 8,326                       | 9,133                       | 7,353               | 7,304               |

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 Australian Accounting Standards (which includes Australian Interpretations by virtue of AASB 1048), the Corporations Act 2001 and the Banking Act 1959. Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards.

#### Historical cost convention

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

#### Critical accounting estimates and significant judgements

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

- fair value of financial instruments (note 45),
- impairment losses on loans and advances (notes 1(xi), 11 and 46),
- acquisitions and disposals of controlled entities, joint ventures and associates, and held for sale investments (notes 1(ii), 1(x), 18, 20 and 22),
- consolidation of special-purpose entities (notes 1(ii), 11 and 26), and
- ability to realise deferred tax (notes 1(vi), 5 and 21).

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 2007 or later periods but which the Bank and economic entity has not yet adopted. The significant ones are as follows:

*AASB 7, Financial Instruments: 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 Bank and economic entity expect that the main additional disclosures will be the sensitivity analysis of market risk and the capital disclosures.

*AASB 101, Presentation of Financial Statements* (effective from 1 April 2007). The impacts of revised AASB 101 are to eliminate much of the Australian specific content, including the Australian illustrative formats of the income statement, balance sheet and statement of equity which entities were previously 'encouraged' to adopt in preparing their financial statements. In addition to this, the standard introduces disclosures about the level of an entity's capital and how it manages capital.

*AASB 8, Operating Segments* (effective from 1 April 2009). This standard will require the entity to adopt the 'management approach' to disclosing information about its reportable segments. Generally, the financial information will be reported on the same basis as it is used internally by the chief decision maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. Such information may be prepared using different measures to that used in preparing the income statement and balance sheet, in which case reconciliations of certain items will be required.

*AASB 2007-4, Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments* (effective from 1 April 2007) was made recently to introduce accounting policy choices allowed under IFRS that were not previously incorporated by the AASB, and to remove many Australian-specific disclosures. The primary impacts expected for the Bank and economic entity are to reduce the disclosures relating to investments in associates and joint ventures.

Accounting choices that will now be allowed include using the indirect method to prepare the statement of cash flows, and using the proportionate consolidation method for accounting for joint venture interests. Australian-specific disclosures that will no longer be required include the share of profits before tax, share of tax expense, and impairment losses from investments in associates and joint ventures. Additionally, most intermediary subsidiaries of the Bank that are Australian reporting entities will no longer be required to consolidate their subsidiaries when preparing financial statements. Instead, they can carry their investments in subsidiaries using the cost method.

## 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 closed or finalised at law.

### 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; and (d) the SPE’s activities are being conducted on behalf of the economic entity and according to its specific business needs.

### Interests in associates and joint ventures using the equity method

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

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

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

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

**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 income statement. Translation differences on non-monetary items (such as equities) classified as available for sale financial assets are included in the available for sale reserve in equity, unless they form part of fair value hedge relationships in which case the translation differences are recognised in the income statement.

**Controlled and other entities**

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

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

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

**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 repurchase/reverse 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 a receivable, while cash received from third parties on securities lent is recorded as a borrowing.

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

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

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

**viii) Trading portfolio**

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

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

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

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 and hedging**

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

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

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

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

#### **Cash flow hedges**

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

#### **Fair value hedges**

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

#### **Net investment hedges**

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

#### **x) Investments and other financial assets**

With the exception of trading portfolio assets and derivatives which are classified separately in the balance sheet, the remaining investments in financial assets are classified into the following categories: loan assets held at amortised cost, other financial assets at fair value through profit 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 through profit and loss, is re-evaluated at each reporting date.

##### **Loan assets held at amortised cost**

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

##### **Other financial assets at fair value through profit 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 considering the impacts of changes in interest rates, exchange rates or equity prices.

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

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

#### **Non-current assets classified as held for sale**

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

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

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.

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

#### 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% to 20% |
| Leasehold improvements* | 20%        |
| Computer equipment      | 33% to 50% |
| Plant and equipment     | 20% to 33% |
| Infrastructure assets   | 5% to 20%  |
| 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 losses. 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 impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of management rights over their estimated useful life not exceeding twenty years.

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.

#### **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 2007, the investment funds and trusts, both individually and collectively, have an excess of assets over liabilities. The value of funds managed by the economic entity (measured based on the gross assets of the individual funds) is \$197.2 billion (31 March 2006: \$140.3 billion). This includes \$5.9 billion (31 March 2006: \$5.2 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.

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

#### **xviii) Performance based remuneration**

##### **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: 6.5% (weighted average), expected life of options: four years, volatility of share price: 20% and dividend yield: 3.2% p.a.

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

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.

In February 2007, Interpretation 11 AASB 2: *Group and Treasury Share Transactions* was approved by the AASB. This Interpretation applies to annual reporting periods beginning on or after 1 March 2007. As the requirements of this interpretation are in line with the Bank's existing accounting policy, the Bank has adopted this interpretation early.

#### **Profit share remuneration**

The Group recognises a liability and expense for profit share based on a formula that takes into consideration the Group's after tax profit and its earnings over and above the estimated cost of capital.

#### **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 rate 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) Comparatives**

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

#### **xxiii) Rounding of amounts**

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

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 2. Profit for the financial year</b>  |                             |                             |                     |                     |
| <b>Net interest income</b>  |                             |                             |                     |                     |
| Interest and similar income received/receivable   |                             |                             |                     |                     |
| Other entities  | 4,632                       | 3,136                       | 2,670               | 1,661               |
| Controlled entities   | –                           | –                           | 698                 | 356                 |
| Interest expense and similar charges paid/payable   |                             |                             |                     |                     |
| Other entities  | (3,904)                     | (2,544)                     | (2,525)             | (1,508)             |
| Controlled entities   | –                           | –                           | (325)               | (172)               |
| Net interest income   | 728                         | 592                         | 518                 | 337                 |
| <b>Fee and commission income</b>  |                             |                             |                     |                     |
| Fee and commission income   | 3,513                       | 2,819                       | 1,264               | 794                 |
| Income from life business and other unit holder businesses (note 17)  | 27                          | 23                          | –                   | –                   |
| Fee and commission income   | 3,540                       | 2,842                       | 1,264               | 794                 |
| <b>Net trading income*</b>  |                             |                             |                     |                     |
| Equities  | 765                         | 526                         | 881                 | 430                 |
| Commodities   | 295                         | 197                         | 161                 | 84                  |
| Foreign exchange products   | 120                         | 152                         | (59)                | 153                 |
| Interest rate products  | (133)                       | 1                           | (62)                | 42                  |
| Net trading income  | 1,047                       | 876                         | 921                 | 709                 |
| <b>Share of net profits of associates and joint ventures using the equity method</b>  |                             |                             |                     |                     |
|   | 242                         | 172                         | –                   | –                   |
| <b>Other operating income</b>   |                             |                             |                     |                     |
| Net gains on sale of investment securities available for sale   | 160                         | 100                         | 125                 | 82                  |
| Net gains on sale of associates and joint ventures  | 650                         | 78                          | 353                 | 148                 |
| Net operating income/(loss) from disposal groups held for sale**  | 41                          | (18)                        | –                   | –                   |
| Gain on deconsolidation of previously controlled entities and businesses held for sale  | 469                         | 128                         | –                   | –                   |
| Dividends/distributions received/receivable:  |                             |                             |                     |                     |
| – equity investments and investment securities available for sale   | 84                          | 42                          | 105                 | 78                  |
| – controlled entities   | –                           | –                           | 925                 | 378                 |
| Management fees, group service charges and cost recoveries – controlled entities  | –                           | –                           | 456                 | 364                 |
| Other income***   | 272                         | 81                          | 21                  | 28                  |
| Other operating income  | 1,676                       | 411                         | 1,985               | 1,078               |
| <b>Impairment charges</b>   |                             |                             |                     |                     |
| Provision for diminution of investment securities (including investment securities available for sale, associates and joint ventures) | (12)                        | (25)                        | (3)                 | (18)                |
| Collective allowance for credit losses provided for during the financial year (refer note 11)   | (11)                        | (11)                        | (13)                | (10)                |
| Specific provisions   |                             |                             |                     |                     |
| – provided for during the financial year (refer note 11)  | (36)                        | (36)                        | (31)                | (26)                |
| – recovery of loans previously provided for (refer note 11)   | 13                          | 15                          | 6                   | 9                   |
| – loan losses written-off   | (9)                         | (7)                         | (1)                 | (1)                 |
| – recovery of loans previously written-off  | 3                           | 3                           | –                   | –                   |
| Impairment charges  | (52)                        | (61)                        | (42)                | (46)                |
| <b>Total operating income</b>   | <b>7,181</b>                | <b>4,832</b>                | <b>4,646</b>        | <b>2,872</b>        |

\* Included in the net trading income are fair value changes of \$68 million for the year ending 31 March 2007 (31 March 2006: \$15 million) relating to financial assets and financial 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 partially offsets the fair value changes relating to the financial assets and financial liabilities designated at fair value. Also includes fair value changes on derivatives used to hedge the Group's economic interest rate risk where hedge accounting requirements are not met – refer to note 1 (ix).

\*\* 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 22 – Assets and disposal groups classified as held for sale for the name of each group.

\*\*\* Included within other income is rental income of \$169 million (2006: \$63 million) less depreciation of \$109 million (2006: \$44 million) in relation to operating leases where the Group is the lessor.

# Notes to the financial statements

## 31 March 2007 continued

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 2. Profit for the financial year continued</b>  |                             |                             |                     |                     |
| <b>Employment expenses</b>  |                             |                             |                     |                     |
| Salary, salary related costs including commissions, superannuation and performance-related profit share | (3,469)                     | (2,214)                     | (2,371)             | (1,472)             |
| Share based payments  | (87)                        | (53)                        | (68)                | (37)                |
| Provision for annual leave  | (15)                        | (12)                        | (7)                 | (6)                 |
| Provision for long service leave  | (8)                         | (7)                         | (6)                 | (5)                 |
| Total compensation expense  | (3,579)                     | (2,286)                     | (2,452)             | (1,520)             |
| Other employment expenses including on-costs, staff procurement and staff training                      | (154)                       | (121)                       | (109)               | (71)                |
| Total employment expenses   | (3,733)                     | (2,407)                     | (2,561)             | (1,591)             |
| <b>Brokerage and commission expenses</b>  |                             |                             |                     |                     |
| Brokerage expenses  | (289)                       | (264)                       | (221)               | (188)               |
| Other fee and commission expenses   | (132)                       | (102)                       | (85)                | (79)                |
| Total brokerage and commission expenses   | (421)                       | (366)                       | (306)               | (267)               |
| <b>Occupancy expenses</b>   |                             |                             |                     |                     |
| Operating lease rentals   | (151)                       | (91)                        | (102)               | (58)                |
| Depreciation: infrastructure, furniture, fittings and leasehold improvements (note 19)                  | (36)                        | (21)                        | (16)                | (10)                |
| Other occupancy expenses  | (39)                        | (27)                        | (21)                | (14)                |
| Total occupancy expenses  | (226)                       | (139)                       | (139)               | (82)                |
| <b>Non-salary technology expenses</b>   |                             |                             |                     |                     |
| Information services  | (64)                        | (54)                        | (31)                | (29)                |
| Depreciation: computer equipment (note 19)  | (38)                        | (34)                        | (25)                | (25)                |
| Other non-salary technology expenses  | (61)                        | (40)                        | (45)                | (31)                |
| Total non-salary technology expenses  | (163)                       | (128)                       | (101)               | (85)                |
| <b>Other operating expenses</b>   |                             |                             |                     |                     |
| Professional fees   | (233)                       | (143)                       | (158)               | (74)                |
| Auditors' remuneration (note 47)  | (18)                        | (13)                        | (7)                 | (5)                 |
| Travel and entertainment expenses   | (154)                       | (122)                       | (76)                | (63)                |
| Advertising and promotional expenses  | (36)                        | (33)                        | (20)                | (24)                |
| Communication expenses  | (34)                        | (29)                        | (16)                | (14)                |
| Depreciation: communication equipment (note 19)   | (7)                         | (5)                         | (5)                 | (4)                 |
| Other expenses  | (228)                       | (160)                       | (159)               | (82)                |
| Total other operating expenses  | (710)                       | (505)                       | (441)               | (266)               |
| <b>Total operating expenses</b>   | <b>(5,253)</b>              | <b>(3,545)</b>              | <b>(3,548)</b>      | <b>(2,291)</b>      |

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 3. Revenue from operating activities</b>  |                             |                             |                     |                     |
| Interest and similar income   | 4,632                       | 3,136                       | 3,368               | 2,017               |
| Fee and commission income   | 3,513                       | 2,819                       | 1,264               | 794                 |
| Investment revenue and management fees from life investment contracts and other unit holder businesses (note 17)          | 613                         | 509                         | –                   | –                   |
| Net trading income  | 1,047                       | 876                         | 921                 | 709                 |
| Profit on the sale of investment securities available for sale and associates and joint ventures                          | 810                         | 178                         | 478                 | 230                 |
| Other income (excluding profit on the sale of investment securities available for sale and associates and joint ventures) | 1,108                       | 405                         | 1,507               | 848                 |
| <b>Total revenue from operating activities</b>  | <b>11,723</b>               | <b>7,923</b>                | <b>7,538</b>        | <b>4,598</b>        |

#### 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 is 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, 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.

#### Primary segment – business

|   | Asset and<br>Wealth<br>Management<br>\$m | Financial<br>Markets<br>\$m | Investment<br>Banking<br>\$m | Lending<br>\$m | Total<br>\$m |
|---|--|-----------------------------|------------------------------|----------------|--------------|
| <b>Consolidated 31 March 2007</b>   |  |                             |                              |                |              |
| <b>Income statements</b>  |  |                             |                              |                |              |
| Revenue from external customers   | 2,327                                    | 2,806                       | 3,236                        | 3,071          | 11,440       |
| Net operating income from disposal groups held for sale                       | –  | –                           | 41                           | –              | 41           |
| Intersegmental revenue/(expense)  | 35                                       | (530)                       | (242)                        | 737            | –            |
| Share of net profits of associates and joint ventures using the equity method | 195                                      | 38                          | 9                            | –              | 242          |
| Total revenue from ordinary activities  | 2,557                                    | 2,314                       | 3,044                        | 3,808          | 11,723       |
| Operating profit from ordinary activities before income tax                   | 494                                      | 376                         | 883                          | 175            | 1,928        |
| Income tax expense  | (132)                                    | (42)                        | (157)                        | (46)           | (377)        |
| Profit from ordinary activities after income tax                              | 362                                      | 334                         | 726                          | 129            | 1,551        |
| Non-cash expenses: depreciation   | (22)                                     | (15)                        | (65)                         | (88)           | (190)        |
| <b>Balance sheets</b>   |  |                             |                              |                |              |
| Total assets  | 12,417                                   | 69,717                      | 13,713                       | 40,542         | 136,389      |
| Total liabilities   | 9,163                                    | 86,920                      | 4,319                        | 28,468         | 128,870      |
| Fixed assets acquired during the financial year                               | 21                                       | 95                          | 28                           | 55             | 199          |
| Intangible assets acquired during the financial year                          | –  | 9                           | 25                           | 13             | 47           |
| Assets and disposal groups classified as held for sale                        | 43                                       | –                           | 951                          | –              | 994          |
| Interest in associates and joint ventures using the equity method             | 921                                      | 207                         | 2,893                        | 50             | 4,071        |

# Notes to the financial statements

## 31 March 2007 continued

### Note 4. Segment reporting continued

#### Primary segment – business

|   | Asset and<br>Wealth<br>Management<br>\$m | Financial<br>Markets<br>\$m | Investment<br>Banking<br>\$m | Lending<br>\$m | Total<br>\$m |
|---|--|-----------------------------|------------------------------|----------------|--------------|
| Consolidated 31 March 2006  |  |                             |                              |                |              |
| <b>Income statements</b>  |  |                             |                              |                |              |
| Revenue from external customers   | 1,702                                    | 1,968                       | 1,887                        | 2,212          | 7,769        |
| Net operating 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)        |
| <b>Balance sheets</b>   |  |                             |                              |                |              |
| 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        |

#### 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<br>\$m | Asia Pacific*<br>\$m | Europe<br>\$m | North America<br>\$m | Other<br>\$m | Total<br>\$m |
|--|------------------|----------------------|---------------|----------------------|--------------|--------------|
| Consolidated 31 March 2007                           |                  |                      |               |                      |              |              |
| Revenue from external customers                      | 7,014            | 1,458                | 1,643         | 1,314                | 11           | 11,440       |
| Total assets   | 69,983           | 12,593               | 37,559        | 14,808               | 1,446        | 136,389      |
| Fixed assets acquired during the financial year      | 153              | 13                   | 26            | 7                    | –            | 199          |
| Intangible assets acquired during the financial year | 11               | 10                   | 9             | 17                   | –            | 47           |
| 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          |

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



|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 5. Income tax (expense)/benefit</b>   |                             |                             |                     |                     |
| <b>a) Income tax (expense)/benefit</b>  |                             |                             |                     |                     |
| Current tax   | (596)                       | (388)                       | (144)               | (37)                |
| Deferred tax  | 219                         | 98                          | 131                 | 41                  |
| Total   | (377)                       | (290)                       | (13)                | 4                   |
| Deferred income tax revenue included in income tax (expense)/benefit comprises:   |                             |                             |                     |                     |
| Increase in deferred tax assets   | 129                         | 35                          | 55                  | 23                  |
| Decrease in deferred tax liabilities  | 90                          | 63                          | 76                  | 18                  |
| Total   | 219                         | 98                          | 131                 | 41                  |
| <b>b) Reconciliation of income tax expense to prima facie tax payable</b>   |                             |                             |                     |                     |
| Prima facie income tax expense on operating profit*   | (578)                       | (387)                       | (329)               | (174)               |
| Tax effect of amounts adjusted in calculating taxable income:   |                             |                             |                     |                     |
| Rate differential on offshore income  | 195                         | 85                          | 63                  | 55                  |
| Distribution provided on Macquarie Income Preferred Securities and similar distributions  | 16                          | 15                          | 16                  | 15                  |
| Non-deductible options expense  | (26)                        | (16)                        | (20)                | (11)                |
| Intragroup dividends  | -                           | -                           | 277                 | 114                 |
| Other items   | 16                          | 13                          | (20)                | 5                   |
| Total income tax (expense)/benefit  | (377)                       | (290)                       | (13)                | 4                   |
| <b>c) Amounts recognised directly in equity</b>   |                             |                             |                     |                     |
| Aggregate current and deferred tax arising in the reporting period and not recognised in profit and loss but directly recognised in equity: |                             |                             |                     |                     |
| Net deferred tax – debited/(credited) directly to equity  | 11                          | 67                          | (19)                | 54                  |
| Total   | 11                          | 67                          | (19)                | 54                  |

\* Prima facie income tax on operating profit is calculated at the rate of 30% (31 March 2006: 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.

In preparing this financial report the Bank has 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.

# Notes to the financial statements

## 31 March 2007 continued

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 6. Dividends paid and distributions paid or provided</b> |                             |                             |                     |                     |
| <b>i) Dividends paid</b>   |                             |                             |                     |                     |
| <b>Ordinary share capital</b>                                    |                             |                             |                     |                     |
| Interim dividend paid (\$1.25+ (2006: \$0.90*) per share)        | 312                         | 208                         | 312                 | 208                 |
| 2006 Final dividend paid (\$1.25+ (2005: \$1.00*) per share)     | 290                         | 224                         | 290                 | 224                 |
| 2006 Special dividend paid (\$nil (2005: \$0.40*) per share)     | –                           | 89                          | –                   | 89                  |
| <b>Total dividends paid</b>                                      | <b>602</b>                  | <b>521</b>                  | <b>602</b>          | <b>521</b>          |

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

\* These dividends 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 a 2.5% discount to the prevailing market value with effect from the 2006 final dividend (at the prevailing market value, prior to the 2006 final dividend). 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 31 – Contributed equity.

|   | Dividend per ordinary share |               |               |               |
|---|-----------------------------|---------------|---------------|---------------|
| <b>Cash dividends per ordinary share<br/>(distribution of current year profits)</b> | <b>\$3.15</b>               | <b>\$2.15</b> | <b>\$3.15</b> | <b>\$2.15</b> |

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Franking credits available for the subsequent financial<br/>year at a corporate tax rate of 30% (2006: 30%)</b> | <b>176</b>                  | <b>149</b>                  | <b>176</b>          | <b>149</b>          |

The franked portion of dividends proposed as at 31 March 2007 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax payable at the end of the financial year.

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of income tax payable as at the end of the financial year;
- franking credits that may be prevented from being distributed in subsequent financial years;
- 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
- franking debits that will arise from the receipt of tax receivables as at the end of the financial year.

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

Since the end of the financial year the directors have recommended the payment of the 2007 final dividend of \$1.90 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 4 July 2007 out of retained profits at 31 March 2007, but not recognised as a liability at the end of the financial year, is \$482 million. This amount has been estimated based on the number of shares eligible to participate as at 31 March 2007.

### iii) Distributions paid or provided

#### Macquarie Income Securities

|   |           |           |          |          |
|---|-----------|-----------|----------|----------|
| Distributions paid (net of distributions previously provided) | 24        | 23        | –        | –        |
| Distributions provided  | 7         | 6         | –        | –        |
| <b>Total distributions paid or provided</b>                   | <b>31</b> | <b>29</b> | <b>–</b> | <b>–</b> |

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

#### Macquarie Income Preferred Securities

|   |           |           |          |          |
|---|-----------|-----------|----------|----------|
| Distributions paid (net of distributions previously provided) | 30        | 27        | –        | –        |
| Distributions provided  | 24        | 24        | –        | –        |
| <b>Total distributions paid or provided</b>                   | <b>54</b> | <b>51</b> | <b>–</b> | <b>–</b> |

The Macquarie Income Preferred Securities represent the minority interest of a consolidated entity. Accordingly, the distributions paid/provided in respect of the Macquarie Income Preferred Securities are recorded as movements in minority interest, as disclosed in note 32 – 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. Refer to note 31 for further details on these instruments.

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m          | Bank<br>2006<br>\$m  |
|---|-----------------------------|-----------------------------|------------------------------|----------------------|
| <b>Note 6. Dividends paid and distributions paid or provided</b> continued  |                             |                             |                              |                      |
| <b>Convertible Debentures</b>   |                             |                             |                              |                      |
| Distributions paid (net of distributions previously provided)   | –                           | –                           | 30                           | 27                   |
| Distributions provided  | –                           | –                           | 24                           | 24                   |
| <b>Total distributions paid or provided</b>   | <b>–</b>                    | <b>–</b>                    | <b>54</b>                    | <b>51</b>            |
|   |                             |                             | <b>Consolidated<br/>2007</b> | Consolidated<br>2006 |
| <b>Note 7. Earnings per share</b>   |                             |                             |                              |                      |
|   |                             |                             | <b>Cents per share</b>       |                      |
| <b>Basic earnings per share</b>   |                             |                             | <b>591.6</b>                 | 400.3                |
| <b>Diluted earnings per share</b>   |                             |                             | <b>569.8</b>                 | 382.3                |
|   |                             |                             | <b>\$m</b>                   | \$m                  |
| <b>Reconciliation of earnings used in the calculation of basic and diluted earnings per share</b>   |                             |                             |                              |                      |
| Profit from ordinary activities after income tax  |                             |                             | 1,551                        | 997                  |
| (Profit) attributable to minority interests:  |                             |                             |                              |                      |
| Macquarie Income Preferred Securities   |                             |                             | (54)                         | (51)                 |
| Other equity holders  |                             |                             | (3)                          | (1)                  |
| Distributions paid or provided on:  |                             |                             |                              |                      |
| Macquarie Income Securities   |                             |                             | (31)                         | (29)                 |
| <b>Total earnings used in the calculation of basic and diluted earnings per share</b>   |                             |                             | <b>1,463</b>                 | 916                  |
|   |                             |                             | <b>Number of shares</b>      |                      |
| <b>Total weighted average number of ordinary shares used in the calculation of basic earnings per share</b>                                 |                             |                             | <b>247,313,494</b>           | 228,840,495          |
| <b>Weighted average number of shares used in the calculation of diluted earnings per share</b>  |                             |                             |                              |                      |
| Weighted average fully paid ordinary shares   |                             |                             | 247,313,494                  | 228,840,495          |
| Potential ordinary shares:  |                             |                             |                              |                      |
| Weighted average options  |                             |                             | 9,441,575                    | 10,790,865           |
| <b>Total weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share</b> |                             |                             | <b>256,755,069</b>           | 239,631,360          |

#### 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 1,998,451 (2006: 1,424,595) options that were converted, lapsed or cancelled during the financial year. There are a further 1,765,225 (2006: 10,241,098) 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 2007 and consequently, they are not considered to be dilutive.

# Notes to the financial statements

## 31 March 2007 continued

|                               | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|-------------------------------|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 8. Due from banks</b> |                             |                             |                     |                     |
| Cash at bank*                 | 1,671                       | 2,013                       | 633                 | 566                 |
| Overnight cash at bank        | 936                         | 1,836                       | 923                 | 1,823               |
| Other loans to banks          | 3,380                       | 2,417                       | 2,941               | 2,078               |
| Due from clearing houses      | 133                         | 128                         | 83                  | 112                 |
| <b>Total due from banks</b>   | <b>6,120</b>                | <b>6,394</b>                | <b>4,580</b>        | <b>4,579</b>        |

\* Included within this balance is \$nil (2006: \$8 million) provided as security over payables to other financial institutions.

### Note 9. Cash collateral on securities borrowed and reverse repurchase agreements

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Central bank  | -             | 22            | -             | 22            |
| Governments   | 48            | 385           | 48            | 385           |
| Other financial institutions  | 13,130        | 5,001         | 13,093        | 5,001         |
| Other   | 12,731        | 8,162         | 12,702        | 8,157         |
| <b>Total cash collateral on securities borrowed and reverse repurchase agreements</b> | <b>25,909</b> | <b>13,570</b> | <b>25,843</b> | <b>13,565</b> |

### Note 10. Trading portfolio assets

#### Trading securities

|                                 |               |               |               |               |
|---------------------------------|---------------|---------------|---------------|---------------|
| Equities and other securities   | 12,114        | 9,211         | 11,675        | 8,117         |
| Corporate bonds                 | 1,496         | 995           | 1,412         | 971           |
| Promissory notes                | 809           | 1,188         | 809           | 1,188         |
| Certificates of deposit         | 426           | 1,597         | 426           | 1,597         |
| Other government securities     | 350           | 612           | 350           | 612           |
| Bank bills                      | 159           | 330           | 159           | 330           |
| Commonwealth government bonds   | 71            | 166           | 71            | 166           |
| Foreign government bonds        | 6             | 42            | 6             | 42            |
| <b>Total trading securities</b> | <b>15,431</b> | <b>14,141</b> | <b>14,908</b> | <b>13,023</b> |

#### Other trading assets

|                                       |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Commodities                           | 87            | 105           | 23            | 7             |
| <b>Total other trading assets</b>     | <b>87</b>     | <b>105</b>    | <b>23</b>     | <b>7</b>      |
| <b>Total trading portfolio assets</b> | <b>15,518</b> | <b>14,246</b> | <b>14,931</b> | <b>13,030</b> |

#### 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 \$971 million (2006: \$1,249 million).

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 11. Loan assets held at amortised cost</b> |                             |                             |                     |                     |
| Due from clearing houses                           | 2,827                       | 2,033                       | 2,751               | 1,906               |
| Due from governments*                              | 165                         | 223                         | 110                 | 156                 |
| Due from other entities                            |                             |                             |                     |                     |
| Other loans and advances**                         | 40,269                      | 30,845                      | 16,009              | 11,208              |
| Less specific provisions                           | (71)                        | (52)                        | (69)                | (48)                |
|  | 40,198                      | 30,793                      | 15,940              | 11,160              |
| Lease receivables                                  | 2,697                       | 2,030                       | 47                  | 35                  |
| Total due from other entities                      | 42,895                      | 32,823                      | 15,987              | 11,195              |
| Total gross loan assets                            | 45,887                      | 35,079                      | 18,848              | 13,257              |
| Less collective allowance for credit losses        | (91)                        | (80)                        | (89)                | (76)                |
| <b>Total loan assets held at amortised cost</b>    | <b>45,796</b>               | <b>34,999</b>               | <b>18,759</b>       | <b>13,181</b>       |

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

\*\* Included within this balance are mortgage loans of \$20,034 million (2006: \$17,795 million) held by consolidated SPEs.

Included within the balance of loan assets held at amortised cost are assets provided as security over issued notes and payables to other external investors and financial institutions. The value of assets provided, excluding mortgage securitised loans, is \$1,631 million (2006: \$nil).

#### Specific provisions

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Balance at the beginning of the financial year  | 52           | 45           | 48           | 39           |
| Provided for during the financial year  | 36           | 36           | 31           | 26           |
| Loan assets written off, previously provided for  | (4)          | (10)         | (4)          | (10)         |
| Recovery of loans previously provided for   | (13)         | (15)         | (6)          | (9)          |
| 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            |
| <b>Total specific provisions</b>  | <b>71</b>    | <b>52</b>    | <b>69</b>    | <b>48</b>    |
| <b>Specific provisions as a percentage of gross loan assets</b>                                 | <b>0.15%</b> | <b>0.15%</b> | <b>0.37%</b> | <b>0.36%</b> |

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

#### Collective allowance for credit losses

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Balance at the beginning of the financial year      | 80        | 109       | 76        | 105       |
| Adjustment on adoption of AASB 139                  | -         | (50)      | -         | (47)      |
| Provided for during the financial year              | 11        | 11        | 13        | 10        |
| Transfer from trading portfolio assets              | -         | 10        | -         | 8         |
| <b>Total collective allowance for credit losses</b> | <b>91</b> | <b>80</b> | <b>89</b> | <b>76</b> |

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

#### Note 12. Impaired assets

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

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Impaired assets with specific provisions for impairment | 166       | 152       | 150       | 132       |
| Less specific provisions                                | (78)      | (67)      | (74)      | (50)      |
| <b>Total net impaired assets</b>                        | <b>88</b> | <b>85</b> | <b>76</b> | <b>82</b> |

# Notes to the financial statements

## 31 March 2007 continued

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 13. Other financial assets at fair value through profit and loss</b>   |                             |                             |                     |                     |
| Investment securities  | 789                         | 395                         | 190                 | 185                 |
| Loan assets  | 1,990                       | 1,709                       | 1,990               | 1,709               |
| <b>Total other financial assets at fair value through profit and loss</b>  | <b>2,779</b>                | <b>2,104</b>                | <b>2,180</b>        | <b>1,894</b>        |
| <b>Note 14. Other assets</b>   |                             |                             |                     |                     |
| Debtors and prepayments*   | 5,549                       | 3,434                       | 4,693               | 3,054               |
| Security settlements**   | 3,580                       | 4,146                       | 2                   | 156                 |
| Assets under operating lease***  | 975                         | 694                         | 2                   | 1                   |
| Property held for sale and development*  | 336                         | 173                         | -                   | 2                   |
| Other  | 4                           | 5                           | 2                   | -                   |
| <b>Total other assets</b>  | <b>10,444</b>               | <b>8,452</b>                | <b>4,699</b>        | <b>3,213</b>        |
| * Included within these balances is \$383 million of debtors and prepayments (2006: \$7 million), and \$309 million (2006: \$159 million) of property held for sale and development which are provided as security over amounts payable to other financial institutions.   |                             |                             |                     |                     |
| ** Security settlements are receivable within three working days of the relevant trade date.   |                             |                             |                     |                     |
| *** Assets under operating lease are stated net of accumulated depreciation of \$158 million (2006: \$63 million).   |                             |                             |                     |                     |
| <b>Note 15. Investment securities available for sale</b>   |                             |                             |                     |                     |
| Equity securities  |                             |                             |                     |                     |
| Listed   | 617                         | 347                         | 323                 | 168                 |
| Unlisted*  | 377                         | 198                         | 34                  | 89                  |
| Debt securities**  | 5,066                       | 3,201                       | 2,854               | 2,053               |
| <b>Total investment securities available for sale</b>  | <b>6,060</b>                | <b>3,746</b>                | <b>3,211</b>        | <b>2,310</b>        |
| * Included within this balances is \$155 million (2006: \$nil) provided as security over payables to other financial institutions.   |                             |                             |                     |                     |
| ** Included within this balance are debt securities of \$471 million (2006: \$311 million) 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 full economic exposure to them. |                             |                             |                     |                     |
| <b>Note 16. Intangible assets</b>  |                             |                             |                     |                     |
| Goodwill   | 39                          | 83                          | -                   | -                   |
| Capitalised software   | 17                          | 22                          | 10                  | 11                  |
| Other identifiable intangibles   | 44                          | 45                          | -                   | -                   |
| <b>Total intangible assets</b>   | <b>100</b>                  | <b>150</b>                  | <b>10</b>           | <b>11</b>           |



|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 17. Life investment contracts and other unit holder assets</b>         |                             |                             |                     |                     |
| <b>Life investment contracts and other unit holder assets</b>                  |                             |                             |                     |                     |
| Cash and due from banks  | 63                          | 188                         | -                   | -                   |
| Debt securities  | 865                         | 820                         | -                   | -                   |
| Units in unit trusts   | 4,675                       | 3,946                       | -                   | -                   |
| Equity securities  | 244                         | 229                         | -                   | -                   |
| <b>Total life investment contracts and other unit holder investment assets</b> | <b>5,847</b>                | <b>5,183</b>                | <b>-</b>            | <b>-</b>            |

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

**Income from life investment contracts and other unit holder assets**

|   |           |           |          |          |
|---|-----------|-----------|----------|----------|
| Premium income, investment revenue and management fees                          | 613       | 509       | -        | -        |
| Life investment contract claims, reinsurance and changes in policy liabilities  | (578)     | (479)     | -        | -        |
| Direct fees   | (8)       | (7)       | -        | -        |
| <b>Total income from life investment contracts and other unit holder assets</b> | <b>27</b> | <b>23</b> | <b>-</b> | <b>-</b> |

**Solvency**

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

As at 31 March 2007, the life investment contracts business had investment assets in excess of policy holder liabilities of \$86 million (2006: \$59 million).

**Note 18. Interest in associates and joint ventures using the equity method**

| <b>Interest in associates and joint ventures using the equity method</b>        |              |              |            |            |
|---|--------------|--------------|------------|------------|
| Loans and investments without provisions for impairment                         | 4,016        | 3,327        | 537        | 786        |
| Loans and investments with provisions for impairment                            | 60           | 176          | 80         | 65         |
| Less provision for impairment   | (5)          | (40)         | (4)        | (18)       |
| Loans and investments at recoverable amount                                     | 55           | 136          | 76         | 47         |
| <b>Total interest in associates and joint ventures using the equity method*</b> | <b>4,071</b> | <b>3,463</b> | <b>613</b> | <b>833</b> |

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 \$184 million (2006: \$153 million) provided as security over amounts payable to other financial institutions.

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

|  |              |              |
|--|--------------|--------------|
| Balance at the beginning of the financial year                         | 3,463        | 2,117        |
| Associates acquired/equity contributed                                 | 1,542        | 2,728        |
| Share of pre-tax profits of associates and incorporated joint ventures | 345          | 246          |
| Share of tax expense of associates and incorporated joint ventures     | (103)        | (74)         |
| Dividends received/receivable from associates                          | (374)        | (197)        |
| Associates disposed of   | (720)        | (1,070)      |
| Investments in associates provided for/written-off                     | 2            | (18)         |
| Foreign exchange and other adjustments                                 | (100)        | 93           |
| Transferred to/(from) held for sale, available for sale equity         | 16           | (362)        |
| <b>Balance at the end of the financial year</b>                        | <b>4,071</b> | <b>3,463</b> |

# Notes to the financial statements

## 31 March 2007 continued

### Note 18. 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 |        |
|--|--------------------------|----------------|------------------------|--------|
|  |                          |                | 2007 %                 | 2006 % |
| Macquarie Airports (a)**^                            | Australia                | 31 December    | 16%                    | 14%    |
| Diversified CMBS Investments Inc (c)*                | USA                      | 31 March       | 57%                    | 57%    |
| Macquarie Countrywide Trust (b)**                    | Australia                | 30 June        | 9%                     | 6%     |
| Macquarie MEAG Prime REIT (b)                        | Singapore                | 31 December    | 24%                    | 20%    |
| Macquarie Diversified (AA) Trust (c)                 | Australia                | 31 March       | 28%                    | 31%    |
| Macquarie Office Trust (b)**                         | Australia                | 30 June        | 6%                     | 4%     |
| Macquarie Media Group (e)***                         | Australia                | 30 June        | 22%                    | 20%    |
| Macquarie Communications Infrastructure Group (a)**^ | Australia                | 30 June        | 12%                    | 11%    |
| Macquarie Capital Alliance Group (c)**               | Australia                | 30 June        | 17%                    | 10%    |
| Macquarie Aircraft Leasing Limited (a)               | Ireland                  | 31 December    | 34%                    | –      |
| European Directories SA (d)***                       | Luxembourg               | 31 December    | 13%                    | 15%    |
| Euro Gaming Limited (e)                              | UK                       | 31 December    | 50%                    | –      |
| Macquarie Infrastructure Group (a)**                 | Australia                | 30 June        | 2%                     | 1%     |
| Macquarie European Infrastructure Fund (a)**         | UK                       | 31 March       | 5%                     | –      |
| Macquarie Goodman Group (b)***                       | Australia                | 30 June        | –                      | 8%     |

\* 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 18% and 17% in Macquarie Communications Infrastructure Group.

(a) Infrastructure

(b) Property development/ management entity

(c) Funds management and investment banking

(d) Directories business

(e) Media, television, gaming and internet investments

**Note 18. 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:

|   | <b>Consolidated</b><br>2007<br>\$m | Consolidated<br>2006<br>\$m | <b>Bank</b><br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|------------------------------------|-----------------------------|----------------------------|---------------------|
| Macquarie Airports                            | <b>1,096</b>                       | 783                         | <b>41</b>                  | 13                  |
| Macquarie Communications Infrastructure Group | <b>324</b>                         | 256                         | <b>14</b>                  | 4                   |
| Macquarie Countrywide Trust                   | <b>231</b>                         | 149                         | <b>10</b>                  | 4                   |
| Macquarie MEAG Prime REIT                     | <b>225</b>                         | 153                         | –                          | –                   |
| Macquarie Media Group                         | <b>197</b>                         | 110                         | <b>5</b>                   | –                   |
| Macquarie Office Trust                        | <b>178</b>                         | 110                         | <b>11</b>                  | 4                   |
| Macquarie Infrastructure Group                | <b>176</b>                         | 133                         | <b>54</b>                  | 15                  |
| Macquarie Capital Alliance Group              | <b>176</b>                         | 89                          | <b>7</b>                   | 1                   |
| Macquarie Goodman Group                       | –                                  | 585                         | –                          | 585                 |

(d) Share of associates' and joint ventures' expenditure commitments, other than for the supply of inventories, is as follows:

|                     |           |     |           |    |
|---------------------|-----------|-----|-----------|----|
| Capital commitments | <b>88</b> | 70  | –         | 25 |
| Lease commitments   | <b>52</b> | 145 | <b>37</b> | 86 |

(e) Contingent liabilities of associates and joint ventures are as follows:

|   |            |    |          |    |
|---|------------|----|----------|----|
| Share incurred jointly with other investors       | <b>24</b>  | 83 | <b>4</b> | 41 |
| For which the economic entity is severally liable | <b>146</b> | 59 | <b>6</b> | 59 |

(f) Aggregated financial information of interests in associates and joint ventures are as follows:

|                             |              |       |            |     |
|-----------------------------|--------------|-------|------------|-----|
| Economic entity's share of: |              |       |            |     |
| Assets                      | <b>9,472</b> | 5,676 | <b>529</b> | 773 |
| Liabilities                 | <b>5,806</b> | 2,767 | <b>280</b> | 434 |
| Revenues                    | <b>1,359</b> | 805   | <b>134</b> | 103 |
| Profit                      | <b>242</b>   | 172   | <b>42</b>  | 37  |

# Notes to the financial statements

## 31 March 2007 continued

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 19. Property, plant and equipment</b>         |                             |                             |                     |                     |
| <b>Furniture, fittings and leasehold improvements</b> |                             |                             |                     |                     |
| Cost  | 309                         | 235                         | 171                 | 118                 |
| Less accumulated depreciation                         | (109)                       | (97)                        | (78)                | (70)                |
| Total furniture, fittings and leasehold improvements  | 200                         | 138                         | 93                  | 48                  |
| <b>Communication equipment</b>                        |                             |                             |                     |                     |
| Cost  | 29                          | 26                          | 23                  | 21                  |
| Less accumulated depreciation                         | (22)                        | (20)                        | (19)                | (18)                |
| Total communication equipment                         | 7                           | 6                           | 4                   | 3                   |
| <b>Computer equipment</b>                             |                             |                             |                     |                     |
| Cost  | 249                         | 188                         | 204                 | 168                 |
| Less accumulated depreciation                         | (176)                       | (140)                       | (151)               | (129)               |
| Total computer equipment                              | 73                          | 48                          | 53                  | 39                  |
| <b>Infrastructure assets</b>                          |                             |                             |                     |                     |
| Cost  | 106                         | 103                         | –                   | –                   |
| Less accumulated depreciation                         | (8)                         | (3)                         | –                   | –                   |
| Total infrastructure assets                           | 98                          | 100                         | –                   | –                   |
| <b>Total property, plant and equipment</b>            | <b>378</b>                  | <b>292</b>                  | <b>150</b>          | <b>90</b>           |

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

|   | Furniture,<br>fittings and<br>leasehold<br>improvements<br>\$m | Communication<br>equipment<br>\$m | Computer<br>equipment<br>\$m | Infrastructure<br>assets<br>\$m | Total<br>\$m |
|---|--|-----------------------------------|------------------------------|---------------------------------|--------------|
| Balance at the beginning of the financial year  | 138  | 6                                 | 48                           | 100                             | 292          |
| Acquisitions                                    | 121  | 8                                 | 64                           | 6                               | 199          |
| Disposals                                       | (6)  | –                                 | (1)                          | –                               | (7)          |
| Reclassification*                               | (25)   | –                                 | –                            | –                               | (25)         |
| Depreciation expense                            | (28)   | (7)                               | (38)                         | (8)                             | (81)         |
| <b>Balance at the end of the financial year</b> | <b>200</b>   | <b>7</b>                          | <b>73</b>                    | <b>98</b>                       | <b>378</b>   |

#### 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 \$89 million (2006: \$132 million).

\* In December 2006, ATM Solutions, a wholly owned subsidiary of the bank, was reclassified as Held for Sale (refer to note 22).

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 20. Investments in controlled entities</b>    |                             |                             |                     |                     |
| Investments at cost without provisions for impairment | –                           | –                           | 4,058               | 4,060               |
| Investments at cost with provisions for impairment    | –                           | –                           | 71                  | 71                  |
| Less provisions for impairment                        | –                           | –                           | (44)                | (44)                |
| Investments at recoverable amount                     | –                           | –                           | 27                  | 27                  |
| <b>Total investments in controlled entities</b>       | <b>–</b>                    | <b>–</b>                    | <b>4,085</b>        | <b>4,087</b>        |

**Note 20. Investments in controlled entities** continued

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:

ConnectEast Management Limited  
Diversified CMBS Australia Holdings Pty Limited  
Macquarie Acceptances Limited  
Macquarie Africa (Proprietary) Limited (South Africa)  
Macquarie Airports Management Limited  
Macquarie Alternative Assets Management Limited  
Macquarie Asia Real Estate Management Limited (formerly Macquarie Asia Real Estate Limited)  
Macquarie Australia Securities Limited  
Macquarie Capital Alliance Management Limited  
Macquarie Capital Funding L.P. (United Kingdom)  
Macquarie Capital Korea Co Limited (Korea)  
Macquarie CLO Investments No.1 Pty Limited  
Macquarie Communications Infrastructure Management Limited  
Macquarie Countrywide Management Limited  
Macquarie Direct Property Management Limited  
Macquarie Diversified Investments No.2 Pty Limited  
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 Global Finance Services (Mauritius) Limited (Mauritius)  
Macquarie Holdings (U.S.A.) Inc (United States)  
Macquarie Inc (United States)  
Macquarie Infrastructure Debt Management Limited  
Macquarie Infrastructure Investment Management Limited  
Macquarie Infrastructure Management (Asia) Pty Limited  
Macquarie Infrastructure Management (USA) Inc (United States)  
Macquarie International Finance Limited  
Macquarie Investment Management (UK) Limited (United Kingdom)  
Macquarie Investment Management Limited  
Macquarie Investment Services Limited  
Macquarie Investments (UK) Limited (United Kingdom)  
Macquarie Investments Australia Pty Limited  
Macquarie Leisure Management Limited  
Macquarie Office Management Limited  
Macquarie Property Advisors Korea Limited (Korea)  
Macquarie Property Investment Management 2 Limited  
Macquarie Property Investment Management 5 Limited  
Macquarie Property Investment Management 6 Limited  
Macquarie Securities (Australia) Limited  
Macquarie Securities South Africa Limited (South Africa)  
Macquarie Securitisation Limited  
Macquarie Specialised Asset Management 2 Limited  
Macquarie Specialised Asset Management Limited  
Macquarie Specialised Asset Management (Bermuda) Limited (Bermuda)  
M&I Debt Investments Pty Limited  
MQ Japan Market Neutral Fund (Cayman Islands)\*  
MQ Japan Market Neutral Fund\*  
Regional Media Trust  
Retirement Villages Group R.E. Limited

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.

\* These entities have a 30 June reporting date.

# Notes to the financial statements

## 31 March 2007 continued

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 21. Deferred income tax assets/(liabilities)</b>     |                             |                             |                     |                     |
| The balance comprises temporary differences attributable to: |                             |                             |                     |                     |
| Provisions and accrued expenses                              | 798                         | 569                         | 631                 | 440                 |
| Tax losses   | 37                          | 25                          | 9                   | -                   |
| Fixed assets   | 20                          | 21                          | 20                  | 21                  |
| Financial instruments  | (386)                       | (336)                       | (229)               | (229)               |
| Investments in associates                                    | (12)                        | (39)                        | -                   | -                   |
| <b>Total deferred income tax assets</b>                      | <b>457</b>                  | <b>240</b>                  | <b>431</b>          | <b>232</b>          |
| Available for sale financial assets                          | (78)                        | (63)                        | (41)                | (29)                |
| Investments in associates                                    | -                           | (94)                        | -                   | (94)                |
| Other liabilities  | -                           | -                           | -                   | (6)                 |
| <b>Total deferred income tax liabilities</b>                 | <b>(78)</b>                 | <b>(157)</b>                | <b>(41)</b>         | <b>(129)</b>        |
| <b>Net deferred income tax assets</b>                        | <b>379</b>                  | <b>83</b>                   | <b>390</b>          | <b>103</b>          |

Potential tax assets of approximately \$52 million (2006: \$32 million) attributable to tax losses carried forward by controlled entities have not been brought to account in the controlled entities and in the economic entity as the Directors do not believe the realisation of the tax assets is probable.

The 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<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 22. Assets and disposal groups classified as held for sale</b> |                             |                             |                     |                     |
| Associates*  | 750                         | 586                         | 139                 | 18                  |
| <b>Assets of disposal groups held for sale</b>                         |                             |                             |                     |                     |
| ATM Solutions  | 166                         | -                           | -                   | -                   |
| Longview Oil & Gas   | 78                          | -                           | -                   | -                   |
| Steam Packet Group   | -                           | 597                         | -                   | -                   |
| AHA Holdings Limited   | -                           | 469                         | -                   | -                   |
| Macquarie SC Investments Inc.  | -                           | 400                         | -                   | -                   |
| Macquarie Small Cap Roads Holdings, LLC                                | -                           | 195                         | -                   | -                   |
| Vancouver Health Holdings Limited                                      | -                           | 142                         | -                   | -                   |
| Total assets of disposal groups held for sale**                        | <b>244</b>                  | <b>1,803</b>                | <b>-</b>            | <b>-</b>            |
| <b>Total assets and disposal groups classified as held for sale</b>    | <b>994</b>                  | <b>2,389</b>                | <b>139</b>          | <b>18</b>           |

\* Included within this balance are assets with a carrying value of \$409 million (2006: \$nil) provided as security over payables to other financial institutions.

\*\* Included within this balance are assets with a carrying value of \$34 million (2006: \$823 million) provided as security over payables to other financial institutions.



**Note 22. Assets and disposal groups classified as held for sale** continued

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

| Name of entity                                   | Country of Incorporation | Reporting Date | Participating interest |           |
|--|--------------------------|----------------|------------------------|-----------|
|  |                          |                | 2007<br>%              | 2006<br>% |
| Macquarie New York Parking 2 LLC (a) *           | USA                      | 31 December    | 53%                    | 53%       |
| Taiwan Cable TV Investments Sarl (b)^            | Taiwan                   | 31 December    | 20%                    | 40%       |
| Retirement Villages Group (c)                    | Australia                | 30 June        | 48%                    | 50%       |
| Lane Cove Tunnel Holding Company Pty Limited (d) | Australia                | 31 December    | 19%                    | –         |
| Macquarie Industrial Investments Norway AS (e)   | Norway                   | 31 December    | –                      | 21%       |

All associates classified as held for sale are unlisted companies.

Participation interest is equivalent to ownership interest unless otherwise stated.

\* Votingrights 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.

^ Denotes legal interest is different to participating interest. Legal interest in Taiwan Cable TV Investment Sarl is 40%.

(a) Retail parking stations

(b) Media, television and internet investments

(c) Retirement homes

(d) Infrastructure

(e) Other

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
|--|-----------------------------|-----------------------------|---------------------|---------------------|

(b) Share of associates' expenditure commitments, other than for the supply of inventories, is as follows:

|                     |   |    |   |   |
|---------------------|---|----|---|---|
| Capital commitments | 7 | 8  | – | – |
| Lease commitments   | 7 | 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                      | 2,542 | 2,059 | 377 | – |
| Liabilities                 | 1,917 | 1,491 | 241 | – |
| Revenues                    | 372   | 351   | 22  | – |
| Profit/(loss)               | –     | –     | –   | – |

(e) Liabilities of disposal groups classified as held for sale

|  |            |              |          |          |
|--|------------|--------------|----------|----------|
| <b>Total liabilities of disposal groups classified as held for sale*</b> | <b>170</b> | <b>1,427</b> | <b>–</b> | <b>–</b> |
|--|------------|--------------|----------|----------|

\* This year's balance includes the liabilities of ATM Solutions and Longview Oil and Gas. The prior year's balance represents the liabilities of Steam Packet Group, AHA Holdings Limited, Macquarie SC Investments Inc., Vancouver Health Holdings Limited and Macquarie Small Cap Roads Holdings, LLC.

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, unless events or circumstances occurred that are beyond the Bank or economic entity's control.

# Notes to the financial statements

## 31 March 2007 continued

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 23. Due to banks</b>   |                             |                             |                     |                     |
| OECD banks   | 3,056                       | 1,537                       | 1,427               | 703                 |
| OECD Central Banks   | 229                         | 373                         | 229                 | 373                 |
| Clearing houses  | 147                         | 67                          | 134                 | 67                  |
| Clearing banks   | 27                          | 40                          | 27                  | 40                  |
| Other  | 668                         | 101                         | 294                 | 34                  |
| <b>Total due to banks</b>  | <b>4,127</b>                | <b>2,118</b>                | <b>2,111</b>        | <b>1,217</b>        |
| Amounts due to clearing houses are settled on the next business day.   |                             |                             |                     |                     |
| <b>Note 24. Cash collateral on securities lent and repurchase agreements</b>   |                             |                             |                     |                     |
| Central banks  | 985                         | 1,039                       | 985                 | 1,039               |
| Other financial institutions   | 3,118                       | 2,328                       | 3,118               | 2,328               |
| Other  | 3,386                       | 3,628                       | 3,386               | 3,628               |
| <b>Total cash collateral on securities lent and repurchase agreements</b>  | <b>7,489</b>                | <b>6,995</b>                | <b>7,489</b>        | <b>6,995</b>        |
| <b>Note 25. Trading portfolio liabilities</b>  |                             |                             |                     |                     |
| Listed equity securities   | 14,258                      | 4,435                       | 14,293              | 4,431               |
| Commonwealth government securities   | 1,243                       | 4,867                       | 1,243               | 4,867               |
| Other government securities  | 352                         | 685                         | 352                 | 685                 |
| Corporate securities   | 69                          | 70                          | 69                  | 70                  |
| <b>Total trading portfolio liabilities</b>   | <b>15,922</b>               | <b>10,057</b>               | <b>15,957</b>       | <b>10,053</b>       |
| <b>Note 26. Debt issued at amortised cost</b>  |                             |                             |                     |                     |
| Debt issued at amortised cost*   | 51,365                      | 39,022                      | 28,519              | 20,567              |
| <b>Total debt issued at amortised cost</b>   | <b>51,365</b>               | <b>39,022</b>               | <b>28,519</b>       | <b>20,567</b>       |
| * Included within this balance are amounts payable to mortgage special purpose entities' noteholders of \$19,932 million (2006: \$17,778 million). |                             |                             |                     |                     |
| <b>Note 27. Other financial liabilities at fair value through profit and loss</b>  |                             |                             |                     |                     |
| Debt issued  | 5,552                       | 5,481                       | 5,149               | 5,058               |
| <b>Total other financial liabilities at fair value through profit and loss</b>   | <b>5,552</b>                | <b>5,481</b>                | <b>5,149</b>        | <b>5,058</b>        |
| <b>Reconciliation of debt issued at amortised cost and other financial liabilities at fair value through profit and loss by major currency:</b>    |                             |                             |                     |                     |
| Australian dollars   | 28,596                      | 23,784                      | 6,124               | 5,065               |
| United States dollars  | 15,936                      | 8,205                       | 15,899              | 8,211               |
| Euro   | 5,120                       | 5,440                       | 5,120               | 5,440               |
| Great British pounds   | 3,467                       | 3,844                       | 3,467               | 3,844               |
| Hong Kong dollars  | 1,592                       | 1,435                       | 1,490               | 1,270               |
| Japanese yen   | 571                         | 695                         | 571                 | 695                 |
| Other currencies   | 1,635                       | 1,100                       | 997                 | 1,100               |
| <b>Total by currency</b>   | <b>56,917</b>               | <b>44,503</b>               | <b>33,668</b>       | <b>25,625</b>       |

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<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---------------------------------------|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 28. Other liabilities</b>     |                             |                             |                     |                     |
| Creditors                             | 5,166                       | 3,247                       | 4,021               | 2,359               |
| Accrued charges and sundry provisions | 3,556                       | 2,155                       | 2,902               | 1,815               |
| Due to brokers and customers*         | 3,034                       | 4,000                       | 77                  | 174                 |
| Other                                 | 202                         | 151                         | 94                  | 69                  |
| <b>Total other liabilities</b>        | <b>11,958</b>               | <b>9,553</b>                | <b>7,094</b>        | <b>4,417</b>        |

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

|                                  |            |            |            |            |
|----------------------------------|------------|------------|------------|------------|
| <b>Note 29. Provisions</b>       |            |            |            |            |
| Provision for annual leave       | 69         | 57         | 48         | 39         |
| Provision for long service leave | 53         | 45         | 52         | 45         |
| Provision for dividends          | 31         | 30         | 24         | 24         |
| <b>Total provisions</b>          | <b>153</b> | <b>132</b> | <b>124</b> | <b>108</b> |

#### Note 30. Loan capital

##### Subordinated debt

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

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

|                                |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|
| <b>Subordinated debt</b>       |              |              |              |              |
| 18 February 2013               | 227          | 227          | 227          | 227          |
| 2 May 2013                     | 25           | 25           | 25           | 25           |
| 20 June 2013                   | 332          | 340          | 332          | 340          |
| 15 September 2014              | 301          | 300          | 301          | 300          |
| 18 September 2015              | 432          | 489          | 432          | 488          |
| 19 September 2016              | 486          | –            | 486          | –            |
| 6 December 2016                | 576          | –            | 576          | –            |
| 31 May 2017                    | 292          | –            | 292          | –            |
| <b>Total subordinated debt</b> | <b>2,671</b> | <b>1,381</b> | <b>2,671</b> | <b>1,380</b> |

Reconciliation of subordinated debt by major currency:

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Australian dollars                         | 845          | 552          | 845          | 552          |
| Euro                                       | 908          | 340          | 908          | 340          |
| Great British pounds                       | 486          | –            | 486          | –            |
| United States dollars                      | 432          | 489          | 432          | 488          |
| <b>Total subordinated debt by currency</b> | <b>2,671</b> | <b>1,381</b> | <b>2,671</b> | <b>1,380</b> |

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

# Notes to the financial statements

## 31 March 2007 continued

|   | Consolidated and Bank<br>2007                      2006 |                    | Consolidated and Bank<br>2007                      2006 |              |
|---|---|--------------------|---|--------------|
|   | Number of shares  |                    | \$m   | \$m          |
| <b>Note 31. Contributed equity</b>  |   |                    |   |              |
| <b>Ordinary share capital</b>   |   |                    |   |              |
| Opening balance of fully paid ordinary shares   | 232,440,369   | 223,683,592        | 1,916   | 1,600        |
| Issue of 10,606,061 ordinary shares on<br>22 May 2006 at \$66.00 per share  | 10,606,061  | –                  | 696   | –            |
| On-market purchase of shares pursuant to the<br>Macquarie Bank Staff Share Acquisition Plan (“MBSSAP”) and Non-Executive Directors Share Acquisition Plan (“NEDSAP”) at \$67.94 (2006: \$60.61) per share | (288,009)   | (160,196)          | (20)  | (10)         |
| Allocation of shares to employees pursuant to the MBSSAP and NEDSAP at \$67.94 (2006: \$60.61) per share  | 288,009   | 160,196            | 20  | 10           |
| Issue of shares on exercise of options  | 7,536,936   | 7,206,943          | 239   | 222          |
| Issue of shares pursuant to the Employee Share Plan at \$ 68.30 per share   | –   | 20,118             | –   | 1            |
| Issue of shares on 23 June 2006 pursuant to the Share Purchase Plan at \$66.00 per share  | 137,947   | –                  | 9   | –            |
| Issue of shares on 12 January 2007 pursuant to the Employee Share Plan at \$76.82 per share   | 21,632  | –                  | 2   | –            |
| Issue of shares on 1 July 2005 pursuant to the Dividend Reinvestment Plan (“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           |
| Issue of shares on 5 July 2006 pursuant to the DRP at \$63.60 per share   | 1,523,326   | –                  | 97  | –            |
| Issue of shares on 15 December 2006 pursuant to the DRP at \$70.23 per share  | 1,674,934   | –                  | 117   | –            |
| Transfer from share based payments reserve for expensed options that have been exercised  | –   | –                  | 27  | 8            |
| <b>Closing balance of fully paid ordinary shares</b>  | <b>253,941,205</b>                                      | <b>232,440,369</b> | <b>3,103</b>  | <b>1,916</b> |

As at 31 March 2007, 34,358,273 (2006: 31,235,034) 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 36 – Employee equity participation.

On 22 May 2006, the Bank issued 10,606,061 additional ordinary shares at A\$66.00 per ordinary share via an institutional placement. These placement shares rank pari passu with existing ordinary shares except that they did not participate in the 2006 final dividend paid on 5 July 2006. The equity raised is net of placement fees of \$4 million.

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Total Treasury Shares</b>                        | <b>(7)</b>                  | <b>(2)</b>                  | <b>–</b>            | <b>–</b>            |
| <b>Macquarie Income Securities</b>                  |                             |                             |                     |                     |
| 4,000,000 Macquarie Income Securities of \$100 each | 400                         | 400                         | 400                 | 400                 |
| Less transaction costs for original placement       | (9)                         | (9)                         | (9)                 | (9)                 |
| <b>Total Macquarie Income Securities</b>            | <b>391</b>                  | <b>391</b>                  | <b>391</b>          | <b>391</b>          |

The Macquarie Income Securities are classified as equity in accordance with AASB 132: *Financial Instruments: Presentation*. Interest is paid quarterly at a floating rate of BBSW plus 1.7% 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.

#### Convertible Debentures

|  |          |          |            |            |
|--|----------|----------|------------|------------|
| 7,000 convertible debentures of £50,000 each | –        | –        | 884        | 884        |
| <b>Total convertible debentures</b>          | <b>–</b> | <b>–</b> | <b>884</b> | <b>884</b> |

As part of the issue of the Macquarie Income Preferred Securities (as detailed in note 32 – Reserves, retained earnings and minority 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 LP, 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<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 32. Reserves, retained earnings and minority interests</b>                                       |                             |                             |                     |                     |
| <b>Reserves</b>  |                             |                             |                     |                     |
| <b>Foreign currency translation reserve</b>  |                             |                             |                     |                     |
| Opening balance  | 4                           | (1)                         | (44)                | (38)                |
| Currency translation differences arising during the financial year,<br>net of hedge                      | (3)                         | 5                           | 4                   | (6)                 |
| <b>Total foreign currency translation reserve</b>  | <b>1</b>                    | <b>4</b>                    | <b>(40)</b>         | <b>(44)</b>         |
| <b>Available for sale reserve</b>  |                             |                             |                     |                     |
| Opening balance  | 151                         | –                           | 93                  | –                   |
| Adjustment on adoption of AASB 132 and AASB 139,<br>net of tax   | –                           | 67                          | –                   | 48                  |
| Revaluation movement for the financial year, net of tax  | 175                         | 116                         | 74                  | 76                  |
| Transfer to profit on realisation  | (98)                        | (32)                        | (59)                | (31)                |
| <b>Total available for sale reserve</b>  | <b>228</b>                  | <b>151</b>                  | <b>108</b>          | <b>93</b>           |
| <b>Share-based payments reserve</b>  |                             |                             |                     |                     |
| Opening balance  | 84                          | 39                          | 84                  | 39                  |
| Option expense for the financial year  | 87                          | 53                          | 68                  | 37                  |
| Options issued to subsidiary employees   | –                           | –                           | 19                  | 16                  |
| Transfer to share capital on exercise of expensed options  | (27)                        | (8)                         | (27)                | (8)                 |
| <b>Total share-based payments reserve</b>  | <b>144</b>                  | <b>84</b>                   | <b>144</b>          | <b>84</b>           |
| <b>Cash flow hedging reserve</b>   |                             |                             |                     |                     |
| Opening balance  | 2                           | –                           | 33                  | –                   |
| Adjustment on adoption of AASB 132 and AASB 139,<br>net of tax   | –                           | 4                           | –                   | 13                  |
| Revaluation movement for the financial year, net of tax  | 8                           | (2)                         | (33)                | 20                  |
| <b>Total cash flow hedging reserve</b>   | <b>10</b>                   | <b>2</b>                    | <b>–</b>            | <b>33</b>           |
| <b>Share of reserves of interests in associates and joint ventures<br/>using the equity method</b>       |                             |                             |                     |                     |
| Opening balance  | 9                           | 11                          | –                   | –                   |
| Share of reserves during the financial year  | (12)                        | (1)                         | –                   | –                   |
| Transfer to profit on realisation  | –                           | (1)                         | –                   | –                   |
| <b>Total share of reserves of interests in associates<br/>and joint ventures using the equity method</b> | <b>(3)</b>                  | <b>9</b>                    | <b>–</b>            | <b>–</b>            |
| <b>Total reserves</b>  | <b>380</b>                  | <b>250</b>                  | <b>212</b>          | <b>166</b>          |

# Notes to the financial statements

## 31 March 2007 continued

|  | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 32. Reserves, retained earnings and minority interests</b> continued |                             |                             |                     |                     |
| <b>Retained earnings</b>   |                             |                             |                     |                     |
| Balance at the beginning of the financial year                               | 1,934                       | 1,523                       | 949                 | 950                 |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax                  | —                           | 16                          | —                   | (14)                |
| Profit attributable to equity holders of Macquarie Bank Limited              | 1,494                       | 945                         | 1,085               | 585                 |
| Distributions paid or provided on Macquarie Income Securities                | (31)                        | (29)                        | —                   | —                   |
| Distributions paid or provided on convertible debentures                     | —                           | —                           | (54)                | (51)                |
| Dividends paid on ordinary share capital                                     | (602)                       | (521)                       | (602)               | (521)               |
| <b>Total retained earnings</b>   | <b>2,795</b>                | <b>1,934</b>                | <b>1,378</b>        | <b>949</b>          |
| <b>Minority interest</b>   |                             |                             |                     |                     |
| Macquarie Income Preferred Securities*                                       |                             |                             |                     |                     |
| Proceeds on issue of Macquarie Income Preferred Securities                   | 894                         | 894                         | —                   | —                   |
| Issue costs  | (10)                        | (10)                        | —                   | —                   |
|  | <b>884</b>                  | <b>884</b>                  | <b>—</b>            | <b>—</b>            |
| Current year profit  | 54                          | 51                          | —                   | —                   |
| Distribution provided on Macquarie Income Preferred Securities               | (54)                        | (51)                        | —                   | —                   |
| Foreign currency translation reserve   | (43)                        | (43)                        | —                   | —                   |
| <b>Total Macquarie Income Preferred Securities</b>                           | <b>841</b>                  | <b>841</b>                  | <b>—</b>            | <b>—</b>            |
| Other minority interests   |                             |                             |                     |                     |
| Ordinary share capital   | 9                           | 36                          | —                   | —                   |
| Preference share capital   | 6                           | —                           | —                   | —                   |
| Accumulated gains/(losses)   | 1                           | (29)                        | —                   | —                   |
| <b>Total other minority interests</b>  | <b>16</b>                   | <b>7</b>                    | <b>—</b>            | <b>—</b>            |
| <b>Total minority interest</b>   | <b>857</b>                  | <b>848</b>                  | <b>—</b>            | <b>—</b>            |

\* On 22 September 2004, Macquarie Capital Funding LP, 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<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|--|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 33. Notes to the cash flow statements</b>  |                             |                             |                     |                     |
| <b>Reconciliation of cash</b>  |                             |                             |                     |                     |
| 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   | 3                           | 5                           | 3                   | 5                   |
| Due from other financial institutions  |                             |                             |                     |                     |
| – due from banks*  | 5,540                       | 6,390                       | 4,567               | 4,575               |
| – trading securities**   | 2,783                       | 2,738                       | 2,783               | 2,724               |
| <b>Cash at the end of the financial year</b>   | <b>8,326</b>                | <b>9,133</b>                | <b>7,353</b>        | <b>7,304</b>        |
| <b>Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities</b>                      |                             |                             |                     |                     |
| Profit from ordinary activities after income tax   | 1,551                       | 997                         | 1,085               | 585                 |
| Adjustments to profit from ordinary activities   |                             |                             |                     |                     |
| Amounts provided during the financial year   | 55                          | 61                          | 42                  | 46                  |
| Depreciation   | 81                          | 60                          | 46                  | 39                  |
| Share of net profits of associates and joint ventures  | (242)                       | (172)                       | –                   | –                   |
| Dividends received from associates   | 374                         | 197                         | –                   | 9                   |
| Share based payment expense  | 87                          | 53                          | 87                  | 53                  |
| Changes in assets and liabilities  |                             |                             |                     |                     |
| Decrease in dividends receivable   | 376                         | 188                         | –                   | 9                   |
| (Increase)/decrease in fees and commissions receivable   | (66)                        | (80)                        | (67)                | 245                 |
| Increase/(decrease) in fees and commissions payable  | 41                          | (41)                        | 26                  | (11)                |
| Increase/(decrease) in tax liabilities   | 215                         | 99                          | (298)               | (193)               |
| Increase in tax assets   | (385)                       | (39)                        | (111)               | (198)               |
| (Decrease)/increase in deferred tax liabilities  | (79)                        | (123)                       | (88)                | 90                  |
| Increase in interest receivable  | (225)                       | (61)                        | (71)                | (37)                |
| Increase in interest payable   | 319                         | 243                         | 233                 | 150                 |
| Increase in employment provisions  | 20                          | 23                          | 16                  | 14                  |
| Increase in loan assets granted  | (11,567)                    | (7,777)                     | (5,762)             | (6,034)             |
| Increase/(decrease) in debtors, prepayments, accrued charges and creditors   | 98                          | (419)                       | 635                 | (713)               |
| Increase in financial instruments, foreign exchange and commodities  | (9,603)                     | (5,926)                     | (9,066)             | (4,971)             |
| Increase in money market and other deposits  | 17,462                      | 18,382                      | 11,664              | 14,350              |
| Decrease/(increase) in life investment contract receivables  | 513                         | (47)                        | –                   | –                   |
| <b>Net cash flows from operating activities</b>  | <b>(975)</b>                | <b>5,618</b>                | <b>(1,629)</b>      | <b>3,433</b>        |

\* 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).

# Notes to the financial statements

## 31 March 2007 continued

|  | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$m |
|--|--------------------------------------|-----------------------------|------------------------------|---------------------|
| <b>Notes 33. Notes to the cash flow statements</b> continued |                                      |                             |                              |                     |
| <b>Financing arrangements</b>                                |                                      |                             |                              |                     |
| Total unused   | <b>1,014</b>                         | 1,234                       | –                            | –                   |
| <b>Total overdraft facilities</b>                            | <b>1,014</b>                         | 1,234                       | –                            | –                   |

Capital Meters Limited, a controlled entity of the bank incorporated in the United Kingdom, has a credit facility of £118 million (2006: £118 million). As at 31 March 2007, the entity had drawn down £50 million (2006: £29 million) 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 (2006: 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 2007, the facility is undrawn (2006: undrawn).

Macquarie International Finance Limited, a controlled entity of the Bank incorporated in Australia, has credit facilities of \$1.1 billion (2006: \$1.3 billion). As at 31 March 2007, the entity had drawn down \$608 million (2006: \$387 million) of the amount available.

Macquarie Investments Australia Limited, a controlled entity of the Bank incorporated in Australia, has a \$500 million overdraft facility (2006: \$nil). As at 31 March 2007, \$275 million was drawn down (2006: undrawn).

### Note 34. 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 \$198 million (2006: \$51 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 fair value balance of derivative financial instruments relating to transactions between the Bank and its controlled entities at 31 March 2007 are \$281 million positive value (2006: \$39 million positive value) and \$203 million negative value (2006: \$104 million negative value).

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

|  | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$m |
|--|--------------------------------------|-----------------------------|------------------------------|---------------------|
| Interest income received/receivable                        | –                                    | –                           | <b>698</b>                   | 356                 |
| Interest expense paid/payable                              | –                                    | –                           | <b>(325)</b>                 | (172)               |
| Fee and commission income                                  | –                                    | –                           | <b>169</b>                   | 50                  |
| Other operating income                                     | –                                    | –                           | <b>2</b>                     | –                   |
| Gains on sale of associates and joint ventures             | –                                    | –                           | –                            | 77                  |
| Dividends and distributions received/receivable            | –                                    | –                           | <b>925</b>                   | 378                 |
| Management fees, group service charges and cost recoveries | –                                    | –                           | <b>456</b>                   | 364                 |
| Brokerage and commission expense                           | –                                    | –                           | <b>(1)</b>                   | (45)                |

|  | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$m |
|--|--------------------------------------|-----------------------------|------------------------------|---------------------|
|--|--------------------------------------|-----------------------------|------------------------------|---------------------|

**Note 34. Related party information** continued

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

|                    |   |   |                |         |
|--------------------|---|---|----------------|---------|
| Amounts receivable | – | – | <b>13,527</b>  | 10,241  |
| Amounts payable    | – | – | <b>(7,136)</b> | (5,275) |

**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:

|                                     | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$m |
|-------------------------------------|--------------------------------------|-----------------------------|------------------------------|---------------------|
| Interest income received/receivable | <b>80</b>                            | 55                          | <b>53</b>                    | 41                  |
| Interest expense paid/payable       | <b>(13)</b>                          | (17)                        | <b>(9)</b>                   | (1)                 |
| Fee and commission income*          | <b>967</b>                           | 1,015                       | <b>275</b>                   | 242                 |
| Other income                        | <b>4</b>                             | 6                           | <b>2</b>                     | 3                   |
| Gains on sale of securities**       | <b>58</b>                            | 143                         | <b>42</b>                    | 45                  |
| Dividends and distributions***      | <b>374</b>                           | 197                         | <b>72</b>                    | 35                  |
| Brokerage and commission expense    | <b>(14)</b>                          | (5)                         | –                            | –                   |

\* 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 the 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:

|   | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$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 18):

|                    | <b>Consolidated<br/>2007<br/>\$m</b> | Consolidated<br>2006<br>\$m | <b>Bank<br/>2007<br/>\$m</b> | Bank<br>2006<br>\$m |
|--------------------|--------------------------------------|-----------------------------|------------------------------|---------------------|
| Amounts receivable | <b>721</b>                           | 1,496                       | <b>565</b>                   | 1,132               |
| Amounts payable    | <b>(68)</b>                          | (264)                       | <b>(2)</b>                   | (132)               |

# Notes to the financial statements

## 31 March 2007 continued

### Note 35. Key Management Personnel disclosure

#### Key Management Personnel

Note that throughout this note, Mr Clarke and Mr Johnson are presented as Executive Directors because this was their status throughout the financial year, and the comparative year. However, they both retired from executive responsibilities with effect from 31 March 2007 so they will be classified in future Reports as Non-Executive Directors, except in comparative tables.

The following persons were Voting Directors of Macquarie Bank Limited during the financial years ended 31 March 2007 and 31 March 2006, unless otherwise indicated:

#### Executive Directors:

D.S. Clarke, AO 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 (retired on 20 July 2006)  
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 2007 and 31 March 2006, 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  
A.J. Downe\* Group Head, Treasury and Commodities Group  
P.J. Maher\* Group Head, Financial Services Group  
N.R. Minogue\* Group Head, Risk Management Group  
N.W. Moore\* Group Head, Investment Banking Group  
W.J. Moss, AM Former Group Head, Banking and Property Group (retired on 30 March 2007)  
W.R. Sheppard\* Deputy Managing Director  
G.C. Ward\* Group Head, Corporate Affairs Group and Chief Financial Officer  
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 2007 Annual Review). Those Directors listed as Independent Directors have been independent throughout the financial year ended 31 March 2007.

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 4 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 2 of the remuneration report.

The remuneration arrangements for all of the persons listed above as Independent Non-Executive Directors are described in section 3 of the remuneration report.

**Note 35. 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 4.2 of the Remuneration Report.

|             | Salary and fees (including superannuation)<br>\$ | Performance related remuneration<br>\$ | Other benefits<br>\$ | Short-term employee benefits<br>Total short-term employee benefits<br>\$ | Long-term employee benefits<br>Restricted profit share<br>\$ | Share based payments<br>Options<br>\$ | Total remuneration<br>\$ |
|-------------|--|--|----------------------|--|--|---------------------------------------|--------------------------|
| <b>2007</b> | <b>7,158,710</b>                                 | <b>153,640,322</b>                     | <b>89,433</b>        | <b>160,888,465</b>   | <b>40,449,633</b>  | <b>7,369,553</b>                      | <b>208,707,651</b>       |
| 2006        | 7,236,731  | 101,166,468                            | 133,450              | 108,536,649  | 24,778,140   | 5,590,630                             | 138,905,419              |

**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 36 – Employee equity participation.

**For the year ended 31 March 2007**

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

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

(b) Or date of retirement if earlier.

(c) Mr Clarke retired as Executive Chairman on 31 March 2007, whereupon 80,200 unvested options lapsed. He will continue as Non-Executive Chairman.

(d) Mr Martin retired as a Non-Executive Director of the bank on 20 July 2006.

(e) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

# Notes to the financial statements

## 31 March 2007 continued

### Note 35. Key Management Personnel disclosure continued

#### Option holdings of Key Management Personnel and their related parties continued

For the year ended 31 March 2006

| Name and position              | Number of options held at 1 April 2005(a) | Options granted during the financial year | Options exercised during the financial year | Other changes(b) | Number of options held at 31 March 2006(c) | Number of options vested during the financial year | Number of options vested at 31 March 2006(c) |
|--------------------------------|---|---|---|------------------|--|--|--|
| <b>Executive Directors</b>     |   |   |   |                  |  |  |  |
| 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                                      |
| <b>Non-Executive Directors</b> |   |   |   |                  |  |  |  |
| 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)                                     | –                | –  | –  | –  |
| <b>Executives</b>              |   |   |   |                  |  |  |  |
| 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   | 22,666                                       |
| 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   | –  |
| <b>Former</b>                  |   |   |   |                  |  |  |  |
| 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 unless otherwise noted.

(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 was not awarded any options from his date of appointment as Group Head until 31 March 2006.

(e) Mr Weiss retired from the Executive Committee 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 35. 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 2007

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

(a) Includes on market acquisitions and disposals.

(b) Or date of retirement if earlier.

(c) Mr Martin retired as a Non-Executive Director of the Bank on 20 July 2006.

(d) Mr W.J. Moss retired from the Executive Committee on 30 March 2007.

# Notes to the financial statements

## 31 March 2007 continued

### Note 35. Key Management Personnel disclosure continued

#### Shareholding of Key Management Personnel and their related parties continued

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) |
|--------------------------------|--|--------------------------------------|------------------|---|
| <b>Executive Directors</b>     |  |                                      |                  |   |
| 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                                   |
| <b>Non-Executive Directors</b> |  |                                      |                  |   |
| 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                                    |
| <b>Executives</b>              |  |                                      |                  |   |
| 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                                    |
| <b>Former</b>                  |  |                                      |                  |   |
| 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 35. 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<br>balance<br>at 1 April<br>\$'000 | Interest<br>charged <sup>(a)</sup><br>\$'000 | Write-off<br>\$'000 | Closing<br>balance<br>at 31 March<br>\$'000 | Number in<br>group<br>31 March |
|---|-------------|--|--|---------------------|---|--------------------------------|
| <b>Total for Key Management Personnel and their related parties</b> | <b>2007</b> | <b>76,318</b>                              | <b>5,971</b>                                 | –                   | <b>62,101</b>                               | <b>19</b>                      |
|   | <b>2006</b> | <b>47,578</b>                              | <b>6,035</b>                                 | –                   | <b>80,730*</b>                              | <b>22</b>                      |
| <b>Total for Key Management Personnel</b>                           | <b>2007</b> | <b>57,882</b>                              | <b>4,493</b>                                 | –                   | <b>44,891</b>                               | <b>11</b>                      |
|   | <b>2006</b> | <b>34,999</b>                              | <b>2,590</b>                                 | –                   | <b>62,293*</b>                              | <b>12</b>                      |

\* Includes loans provided by the Bank to Mr Weiss and his related parties. Mr Weiss retired from the Executive Committee on 4 October 2005. As such, he was not a Key Management Personnel on 1 April 2006 and his loans have not been included in the opening balance.

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

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

Prior period comparatives have been restated to include loans provided by mortgage securitisation entities to Key Management Personnel and their related parties. The application of AIFRS has resulted in these entities being consolidated.

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

**For the year ended 31 March 2007**

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

(a) All loans provided by the Bank to Directors and Executives are made in the ordinary course of business on an 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 W.J. Moss retired from the Executive Committee on 30 March 2007.

# Notes to the financial statements

## 31 March 2007 continued

### Note 35. Key Management Personnel disclosure continued

#### Loans to Key Management Personnel and their related parties continued

For the year ended 31 March 2006

| Name and position          | Balance at<br>1 April 2005<br>\$'000 | Interest<br>charged(a)<br>\$'000 | Write-off<br>\$'000 | Balance at<br>31 March 2006(b)<br>\$'000 | Highest in<br>period<br>\$'000 |
|----------------------------|--------------------------------------|----------------------------------|---------------------|--|--------------------------------|
| <b>Executive Directors</b> |                                      |                                  |                     |  |                                |
| D.S. Clarke                | 31,304                               | 4,276                            | –                   | 48,940                                   | 50,505                         |
| L.G. Cox                   | 636                                  | 52                               | –                   | 621                                      | 636                            |
| M.R.G. Johnson             | 2,870                                | 91                               | –                   | 220                                      | 2,870                          |
| <b>Executives</b>          |                                      |                                  |                     |  |                                |
| 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                          |
| <b>Former</b>              |                                      |                                  |                     |  |                                |
| 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.

#### 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 economic entity in respect of these transactions are the annual payments from the relevant Key Management Personnel which are brought to account as fee revenue. These transactions have been undertaken on terms and conditions consistent with other customers and employees.

|   | <b>Consolidated<br/>2007<br/>\$'000</b> | Consolidated<br>2006<br>\$'000 |
|---|---|--------------------------------|
| <b>Total annual contributions from Key Management Personnel and their related parties in respect of Infrastructure Bonds and similar products</b> | <b>16,817</b>                           | 16,280                         |

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

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

#### Former

W.J. Moss, O. Weiss

**Note 35. 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's share price below current levels and disposing of the benefit of any share price movement above the nominated level.

| Name and position          | Description            | Transactions with the Bank |                       |
|----------------------------|------------------------|----------------------------|-----------------------|
|                            |                        | Number of shares 2007      | Number of shares 2006 |
| <b>Executive Directors</b> |                        |                            |                       |
| D.S. Clarke*               | Maturing June 2010     | 213,517                    | –                     |
|                            | Maturing August 2009   | 25,196                     | 25,196                |
|                            | Maturing June 2008     | 100,784                    | 361,163               |
| M.R.G. Johnson             | Maturing May 2008      | 260,379                    | –                     |
|                            | Maturing August 2006   | –                          | 60,000                |
|                            | Maturing December 2006 | –                          | 69,383                |
| <b>Executives</b>          |                        |                            |                       |
| M. Carapiet                | Maturing August 2007   | 160,666                    | –                     |
|                            | Maturing August 2006   | –                          | 160,666               |
| A.J. Downe**               | Maturing December 2007 | 27,834                     | –                     |
|                            | Maturing August 2007   | 36,382                     | –                     |
|                            | Maturing August 2006   | –                          | 46,748                |
| P.J. Maher                 | Maturing June 2006     | –                          | 4,039                 |
| N.R. Minogue               | Maturing August 2007   | 11,500                     | –                     |
| G.C. Ward                  | Maturing August 2007   | 21,666                     | –                     |
|                            | Maturing August 2006   | –                          | 8,333                 |

\* In the prior year Mr Clarke entered into a cash settled put option against 333,936 fully paid ordinary Bank shares. In addition, Mr Clarke has an indirect interest in cash-settled put options that are exercisable against 213,517 fully paid ordinary Bank shares.

\*\* In the prior year Mr Downe also entered into a cash-settled put option against 70,560 fully paid ordinary Bank shares.

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

# Notes to the financial statements

## 31 March 2007 continued

### Note 36. 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 2007 there were 2,099 (2006: 1,825) 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.

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

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

|  | Number of<br>options<br>2007 | Weighted<br>average<br>exercise<br>price<br>2007<br>\$ | Number of<br>options<br>2006 | Weighted<br>average<br>exercise<br>price<br>2006<br>\$ |
|--|------------------------------|--|------------------------------|--|
| Outstanding at the beginning of the financial year | 31,235,034                   | 42.45  | 28,292,709                   | 31.63  |
| Granted during the financial year                  | 11,987,127                   | 62.88  | 10,766,858                   | 62.93  |
| Forfeited during the financial year                | (1,326,952)                  | 50.30  | (617,590)                    | 39.15  |
| Exercised during the financial year                | (7,536,936)                  | 31.72  | (7,206,943)                  | 30.85  |
| Outstanding at the end of the financial year       | 34,358,273                   | 51.63  | 31,235,034                   | 42.45  |
| Exercisable at the end of the financial year       | 4,478,569                    | 31.24  | 6,995,916                    | 30.72  |

For options exercised during the financial year the weighted average share price at the date of exercise was \$67.09 (2006: \$62.14).

The range of exercise prices for options outstanding at the end of the year was \$20.57 to \$83.55 (2006: \$20.44 to \$70.60).

The weighted average remaining contractual life for the share options outstanding as at 31 March 2007 is 3.16 years (2006: 3.18 years). The weighted average remaining contractual life when analysed by exercise price range is:

| Exercise price range (\$) | Number of<br>options<br>2007 | Years<br>2007 | Number of<br>options<br>2006 | Years<br>2006 |
|---------------------------|------------------------------|---------------|------------------------------|---------------|
| 20-30                     | 3,848,229                    | 1.42          | 5,896,002                    | 2.40          |
| 30-40                     | 8,243,550                    | 2.05          | 14,144,034                   | 2.59          |
| 40-50                     | 750,989                      | 2.90          | 896,400                      | 3.89          |
| 50-60                     | 97,500                       | 3.21          | 97,500                       | 4.21          |
| 60-70                     | 20,534,415                   | 3.89          | 9,981,098                    | 4.36          |
| 70-80                     | 687,590                      | 4.36          | 220,000                      | 4.67          |
| 80-90                     | 196,000                      | 4.94          | -                            | -             |
|                           | 34,358,273                   | 3.16          | 31,235,034                   | 3.18          |

The weighted average fair value of options granted during the financial year was \$12.45 (2006: \$10.45).

**Note 36. Employee equity participation** continued  
**Option Plan** continued

The market value of shares issued during the year as a result of the exercise of these options was \$506 million (2006: \$448 million).

The market value of shares which would be issued from the exercise of the outstanding options at 31 March 2007 was \$2,843 million (2006: \$2,020 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, where the invitation to apply for the options was sent to the Executive before 30 June 2006, 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 options granted to the 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 was sent to the Executive on or after 30 June 2006, in respect of each tranche of vested options, options will only be exercisable if the 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.

**Note 36. Employee equity participation** continued  
**Option Plan** continued

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 leaving Australia for an overseas posting prior to the allotment date, 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 2006. A total of 1,664 (2006: 1,437) staff participated in this offer. On 12 January 2007, the participants were each issued with 13 (2006: 14) fully paid ordinary shares based on the offer amount of \$1,000 and the then calculated average market share price of \$76.82 (2006: \$68.30), a total of 21,632 (2006: 20,118) 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 expenses, workers' compensation premiums and payroll tax are applied 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 2006. A total of 553 (2006: 368) staff participated in the MBSSAP. In July and December 2006, a total of 285,268 (2006: 154,243) shares were acquired on-market. No staff participated in the 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 applied to the NED's account.

Shares acquired under the NEDSAP cannot be sold, transferred or disposed of for a period of six months from the date that the Shares are transferred into a NED's name except in special circumstances if the NED resigns. The shares held in the NEDSAP are also subject to forfeiture by a NED in a number of circumstances including theft, fraud, dishonesty, or defalcation in relation to the affairs of the 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 ceases 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 2006. A total of 4 (2006: 7) NEDs participated in the NEDSAP. In July and December 2006, a total of 2,741 (2006: 5,953) shares were acquired on-market.

|  | <b>Consolidated</b> | Consolidated | <b>Bank</b> | Bank |
|--|---------------------|--------------|-------------|------|
|  | <b>2007</b>         | 2006         | <b>2007</b> | 2006 |
|  | <b>\$m</b>          | \$m          | <b>\$m</b>  | \$m  |

### Note 37. Contingent liabilities and assets

The following details of contingent liabilities and assets exclude derivatives.

Contingent liabilities exist in respect of:

|   |               |       |               |       |
|---|---------------|-------|---------------|-------|
| Guarantees  | <b>321</b>    | 364   | <b>2,316</b>  | 1,226 |
| Indemnities                                       | <b>25</b>     | 64    | <b>28</b>     | 237   |
| Undrawn credit facilities                         | <b>6,576</b>  | 3,926 | <b>5,546</b>  | 3,817 |
| Undrawn credit facilities – revocable at any time | <b>3,938</b>  | 2,979 | <b>3,938</b>  | 2,979 |
| Other contingent liabilities (a)                  | <b>1,139</b>  | 1,509 | <b>1,189</b>  | 827   |
| <b>Total contingent liabilities</b>               | <b>11,999</b> | 8,842 | <b>13,017</b> | 9,086 |

- (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 2007 was \$1,115 million (2006: \$1,466 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.

Of the total contingent liabilities above, \$10.5 billion (2006: \$6.9 billion) also represent contingent assets. Such commitments to provide credit may in the normal course convert to loans and other assets.

### Note 38. Capital and other expenditure commitments

|  |           |     |           |    |
|--|-----------|-----|-----------|----|
| Not later than one year                                | <b>30</b> | 88  | <b>30</b> | 28 |
| Later than one year and not later than five years      | <b>23</b> | 23  | <b>23</b> | 23 |
| Later than five years                                  | <b>-</b>  | -   | <b>-</b>  | -  |
| <b>Total capital and other expenditure commitments</b> | <b>53</b> | 111 | <b>53</b> | 51 |

# Notes to the financial statements

## 31 March 2007 continued

|   | Consolidated<br>2007<br>\$m | Consolidated<br>2006<br>\$m | Bank<br>2007<br>\$m | Bank<br>2006<br>\$m |
|---|-----------------------------|-----------------------------|---------------------|---------------------|
| <b>Note 39. Lease commitments</b>                 |                             |                             |                     |                     |
| Non-cancellable operating leases expiring:        |                             |                             |                     |                     |
| Not later than one year                           | 145                         | 127                         | 109                 | 127                 |
| Later than one year and not later than five years | 474                         | 431                         | 387                 | 431                 |
| Later than five years                             | 216                         | 291                         | 172                 | 291                 |
| <b>Total operating lease commitments</b>          | <b>835</b>                  | <b>849</b>                  | <b>668</b>          | <b>849</b>          |

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 40. 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 2007, the fair value of outstanding derivatives held by the Bank and designated as cash flow hedges was \$95 million positive value (2006: \$37 million positive value).

In 2007, the economic entity recognised a loss of \$3 million (2006: \$3 million loss) in the income statement due to hedge ineffectiveness. At 31 March 2007, the fair value of outstanding derivatives held by the economic entity and designated as cash flow hedges was \$181 million negative value (2006: \$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 2007, the fair value of outstanding derivatives held by the economic entity and designated as fair value hedges was \$10 million positive value (2006: \$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 2007, the fair value of outstanding derivatives held by the economic entity and designated as net investment in foreign operations hedges was \$108 million positive value (2006: \$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 40. 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 2007      |                           |                               |                       | Consolidated 2006      |                           |                               |                       |
|--|------------------------|---------------------------|-------------------------------|-----------------------|------------------------|---------------------------|-------------------------------|-----------------------|
|  | Notional amount<br>\$m | Asset revaluations<br>\$m | Liability revaluations<br>\$m | Net fair value<br>\$m | Notional amount<br>\$m | Asset revaluations<br>\$m | Liability revaluations<br>\$m | Net fair value<br>\$m |
| <b>Interest rate contracts</b>                 |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 172,510                | 8                         | 14                            | (6)                   | 56,072                 | 10                        | 22                            | (12)                  |
| Forwards                                       | 4,950                  | 35                        | 36                            | (1)                   | 19,480                 | 3                         | 3                             | -                     |
| Swaps  | 121,996                | 1,265                     | 795                           | 470                   | 100,779                | 888                       | 586                           | 302                   |
| Options  | 3,374                  | 7                         | 5                             | 2                     | 1,848                  | 2                         | 1                             | 1                     |
| Total interest rate contracts                  | 302,830                | 1,315                     | 850                           | 465                   | 178,179                | 903                       | 612                           | 291                   |
| <b>Foreign exchange contracts</b>              |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | -                      | -                         | -                             | -                     | 359                    | 3                         | 1                             | 2                     |
| Forwards                                       | 23,350                 | 944                       | 703                           | 241                   | 88,697                 | 1,685                     | 1,069                         | 616                   |
| Swaps  | 97,716                 | 1,008                     | 1,365                         | (357)                 | 10,438                 | 254                       | 793                           | (539)                 |
| Options  | 133,717                | 624                       | 501                           | 123                   | 71,985                 | 804                       | 739                           | 65                    |
| Total foreign exchange contracts               | 254,783                | 2,576                     | 2,569                         | 7                     | 171,479                | 2,746                     | 2,602                         | 144                   |
| <b>Equity contracts</b>                        |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 7,166                  | 433                       | 145                           | 288                   | 4,820                  | 166                       | 79                            | 87                    |
| Swaps  | 13,117                 | 53                        | 838                           | (785)                 | 2,306                  | 299                       | 706                           | (407)                 |
| Options  | 29,829                 | 667                       | 611                           | 56                    | 17,103                 | 356                       | 473                           | (117)                 |
| Other  | 972                    | 115                       | 157                           | (42)                  | 10,001                 | 109                       | 151                           | (42)                  |
| Total equity contracts                         | 51,084                 | 1,268                     | 1,751                         | (483)                 | 34,230                 | 930                       | 1,409                         | (479)                 |
| <b>Commodity contracts</b>                     |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 41,961                 | 1,642                     | 2,551                         | (909)                 | 22,838                 | 1,226                     | 2,010                         | (784)                 |
| Forwards                                       | 70,576                 | 3,220                     | 1,534                         | 1,686                 | 20,599                 | 3,469                     | 1,937                         | 1,532                 |
| Swaps  | 12,998                 | 505                       | 497                           | 8                     | 2,833                  | 527                       | 522                           | 5                     |
| Options  | 45,601                 | 1,387                     | 1,317                         | 70                    | 19,938                 | 1,177                     | 965                           | 212                   |
| Total commodity contracts                      | 171,136                | 6,754                     | 5,899                         | 855                   | 66,208                 | 6,399                     | 5,434                         | 965                   |
| <b>Total derivatives contracts outstanding</b> | <b>779,833</b>         | <b>11,913</b>             | <b>11,069</b>                 | <b>844</b>            | <b>450,096</b>         | <b>10,978</b>             | <b>10,057</b>                 | <b>921</b>            |

# Notes to the financial statements

## 31 March 2007 continued

### Note 40. Derivative financial instruments continued

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

|  | Bank 2007              |                           |                               |                       | Bank 2006              |                           |                               |                       |
|--|------------------------|---------------------------|-------------------------------|-----------------------|------------------------|---------------------------|-------------------------------|-----------------------|
|  | Notional amount<br>\$m | Asset revaluations<br>\$m | Liability revaluations<br>\$m | Net fair value<br>\$m | Notional amount<br>\$m | Asset revaluations<br>\$m | Liability revaluations<br>\$m | Net fair value<br>\$m |
| <b>Interest rate contracts</b>                 |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 170,133                | 9                         | 16                            | (7)                   | 56,072                 | 10                        | 22                            | (12)                  |
| Forwards                                       | 2,829                  | 32                        | 33                            | (1)                   | 19,449                 | 3                         | 3                             | -                     |
| Swaps  | 107,433                | 1,179                     | 741                           | 438                   | 83,803                 | 872                       | 570                           | 302                   |
| Options  | 1,953                  | 7                         | 5                             | 2                     | 1,848                  | 2                         | 1                             | 1                     |
| Total interest rate contracts                  | 282,348                | 1,227                     | 795                           | 432                   | 161,172                | 887                       | 596                           | 291                   |
| <b>Foreign exchange contracts</b>              |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | -                      | -                         | -                             | -                     | 359                    | -                         | -                             | -                     |
| Forwards                                       | 23,350                 | 944                       | 703                           | 241                   | 88,697                 | 1,685                     | 1,069                         | 616                   |
| Swaps  | 97,260                 | 1,007                     | 687                           | 320                   | 7,586                  | 241                       | 328                           | (87)                  |
| Options  | 133,717                | 624                       | 501                           | 123                   | 71,985                 | 804                       | 740                           | 64                    |
| Total foreign exchange contracts               | 254,327                | 2,575                     | 1,891                         | 684                   | 168,627                | 2,730                     | 2,137                         | 593                   |
| <b>Equity contracts</b>                        |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 7,166                  | 433                       | 145                           | 288                   | 4,820                  | 166                       | 79                            | 87                    |
| Swaps  | 13,097                 | 39                        | 838                           | (799)                 | 2,306                  | 283                       | 698                           | (415)                 |
| Options  | 27,888                 | 634                       | 559                           | 75                    | 17,103                 | 346                       | 469                           | (123)                 |
| Other  | 972                    | 115                       | 157                           | (42)                  | 10,001                 | 109                       | 150                           | (41)                  |
| Total equity contracts                         | 49,123                 | 1,221                     | 1,699                         | (478)                 | 34,230                 | 904                       | 1,396                         | (492)                 |
| <b>Commodity contracts</b>                     |                        |                           |                               |                       |                        |                           |                               |                       |
| Exchange traded                                | 24,127                 | 1,072                     | 2,133                         | (1,061)               | 24,654                 | 965                       | 1,755                         | (790)                 |
| Forwards                                       | 69,302                 | 3,139                     | 1,542                         | 1,597                 | 20,483                 | 3,443                     | 1,916                         | 1,527                 |
| Swaps  | 12,178                 | 426                       | 423                           | 3                     | 2,428                  | 523                       | 521                           | 2                     |
| Options  | 45,601                 | 1,387                     | 1,317                         | 70                    | 19,681                 | 1,166                     | 965                           | 201                   |
| Total commodity contracts                      | 151,208                | 6,024                     | 5,415                         | 609                   | 67,246                 | 6,097                     | 5,157                         | 940                   |
| <b>Total derivatives contracts outstanding</b> | <b>737,006</b>         | <b>11,047</b>             | <b>9,800</b>                  | <b>1,247</b>          | <b>431,275</b>         | <b>10,618</b>             | <b>9,286</b>                  | <b>1,332</b>          |

|  | Consolidated 2007         |                             |                      | Consolidated 2006         |                             |                      |
|--|---------------------------|-----------------------------|----------------------|---------------------------|-----------------------------|----------------------|
|  | Average<br>balance<br>\$m | Income/<br>(expense)<br>\$m | Average<br>rate<br>% | Average<br>balance<br>\$m | Income/<br>(expense)<br>\$m | Average<br>rate<br>% |
| <b>Note 41. Average interest-bearing assets and liabilities and related interest</b> |                           |                             |                      |                           |                             |                      |
| <b>Assets</b>  |                           |                             |                      |                           |                             |                      |
| <b>Interest bearing assets</b>   |                           |                             |                      |                           |                             |                      |
| Due from banks   | 3,753                     | 200                         | 5.3                  | 2,702                     | 123                         | 4.6                  |
| Cash collateral on securities borrowed and reverse repurchase agreements             | 16,889                    | 865                         | 5.1                  | 10,341                    | 505                         | 4.9                  |
| Trading portfolio assets   | 4,379                     | 260                         | 5.9                  | 2,829                     | 151                         | 5.3                  |
| Loan assets held at amortised cost   | 41,218                    | 2,986                       | 7.3                  | 29,812                    | 2,115                       | 7.1                  |
| Other financial assets at fair value through profit and loss                         | 820                       | 55                          | 6.7                  | 739                       | 57                          | 7.7                  |
| Other assets   | 19                        | 1                           | 6.0                  | 101                       | 6                           | 5.9                  |
| Investment securities available for sale   | 4,224                     | 255                         | 6.0                  | 3,105                     | 175                         | 5.6                  |
| Net interest in associates and joint ventures using the equity method                | 197                       | 10                          | 5.2                  | 105                       | 4                           | 3.8                  |
| Total interest bearing assets  | 71,499                    | 4,632                       |                      | 49,734                    | 3,136                       |                      |
| Total non-interest bearing assets  | 48,105                    |                             |                      | 41,378                    |                             |                      |
| <b>Total assets</b>  | <b>119,604</b>            |                             |                      | <b>91,112</b>             |                             |                      |
| <b>Liabilities</b>   |                           |                             |                      |                           |                             |                      |
| <b>Interest bearing liabilities</b>  |                           |                             |                      |                           |                             |                      |
| Due to banks   | 3,570                     | (176)                       | 4.9                  | 1,489                     | (65)                        | 4.4                  |
| Cash collateral on securities lent and repurchase agreements                         | 8,333                     | (432)                       | 5.2                  | 3,381                     | (158)                       | 4.7                  |
| Trading portfolio liabilities  | 3,190                     | (179)                       | 5.6                  | 5,528                     | (284)                       | 5.1                  |
| Deposits   | 10,720                    | (498)                       | 4.6                  | 8,643                     | (376)                       | 4.4                  |
| Debt issued at amortised cost  | 45,407                    | (2,444)                     | 5.4                  | 30,379                    | (1,566)                     | 5.2                  |
| Other financial liabilities at fair value through profit and loss                    | 1,227                     | (46)                        | 3.7                  | 889                       | (27)                        | 3.0                  |
| Other liabilities  | 118                       | (9)                         | 7.5                  | 107                       | (4)                         | 3.7                  |
| <b>Loan capital</b>  |                           |                             |                      |                           |                             |                      |
| Subordinated debt  | 2,013                     | (120)                       | 6.0                  | 1,328                     | (64)                        | 4.8                  |
| Total interest bearing liabilities   | 74,578                    | (3,904)                     |                      | 51,744                    | (2,544)                     |                      |
| Total non-interest bearing liabilities   | 38,359                    |                             |                      | 34,420                    |                             |                      |
| <b>Total liabilities</b>   | <b>112,937</b>            |                             |                      | <b>86,164</b>             |                             |                      |
| <b>Net assets</b>  | <b>6,667</b>              |                             |                      | <b>4,948</b>              |                             |                      |
| <b>Equity</b>  |                           |                             |                      |                           |                             |                      |
| Contributed equity   |                           |                             |                      |                           |                             |                      |
| Ordinary share capital   | 2,763                     |                             |                      | 1,780                     |                             |                      |
| Treasury shares  | (3)                       |                             |                      | (1)                       |                             |                      |
| Macquarie Income Securities  | 391                       |                             |                      | 391                       |                             |                      |
| Reserves   | 325                       |                             |                      | 140                       |                             |                      |
| Retained earnings  | 2,325                     |                             |                      | 1,682                     |                             |                      |
| Total capital and reserves attributable to equity holders of Macquarie Bank Limited  | 5,801                     |                             |                      | 3,992                     |                             |                      |
| Minority interest from disposal groups classified as held for sale                   | (3)                       |                             |                      | 102                       |                             |                      |
| Minority interest  | 869                       |                             |                      | 854                       |                             |                      |
| <b>Total equity</b>  | <b>6,667</b>              |                             |                      | <b>4,948</b>              |                             |                      |

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## 31 March 2007 continued

|  | Bank 2007              |                             |                   | Bank 2006              |                             |                   |
|--|------------------------|-----------------------------|-------------------|------------------------|-----------------------------|-------------------|
|  | Average balance<br>\$m | Income/<br>(expense)<br>\$m | Average rate<br>% | Average balance<br>\$m | Income/<br>(expense)<br>\$m | Average rate<br>% |
| <b>Note 41. Average interest-bearing assets and liabilities and related interest</b> continued |                        |                             |                   |                        |                             |                   |
| <b>Assets</b>  |                        |                             |                   |                        |                             |                   |
| <b>Interest bearing assets</b>   |                        |                             |                   |                        |                             |                   |
| Due from banks   | 2,848                  | 153                         | 5.4               | 1,880                  | 84                          | 4.5               |
| Cash collateral on securities borrowed and reverse repurchase agreements                       | 17,029                 | 861                         | 5.1               | 10,341                 | 505                         | 4.9               |
| Trading portfolio assets   | 4,841                  | 270                         | 5.6               | 2,825                  | 151                         | 5.3               |
| Loan assets held at amortised cost   | 15,917                 | 1,183                       | 7.4               | 9,903                  | 764                         | 7.7               |
| Other financial assets at fair value through profit and loss                                   | 670                    | 41                          | 6.1               | 556                    | 46                          | 8.3               |
| Other assets   | 16                     | 1                           | 6.0               | 92                     | 6                           | 6.1               |
| Investment securities available for sale   | 2,488                  | 153                         | 6.2               | 1,965                  | 104                         | 5.3               |
| Due from controlled entities   | 13,619                 | 699                         | 5.1               | 6,420                  | 356                         | 5.5               |
| Net interest in associates and joint ventures using the equity method                          | 166                    | 7                           | 4.1               | 30                     | 1                           | 4.1               |
| <b>Total interest bearing assets</b>   | <b>57,594</b>          | <b>3,368</b>                |                   | <b>34,012</b>          | <b>2,017</b>                |                   |
| <b>Total non-interest bearing assets</b>   | <b>25,874</b>          |                             |                   | <b>28,115</b>          |                             |                   |
| <b>Total assets</b>  | <b>83,468</b>          |                             |                   | <b>62,127</b>          |                             |                   |
| <b>Liabilities</b>   |                        |                             |                   |                        |                             |                   |
| <b>Interest bearing liabilities</b>  |                        |                             |                   |                        |                             |                   |
| Due to banks   | 1,956                  | (89)                        | 4.5               | 1,222                  | (45)                        | 3.7               |
| Cash collateral on securities lent and repurchase agreements                                   | 8,129                  | (432)                       | 5.3               | 3,381                  | (158)                       | 4.7               |
| Trading portfolio liabilities  | 3,214                  | (179)                       | 5.6               | 5,528                  | (284)                       | 5.1               |
| Deposits   | 10,442                 | (486)                       | 4.7               | 8,373                  | (361)                       | 4.3               |
| Debt issued at amortised cost  | 25,240                 | (1,170)                     | 4.6               | 13,774                 | (565)                       | 4.1               |
| Other financial liabilities at fair value through profit and loss                              | 1,227                  | (45)                        | 3.7               | 889                    | (27)                        | 3.1               |
| Other liabilities  | 36                     | (2)                         | 5.9               | 105                    | (4)                         | 3.5               |
| Due to controlled entities   | 6,369                  | (327)                       | 5.1               | 3,159                  | (172)                       | 5.5               |
| <b>Loan capital</b>  |                        |                             |                   |                        |                             |                   |
| Subordinated debt  | 2,013                  | (120)                       | 6.0               | 1,328                  | (64)                        | 4.8               |
| <b>Total interest bearing liabilities</b>  | <b>58,626</b>          | <b>(2,850)</b>              |                   | <b>37,759</b>          | <b>(1,680)</b>              |                   |
| <b>Total non-interest bearing liabilities</b>  | <b>19,883</b>          |                             |                   | <b>20,783</b>          |                             |                   |
| <b>Total liabilities</b>   | <b>78,509</b>          |                             |                   | <b>58,542</b>          |                             |                   |
| <b>Net assets</b>  | <b>4,959</b>           |                             |                   | <b>3,585</b>           |                             |                   |
| <b>Equity</b>  |                        |                             |                   |                        |                             |                   |
| Contributed equity   |                        |                             |                   |                        |                             |                   |
| Ordinary share capital   | 2,752                  |                             |                   | 1,780                  |                             |                   |
| Treasury shares  | –                      |                             |                   | –                      |                             |                   |
| Macquarie Income Securities  | 391                    |                             |                   | 391                    |                             |                   |
| Convertible debentures   | 884                    |                             |                   | 884                    |                             |                   |
| Reserves   | 187                    |                             |                   | 112                    |                             |                   |
| Retained earnings  | 745                    |                             |                   | 418                    |                             |                   |
| <b>Total capital and reserves attributable to equity holders of Macquarie Bank Limited</b>     | <b>4,959</b>           |                             |                   | <b>3,585</b>           |                             |                   |
| Minority interest from disposal groups classified as held for sale                             | –                      |                             |                   | –                      |                             |                   |
| Minority interest  | –                      |                             |                   | –                      |                             |                   |
| <b>Total equity</b>  | <b>4,959</b>           |                             |                   | <b>3,585</b>           |                             |                   |

**Note 42. 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 43 – Maturity analysis of monetary assets and liabilities and liquidity management, for discussion on the source of the Bank's funding.

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

\* Excludes Australia.

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|   | Australia<br>\$m | Europe<br>\$m | North<br>America<br>\$m | Asia<br>Pacific*<br>\$m | Other<br>\$m | Total<br>\$m      |
|---|------------------|---------------|-------------------------|-------------------------|--------------|-------------------|
| <b>Note 42. Geographical concentration of deposits and borrowings</b> continued |                  |               |                         |                         |              |                   |
|   |                  |               |                         |                         |              | Consolidated 2006 |
| Due to banks  | 727              | 731           | 267                     | 360                     | 33           | 2,118             |
| Cash collateral on securities lent<br>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<br>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<br>profit and loss                      | 266              | –             | –                       | –                       | –            | 266               |
| Total deposits and borrowings by<br>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<br>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<br>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<br>profit and loss                      | 266              | –             | –                       | –                       | –            | 266               |
| Total deposits and borrowings by<br>geographical location                       | 24,393           | 17,736        | 2,680                   | 9,402                   | 153          | 54,364            |

\* Excludes Australia.

|   | Consolidated 2007 |               |               |              |               |              |                |
|---|-------------------|---------------|---------------|--------------|---------------|--------------|----------------|
|   | At call           | 3 months      | 3 months to   | 1 year to    | Over          | No           | Total          |
|   | \$m               | or less       | 12 months     | 5 years      | 5 years       | maturity     | \$m            |
|   |                   | \$m           | \$m           | \$m          | \$m           | specified    |                |
|   |                   |               |               |              |               | \$m          |                |
| <b>Note 43. Maturity analysis of monetary assets and liabilities and liquidity management</b> |                   |               |               |              |               |              |                |
| <b>Assets</b>   |                   |               |               |              |               |              |                |
| Cash and balances with central banks  | 3                 | -             | -             | -            | -             | -            | 3              |
| Due from banks  | 3,119             | 2,988         | -             | 13           | -             | -            | 6,120          |
| Cash collateral on securities borrowed and reverse repurchase agreements                      | 21,831            | 4,078         | -             | -            | -             | -            | 25,909         |
| Trading portfolio assets  | -                 | 15,518        | -             | -            | -             | -            | 15,518         |
| Loan assets held at amortised cost  | 5,278             | 7,468         | 3,359         | 5,048        | 24,643        | -            | 45,796         |
| Other financial assets at fair value through profit and loss                                  | 781               | 924           | 74            | 286          | 714           | -            | 2,779          |
| Investment securities available for sale  | 12                | 3,296         | -             | 1,149        | 631           | 972          | 6,060          |
| Life investment contracts and other unit holder assets*                                       | 146               | 550           | 198           | 121          | -             | 4,832        | 5,847          |
| Interest in associates and joint ventures using the equity method                             | -                 | -             | -             | -            | -             | 4,071        | 4,071          |
| <b>Total monetary assets</b>  | <b>31,170</b>     | <b>34,822</b> | <b>3,631</b>  | <b>6,617</b> | <b>25,988</b> | <b>9,875</b> | <b>112,103</b> |
| <b>Liabilities</b>  |                   |               |               |              |               |              |                |
| Due to banks  | 1,074             | 2,229         | 272           | 138          | 414           | -            | 4,127          |
| Cash collateral on securities lent and repurchase agreements                                  | 4,086             | 3,403         | -             | -            | -             | -            | 7,489          |
| Trading portfolio liabilities   | -                 | 15,922        | -             | -            | -             | -            | 15,922         |
| Deposits  | 6,808             | 4,719         | 761           | 101          | 14            | -            | 12,403         |
| Debt issued at amortised cost   | 1,236             | 17,009        | 13,262        | 5,153        | 14,705        | -            | 51,365         |
| Other financial liabilities at fair value through profit and loss                             | 43                | 993           | 1,181         | 2,958        | 377           | -            | 5,552          |
| Life investment contracts and other unit holder liabilities                                   | -                 | -             | -             | -            | -             | 5,781        | 5,781          |
| Subordinated debt issued at amortised cost  | -                 | -             | -             | -            | 1,783         | -            | 1,783          |
| Subordinated debt issued at fair value through profit and loss                                | -                 | -             | -             | -            | 888           | -            | 888            |
| <b>Total monetary liabilities</b>   | <b>13,247</b>     | <b>44,275</b> | <b>15,476</b> | <b>8,350</b> | <b>18,181</b> | <b>5,781</b> | <b>105,310</b> |

\* 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 2007 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.

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|   | Bank 2007      |                         |                              |                          |                     | No maturity specified<br>\$m | Total<br>\$m  |
|---|----------------|-------------------------|------------------------------|--------------------------|---------------------|------------------------------|---------------|
|   | At call<br>\$m | 3 months or less<br>\$m | 3 months to 12 months<br>\$m | 1 year to 5 years<br>\$m | Over 5 years<br>\$m |                              |               |
| <b>Note 43. Maturity analysis of monetary assets and liabilities and liquidity management</b> continued |                |                         |                              |                          |                     |                              |               |
| <b>Assets</b>   |                |                         |                              |                          |                     |                              |               |
| Cash and balances with central banks  | 3              | –                       | –                            | –                        | –                   | –                            | 3             |
| Due from banks  | 1,657          | 2,910                   | –                            | 13                       | –                   | –                            | 4,580         |
| Cash collateral on securities borrowed and reverse repurchase agreements                                | 21,765         | 4,078                   | –                            | –                        | –                   | –                            | 25,843        |
| Trading portfolio assets  | –              | 14,931                  | –                            | –                        | –                   | –                            | 14,931        |
| Loan assets held at amortised cost  | 5,046          | 6,666                   | 1,405                        | 3,371                    | 2,271               | –                            | 18,759        |
| Other financial assets at fair value through profit and loss  | 519            | 735                     | 72                           | 286                      | 568                 | –                            | 2,180         |
| Investment securities available for sale  | 4              | 2,578                   | –                            | 200                      | 75                  | 354                          | 3,211         |
| Due from controlled entities  | 11,092         | –                       | –                            | 292                      | 834                 | 1,309                        | 13,527        |
| Interest in associates and joint ventures using the equity method                                       | –              | –                       | –                            | –                        | –                   | 613                          | 613           |
| <b>Total monetary assets</b>  | <b>40,086</b>  | <b>31,898</b>           | <b>1,477</b>                 | <b>4,162</b>             | <b>3,748</b>        | <b>2,276</b>                 | <b>83,647</b> |
| <b>Liabilities</b>  |                |                         |                              |                          |                     |                              |               |
| Due to banks  | 349            | 1,491                   | 133                          | 138                      | –                   | –                            | 2,111         |
| Cash collateral on securities lent and repurchase agreements  | 4,086          | 3,403                   | –                            | –                        | –                   | –                            | 7,489         |
| Trading portfolio liabilities   | –              | 15,957                  | –                            | –                        | –                   | –                            | 15,957        |
| Deposits  | 6,802          | 4,592                   | 626                          | 35                       | –                   | –                            | 12,055        |
| Debt issued at amortised cost   | 1,236          | 16,942                  | 6,302                        | 3,985                    | 54                  | –                            | 28,519        |
| Other financial liabilities at fair value through profit and loss                                       | 28             | 898                     | 1,172                        | 2,674                    | 377                 | –                            | 5,149         |
| Due to controlled entities  | 6,261          | –                       | –                            | –                        | –                   | 875                          | 7,136         |
| Subordinated debt issued at amortised cost  | –              | –                       | –                            | –                        | 1,783               | –                            | 1,783         |
| Subordinated debt issued at fair value through profit and loss  | –              | –                       | –                            | –                        | 888                 | –                            | 888           |
| <b>Total monetary liabilities</b>   | <b>18,762</b>  | <b>43,283</b>           | <b>8,233</b>                 | <b>6,832</b>             | <b>3,102</b>        | <b>875</b>                   | <b>81,087</b> |

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

Maturities represent the remaining period as at 31 March 2007 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 2006 |               |               |              |               |              |               |
|---|-------------------|---------------|---------------|--------------|---------------|--------------|---------------|
|   | At call           | 3 months      | 3 months to   | 1 year to    | Over          | No           | Total         |
|   | \$m               | or less       | 12 months     | 5 years      | 5 years       | maturity     | \$m           |
|   |                   | \$m           | \$m           | \$m          | \$m           | specified    | \$m           |
|   |                   |               |               |              |               | \$m          |               |
| <b>Note 43. Maturity analysis of monetary assets and liabilities and liquidity management</b> continued |                   |               |               |              |               |              |               |
| <b>Assets</b>   |                   |               |               |              |               |              |               |
| 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         |
| <b>Total monetary assets</b>  | <b>30,060</b>     | <b>20,025</b> | <b>2,524</b>  | <b>4,775</b> | <b>18,132</b> | <b>8,194</b> | <b>83,710</b> |
| <b>Liabilities</b>  |                   |               |               |              |               |              |               |
| 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 profit 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  | –                 | –             | –             | –            | 1,115         | –            | 1,115         |
| Subordinated debt issued at fair value through profit and loss  | –                 | –             | –             | –            | 266           | –            | 266           |
| <b>Total monetary liabilities</b>   | <b>20,900</b>     | <b>17,773</b> | <b>13,255</b> | <b>6,278</b> | <b>11,806</b> | <b>9,439</b> | <b>79,451</b> |

\* 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.

# Notes to the financial statements

## 31 March 2007 continued

|   | Bank 2006      |                         |                              |                          |                     | No maturity specified<br>\$m | Total<br>\$m  |
|---|----------------|-------------------------|------------------------------|--------------------------|---------------------|------------------------------|---------------|
|   | At call<br>\$m | 3 months or less<br>\$m | 3 months to 12 months<br>\$m | 1 year to 5 years<br>\$m | Over 5 years<br>\$m |                              |               |
| <b>Note 43. Maturity analysis of monetary assets and liabilities and liquidity management</b> continued |                |                         |                              |                          |                     |                              |               |
| <b>Assets</b>   |                |                         |                              |                          |                     |                              |               |
| 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           |
| <b>Total monetary assets</b>  | <b>35,846</b>  | <b>15,627</b>           | <b>1,821</b>                 | <b>2,961</b>             | <b>1,189</b>        | <b>2,194</b>                 | <b>59,638</b> |
| <b>Liabilities</b>  |                |                         |                              |                          |                     |                              |               |
| 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  | –              | –                       | –                            | –                        | 1,114               | –                            | 1,114         |
| Subordinated debt issued at fair value through profit and loss  | –              | –                       | –                            | –                        | 266                 | –                            | 266           |
| <b>Total monetary liabilities</b>   | <b>23,696</b>  | <b>17,044</b>           | <b>5,654</b>                 | <b>5,854</b>             | <b>1,444</b>        | <b>5,947</b>                 | <b>59,639</b> |

### 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 Group ("RMG") 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 liquidated 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 RMG.

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 tools for accessing wholesale funding markets are the USD\$25 billion Debt Instrument Programme and the USD\$10 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 44. 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.

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

\* 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.

Notes to the financial statements  
31 March 2007 continued

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Consolidated 2007<br>Fixed interest rate repricing |                                  |                                    |                             |                        | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m   |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|------------------------|------------------------------------|----------------|
|  |   |                                     | 1 month<br>or less<br>\$m                          | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m | Over<br>5 years<br>\$m |                                    |                |
| <b>Note 44. Interest rate risk</b> continued                         |   |                                     |  |                                  |                                    |                             |                        |                                    |                |
| <b>Liabilities</b>   |   |                                     |  |                                  |                                    |                             |                        |                                    |                |
| Due to banks   | 5.4   | 2,179                               | 648  | 431                              | 286                                | 264                         | 319                    | -                                  | 4,127          |
| Cash collateral on securities<br>lent and repurchase agreements      | 5.1   | 4,086                               | 3,403  | -                                | -                                  | -                           | -                      | -                                  | 7,489          |
| Trading portfolio liabilities  | 5.0   | -                                   | -  | 90                               | 391                                | 477                         | 722                    | 14,242                             | 15,922         |
| Derivative financial instruments<br>- negative values                | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 11,069                             | 11,069         |
| Deposits   | 7.7   | 9,718                               | 1,537  | 802                              | 346                                | -                           | -                      | -                                  | 12,403         |
| Debt issued at amortised cost  | 7.0   | 1,779                               | 7,324  | 9,425                            | 13,262                             | 4,963                       | 14,612                 | -                                  | 51,365         |
| Other financial liabilities at fair<br>value through profit and loss | 5.6   | -                                   | 9  | 250                              | 707                                | 263                         | 1                      | 4,322                              | 5,552          |
| Other liabilities  | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 11,958                             | 11,958         |
| Current tax liabilities  | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 132                                | 132            |
| Life investment contracts and<br>other unit holder liabilities       | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 5,781                              | 5,781          |
| Provisions   | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 153                                | 153            |
| Deferred income tax liabilities                                      | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 78                                 | 78             |
| Liabilities of disposal groups<br>classified as held for sale        | -   | -                                   | -  | -                                | -                                  | -                           | -                      | 170                                | 170            |
| Subordinated debt at<br>amortised cost                               | 6.1   | -                                   | -  | 1,783                            | -                                  | -                           | -                      | -                                  | 1,783          |
| Subordinated debt at fair<br>value through profit and loss           | 6.8   | -                                   | -  | 153                              | 735                                | -                           | -                      | -                                  | 888            |
| <b>Total liabilities</b>   |   | <b>17,762</b>                       | <b>12,921</b>                                      | <b>12,934</b>                    | <b>15,727</b>                      | <b>5,967</b>                | <b>15,654</b>          | <b>47,905</b>                      | <b>128,870</b> |
| <b>Total equity</b>  |   |                                     |  |                                  |                                    |                             |                        | <b>7,519</b>                       | <b>7,519</b>   |

**Note 44. 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 effect 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 2006 and 2007 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.

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

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|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Bank 2007<br>Fixed interest rate repricing |                                  |                                    |                             |            | Over<br>5 years<br>\$m | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|------------|------------------------|------------------------------------|--------------|
|  |   |                                     | 1 month<br>or less<br>\$m                  | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m |            |                        |                                    |              |
| <b>Note 44. Interest rate risk</b> continued                         |   |                                     |  |                                  |                                    |                             |            |                        |                                    |              |
| <b>Liabilities</b>   |   |                                     |  |                                  |                                    |                             |            |                        |                                    |              |
| Due to banks   | 5.9   | 1,538                               | 175  | 1                                | 133                                | 264                         | -          | -                      | 2,111                              |              |
| Cash collateral on securities<br>lent and repurchase agreements      | 5.1   | 4,086                               | 3,403                                      | -                                | -                                  | -                           | -          | -                      | 7,489                              |              |
| Trading portfolio liabilities  | 5.0   | -                                   | -  | 90                               | 391                                | 477                         | 722        | 14,277                 | 15,957                             |              |
| Derivative financial instruments<br>- negative values                | -   | -                                   | -  | -                                | -                                  | -                           | -          | 9,800                  | 9,800                              |              |
| Deposits   | 7.1   | 9,626                               | 1,542                                      | 541                              | 346                                | -                           | -          | -                      | 12,055                             |              |
| Debt issued at amortised cost  | 5.3   | 1,614                               | 7,174                                      | 9,390                            | 6,302                              | 3,985                       | 54         | -                      | 28,519                             |              |
| Other financial liabilities at fair<br>value through profit and loss | 5.9   | -                                   | 8  | 241                              | 700                                | 262                         | -          | 3,938                  | 5,149                              |              |
| Other liabilities  | -   | -                                   | -  | -                                | -                                  | -                           | -          | 7,094                  | 7,094                              |              |
| Current tax liabilities  | -   | -                                   | -  | -                                | -                                  | -                           | -          | 94                     | 94                                 |              |
| Due to controlled entities   | 6.3   | 6,261                               | -  | -                                | -                                  | -                           | -          | 875                    | 7,136                              |              |
| Provisions   | -   | -                                   | -  | -                                | -                                  | -                           | -          | 124                    | 124                                |              |
| Deferred income tax liabilities                                      | -   | -                                   | -  | -                                | -                                  | -                           | -          | 41                     | 41                                 |              |
| Subordinated debt at<br>amortised cost                               | -   | -                                   | -  | 1,783                            | -                                  | -                           | -          | -                      | 1,783                              |              |
| Subordinated debt at fair<br>value through profit and loss           | 6.1   | -                                   | -  | 153                              | 735                                | -                           | -          | -                      | 888                                |              |
| <b>Total liabilities</b>   |   | <b>23,125</b>                       | <b>12,302</b>                              | <b>12,199</b>                    | <b>8,607</b>                       | <b>4,988</b>                | <b>776</b> | <b>36,243</b>          | <b>98,240</b>                      |              |
| <b>Total equity</b>  |   |                                     |  |                                  |                                    |                             |            | <b>5,968</b>           | <b>5,968</b>                       |              |

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Consolidated 2006<br>Fixed interest rate repricing |                                  |                                    |                             |                        | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|------------------------|------------------------------------|--------------|
|  |   |                                     | 1 month<br>or less<br>\$m                          | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m | Over<br>5 years<br>\$m |                                    |              |
| <b>Note 44. Interest rate risk continued</b>                                   |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| <b>Assets</b>  |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| Cash and balances with<br>central banks  | 5.3   | 5                                   | –  | –                                | –                                  | –                           | –                      | –                                  | 5            |
| Due from banks   | 5.0   | 4,025                               | 2,320  | 49                               | –                                  | –                           | –                      | –                                  | 6,394        |
| Cash collateral on securities<br>borrowed and reverse<br>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<br>amortised cost  | 7.1   | 22,072                              | 4,358  | 3,888                            | 1,222                              | 3,170                       | 289                    | –                                  | 34,999       |
| Other financial assets at fair<br>value through profit and loss                | 6.1   | 609                                 | 451  | 235                              | 1                                  | 208                         | 600                    | –                                  | 2,104        |
| Derivative financial instruments<br>– positive values                          | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 10,978                             | 10,978       |
| Other assets   | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 8,452                              | 8,452        |
| Investment securities available<br>for sale                                    | 5.6   | 358                                 | 714  | 1,178                            | 299                                | 242                         | 406                    | 549                                | 3,746        |
| Intangible assets  | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 150                                | 150          |
| Life investment contracts and<br>other unit holder assets*                     | 2.6   | 181                                 | 304  | 349                              | 51                                 | 116                         | –                      | 4,182                              | 5,183        |
| Interest in associates and joint<br>ventures using the equity method           | 5.5   | 135                                 | –  | –                                | –                                  | –                           | –                      | 3,328                              | 3,463        |
| Property, plant and equipment  | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 292                                | 292          |
| Deferred income tax assets   | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 240                                | 240          |
| Assets and disposal groups<br>classified as held for sale                      | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 2,389                              | 2,389        |
| <b>Total assets</b>  |   | 33,653                              | 15,055   | 8,579                            | 2,351                              | 4,501                       | 2,343                  | 39,729                             | 106,211      |

\* 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.

# Notes to the financial statements

## 31 March 2007 continued

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Consolidated 2006<br>Fixed interest rate repricing |                                  |                                    |                             |                        | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|------------------------|------------------------------------|--------------|
|  |   |                                     | 1 month<br>or less<br>\$m                          | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m | Over<br>5 years<br>\$m |                                    |              |
| <b>Note 44. Interest rate risk continued</b>                         |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| <b>Liabilities</b>   |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| Due to banks   | 4.6   | 875                                 | 258  | 635                              | 122                                | 64                          | 164                    | –                                  | 2,118        |
| Cash collateral on securities lent<br>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<br>– 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<br>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<br>other unit holder liabilities       | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 5,130                              | 5,130        |
| Provisions   | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 132                                | 132          |
| Deferred income tax liabilities                                      | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 157                                | 157          |
| Liabilities of disposal groups<br>classified as held for sale        | –   | –                                   | –  | –                                | –                                  | –                           | –                      | 1,427                              | 1,427        |
| Subordinated debt at<br>amortised cost                               | 5.0   | –                                   | –  | 1,115                            | –                                  | –                           | –                      | –                                  | 1,115        |
| Subordinated debt at fair<br>value through profit and loss           | 6.1   | –                                   | –  | –                                | 266                                | –                           | –                      | –                                  | 266          |
| <b>Total liabilities</b>   |   | 11,022                              | 9,267  | 9,658                            | 14,487                             | 8,501                       | 12,808                 | 35,131                             | 100,874      |
| <b>Total equity</b>  |   |                                     |  |                                  |                                    |                             |                        | 5,337                              | 5,337        |



|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Bank 2006<br>Fixed interest rate repricing |                                  |                                    |                             |       | Over<br>5 years<br>\$m | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|-------|------------------------|------------------------------------|--------------|
|  |   |                                     | 1 month<br>or less<br>\$m                  | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m |       |                        |                                    |              |
| <b>Note 44. Interest rate risk continued</b>                                   |   |                                     |  |                                  |                                    |                             |       |                        |                                    |              |
| <b>Assets</b>  |   |                                     |  |                                  |                                    |                             |       |                        |                                    |              |
| Cash and balances with<br>central banks  | 5.3   | 5                                   | –  | –                                | –                                  | –                           | –     | –                      | 5                                  |              |
| Due from banks   | 5.2   | 2,517                               | 2,061                                      | 1                                | –                                  | –                           | –     | –                      | 4,579                              |              |
| Cash collateral on securities<br>borrowed and reverse<br>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<br>amortised cost  | 7.3   | 4,572                               | 3,063                                      | 3,822                            | 426                                | 645                         | 653   | –                      | 13,181                             |              |
| Other financial assets at<br>fair value through profit and loss                | 6.2   | 608                                 | 423  | 54                               | 1                                  | 208                         | 600   | –                      | 1,894                              |              |
| Derivative financial instruments<br>– positive values                          | –   | –                                   | –  | –                                | –                                  | –                           | –     | 10,618                 | 10,618                             |              |
| Other assets   | –   | –                                   | –  | –                                | –                                  | –                           | –     | 3,213                  | 3,213                              |              |
| Investment securities available<br>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<br>ventures using the equity method           | 5.5   | 58                                  | –  | –                                | –                                  | –                           | –     | 775                    | 833                                |              |
| Property, plant and equipment  | –   | –                                   | –  | –                                | –                                  | –                           | –     | 90                     | 90                                 |              |
| Investments in controlled entities   | –   | –                                   | –  | –                                | –                                  | –                           | –     | 4,087                  | 4,087                              |              |
| Deferred income tax assets   | –   | –                                   | –  | –                                | –                                  | –                           | –     | 232                    | 232                                |              |
| Assets and disposal groups<br>classified as held for sale                      | –   | –                                   | –  | –                                | –                                  | –                           | –     | 18                     | 18                                 |              |
| <b>Total assets</b>  |   | 23,221                              | 12,833                                     | 7,878                            | 1,497                              | 1,797                       | 2,153 | 28,528                 | 77,907                             |              |

# Notes to the financial statements

## 31 March 2007 continued

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | Floating<br>interest<br>rate<br>\$m | Bank 2006<br>Fixed interest rate repricing |                                  |                                    |                             |                        | Non-<br>interest<br>bearing<br>\$m | Total<br>\$m |
|--|---|-------------------------------------|--|----------------------------------|------------------------------------|-----------------------------|------------------------|------------------------------------|--------------|
|  |   |                                     | 1 month<br>or less<br>\$m                  | 1 month<br>to 3<br>months<br>\$m | 3 months<br>to 12<br>months<br>\$m | 1 year to<br>5 years<br>\$m | Over<br>5 years<br>\$m |                                    |              |
| <b>Note 44. Interest rate risk continued</b>                         |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| <b>Liabilities</b>   |   |                                     |  |                                  |                                    |                             |                        |                                    |              |
| Due to banks   | 4.1   | 769                                 | 67   | 262                              | 119                                | –                           | –                      | –                                  | 1,217        |
| Cash collateral on securities<br>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<br>– 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<br>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<br>amortised cost                               | 5.0   | –                                   | –  | 1,114                            | –                                  | –                           | –                      | –                                  | 1,114        |
| Subordinated debt at fair value<br>through profit and loss           | 6.1   | –                                   | –  | –                                | 266                                | –                           | –                      | –                                  | 266          |
| <b>Total liabilities</b>   |   | 14,348                              | 9,040                                      | 9,144                            | 6,886                              | 8,200                       | 2,509                  | 23,474                             | 73,601       |
| <b>Total equity</b>  |   |                                     |  |                                  |                                    |                             |                        | 4,306                              | 4,306        |

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 45. 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 approximately their carrying amount as they are short term in nature or are payable on demand;
- 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 largely recognised separately by deducting the amount of the allowance for credit losses;
- 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 not have a material impact as compared to the amounts recognised in the financial statements.

# Notes to the financial statements

## 31 March 2007 continued

### Note 46. 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 2007

#### Credit risk concentration

|                                | Due from<br>Banks<br>\$m | Cash collateral<br>on securities<br>borrowed and reverse<br>repurchase agreements<br>\$m | Trading<br>portfolio<br>assets<br>\$m | Loan assets<br>held at<br>amortised<br>cost<br>\$m | Other financial<br>assets at fair<br>value through<br>profit and loss<br>\$m |
|--------------------------------|--------------------------|--|---------------------------------------|--|--|
| <b>Australia</b>               |                          |  |                                       |  |  |
| Central bank                   |                          |  |                                       |  |  |
| Governments                    | –                        | 48   | 895                                   | 40   | 125  |
| Other financial institutions   | 1,570                    | 1,123  | 724                                   | 66   | 29   |
| Other                          | –                        | 3,659  | 2,929                                 | 36,754   | 1,999  |
| <b>Total Australia</b>         | <b>1,570</b>             | <b>4,830</b>   | <b>4,548</b>                          | <b>36,860</b>                                      | <b>2,153</b>   |
| <b>New Zealand</b>             |                          |  |                                       |  |  |
| Governments                    | –                        | –  | –                                     | –  | –  |
| Other financial institutions   | 52                       | 1  | 4                                     | –  | –  |
| Other                          | –                        | –  | –                                     | 306  | –  |
| <b>Total New Zealand</b>       | <b>52</b>                | <b>1</b>   | <b>4</b>                              | <b>306</b>   | <b>–</b>   |
| <b>Europe</b>                  |                          |  |                                       |  |  |
| Governments                    | –                        | –  | 6                                     | –  | –  |
| Other financial institutions   | 1,094                    | 11,997   | 62                                    | 501  | 50   |
| Other                          | –                        | 7,779  | 2,866                                 | 2,845  | 74   |
| <b>Total Europe</b>            | <b>1,094</b>             | <b>19,776</b>  | <b>2,934</b>                          | <b>3,346</b>                                       | <b>124</b>   |
| <b>North America</b>           |                          |  |                                       |  |  |
| Governments                    | –                        | 595  | –                                     | 1  | –  |
| Other financial institutions   | 720                      | 10   | 22                                    | 23   | –  |
| Other                          | –                        | 674  | 2,923                                 | 4,877  | 492  |
| <b>Total North America</b>     | <b>720</b>               | <b>1,279</b>   | <b>2,945</b>                          | <b>4,901</b>                                       | <b>492</b>   |
| <b>Asia</b>                    |                          |  |                                       |  |  |
| Governments                    | –                        | –  | –                                     | –  | –  |
| Other financial institutions   | 2,532                    | –  | –                                     | 1  | –  |
| Other                          | –                        | 11   | 5,050                                 | 224  | 9  |
| <b>Total Asia</b>              | <b>2,532</b>             | <b>11</b>  | <b>5,050</b>                          | <b>225</b>   | <b>9</b>   |
| <b>Other</b>                   |                          |  |                                       |  |  |
| Governments                    | –                        | –  | 6                                     | –  | –  |
| Other financial institutions   | 152                      | –  | –                                     | –  | –  |
| Other                          | –                        | 12   | 31                                    | 158  | 1  |
| <b>Total other</b>             | <b>152</b>               | <b>12</b>  | <b>37</b>                             | <b>158</b>   | <b>1</b>   |
| <b>Total</b>                   | <b>6,120</b>             | <b>25,909</b>  | <b>15,518</b>                         | <b>45,796</b>                                      | <b>2,779</b>   |
| <b>Total gross credit risk</b> |                          |  |                                       |  |  |

| Derivative financial instruments – positive values \$m | Other assets \$m | Debt investment securities available for sale \$m | Life investment contracts and other unit holder assets \$m | Credit commitments and contingent liabilities \$m | Interest in associates and joint ventures using the equity method \$m | Total \$m |
|--|------------------|---|--|---|---|-----------|
| 218  | –                | –   | –  | 92  | –   | 1,418     |
| 1,202  | –                | 1,266   | –  | –   | 14  | 5,994     |
| 1,504  | 4,977            | 678   | 5,847  | 1,086   | 2,665   | 62,098    |
| 2,924  | 4,977            | 1,944   | 5,847  | 1,178   | 2,679   | 69,510    |
| 1  | –                | –   | –  | –   | –   | 1         |
| 5  | –                | –   | –  | –   | –   | 62        |
| 35   | 54               | –   | –  | –   | 4   | 399       |
| 41   | 54               | –   | –  | –   | 4   | 462       |
| –  | –                | –   | –  | –   | –   | 6         |
| 3,720  | –                | 769   | –  | –   | –   | 18,193    |
| 838  | 2,601            | 1,406   | –  | 791   | 472   | 19,672    |
| 4,558  | 2,601            | 2,175   | –  | 791   | 472   | 37,871    |
| 3  | –                | –   | –  | –   | –   | 599       |
| 1,552  | –                | 99  | –  | –   | –   | 2,426     |
| 1,213  | 35               | 809   | –  | 229   | 428   | 11,680    |
| 2,768  | 35               | 908   | –  | 229   | 428   | 14,705    |
| –  | –                | –   | –  | –   | –   | –         |
| 246  | –                | –   | –  | –   | –   | 2,779     |
| 583  | 2,675            | 39  | –  | 179   | 482   | 9,252     |
| 829  | 2,675            | 39  | –  | 179   | 482   | 12,031    |
| –  | –                | –   | –  | –   | –   | 6         |
| 41   | –                | –   | –  | –   | –   | 193       |
| 752  | 102              | –   | –  | 48  | 6   | 1,110     |
| 793  | 102              | –   | –  | 48  | 6   | 1,309     |
| 11,913   | 10,444           | 5,066   | 5,847  | 2,425   | 4,071   | 135,888   |
|  |                  |   |  |   |   | 135,888   |

# Notes to the financial statements

## 31 March 2007 continued

### Note 46. Credit risk continued

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

The economic entity enters into 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 balance sheet assets. As at 31 March 2007 the fair value of the credit derivatives was \$2 million negative value (2006: \$1 million positive value). 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. As at 31 March 2007, loans of \$22.1 billion (2006: \$18.1 billion) were covered by these contracts. Other risk mitigation measures include blocked deposits, bank guarantees and letters of credit. As at 31 March 2007, this amounted to \$2,305 million (2006: \$426 million).

#### Bank 2007

##### Credit risk concentration

|                              | Due from Banks<br>\$m | Cash collateral<br>on securities<br>borrowed and<br>reverse repurchase<br>agreements<br>\$m | Trading<br>portfolio<br>assets<br>\$m | Loan assets<br>held at<br>amortised<br>cost<br>\$m | Other financial<br>assets at fair<br>value through<br>profit and loss<br>\$m |
|------------------------------|-----------------------|---|---------------------------------------|--|--|
| <b>Australia</b>             |                       |   |                                       |  |  |
| Governments                  | -                     | 48  | 895                                   | 18   | 125  |
| Other financial institutions | 1,288                 | 1,086   | 706                                   | 65   | -  |
| Other                        | -                     | 3,658   | 2,902                                 | 12,753   | 1,931  |
| <b>Total Australia</b>       | <b>1,288</b>          | <b>4,792</b>  | <b>4,503</b>                          | <b>12,836</b>                                      | <b>2,056</b>   |
| <b>New Zealand</b>           |                       |   |                                       |  |  |
| Central bank                 | -                     | -   | -                                     | -  | -  |
| Other financial institutions | 16                    | 1   | -                                     | -  | -  |
| Other                        | -                     | -   | -                                     | 49   | -  |
| <b>Total New Zealand</b>     | <b>16</b>             | <b>1</b>  | <b>-</b>                              | <b>49</b>  | <b>-</b>   |
| <b>Europe</b>                |                       |   |                                       |  |  |
| Governments                  | -                     | -   | 6                                     | -  | -  |
| Other financial institutions | 987                   | 11,997  | 62                                    | -  | 50   |
| Other                        | -                     | 7,779   | 2,866                                 | 2,811  | -  |
| <b>Total Europe</b>          | <b>987</b>            | <b>19,776</b>   | <b>2,934</b>                          | <b>2,811</b>                                       | <b>50</b>  |
| <b>North America</b>         |                       |   |                                       |  |  |
| Governments                  | -                     | 595   | -                                     | -  | -  |
| Other financial institutions | 391                   | 10  | 22                                    | 20   | -  |
| Other                        | -                     | 657   | 2,556                                 | 2,808  | 74   |
| <b>Total North America</b>   | <b>391</b>            | <b>1,262</b>  | <b>2,578</b>                          | <b>2,828</b>                                       | <b>74</b>  |
| <b>Asia</b>                  |                       |   |                                       |  |  |
| Other financial institutions | 1,897                 | -   | -                                     | -  | -  |
| Other                        | -                     | -   | 4,909                                 | 83   | -  |
| <b>Total Asia</b>            | <b>1,897</b>          | <b>-</b>  | <b>4,909</b>                          | <b>83</b>  | <b>-</b>   |
| <b>Other</b>                 |                       |   |                                       |  |  |
| Governments                  | -                     | -   | 6                                     | -  | -  |
| Other financial institutions | 1                     | -   | -                                     | -  | -  |
| Other                        | -                     | 12  | 1                                     | 152  | -  |
| <b>Total other</b>           | <b>1</b>              | <b>12</b>   | <b>7</b>                              | <b>152</b>   | <b>-</b>   |
| <b>Total</b>                 | <b>4,580</b>          | <b>25,843</b>   | <b>14,931</b>                         | <b>18,759</b>                                      | <b>2,180</b>   |

##### Total gross credit risk

| Derivative financial instruments – positive values<br>\$m | Other assets<br>\$m | Debt investment securities available for sale<br>\$m | Credit commitments and contingent liabilities<br>\$m | Interest in associates and joint ventures using the equity method<br>\$m | Due from Controlled entities<br>\$m | Total<br>\$m |
|---|---------------------|--|--|--|-------------------------------------|--------------|
| 218   | –                   | –  | 92   | –  | –                                   | 1,396        |
| 1,104   | –                   | 1,264  | –  | 4  | –                                   | 5,517        |
| 1,504   | 3,592               | 111  | 1,697  | 479  | 8,170                               | 36,797       |
| 2,826   | 3,592               | 1,375  | 1,789  | 483  | 8,170                               | 43,710       |
| 1   | –                   | –  | –  | –  | –                                   | 1            |
| 4   | –                   | –  | –  | –  | –                                   | 21           |
| 35  | –                   | –  | –  | –  | 345                                 | 429          |
| 40  | –                   | –  | –  | –  | 345                                 | 451          |
| –   | –                   | –  | –  | –  | –                                   | 6            |
| 3,506   | –                   | 769  | –  | –  | –                                   | 17,371       |
| 837   | 1,106               | 593  | 39   | –  | 2,791                               | 18,822       |
| 4,343   | 1,106               | 1,362  | 39   | –  | 2,791                               | 36,199       |
| –   | –                   | –  | –  | –  | –                                   | 595          |
| 1,337   | –                   | 99   | –  | –  | –                                   | 1,879        |
| 912   | 1                   | 18   | 60   | 53   | 1,683                               | 8,822        |
| 2,249   | 1                   | 117  | 60   | 53   | 1,683                               | 11,296       |
| 245   | –                   | –  | –  | –  | –                                   | 2,142        |
| 561   | –                   | –  | 11   | 77   | 441                                 | 6,082        |
| 806   | –                   | –  | 11   | 77   | 441                                 | 8,224        |
| –   | –                   | –  | –  | –  | –                                   | 6            |
| 41  | –                   | –  | –  | –  | –                                   | 42           |
| 742   | –                   | –  | 48   | –  | 97                                  | 1,052        |
| 783   | –                   | –  | 48   | –  | 97                                  | 1,100        |
| 11,047  | 4,699               | 2,854  | 1,947  | 613  | 13,527                              | 100,980      |
|   |                     |  |  |  |                                     | 100,980      |

# Notes to the financial statements

## 31 March 2007 continued

### Note 46. Credit risk continued

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

The Bank enters into 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 balance sheet assets. As at 31 March 2007 the fair value of the credit derivatives was \$7 million positive value (2006: \$1 million positive value). 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 2007, this amounted to \$1,799 million (2006: \$704 million).

Consolidated 2006

Credit risk concentration

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



| Derivative financial instruments – positive values \$m | Other assets \$m | Debt investment securities available for sale \$m | Life investment contracts and other unit holder assets \$m | Credit commitments and contingent liabilities \$m | Interest in associates and joint ventures using the equity method \$m | Total \$m |
|--|------------------|---|--|---|---|-----------|
| 78   | –                | –   | –  | –   | –   | 100       |
| 29   | –                | –   | –  | 2   | –   | 2,461     |
| 267  | –                | 1,879   | –  | –   | –   | 8,148     |
| 4,571  | 4,941            | 390   | 5,183  | 535   | 2,515   | 64,439    |
| 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  | –  | –   | –   | 1,886     |
| 1,210  | 280              | 399   | –  | 246   | 331   | 4,667     |
| 1,721  | 280              | 417   | –  | 246   | 331   | 6,554     |
| 9  | –                | –   | –  | –   | –   | 9         |
| 387  | –                | –   | –  | –   | 11  | 3,210     |
| 429  | 2,358            | –   | –  | 42  | 368   | 4,269     |
| 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   |

# Notes to the financial statements

## 31 March 2007 continued

### Note 46. Credit risk continued

Bank 2006

Credit risk concentration

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

| Derivative<br>financial<br>instruments<br>– positive<br>values<br>\$m | Other assets<br>\$m | Debt<br>investment<br>securities<br>available<br>for sale<br>\$m | Credit<br>commitments<br>and contingent<br>liabilities<br>\$m | Interest in<br>associates and<br>joint ventures<br>using the<br>equity method<br>\$m | Due from<br>Controlled<br>entities<br>\$m | Total<br>\$m |
|---|---------------------|--|---|--|---|--------------|
| 78  | –                   | –  | –   | –  | –   | 100          |
| 29  | –                   | –  | 2   | –  | –   | 2,212        |
| 266   | –                   | 1,386  | –   | –  | –   | 7,353        |
| 4,308   | 3,043               | 132  | 550   | 765  | 5,972                                     | 39,939       |
| 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   | –                   | –  | –   | –  | –   | 2,101        |
| 406   | –                   | –  | 8   | 42   | 1,006                                     | 1,808        |
| 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       |

# Notes to the financial statements

## 31 March 2007 continued

|   | Consolidated<br>2007<br>\$'000 | Consolidated<br>2006<br>\$'000 | Bank<br>2007<br>\$'000 | Bank<br>2006<br>\$'000 |
|---|--------------------------------|--------------------------------|------------------------|------------------------|
| <b>Note 47. Audit and other services provided by PricewaterhouseCoopers ("PwC")</b>   |                                |                                |                        |                        |
| During the financial year, the auditor of the Bank and economic entity, PwC, and its related practices earned the following remuneration: |                                |                                |                        |                        |
| <b>PwC – Australian firm</b>  |                                |                                |                        |                        |
| Audit and review of financial reports of the Bank or any entity in the economic entity  | 3,420                          | 3,324                          | 2,404                  | 2,709                  |
| Other audit-related work  | 1,579                          | 1,090                          | 1,448                  | 966                    |
| Other assurance services  | 454                            | 451                            | 454                    | 407                    |
| Total audit and other assurance services  | 5,453                          | 4,865                          | 4,306                  | 4,082                  |
| Advisory services   | 1,432                          | 552                            | 1,432                  | 552                    |
| Taxation  | 361                            | 249                            | 361                    | 249                    |
| Total remuneration paid to PwC – Australian firm  | 7,246                          | 5,666                          | 6,099                  | 4,883                  |
| <b>Related practices of PwC – Australian firm (including PwC – overseas firms)</b>  |                                |                                |                        |                        |
| Audit and review of financial reports of the Bank or any entity in the economic entity  | 3,460                          | 2,775                          | 126                    | 70                     |
| Other audit-related work  | 425                            | 199                            | 356                    | 12                     |
| Other assurance services  | 25                             | 148                            | –                      | –                      |
| Total audit and other assurance services  | 3,910                          | 3,122                          | 482                    | 82                     |
| Advisory services   | 5,681                          | 2,754                          | –                      | –                      |
| Taxation  | 1,113                          | 1,426                          | –                      | –                      |
| Total remuneration paid to related practices of PwC – Australian firm   | 10,704                         | 7,302                          | 482                    | 82                     |
| <b>Total remuneration paid to PwC</b>   | <b>17,950</b>                  | <b>12,968</b>                  | <b>6,581</b>           | <b>4,965</b>           |

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 advisory projects.

**Note 48. Acquisition and disposal of controlled entities****Entities acquired or consolidated due to change in control:****a) Macquarie Small Caps Roads (an additional four toll roads: Central Alabama Assets; plus the Detroit Windsor Tunnel)**

On 12 May 2006, a subsidiary of the Bank acquired 100% of the assets in four toll road-related companies in Alabama, USA. Acquired on the same day was 100% of the equity of Macquarie North American Infrastructure, Inc, whose wholly owned subsidiary, The Detroit & Canada Tunnel Corporation is the controller under long-term concession of the US operations and operator under subcontract of the Canadian operations of the Detroit Windsor Tunnel.

**b) East London Bus Group Holdings Limited**

On 22 June 2006, a subsidiary of the Bank signed a sale and purchase agreement to acquire 100% of East London Bus Group Holdings Limited. The company owns and operates a bus and coach business in the United Kingdom.

**c) Cervus Financial Corp**

On 6 July 2006, a subsidiary of the Bank purchased a 100% interest in Cervus Financial Corp, a listed Canadian corporation with established mortgage servicing contracts and mortgage broker network.

**d) Corona Energy Holdings Limited**

On 31 July 2006, a subsidiary of the Bank, Macquarie Internationale Investments Limited, acquired 100% of the share capital of Corona Energy Holdings Limited, a United Kingdom non-domestic gas supply company.

**e) Longview Oil and Gas**

On 26 October 2006, a subsidiary of the Bank acquired 100% of the business assets of Longview Oil and Gas. The business has a series of operational oil and gas properties, gas processing plant and gas gathering infrastructure, located in Arkansas, USA.

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

|  | 2007<br>\$m  | 2006<br>\$m  |
|--|--------------|--------------|
| <b>Fair value of net assets acquired</b>                         |              |              |
| Cash and other financial assets                                  | 103          | 182          |
| Derivatives and financial instruments – positive values          | 39           | 269          |
| Fixed assets   | 8            | 28           |
| Intangible assets  | 14           | 112          |
| Assets of disposal groups classified as held for sale            | 1,189        | 2,271        |
| Derivative financial instruments – negative values               | –            | (254)        |
| Payables, provisions and borrowings                              | (135)        | (197)        |
| Liabilities of disposal groups classified as held for sale       | (674)        | (1,660)      |
| Minority interest in disposal groups classified as held for sale | –            | (151)        |
| <b>Total fair value of net assets acquired</b>                   | <b>544</b>   | <b>600</b>   |
| <b>Purchase consideration</b>                                    |              |              |
| Cash consideration   | 544          | 589          |
| Deferred consideration   | –            | 76           |
| <b>Total purchase consideration</b>                              | <b>544</b>   | <b>665</b>   |
| <b>Reconciliation of cash movement</b>                           |              |              |
| Cash consideration   | (544)        | (589)        |
| Less cash acquired   | 10           | 279          |
| <b>Total cash outflow</b>  | <b>(534)</b> | <b>(310)</b> |

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 2006 comparatives relate to the acquisitions of Daegu East Circulation Road Company, S2Net Limited (formerly Open Telecommunications Limited), Korean Power Investment Co. Limited, ATM Solutions Australasia, The Steam Packet Group Limited, Smarte Carte Corporation, AHA Access Health Abbotsford Limited and AHA Access Health Vancouver Limited, Baldwin County Bridge Company LLC and Macquarie Cook Energy LLC (formerly Cook Inlet Energy Supply LLC).

# Notes to the financial statements

## 31 March 2007 continued

### Note 48. Acquisition and disposal of controlled entities continued

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

##### a) Macquarie Small Caps Roads

On 2 October 2006, a subsidiary of the Bank sold 100% of its interest in Macquarie Small Caps Roads.

##### b) Smarte Carte Corporation

On 20 November 2006, a subsidiary of the Bank sold part of its investment in Smarte Carte Corporation. A subsidiary of the Bank has retained a 10% interest.

##### c) East London Bus Group Holdings Limited

On 24 November 2006, a subsidiary of the Bank sold its interest in East London Bus Group Holdings Limited. A subsidiary of the Bank has retained a 10% interest.

##### d) The Steam Packet Group Limited

On 19 December 2006, a subsidiary of the Bank sold its interest in The Steam Packet Group Limited. A subsidiary of the Bank has retained a 10% interest.

##### e) Access Health Abbotsford Limited and Access Health Vancouver Limited

On 30 January 2007, a subsidiary of the Bank sold its interest in AHA Holdings Limited and Vancouver Health Holdings Limited.

##### f) Forward Steps Holdings Limited

On 13 December 2006, a subsidiary of the Bank, Macquarie Leisure Services Pty Limited, entered into a Share Sale Agreement to sell its interest in Forward Steps Holdings Limited ("FSHL"). The transaction settled on 2 February 2007.

Aggregate details of the disposals are as follows:

|  | 2007<br>\$m | 2006<br>\$m |
|--|-------------|-------------|
| <b>Carrying value of assets and liabilities disposed of</b>      |             |             |
| Cash and other financial assets                                  | 2           | –           |
| Assets of disposal groups classified as held for sale            | 3,015       | 1,099       |
| Fixed assets   | 1           | –           |
| Intangible assets  | 21          | –           |
| Liabilities of disposal groups classified as held for sale       | (2,361)     | (687)       |
| Payables and provisions  | (1)         | –           |
| Minority interest in disposal groups classified as held for sale | –           | (139)       |
| Total carrying value of assets and liabilities disposed of       | 677         | 273         |
| <b>Reconciliation of cash movement</b>                           |             |             |
| Cash received*   | 1,125       | 460         |
| Less:  |             |             |
| Investment retained  | (61)        | (110)       |
| Cash deconsolidated  | (163)       | (102)       |
| Total cash inflow  | 901         | 248         |

\* Cash received includes the repayment of intercompany debt in the 31 March 2006 financial year.

The 31 March 2006 comparatives relate to the deconsolidation of RG Capital and DMG Regional Radio, Daegu East Circulation Road Company and Korean Power Investment Co. Limited.

### Note 49. Events occurring after reporting date

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

# Macquarie Bank Limited and its controlled entities Directors' Declaration

In the Directors' opinion

- (a) the financial statements and notes set out on pages 7 to 88, and audited remuneration disclosures on pages 47 to 90 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Bank and consolidated entity's financial position as at 31 March 2007 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**  
Executive Chairman



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

Sydney  
14 May 2007

# Independent Audit Report to the Members of Macquarie Bank Limited



## 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 2007, 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 disclosures that are contained on pages 47 to 90 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

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 2007. 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 47 to 90 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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 the *Corporations Regulations 2001*.

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 Review 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



Ian Hammond

Partner

Sydney

14 May 2007

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 financial information presented below has been based on the accounting standards adopted at each reporting date. The financial information for the periods ended 31 March 2005 and later are based on results reported under Australian Accounting Standards that incorporate International Financial Reporting Standards.

| Years ended 31 March   | 1998  | 1999  | 2000    | 2001    | 2002    | 2003     | 2004    | 2005    | 2006    | 2007           |
|--|-------|-------|---------|---------|---------|----------|---------|---------|---------|----------------|
| <b>Income statement (\$ million)</b>   |       |       |         |         |         |          |         |         |         |                |
| Total income from ordinary activities  | 757   | 904   | 1,337   | 1,649   | 1,822   | 2,155    | 2,823   | 4,197   | 4,832   | <b>7,181</b>   |
| Total expenses from ordinary activities  | (590) | (686) | (1,036) | (1,324) | (1,467) | (1,695)  | (2,138) | (3,039) | (3,545) | <b>(5,253)</b> |
| Operating profit before income tax   | 167   | 218   | 301     | 325     | 355     | 460      | 685     | 1,158   | 1,287   | <b>1,928</b>   |
| Income tax expense   | (26)  | (53)  | (79)    | (53)    | (76)    | (96)     | (161)   | (288)   | (290)   | <b>(377)</b>   |
| Profit for the year  | 141   | 165   | 222     | 272     | 279     | 364      | 524     | 870     | 997     | <b>1,551</b>   |
| Macquarie Income Preferred   |       |       |         |         |         |          |         |         |         |                |
| Securities distributions   | -     | -     | -       | -       | -       | -        | -       | (28)    | (51)    | <b>(54)</b>    |
| Other minority interests   | -     | -     | -       | 1       | -       | (3)      | (3)     | (1)     | (1)     | <b>(3)</b>     |
| Macquarie Income Securities distributions  | -     | -     | (12)    | (31)    | (29)    | (28)     | (27)    | (29)    | (29)    | <b>(31)</b>    |
| Profit attributable to ordinary equity holders   | 141   | 165   | 210     | 242     | 250     | 333      | 494     | 812     | 916     | <b>1,463</b>   |
| <b>Balance sheet (\$ million)</b>  |       |       |         |         |         |          |         |         |         |                |
| Total assets   | 7,929 | 9,456 | 23,389  | 27,848  | 30,234  | 32,462   | 43,771  | 67,980  | 106,211 | <b>136,389</b> |
| Total liabilities  | 7,348 | 8,805 | 22,154  | 26,510  | 27,817  | 29,877   | 40,938  | 63,555  | 100,874 | <b>128,870</b> |
| Net assets   | 581   | 651   | 1,235   | 1,338   | 2,417   | 2,585    | 2,833   | 4,425   | 5,337   | <b>7,519</b>   |
| Risk-weighted assets   | 4,967 | 4,987 | 8,511   | 9,860   | 10,651  | 10,030   | 13,361  | 19,771  | 28,751  | <b>39,386</b>  |
| Total loan assets  | 3,158 | 4,002 | 6,518   | 7,785   | 9,209   | 9,839    | 10,777  | 28,425  | 34,999  | <b>45,796</b>  |
| Impaired assets (net of provisions)  | 12    | 44    | 23      | 31      | 49      | 16       | 61      | 42      | 85      | <b>88</b>      |
| <b>Share information</b>   |       |       |         |         |         |          |         |         |         |                |
| Cash dividends per share (cents per share)   |       |       |         |         |         |          |         |         |         |                |
| Interim  | 21    | 30    | 34      | 41      | 41      | 41       | 52      | 61      | 90      | <b>125</b>     |
| Final  | 30    | 38    | 52      | 52      | 52      | 52       | 70      | 100     | 125     | <b>190</b>     |
| Special  | -     | -     | -       | -       | -       | 50       | -       | 40      | -       | <b>-</b>       |
| Total  | 51    | 68    | 86      | 93      | 93      | 143      | 122     | 201     | 215     | <b>315</b>     |
| Basic earnings per share (cents per share)   | 88.1  | 101.3 | 124.3   | 138.9   | 132.8   | 164.8    | 233.0   | 369.6   | 400.3   | <b>591.6</b>   |
| Share price at 31 March (\$) (a)   | 14.35 | 19.10 | 26.40   | 27.63   | 33.26   | 24.70    | 35.80   | 48.03   | 64.68   | <b>82.75</b>   |
| Ordinary share capital (million shares) (b)  | 157.6 | 161.1 | 171.2   | 175.9   | 198.5   | 204.5    | 215.9   | 223.7   | 232.4   | <b>253.9</b>   |
| Market capitalisation at 31 March (fully paid ordinary shares) (\$ million)                      | 2,262 | 3,077 | 4,520   | 4,860   | 6,602   | 5,051    | 7,729   | 10,744  | 15,032  | <b>21,010</b>  |
| <b>Ratios</b>  |       |       |         |         |         |          |         |         |         |                |
| Return on average ordinary shareholders' funds   | 26.1% | 26.8% | 28.1%   | 27.1%   | 18.7%   | 18.0%    | 22.3%   | 29.8%   | 26.0%   | <b>28.1%</b>   |
| Payout ratio   | 57.9% | 67.2% | 70.0%   | 67.5%   | 73.6%   | 87.4%(c) | 53.2%   | 53.2%   | 54.4%   | <b>54.3%</b>   |
| Tier 1 ratio   | 11.7% | 13.0% | 14.5%   | 12.9%   | 17.8%   | 19.0%    | 16.2%   | 14.4%   | 12.4%   | <b>15.0%</b>   |
| Capital adequacy ratio   | 16.4% | 17.3% | 18.4%   | 16.0%   | 19.4%   | 21.4%    | 19.9%   | 21.2%   | 14.1%   | <b>15.5%</b>   |
| Expense/income ratio   | 77.9% | 75.9% | 77.5%   | 80.3%   | 80.5%   | 78.7%    | 75.7%   | 72.4%   | 73.4%   | <b>73.2%</b>   |
| Impaired assets as % of loan assets (excluding securitisation SPVs and segregated futures funds) | 0.4%  | 1.1%  | 0.3%    | 0.4%    | 0.5%    | 0.2%     | 0.6%    | 0.3%    | 0.5%    | <b>0.4%</b>    |
| Net loan losses as % of loan assets (excluding securitisation SPVs and segregated futures funds) | 0.0%  | 0.1%  | 0.1%    | 0.1%    | 0.2%    | 0.0%     | 0.3%    | 0.2%    | 0.2%    | <b>0.1%</b>    |
| <b>Assets under management (\$ billion) (d)</b>  | 21.4  | 22.8  | 26.3    | 30.9    | 41.3    | 52.3     | 62.6    | 96.7    | 140.3   | <b>197.2</b>   |
| Staff numbers (e)  | 2,474 | 3,119 | 4,070   | 4,467   | 4,726   | 4,839    | 5,716   | 6,556   | 8,183   | <b>10,023</b>  |

(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) 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%.

(d) 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.

(e) Includes both permanent staff (full time, part time and fixed term) and contractors (including consultants and secondees).

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Macquarie Bank shareholders can register to receive their shareholder communications, such as the Annual Review, electronically, by visiting [www.ETree.com.au/macquarie](http://www.ETree.com.au/macquarie) and registering their email address.

